There are three main types of innovation: sustaining innovation, low-end disruptive innovation, and new-market disruptive innovation.

New technology is not intrinsically disruptive; it depends on how it is deployed into the market relative to the business models for existing products or services.

- Incumbents typically win sustaining battles
- Entrants typically win disruptive battles

Start innovating today—even while your core business is strong; disruption is typically an opportunity long before it is a threat.

- Spot disruption in your industry early by studying customers who stopped using your product or service

An organization cannot disrupt itself

- Disruptive business models must be separated from the core business

**CASE STUDY**

WR Hambrecht founder, Bill Hambrecht, pioneered a disruptive model for initial public offerings (IPOs) in the U.S., leveraging auctions to serve the “low-end” of the market. When Google approached Bill about underwriting its 2004 IPO, one of the highest profile IPOs in years, Bill and his team felt that they had finally made it. Should Bill Hambrecht pursue the opportunity with Google, which would require a sustaining business model, or should his firm continue focusing on smaller, low-end disruptive IPOs?

<table>
<thead>
<tr>
<th>PERFORMANCE</th>
<th>CUSTOMERS</th>
<th>BUSINESS MODEL</th>
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</thead>
<tbody>
<tr>
<td><strong>SUSTAINING INNOVATIONS</strong></td>
<td><strong>TARGETED PERFORMANCE OF THE PRODUCT OR SERVICE</strong></td>
<td><strong>TARGETED CUSTOMERS OR MARKET APPLICATION</strong></td>
</tr>
<tr>
<td><strong>INCUMBENTS TYPICALLY WIN</strong></td>
<td>Performance improvement in attributes most valued by the industry’s most demanding customers. These improvements may be incremental or breakthrough in character.</td>
<td>The most attractive (i.e., profitable) customers in the mainstream markets who are willing to pay for improved performance.</td>
</tr>
<tr>
<td><strong>LOW-END DISRUPTIONS</strong></td>
<td>Performance that is good enough along the traditional metrics of performance at the low-end of the mainstream market.</td>
<td>Over-served customers in the low-end of the mainstream market.</td>
</tr>
<tr>
<td><strong>ENTRANTS TYPICALLY WIN</strong></td>
<td>Lower performance in “traditional” attributes, but improved performance in new attributes—typically simplicity and convenience.</td>
<td>Targets non-consumption: customers who historically lacked the money or skill to buy and use the product.</td>
</tr>
</tbody>
</table>
DISRUPTIVE STRATEGY WITH CLAYTON CHRISTENSEN:
Aligning with Innovation and Disruption
A “job” is a problem a person is trying to solve. Customers don’t really buy products; they “hire” them to get a job done

- A jobs to be done perspective focuses on what causes a customer to buy a product rather than relying on the attributes (such as age, gender, or income) that are merely correlated with buying behavior
- “Jobs” are not adjectives or adverbs. A job to be done typically starts with the words, “Help me...” “Help me avoid...” or “I need to...”

Products and technology come and go, but “jobs” persist over time

- Companies integrated around a “job” can achieve market differentiation and avoid disruption

Jobs to be done generally have two dimensions:

- Functional: the practical role the product or service fulfills
- Emotional/social: the feeling one gets from owning or using the product or service

Ideas for discovering jobs to be done:

- Reflect deeply on personal experiences
- Observe current customers
- Discover why former customers left
- Identify the workarounds or compensating behaviors customers use to get the job done today

**CASE STUDY**

Walt Disney theme parks are known as a place for families to escape into an immersive experience with all their favorite characters. Since opening its gates in Southern California in 1955, Disneyland has been intensely integrated around this job to be done and has achieved superior returns. When Disney created a new park next door to Disneyland to attract more “multi-day” visitors and bolster hotel revenue, the company lost its focus on the job to be done, and guests noticed. After investing $1B to build California Adventure, the park didn’t have the “magic” of Disneyland and attendance was well below projections. CEO Bob Iger called it a “brand withdrawal” and was faced with a critical decision connected to the jobs to be done: What should he do to turn California Adventure around?

<table>
<thead>
<tr>
<th>CORRELATION</th>
<th>CAUSALITY</th>
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<tbody>
<tr>
<td><strong>PRODUCT VIEW</strong></td>
<td><strong>CUSTOMER ATTRIBUTES VIEW</strong></td>
</tr>
<tr>
<td>Newspaper market</td>
<td>Example segment: Intellectuals age 60+</td>
</tr>
<tr>
<td>Milkshake market</td>
<td>Example segment: Males age 18-35</td>
</tr>
<tr>
<td>Theme park market</td>
<td>Example segment: Families with small children</td>
</tr>
</tbody>
</table>
HOW CAN WE CREATE A BRAND THAT CUSTOMERS IMMEDIATELY THINK TO “HIRE” FOR A “JOB”?

