

Developing Breakthroughs

Module V



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Agenda

- **Christensen's Research Stream on Disruptive Innovation***
 - Disruptive Business Models
 - Organizing for a Disruptive Business
- **Ambidextrous Organization**
- **Dual Purpose Organization**
- **Blue Ocean Strategy**
- **Conclusions**

* Note that Christensen now uses the term **Disruptive Innovation** in lieu of **Disruptive Technology**

Disruptive Businesses

A driver of business failures and a source of new growth opportunities

Christensen, C. M., *"The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail,"* Harvard Business School Press, Boston, (1997).
Christensen, C.M and Raynor, M.E., *"The Innovator's Solution: Creating and Sustaining Successful Growth,"* Harvard Business School Press, Boston, (2003).

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Disruptive Business Models

- **Low End Disruption**
 - Example: Mini-Mills

- **New Market Disruption**
 - Example: Angioplasty

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Disruptive Business Models

Low End Disruption: Mini-Mills

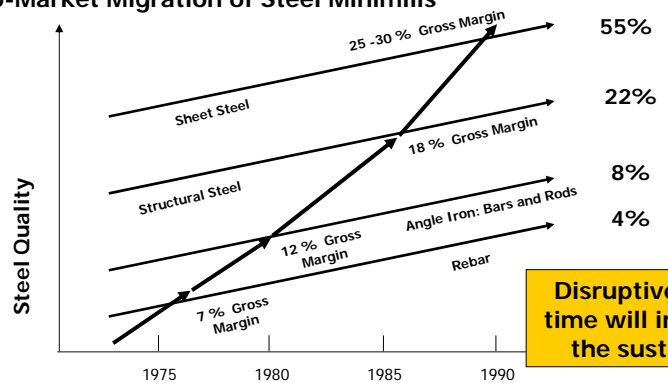


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Disruptive Business Models

What is a Disruptive Business?

Up-Market Migration of Steel Minimills



Disruptive Businesses over time will improve and attack the sustaining business.

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Disruptive Business Models

New Market Disruption: Angioplasty

CABG
(Cardiac Arterial Bypass Graft)



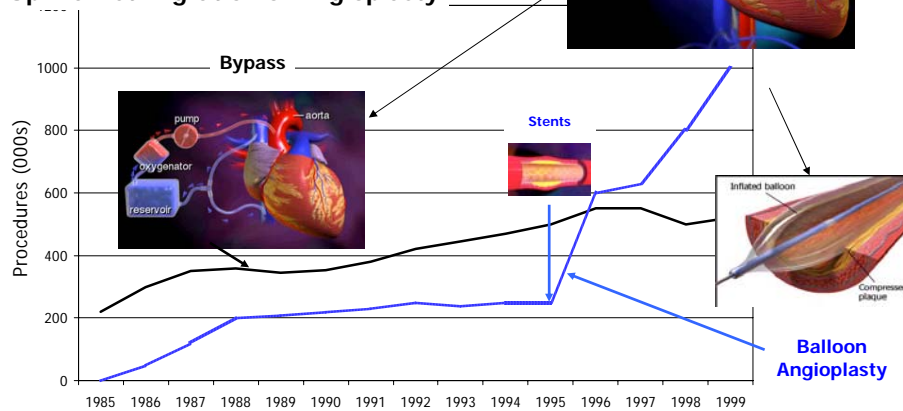
Angioplasty



Disruptive Business Models

What is a Disruptive Business?

Up-Market Migration of Angioplasty



Disruptive Business Models

Sustaining Businesses ALWAYS reject Disruptive Business Models

Why sustaining businesses don't compete with new business model

Niche is initially too small and takes focus away from mainstream customers

Market segment, from sustaining business, has too low a profit and sustaining business will gladly exit

Initial Customer

Non consumer (New Market Disruption)

Low end low margin (Low End Disruption)

Business model innovators do not discover something new – they redefine how the product or service is provided to the customer.

PC vs. Minicomputers	
Mini-mills vs. Integrated Steel Mills	Discount Retailer vs. Full Scale Merchandiser

Technology Advances

Business Model with low price cost structure

IMPLICATION: Disruptive Business Models need to be separated from sustaining businesses since the disruptive business model is FUNDAMENTALLY different in resource expectations, value and culture

Disruptive Business Models

Why do sustaining businesses reject disruptive business

- Market facing or customer competence developed with existing technology make it difficult to evaluate the promise of new technologies
- Resources tend to be aligned with largest and most powerful customers
- Senior managers world is shaped by their current customers

Organizations DNA

"...focused organization perform so well since..." since "...their processes are always aligned with the tasks."

