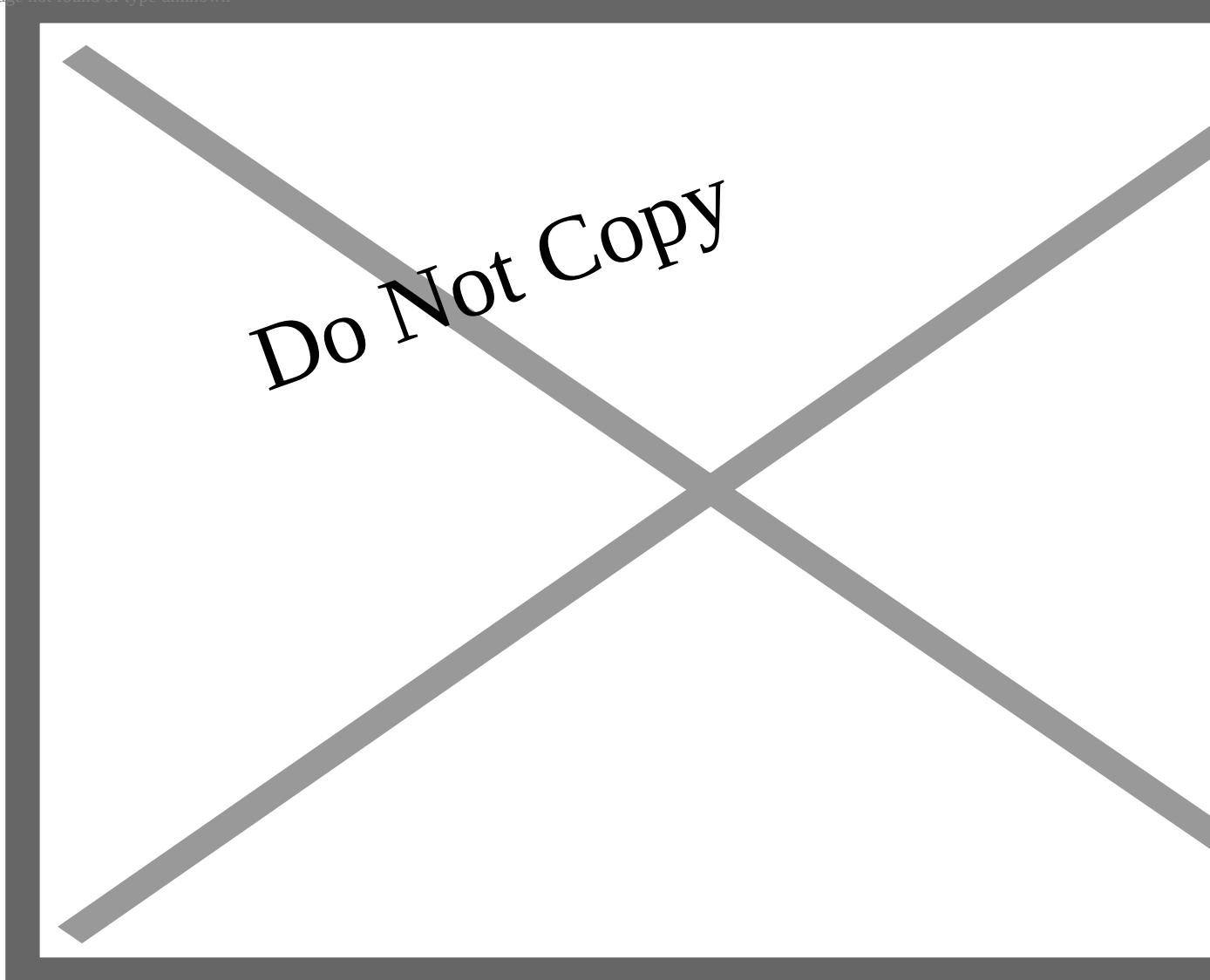


Are you Disrupting or Being Disrupted?

Description

What exactly is Disruption?

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How fast were you at Palm Graffiti writing? I was a master

I know I'm showing my age, but I used to love my Palm Pilot. It was this 'cutting edge' personal device with a stylus and touch screen that organized my calendar, to-dos, and other things to keep me on track. I didn't think that anything could be better, and for a while in the early 2000's, Palm, Inc. were kings of the tech mountain.

