



Working Paper:

Creating Market-Disrupting Businesses or Business Opportunities

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Many of you are aiming at creating what I will call Market-Disrupting businesses or business opportunities. Market-disrupting opportunities are products, services, business models that offer the consumer or customer a distinctly different set of value propositions or Value Profile. Think of ebay as a business model ... iPod as a product that became an icon ... instant oil changes ... battery-operated toothbrushes.

Our work with clients is ever evolving and we are appreciating that there are distinct types of Market-Disrupting Opportunities. Each operates by a distinctive set of rules. Moreover, as a cluster, all market-disrupting opportunities certainly operate from different rules than traditional market expansion opportunities.

This is a working paper ... it is rough ... it is half-baked ... it will emerge through future work with our clients and through the learnings of the broader innovation community. In circulating the Working Paper, I am looking for your thoughts and experiences in an effort to improve everyone's breakthrough innovations.

Possible ways in which you can contribute:

1. Provide examples of market-disruptions in your industry ... what was the disruptive Value Profile?
2. Test some of these thought-provoking statements against your personal experiences ... let us know what fits and what does not.
3. Suggest different ways you are thinking about these same issues ... do not be trapped by the organization of this working paper. We aren't.
4. Circulate this to others who can contribute their thinking.

Thank you in advance for contributing to our Innovators Community,

Doug Berger
doug@innovate1st.com
+1.732.564.0945

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Types of Market-Disrupting Opportunities

Type I – Blue Ocean opportunities

(The term Blue Ocean comes from a recent book Blue Ocean Strategy by W. Chan Kim, Renée Mauborgne. This is a worthwhile read, especially the first section)

You are aiming for a “Blue Ocean” space in the market – there is no one offering your configuration of consumer or customer value propositions. The market space is therefore not well defined. It is not well understood that blue ocean spaces become defined through the dynamic interaction of The Offering (product, service, experience, etc.) and consumers. The market space has an emergent aspect. It is not just that our understanding has big gaps ... that estimates will be off but will get better with time and experience. Emergent means that the evolution takes on a life of its own. The evolution of the market cannot be determined in advance. It is important to appreciate fully this dynamic. If you apply the mental model (business thinking, processes) that leads to success in expanding your traditional markets to this emergent market you will fail. You will fail to realize the big-ness of the opportunity ... you will fail to realize a sustainable leadership position ... you may even fail to enter the market altogether.

At the heart of success is the recognition that the principles, which organize blue ocean market spaces, are very different.

Think about the following market-disrupting businesses.

Starbucks
WalMart
Victoria Secret
iTunes
Google classified advertising
Ebay
Amazon.com

In advance, predictions varied widely. There was no consensus. It all played out in the marketplace. If you were waiting until there was a consensus view ... you missed your opportunity.

Rules, which **do not** apply to Type 1: Blue Ocean Disruptive Opportunities

1. Consumers know what they want ... in blue ocean this emerges for everyone.
2. You learn about the market through data gathering and analysis ... in Blue Ocean you learn through first-hand immersion and observation. So tra
3. The size of the market can be known in advance so you can plan for scale at maturity.

In Blue Ocean the success of the venture brings non-consumers into the market. The success expands the size and possibilities of the market. The viral contagion factor is big. In blue ocean you can say ‘if it takes off it could be really big’ and you can speculate and test the necessary take-off factors.

4. The normal rules regarding time don’t apply ... it can be much longer or much shorter.

5. Expecting to get it right from the outset doesn't apply. So making big bets early on isn't the best strategy. In blue ocean, there may be many 'trys' before there are the market-altering successes. Exploratory forays, learning and discovery are the marching orders. Being agile is key.
6. You build for mass ... in blue ocean you build for scalability. Being scalable is a strategic way to plan for investment. Scalable means you don't over-invest in the front end and you do have plans in place for several marketplace scenarios.
7. While many companies are using some version of Stage-Gating, for practical purposes once a concept enters the stage-gating process, the presumption is 'we will commercialize'. Failing early and perhaps often while allowed for, in practice is rarely practiced. In Blue Ocean, at the early Stages you cannot presume authorization to proceed ... you want to highlight failure points and proceed only if failure points can be resolved in future stages. You want to proceed only if the business case justifies continued investment. Terminating early is a win ... terminating late is *the true failure*.
8. Your legacy business models will constrain the innovation.
9. Traditional innovation is process-centric. The orderly progression of a project is highly valued. In Blue Ocean, innovation is innovator-centric. Populating the endeavor with people who are passionate, who will live and breathe success, the true spirit of the entrepreneur is essential. These people will stretch, bend, poke, disrupt the process ... and you want that to happen.