– Christensen and Raynor, pg 181, Innovator's Solution, 2003

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Organizing for a Disruptive Business

Launching a sequence of successful new growth businesses requires the parallel operation of two different processes

- **Sustaining Innovations (Platform-based planning)**

- Make Assumptions
- Build projections based upon the assumptions
- Make decisions to invest based upon the projections
- Implement a deliberate strategy

Decision to initiate the project is based upon numbers and rules

- **Disruptive Innovations (Discovery Driven planning)**

- Make projections
- What assumptions must prove true for the projections to happen?
- Implement a plan to learn – to test whether the critical assumptions are reasonable
- Invest when key assumptions prove valid

Decision to initiate the project is based upon pattern recognition

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Organizing for a Disruptive Business

Funding Disruptive Businesses

- **Whose money will help the business and whose money could kill it?**
 - ┆ When the right strategy is still emerging:
 - ┆ Good money is impatient for profit, but patient for growth
 - ┆ Bad money is patient for profit, but demands that the business grow big and fast
 - ┆ When a viable strategy has become clear:
 - ┆ Good money can now demand rapid growth

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Organizing for a Disruptive Business

Traps

- **Traps that can catch and kill disruptive ideas**
 - ┆ Assign responsibility to an incapable organization
 - ┆ Use the wrong process for developing and refining the strategy
 - ┆ Assign people with the wrong skills to lead the effort
 - ┆ People who don't know what they don't know
 - ┆ Fund it with bad money

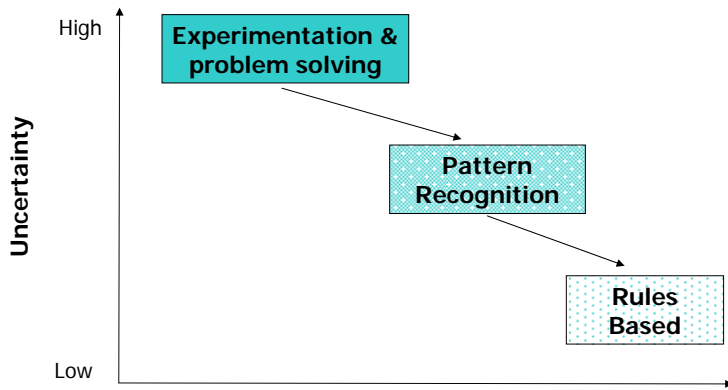
"...would estimate that in as many as half..." of the new growth business failed because "...the wrong people had been chosen to lead the venture."

– Christensen and Raynor, pg 178, Innovator's Solution, 2003

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Organizing for a Disruptive Business

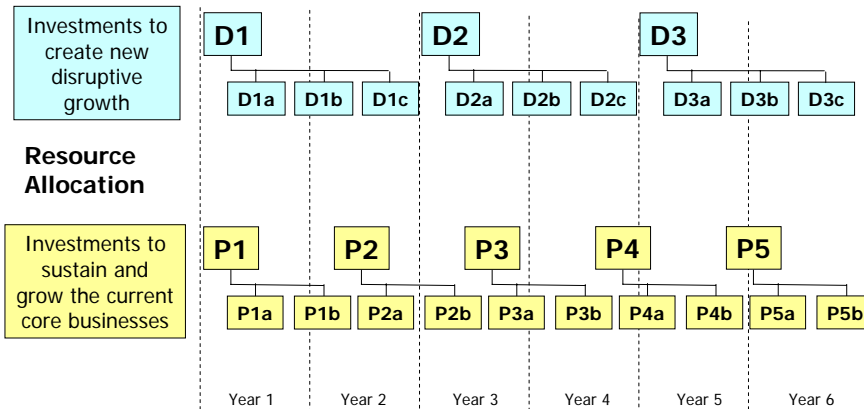
Managing Uncertainty



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Organizing for a Disruptive Business

Translate resource allocation into a disciplined trains schedule



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Organizing for a Disruptive Business

Selection Criteria

- **Disruptive Product**
 - Focus on the job to done
 - Compete against non-consumption or low end disruption
 - Disrupt relative to the competitors business model
 - Be impatient for profit and patient for growth

- **New Platforms**
 - Focused on a job that competitors aren't serving well
 - Often requires an integrated solution
 - Isn't overshooting
 - Quickly leverages derivative projects
 - Success measured by share gain

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Organizing for a Disruptive Business

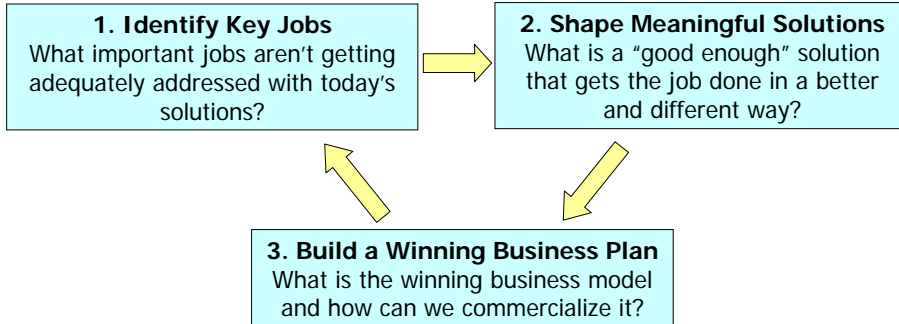
Selection Criteria

- **Derivatives**
 - ROI
 - Speed to market
 - Improves on dimensions of performance relative to the job to done
 - Success measured by net profit after fully allocated costs
 - Not gross margin!