Then a little Canadian company call RIM came out with the Blackberry. It could run for weeks on a

charge and could send and receive emails securely and instantly. A few years later, Apple released the iPhone. Disruption.

The world was introduced to handheld instant communication, emails, texts, and apps. Palm reacted too slowly and my beloved device became a brick gathering dust in my closet.

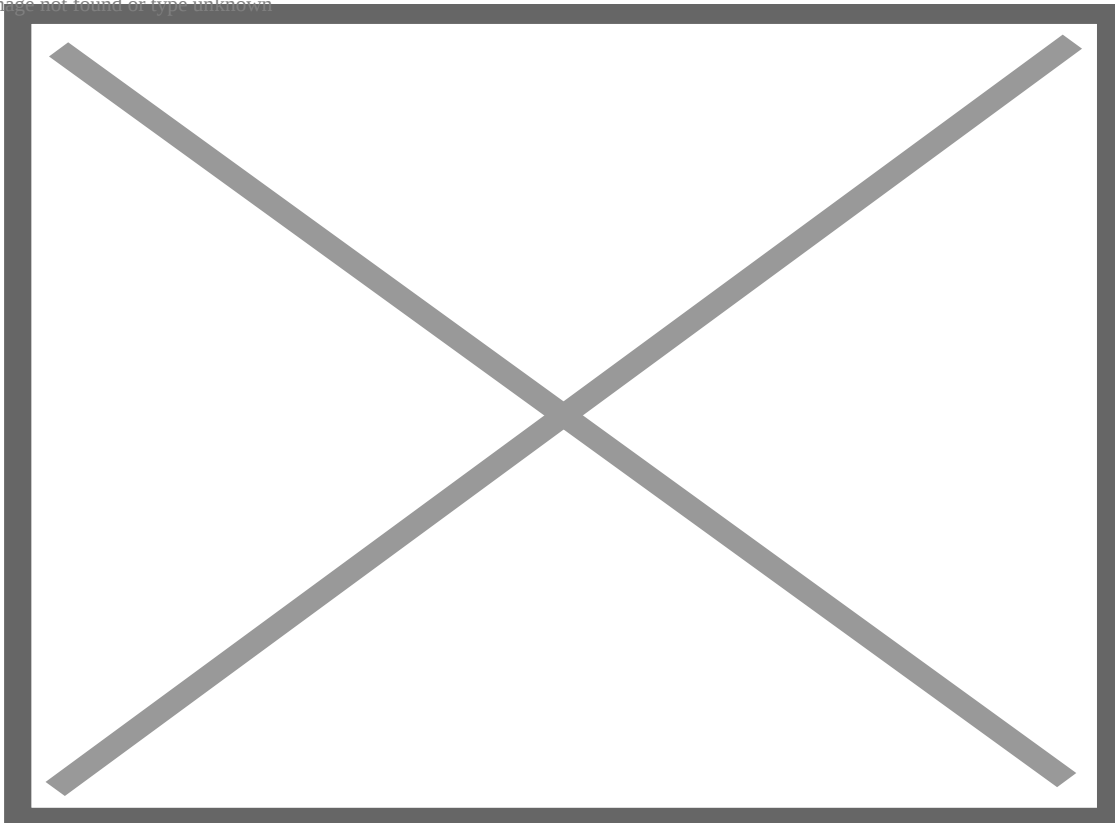
Clayton Christenson came out with the well-regarded book on disruption, called "[The Innovator's Dilemma](#)". The dilemma is related to the innovative company's strategy for growth. The theory is that as a company gains success with a new product or service, they become focused on doing the "right things", which are improving their product based on customer and market research. Basically make it bigger and better, because that's what customers are looking for.

But disruption is when a new entrant into the market offers something simpler and cheaper, not necessarily better. "Cheaper and easier to use" brings in the lower end of the market that previously couldn't afford or couldn't understand the incumbent product. The risk to the bigger and "Better" product is that as the market pricing comes down and the market size grows, users migrate to the products that are cheaper and easier to use. A true disruptor then is one that not only captures the hearts of customers but **kills off the large incumbents** and takes over a market.