Type 2 – Lines of Evolution

There are Market-Disrupting Opportunities, which disrupt the status quo and obsolete the entrenched positions of products and companies. Many of these market-disrupting opportunities take advantage of predictable lines of evolution in a market space and carry significantly less inherent risk. Lines of evolution are about how markets jump from one trend to the next. These market-disrupting opportunities are based upon established patterns of trends ... demographic, consumer, and product technology. Following a trend won't be market-disrupting ... knowing when there will be a deflection point in the trend is.

Think about

Walkman → CD Walkman → MP3 player

Professional Hair Coloring → At Home Hair Coloring

Skin Cream moisturizing → Skin Cream Anti-aging

Profession teeth whitening → Personal teeth whitening

Electronic Games (from Atari in the 1970s ... to 3-D realism in the Xbox 360)

Internet Advertising (no longer Blue Ocean)

Lines of Evolution include technology, consumer, channels of distribution

- Convenience
- Mechanical to electronic
- Analog to digital
- Mobility
- Trendy fashion
- Youthful appearance
- Positive consumer experience

In Type 2 Disruptive Innovations, there is a disruptive opportunity at each deflection point in the Line of Evolution. It is here that traditional players can become quickly unseated, i.e. Sony in consumer electronics. The key to Type 2 Market-Disruptions is catching the trend at the right point. To catch the trend early you need to operate with different competencies ... flexibility, adaptability and scalability. The

thinking and processes which lead to success in established markets will not serve you in early stage markets.

Once you know the trend you are going to surf, you can make moves that accelerate the trend. Nike used sports figures ... play to the hearts and aspirations of boys to be like their heroes. Apple and iTunes ... by having a huge library of tunes when the internet store made its debut.

Type 3 – Distinctive Insight

These market-disrupting opportunities come from a company’s ability to generate and capitalize on a distinctive consumer insight. The trend is established ... the insight takes advantage of the momentum of the trend. As trends become established the market space moves from homogenized ‘white light’ into a spectrum of distinct colors. Expansion breeds the emergence of colors and flavors that stimulate more consumption and bring non-consumers into the market space. Gillette dominates personal care products for men, based upon the insight that men want more than functionality and that personal care is more than shaving and hair care.

Consider:

- Apple iPod
- Motorola Moto Razr
- P&G Swiffer

The trend was there. The insight and execution were brilliant.

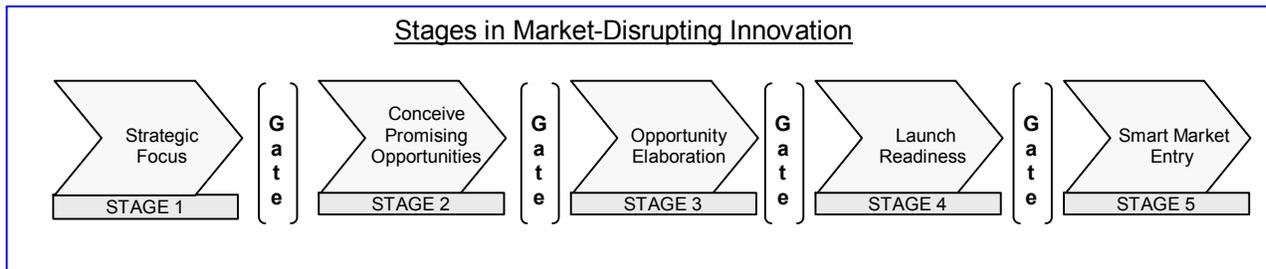
Market-altering disruption is market-based. It is not technology or product based. There are numerous examples of cutting edge technology and cutting edge products that failed. They were at best a ripple. If you don’t nail the disruption in the market place with a distinctive Value Profile matched to an unrecognized need, trend, line of evolution or insight you will have a “could have been” opportunity.

Differences by Type of Innovation

(Authors note: The following chart is intended to stimulate thinking and discussion, not to be a ready source of answers. In early feedback some readers have questioned the language in a particular box, yet they found the questioning process helped their thinking.)

Characteristic	Market Expansion	Blue Ocean Type 1	Lines of Evolution Type 2	Distinctive Insight Type 3
Consumer interest	Measurable	Unknown	Emerging	Established
Source of innovation	Observation of consumer	Immersion with consumer	Immersion	Immersion
Size of market	Measurable, Demographic	Emerges over time	Emerges	Measurable, Demographic
Timing	Now or soon	Unpredictable	Trending	Gradual → Tipping Point
Product characteristics	Variations	Success model emerges	High degree of certainty	Tested in advance
Organization Model	Continue traditions	Breaks from the past	Flexibility to break from the past	Stay with established model
Managing growth	Incremental	Scalability	Scalability	Front-end loading

Stages in Creating a Market-Disrupting Innovation



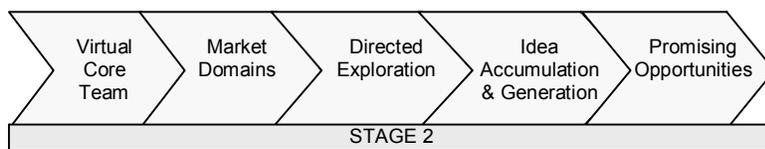
Overview

The Gate	Conventional	Market-Disrupting
1: Strategic Focus	Choose product / service platform	Choose market space
2: Promising Opportunities	Fit with company business and financial models	Market potential, fit with future of market space, disruptive potential
3: Opportunity Elaboration	Design and Development	Rapid prototyping and hypothesis testing, business model / financial model developed, commitment to launch
4: Launch Readiness	Ready for sales and shipment through traditional channels	Ready for sales and shipment through unconventional channels.
5: Smart Market-entry	Monitor performance against plan	Use early feedback to make immediate adjustments.