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Organizing for a Disruptive Business

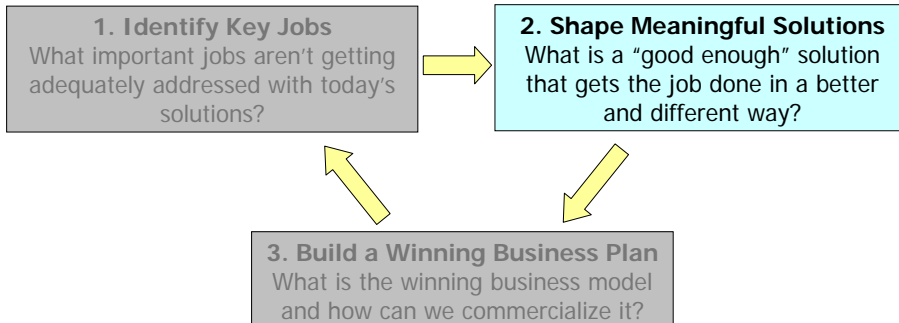
Iterative Approach for Developing New Products/Services



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Organizing for a Disruptive Business

Iterative Approach for Developing New Products/Services



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Shape a meaningful solution

Is a Telephone "Too Good"

What would you pay for improvements along these dimensions?



Call Quality

Pin Drop

Can you hear me now?

Reliability

99.999%

80%

Power

Survives a blizzard

...doesn't

Convenience

The home

Anywhere

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Innovation is more than Technology



MinuteClinic: New Business Model

- Diagnosis and prescriptions within 15 minutes at reasonable prices



Starbucks: New Experience

- The product itself might not be as good as alternatives, but it doesn't matter.



iTunes: New service

- Make it simple and easy for people to obtain the music they want when they want it.



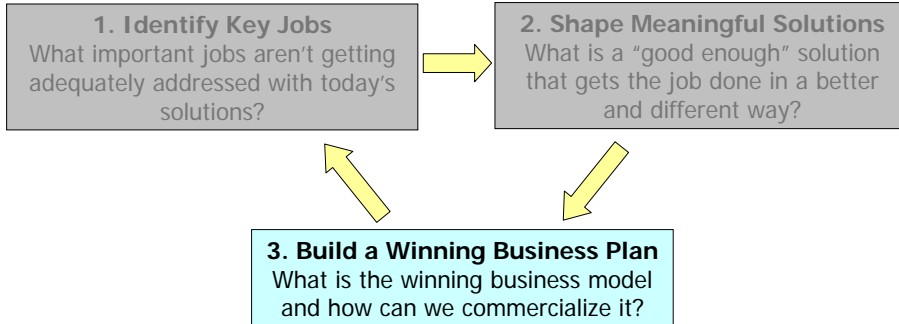
Dell: New Distribution

- Go direct-to-consumer to offer built-to-order products at low prices

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Organizing for a Disruptive Business

Iterative Approach for Developing New Products/Services



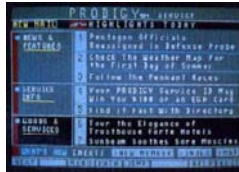
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Innovation is more than technology

Why the Innovation Itself is Not Enough



- **Newton: Wrong Organization**
 - Impatient for profit
 - Insufficient market iteration and revenue for parent



- **Prodigy**
 - Shut off emergent forces
 - Didn't prioritize services like E-mail
 - Overtaken by AOL



- **Segway: Impatient for Growth**
 - Large fixed costs
 - Hype led to "cramming" to large markets

Many innovations fail not because of some fatal flaw in the innovation itself, but because the company falls into a "commercialization trap."