WHAT AND HOW MUST WE INTEGRATE IN ORDER TO PROVIDE THESE EXPERIENCES IN PURCHASING AND USING THE PRODUCT?

WHAT ARE THE EXPERIENCES IN PURCHASING AND USING THE PRODUCT THAT WE NEED TO PROVIDE IN ORDER TO GET THE “JOB” DONE PERFECTLY?

WHAT “JOB” DO CUSTOMERS NEED TO GET DONE OR WHAT PROBLEM ARE THEY TRYING TO SOLVE? CUSTOMERS DON’T REALLY BUY PRODUCTS OR SERVICES; THEY “HIRE” THEM TO DO A “JOB.”
KEY TAKEAWAYS

- Every organization has resources, processes, and a profit formula that determine what the organization can and cannot do
- Many innovations fail because the wrong resources, processes, and profit formulas are used
  - Set up a separate business unit for disruptive innovations so it can develop the resources, processes, and profit formula needed to win
  - Fold sustaining innovations into the core business unit
- Managers must be able to anticipate the resources, processes, and profit formula their organization will need in the future

CASE STUDY

A giant in the industry, Nypro Manufacturing excelled at delivering high-volume, complex injection-molded plastics products at a low cost. As Nypro's industry evolved, CEO Gordon Lankton saw an opportunity to grow his company by serving an entirely new set of customers—those seeking simple, low-volume products with higher customization. Serving these customers would require new, simpler technology and a new business model. After securing the technology to serve these customers, Gordon had to decide how to implement the technology so the new business model could flourish. There was a risk the organization would “kill” the new model to protect the “core” business. How should he deploy the technology and organize his team for success?
Never regard your strategy as the “right” strategy. If you’re successful then you temporarily have a good strategy.

Companies must “skate” to where the performance defining component or system will be because therein are the most attractive profits found (the performance defining component is the component in the value chain that has the functionality that customers care most about).

The architecture of an industry or product ranges from purely interdependent to purely modular. Most industries and products are somewhere between these two extremes.

- In the early stages of a new industry, products tend to be interdependent.
- As industries mature and interfaces become more defined, products tend to be modular.

The architecture (interdependent or modular) of your industry will determine 1) the basis of competition and 2) what type of strategy should be deployed.

- Organizations need to integrate far enough forward in the value chain to account for all of the independencies in design and manufacturing.
- As interfaces become more modular, organizations need to dis-integrate and become more specialized.

There are three main types of interdependence: functional interdependence, profit formula interdependence, and marketing or brand interdependence.

Identifying and building around the job to be done builds a barrier of entry around a company. Companies who excel at building around the job to be done consistently produce the performance-defining component or system.

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**CASE STUDY**

In the early 2000’s, MediaTek entered the mobile phone market by designing a chipset with 2G functionality. However, MediaTek struggled to find clients because large incumbents like Nokia already had large, integrated teams to design their own chipsets. Further, the incumbents were chasing 3G – not 2G. MediaTek decided to target emerging markets like China where its 2G chipsets would be viewed as “good enough.” At the time of the case, the interfaces within the mobile phone had become highly defined and modular. Despite this, there were no mobile phone companies in China. How would MediaTek make it easy for Chinese companies to enter the market and produce mobile phones?
## Disruptive Strategy with Clayton Christensen: Maintaining a Disruptive Scope

<table>
<thead>
<tr>
<th></th>
<th>Definition What it Means?</th>
<th>Basis of Competition What Metrics are Important?</th>
<th>Optimal Strategy What’s the Best Strategy?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interdependent Architecture</strong></td>
<td>When there are interfaces across which there are unpredictable interdependencies - if the way one component is designed and made depends on the way the other is being designed and made</td>
<td>In an interdependent world the overall functionality of a product or service isn’t “good enough” and the basis of competition is functionality and reliability</td>
<td>An integrated strategy works best when there is a performance gap because it gives organizations maximum flexibility to evolve the product or service to wring out the most performance</td>
</tr>
<tr>
<td><strong>Modular Architecture</strong></td>
<td>When an interface is clean - in which there are no unpredictable interdependencies across components or stages of the value chain. When components work together in well-understood and highly defined ways.</td>
<td>In a modular world the overall functionality of the product is “good enough” and the basis of competition is now speed to market, convenience, customization, and price.</td>
<td>A specialized strategy works best when there is a performance surplus because organizations can increase the rate of innovation for individual components because organizations can specialize and thus optimize the performance of their one component.</td>
</tr>
</tbody>
</table>
KEY TAKEAWAYS

