

DISRUPTION AND INNOVATION: A NEW APPROACH TO GROWTH

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Harvard Business School professor Clayton Christensen describes disruption as the process in which a smaller company with limited resources successfully challenges more established and larger industry leaders.¹ He notes that disruption “displaces an existing market, industry or technology and produces something new, more efficient and worthwhile.”²

For decades we’ve seen upstarts such as Apple, Amazon, Google, Uber, Netflix and Airbnb disrupt entire industries by playing by a different set of rules. These companies view market opportunities in a fresh way and effectively use technology and other tools to revolutionize and often re-invent their industry.

UPSETTING THE APPLE CART

Disruptive companies see innovation as an integral process that serves their new view of market opportunities. Many start small, targeting overlooked opportunities and gaining a foothold in either low-end or new markets.³ By continuing to improve their products or services and driving up-market to higher margin sales, they pick up market share from larger industry rivals.⁴ In the process of transforming their industries, disruptors significantly change the model for how value is created.

Rapid advancements in technology have fueled disruptive innovation — and change is coming faster all the time. While processing power and connectivity have increased dramatically, digitalization, big data, machine learning and the Internet of Things are leveling the playing field for smaller ventures, enabling them to challenge established companies and create new business models.⁵

REFRAMING THE BUSINESS MODEL

Can established companies also disrupt the status quo and reframe long-established business models and strategies to find new opportunities for innovation and growth?

Companies often discuss innovation in the context of product development or service delivery improvements. Yet to survive in today’s highly competitive and fast-paced environment, they need to be as agile, innovative and entrepreneurial as disruptors in viewing their markets and business opportunities.

Business plans usually are based on widely held beliefs about the company’s particular industry and opportunities for profit. These core beliefs may govern customer behavior, competition, regulations, technology and differentiation.⁶ With such an established approach, change is incremental, as companies seldom re-examine their long-held beliefs about how value is created in their industry.

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While innovation may begin as a new product or service, disruptors take a wider perspective and focus on creating a new business model. For example, Apple viewed the smart phone as more than a device to make calls; the company saw it as personal technology providing Internet connectivity and access to social media, videos, photos, fitness monitoring, online shopping, and apps that address the owner's personal interests.

Management consulting firm McKinsey & Company has developed a five-step approach for companies that wish to innovate and reframe their business model.

SUGGESTED STEPS INCLUDE:⁷

- **Review the dominant business model** for your industry and identify long-held core beliefs about value creation.
- **Take the most important long-held belief and break it down into its underlying notions**, such as what drives customer behavior, ways of operating or technological support.

- **Turn an underlying belief upside down** by formulating a radical new hypothesis about it — one that is outside the conventional norms in your industry.
- **Test your hypothesis with a sanity check**, such as applying a reframe from another industry. Business model innovation tends to apply well across industries.
- **Once reframed, build out the new business model** and the new mechanisms needed. Part of this planning will involve transitioning the company from its existing business model to the new one.⁸

To discuss these topics in more detail, please contact your PNC Relationship Manager.

¹ "What is Disruptive Innovation?" by Clayton M. Christensen, Michael Raynor and Rory McDonald, *Harvard Business Review*, December 2015. Available at: <https://hbr.org/2015/12/what-is-disruptive-innovation>

² "Disruptive Change Is Not Around the Corner – It's Already Here," by Claudia Juech, The Rockefeller Foundation, Nov. 3, 2015. Available at: <https://disrupt-and-innovate.org/disruptive-change-is-here/>

³ "What is Disruptive Innovation?" by Clayton M. Christensen, Michael Raynor and Rory McDonald, *Harvard Business Review*, December 2015. Available at: <https://hbr.org/2015/12/what-is-disruptive-innovation>

⁴ "What is Disruptive Innovation?" by Clayton M. Christensen, Michael Raynor and Rory McDonald, *Harvard Business Review*, December 2015. Available at: <https://hbr.org/2015/12/what-is-disruptive-innovation>

⁵ "No Ordinary Disruption: The Forces Reshaping Asia," special report by Fraser Thompson, Oliver Tonby, Kevin Sneader, and Jonathan Woetzel, McKinsey & Company, September 2015; presented at the Singapore Summit on Sept. 18-19, 2015. Available at: <https://www.singaporesummit.sg/globalasia/articles/noordinarydisruption.html>

⁶ "Disrupting beliefs: A New Approach to Business-Model Innovation," by Marc de Jong and Menno van Dijk, McKinsey Quarterly, July 2015. Available at: <http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/disrupting-beliefs-a-new-approach-to-business-model-innovation>

⁷ "Disrupting beliefs: A New Approach to Business-Model Innovation," by Marc de Jong and Menno van Dijk, McKinsey Quarterly, July 2015. Available at: <http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/disrupting-beliefs-a-new-approach-to-business-model-innovation>

⁸ "Disrupting beliefs: A New Approach to Business-Model Innovation," by Marc de Jong and Menno van Dijk, McKinsey Quarterly, July 2015. Available at: <http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/disrupting-beliefs-a-new-approach-to-business-model-innovation>

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