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Innovation is more than technology

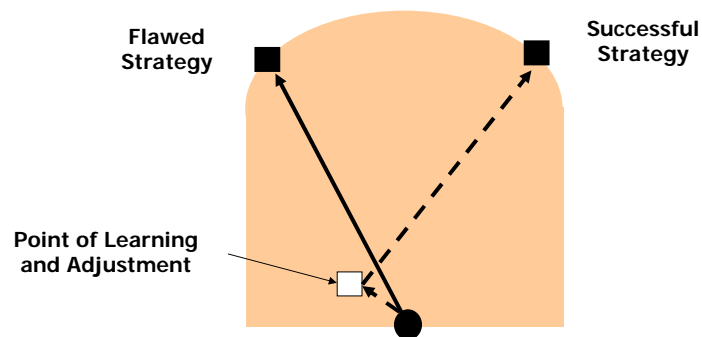
Simple thoughts to Optimize the Opportunity

- **Winning approaches start of simple**
- **When you don't know, you are likely to be wrong**
- **Adopt a learning strategy**
 - Early efforts should concentrate on key assumptions and risk elements
 - Seek to learn more about critical assumptions
 - Mitigate key risks
- **Minimize investment**
 - Limit investment as much as possible until you gain confidence
 - Be patient for growth and impatient for profits

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Learning Strategy

Follow a plan to learn



More than 90% of successful new breakthrough projects start off following the wrong strategy

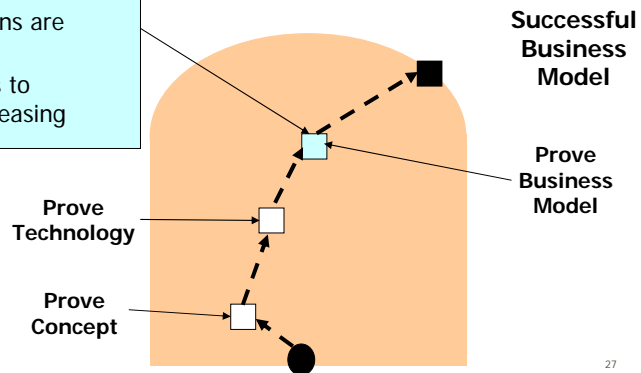
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Learning Strategy

Loop Around the Basketball Court

Point Where Signals are Clear

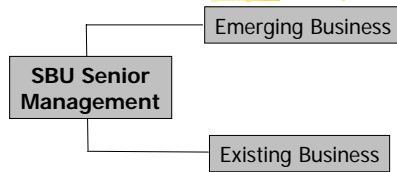
- Successful business model
- Key assumptions are addressed
- Ratio of knows to unknowns increasing



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Ambidextrous Organization



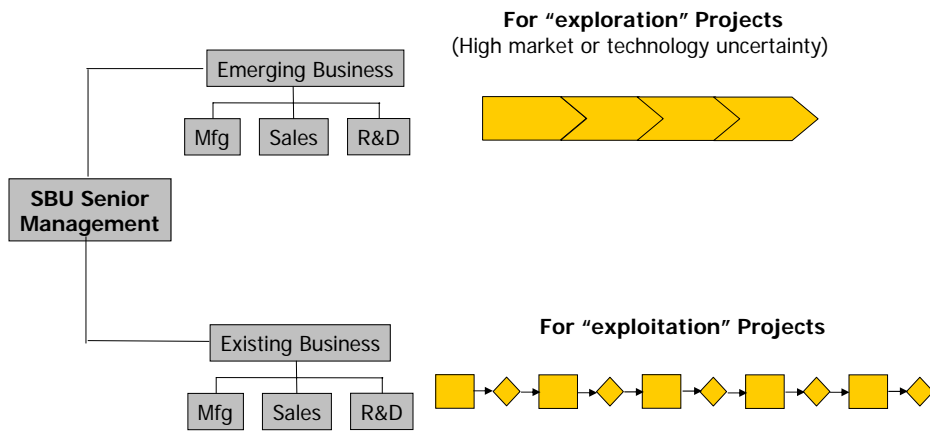
■ Ambidextrous Organizations

- Segregate their exploratory units from their traditional units
- Units are tightly coordinated with the existing organization at the senior management level
- Integration assures access to resources, but shields them from the existing processes in their company

“Companies which use ambidextrous organizations are NINE TIMES more likely to create breakthrough products and process than those using other organizational structures....”
 from O’Reilly and Tushman, HBR OnPoint, pg 29.

O’Reilly, C.A and Tushman, M.L. “Ambidextrous Organizations: Managing Evolutionary and Revolutionary Change,” California Management Review, 38 (4), pg. 8 - 30, September 1996.
 O’Reilly, C.A and Tushman, M.L.. “The Ambidextrous Organization.” Harvard Business Review, April 2004. 29

Ambidextrous Organization



Ambidextrous Organization

Alignment	Exploitative Business	Exploratory Business
Strategy	Cost, profit	Innovation, growth
Critical Tasks	Operations, efficiency, incremental innovation	Adaptability, new products, breakthrough innovation
Competencies	Operational	Entrepreneurial
Structure	Formal, mechanistic	Adaptive, loose
Controls, rewards	Margins, productivity	Milestones, growth
Culture	Efficiency, low risk, quality, customers	Risk taking, speed, flexibility, experimentation
Leadership	Authoritative, top down	Visionary, involved