Every industry and every company is going to be faced with this dilemma at one time: do I transform my business to go after the bottom end of the business to take it from start-up or hope it's a fad that will eventually fizzle out?

Knowing is Half the Battle

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Who's old enough to remember these gems of wisdom?

Most large and successful companies have an enormous blind spot when it comes to seeing an emerging disruption. Let's face it if you're successful and growing, and getting good feedback in the market, stock prices are rising, what's the problem? Success breeds complacency, and competition. Someone is always going to be looking for a simpler and cheaper solution. If you are overconfident or unaware of gathering storms, you may be doomed before you realize it.

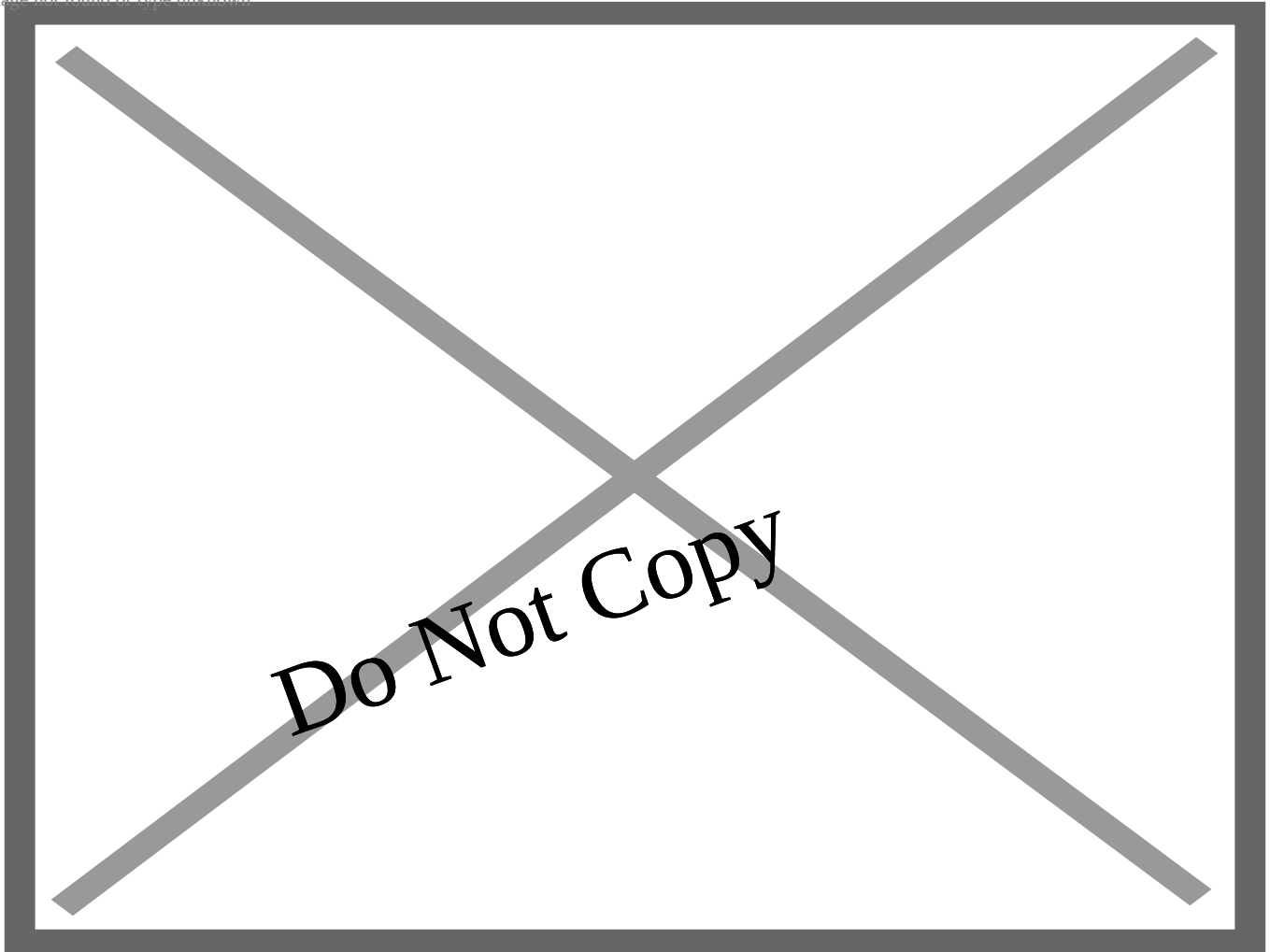
Famous examples are all over the place in every industry: Palm, Kodak, Blockbuster, Nokia, Toys R Us, IBM, GM, Sears, and so on. Most, if not all, of these companies had top-notch leadership, great market research, customer feedback, and solid products.