→ There are two simultaneous but fundamentally different strategy development processes: deliberate strategy process and emergent strategy process

→ It is the profit formula (not senior managers) that controls the resource allocation process. There are two main factors in most companies’ profit formulas that dictate resource allocation
  • The company’s cost structure determines the gross profit margin that it must earn to cover overhead costs and make a profit
  • The size threshold that new opportunities must meet in order to be considered interesting to the company

→ There are three main phases of business growth and each phase requires a unique approach to strategy development
  • Market-creating Phase: When a profitable strategy is not yet known, an emergent strategy needs to be cultivated to allow the right ideas to surface
  • Sustaining Phase: Once a profitable strategy is clear it must become the deliberate strategy, because in those circumstances effective execution often spells the difference between success and failure
  • Efficiency Phase: The mainstream business must be allowed to thrive through a deliberate strategy while new waves of disruptive growth are discovered through an emergent strategy

→ The type of funding a new initiative receives can greatly influence its success
  • In the nascent stages of a business “good” money will be patient to allow the company to find a profitable strategy
  • Once a winning strategy is discovered “good” money will push the company to grow quickly

CASE STUDY

General Motors (GM) was widely known as the preeminent vehicle manufacturer by volume from the 1950’s – 2000’s. With revenues of approximately $200 billion, GM was continually searching for opportunities to grow. In the 1990’s GM sees an opportunity to install a technology called OnStar into the car that allows them to develop an on-going relationship with car owners. OnStar CEO Chet Huber must delicately balance deliberate and emergent strategy processes to help a very innovative idea to thrive inside a large organization. Chet Huber wrestles with questions like, what should OnStar actually do for customers? What is the right distribution channel? Which new initiatives should be pursued and which should be left behind? How should the OnStar brand be built?
<table>
<thead>
<tr>
<th>DEFINITION</th>
<th>SITUATION</th>
<th>STRATEGY EXECUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CONSCIOUS AND THOUGHTFUL ORGANIZED ACTION. GENERATED FROM RIGOROUS ANALYSIS OF DATA ON MARKET GROWTH, SEGMENT SIZE, CUSTOMER NEEDS, COMPETITORS’ STRENGTHS AND WEAKNESSES, AND TECHNOLOGY TRAJECTORIES. IMPLEMENTED “TOP-DOWN”</strong></td>
<td><strong>A WINNING STRATEGY HAS BECOME CLEAR, BECAUSE IN THOSE CIRCUMSTANCES EFFECTIVE EXECUTION OFTEN SPELLS THE DIFFERENCE BETWEEN SUCCESS AND FAILURE.</strong></td>
<td><strong>THE STRATEGY MUST MAKE AS MUCH SENSE TO ALL EMPLOYEES AS THEY VIEW THE WORLD FROM THEIR OWN CONTEXT AS IT DOES TO TOP MANAGEMENT, SO THAT THEY WILL ALL ACT APPROPRIATELY AND CONSISTENTLY.</strong></td>
</tr>
<tr>
<td><strong>UNPLANNED ACTIONS FROM INITIATIVES THAT BUBBLE UP FROM WITHIN THE ORGANIZATION. THE PRODUCT OF SPONTANEOUS INNOVATION AND DAY-TO-DAY PRIORITIZATION AND INVESTMENT DECISIONS MADE BY MIDDLE MANAGERS, ENGINEERS, SALESPERSONS, AND FINANCIAL STAFF (DECISIONS MADE BY PEOPLE WHO AREN’T TYPICALLY IN A VISIONARY, FUTURISTIC, OR STRATEGIC STATE OF MIND)</strong></td>
<td><strong>WHEN THE FUTURE IS HARD TO READ AND IT IS NOT CLEAR WHAT THE RIGHT STRATEGY SHOULD BE. THIS IS TYPICALLY DURING THE EARLY PHASES OF A COMPANY’S OR PRODUCT’S LIFE OR WHEN THE COMPETITIVE LANDSCAPE IS CHANGING.</strong></td>
<td><strong>ENSURE THAT EMPLOYEES ARE EMPOWERED TO SURFACE AND ELEVATE NEW IDEAS.</strong></td>
</tr>
</tbody>
</table>