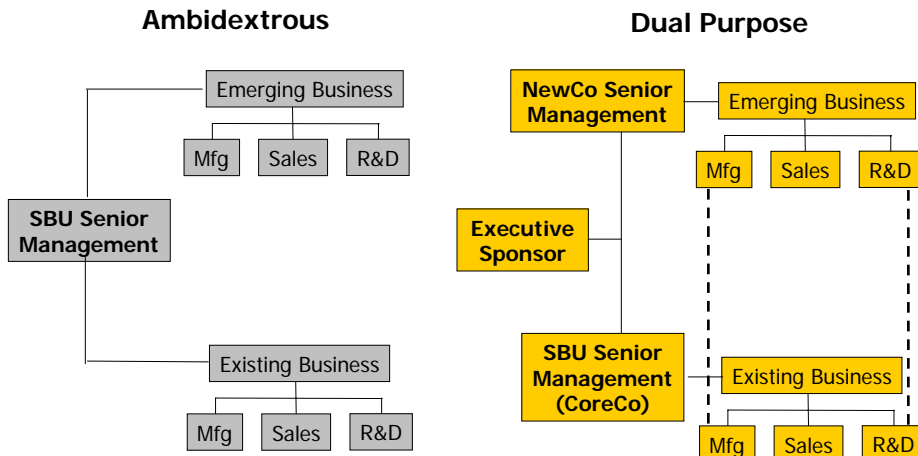
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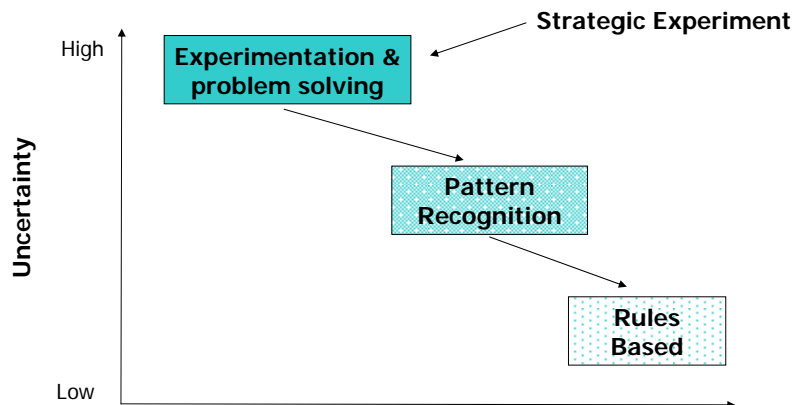
Dual Purpose Organizations



Govindarajan, Vijay and Chris Trimble, Organizational DNA for Strategic Innovation, California Management Review, 47(3), pg. 47 – 76, Spring 2005.
 Govindarajan, Vijay and Chris Trimble, "10 Rules for Strategic Innovators: From Idea to Execution," Harvard Business School Press, 2005.

Dual Purpose Organizations

Dual Purpose Organizations are required for managing "Strategic Experiments"



Dual Purpose Organization

■ **NewCo needs its own organizational DNA (Forgetting)**

- Outsiders should be hired at both the operational and management level
 - | NewCo' success will be dependent on acquiring and integrating new competences
- NewCo should report to one level higher than CoreCo
 - | CoreCo is evaluated on short term profitability
 - | CoreCo will always feel the need to minimize the negative impact of NewCo
- NewCo should be measured on metrics that match NewCo's business model
 - | Not necessarily profitability
 - | NewCo should be measured on the rigor and speed of testing assumptions – a learning strategy

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Dual Purpose Organization

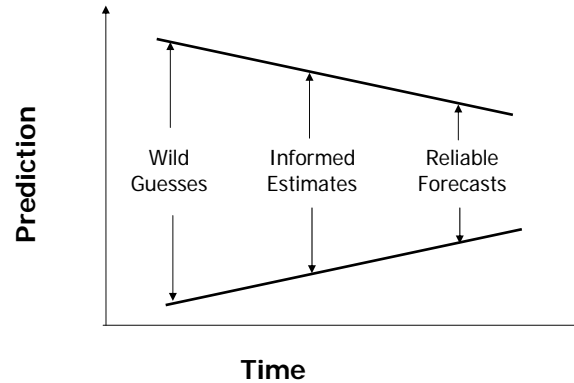
■ **NewCo needs to gain competencies from CoreCo to enhance their competitive advantage (Borrowing)**

- Transfer of knowledge and expertise from CoreCo
 - | Example: Corning's expertise in manufacturing glass
- Manufacturing capacity can lead to significant cost advantages over the competitors
 - | However, conflict with CoreCo needs to be managed at the Executive Level since NewCo requires a learning environment and low capacity availability could effect CoreCo's profit

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Dual Purpose Organization

Financial Predictions are still important "...not because of their accuracy but because of the learning opportunities they present." Govindarajan and Trimble, HBR article, May 2005



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Blue Ocean Strategy

Blue Ocean

vs.