Most of them realized too late what was happening to their industry and failed to adapt to shifting market expectations. How can you tell if a new entrant is a disruptor or not? How can you tell if your new thingamabob is the disruptor you hope it will be?

Tesla is often looked at as a disruptor, but is it? It is innovative in its marketing for sure, but is it truly a disruptive business to the auto industry? It has just over 1% of market share. Not very impressive by that standard. By market cap, they beat everyone. Investors believe that Elon Musk will take over the entire auto industry with his focus on R&D, self driving, and electric vehicles.

Only time will tell if the world will walk away from Toyota, GM, Fiat Chrysler, and other standards. Tesla didn't come in a typical way for disruptors though. They aren't cheaper or easier to get than other cars. They aren't delivering on anything others can't or aren't already doing. They came in with a premium eclectic vehicle product that delivered something that wasn't available at the time: A **cool electric vehicle**. There's no doubt Tesla is pushing the entire industry to adapt, with new electric competitors (and a few that in my opinion are better). But I don't see the majority of the world jumping on Tesla's bandwagon anytime soon and so, in the formal sense, is not a true disruptor.

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What gives? Investors really believe Tesla will disrupt the market.

Eventually the waves are going to knock you down

All industries are susceptible to disruption. There are no safe havens, although some industries will not change for long durations. That stability can lead people to believe that it will never change. I spent a long time in aerospace, and it seemed for most of my time that nothing ever changed.

Lots of small startups are now buzzing in aerospace, with the race to create new markets in things like eVTOL's (flying taxis, essentially), and all-electric power propulsion. Most large aerospace manufacturers are viewing this 'Low-end' phenomenon with disinterest or even disdain. In business jets, companies like Gulfstream, Bombardier, and Dassault have abandoned the smaller, lighter jets. They don't even bother competing with Honda, Embraer Phenom, and Eclipse. Is this an early sign of disruptors at the low-end doing something better than the big companies?

Take another example from the music industry. For decades, record labels were the kings of the industry, and record stores were institutions in most shopping areas. Then, in 1999 Napster introduced the idea of downloading music and bypassing the industry altogether. Then, a couple of years later, the iPod emerged and the iTunes music store was created as a virtual place to buy music. CD and DVD

sales plummeted. Record stores shut down as everyone transitioned to buying music online (or stealing it). Then yet another wave hit the music industry with the advent of streaming services like Pandora and Spotify, sparking a resurgence in the music industry but in a different direction again.

Is your industry being targeted by aggressive, innovative start-ups? Are you thinking your industry is ripe for change, and not sure what to do about it? Do you find your strategy focused on bigger, better, more complex versions of your successful products?

Watch your rearview mirror, someone may be coming to eat your lunch.

What do you do about it?

There are some common elements of disruptors that can guide you about your own response, either to a disruptor or to become one.

1. They start small, with a few passionate fans as customers.
2. They generally are cheaper than what's available, opening up access to the lower-end of the market. Their real secret sauce may be finding a more inexpensive way to do the same thing as the incumbents.
3. They solve some issues that customers have traditionally not noticed or tolerated (e.g., going to the video store for my rental vs getting it by mail)
4. They grow fast; like really fast.

If you do see something like that in your industry, don't take it lightly. Use it yourself, test it out, find out what the attraction is.

If you want to become a disruptor, I suggest creating your own "start-up" environment. Move a bunch of people into a separate organization, get rid of the overhead, and let them create. Don't measure them by a margin, or revenue at first. Measure them by the degree of customer understanding, and the number of ideas generated and tested. Let your main company be the "investor" in this scenario but look for a longer period for returns.

Dealing with real disruptors can be life-threatening to any established business, so stay vigilant, don't get complacent, and you may be able to reinvent yourself before you get destroyed.

Category

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