Red Ocean



Kim, W. C. and Mauborgne, R., "Blue Ocean Strategy: From Theory to Practice," California Management Review, 74(3), pp. 105 – 121, Spring 2005.

Kim, W. C. and Mauborgne, R., "Blue Ocean Strategy," Harvard Business School Press, 2005.

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Red vs. Blue Ocean

Red Ocean Strategy

Blue Ocean Strategy

Compete in existing market space



Create uncontested market space

Beat the competition



Make the competition irrelevant

Exploit existing demand



Create and capture new demand

Make the value-cost trade off



Beat the value-cost trade off

Align the whole system of a firm's activities with the strategic choice of differentiation or low cost



Align the whole system of a firm's activities in pursuit of differentiation or low cost

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Blue Ocean Strategy

Analytical Tools

- Four Actions Framework
- The Strategy Canvas

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Cirque du Soleil



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Cirque du Soleil

■ Its beginning

- Guy Laliberte, its founder, earned money as a street performer in Montreal playing the accordion
- After high school he hitchhiked across Europe where he met jugglers, stilt walkers and learned how to fire-breathe
- When he returned to Montreal he supported himself by organizing parties and street festivals out of his youth hostel
- In 1984 he persuaded the Quebec government to give him \$1 million to stage a street show for Canada's 450th anniversary celebration
 - Cirque became the star of the festival and made \$40,000.



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Cirque du Soleil

■ The Big Bet:

- In 1987 Laliberte's went for broke and got Cirque booked as the opening act for the Los Angeles art festival
 - "If we failed, there was no cash for gas to come home"... Laliberte

■ Early Success

- Cirque landed engagements in Santa Monica and San Diego and netted, in 1988, a revenue of \$4 million and \$1.5 million in profit

■ The Growth Stage

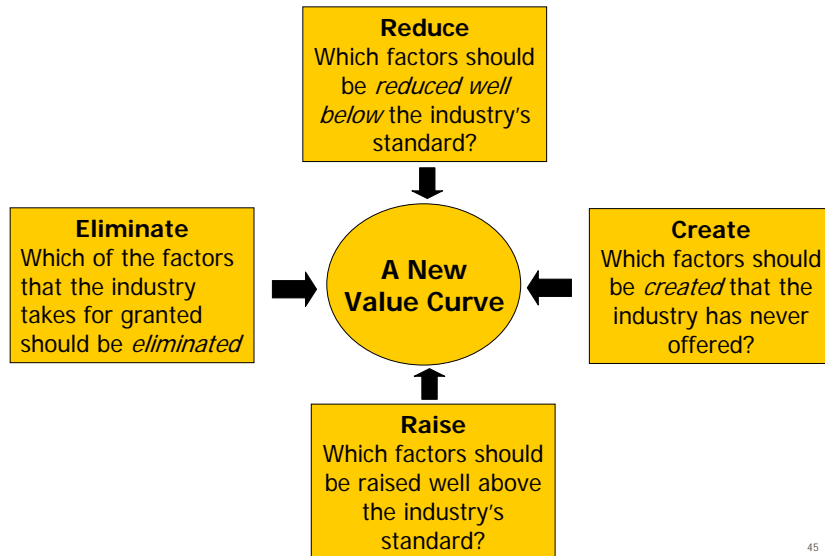
- Steve Wynn offered Cirque a theater in his new hotel – Treasure Island

■ Today

- More than 7 million people pay \$650 million to see Cirque performances in Las Vegas (4 permanent shows), Orlando (1 permanent show) and 6 touring shows.
- Laliberte owns 95% of Cirque and is worth \$1.2 billion

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Four Actions Framework



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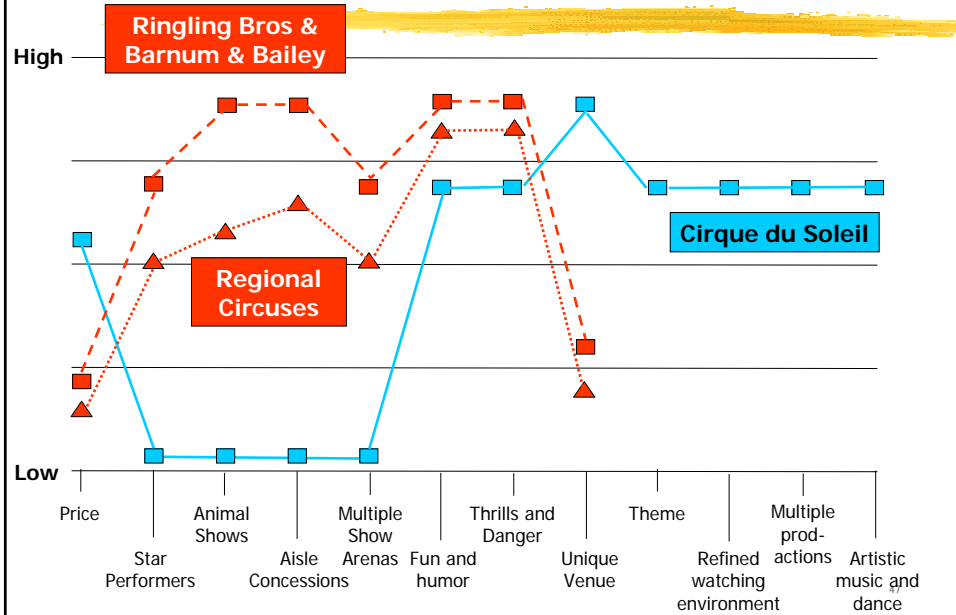
Four Actions Framework

Cirque du Soleil

<p>Eliminate</p> <ul style="list-style-type: none"> ■ Star perfumers ■ Animal Shows ■ Aisle concession sales ■ Multiple show arenas 	<p>Raise</p> <ul style="list-style-type: none"> ■ Unique Venue
<p>Reduce</p> <ul style="list-style-type: none"> ■ Fun and humor ■ Thrill and danger 	<p>Create</p> <ul style="list-style-type: none"> ■ Theme ■ Refined environment ■ Multiple productions ■ Artistic music and dance

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Strategy Canvas Value Curves

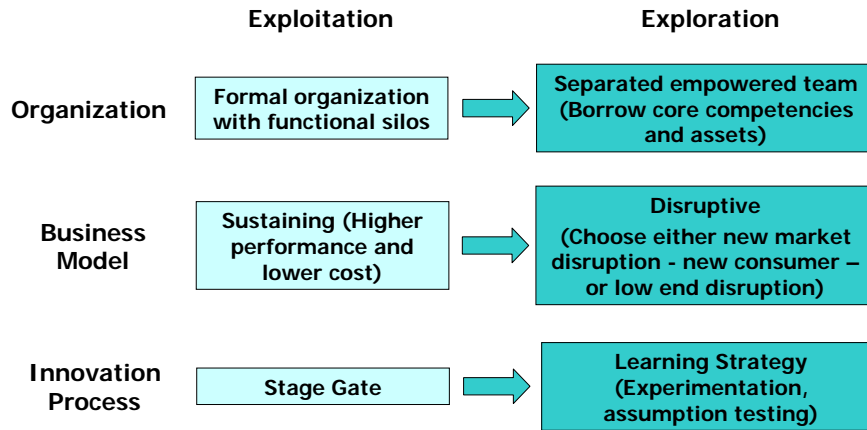


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Conclusions

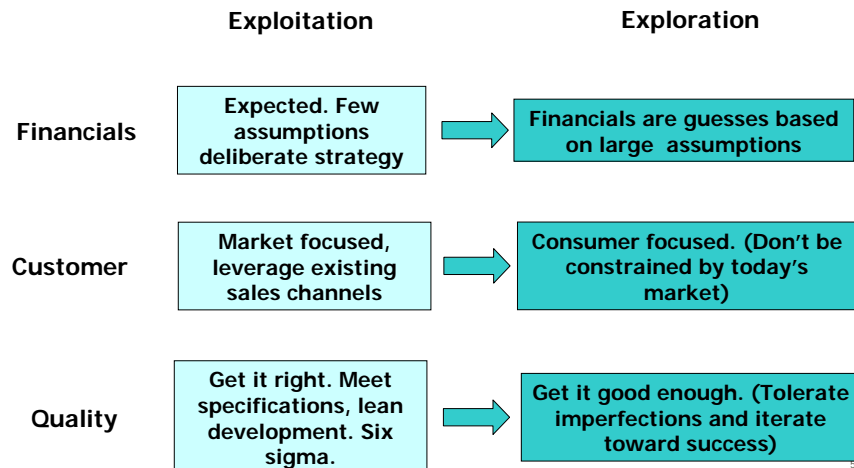
Organizational DNA



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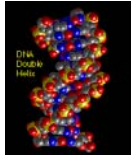
Conclusions

Organizational DNA



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Corning Microarray Technologies (Circa 1998)

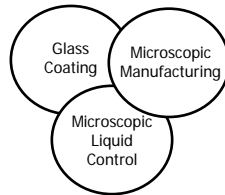


Field of Genomics is exploding. Anticipated that it would be multibillion market in 10 years

Glass slide with thousands of DNA samples attached to it with a special adhesive coating



Researchers "print" their own in a time consuming and costly process

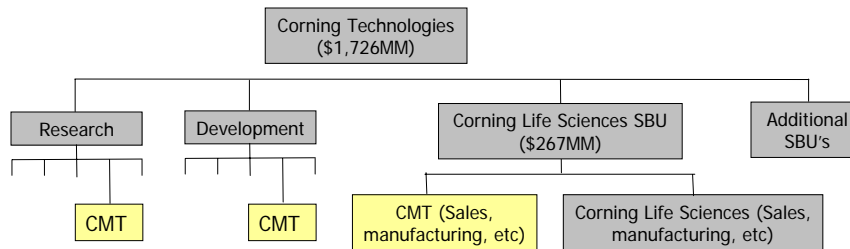


Corning has all of the competencies necessary to succeed

Value Proposition: Corning would mass produce reliable micorarrays at a low cost. Projected revenues in 5 years at \$250 million.

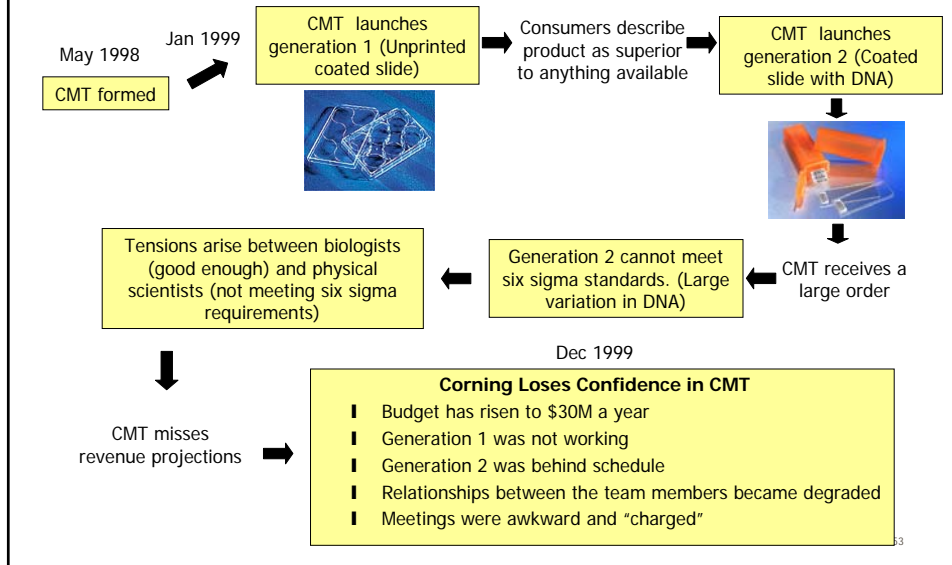
Trimble, Chris and Guatum Belluer, "Corning Microarray Technologies," Tuck School of Business at Dartmouth, Case Number 2-0020, April 2003. 51

Corning Microarray Technologies (Circa 1998)



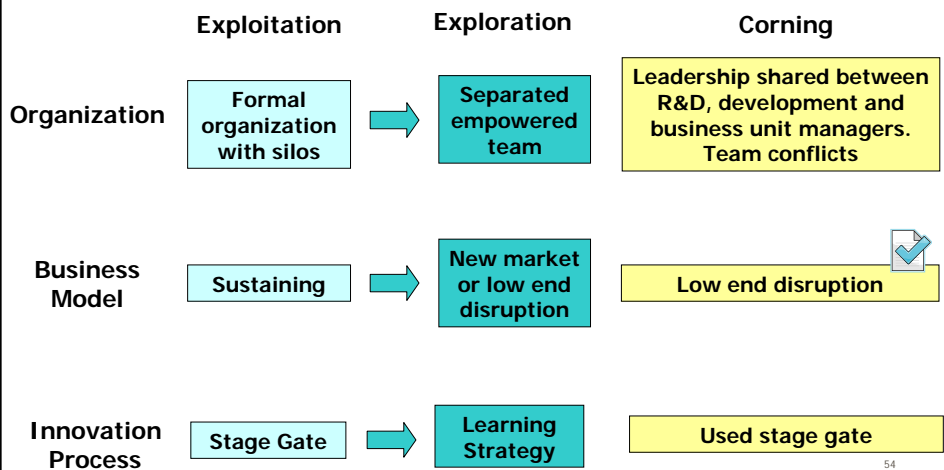
- Leadership was shared by three managers – a research head, a development head and a business unit head.
- Each reported to a different manager.
- Typical arrangement used for exploitative product development efforts.

Corning Microarray Technologies (Circa 1998)



Conclusions

Organizational DNA



Conclusions

Organizational DNA