STAGE 1: Strategic Focus – The markets we will play in ... not the plays we will make

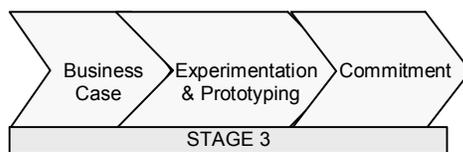
<p>Perspective</p>	<ul style="list-style-type: none"> • When you aim to create a market-disrupting business the eventual business enterprise is often a departure from historical businesses in the parent company as well as a departure from industry conventions. The starting point is therefore, determining the markets in which you will play. Conventional business expansion comes from the plays you make in your existing markets. • Strategic markets fit with the aspirations and inclinations of key executives. Analysis helps to qualify the strategic space; analysis doesn't determine the strategic space. • The company and its executives are entering into unknown territory. • Reaching alignment with senior executives and stakeholders in this environment is very dynamic. Alignment requires that people advance their thinking. • If you constrain the venture to work within legacy organization establishment, you will constrain the venture to be an extension of that establishment. Some market-disrupting opportunities can be realized in this way. • Ventures need to take on a life of their own. Other ventures could threaten the established businesses. Other ventures are too different to receive focused attention. If you want the venture to take on a life of its own and realize its full potential, it must be freed from the legacy.
<p>Action</p>	<ul style="list-style-type: none"> • Gaining alignment usually requires a great deal of open, honest dialogue, exploration, use of imagination and 'what if' scenarios. • Investment and resourcing levels for Stage 2 are allocated. • Wide discretion to challenge company and market legacies is granted. • You must attend to the Organization Architecture.

STAGE 2: Promising Opportunities – plays we could make ... they are a potential fit with the market



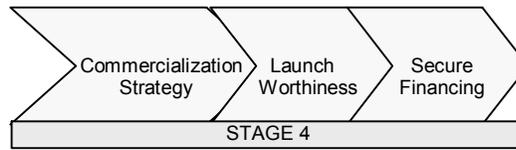
<p>Perspective</p>	<ul style="list-style-type: none"> • In the market space you are looking for Promising Opportunities ... ones with high potential yet at the outset have significant unknowns and uncertainties. • Ultimately, Promising Opportunities come from the imagination, insight and intuition of people. • Who you choose to work this area is Defining – the people will shape the opportunity. • Immersing yourself in the marketplace is essential. Imagination, insight and intuition rarely come from being an observer or visitor. • Someone else’s failure can be promising if you can ‘crack the code’. • Plays that do not fit for your company are as important as plays that do. You do not reject them out of hand ... you attend to them and catalogue them. Plays that do not fit can lead to new thinking and eventually to promising opportunities.
<p>Action</p>	<ul style="list-style-type: none"> • You are questioning the conventional wisdom ... why? why? why? • Criteria that make a business opportunity attractive (explicit as well as ‘gut feel’) are defined. • Only a select few opportunities will pass through the Gate.

STAGE 3 – Opportunity Elaboration



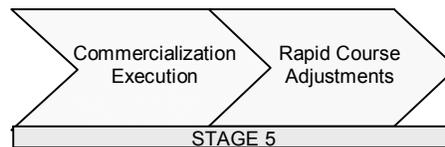
<p>Perspective</p>	<ul style="list-style-type: none"> • In Stage 2 you are very broad and expansive in your thinking. In Stage 3 your thinking focuses on depth and specifics. • You shift from being an outsider to becoming an insider – understanding how insiders in the market space think. • In what ways are you redefining the Customer Value Profile? • You are sizing up and qualifying the business opportunity. OK to be optimistic ... what assumptions would need to prove valid. What seems realistic and what is that based upon? • Some questions and challenges can only be addressed with prototypes and real customers. • At the end of Stage 3 you are Committing to move ahead to commercialization and market entry. This doesn't imply that you won't kill the project, if certain risks aren't addressed, attractiveness proven out or if the competitive environment changes. It does imply that the opportunity is sufficiently promising and specific that you are determined to make it a success.
<p>Action</p>	<ul style="list-style-type: none"> • What would be The Ideal? Specifying this it often harder than it seems. While the Ideal may not be feasible for a variety of reasons, it will guide you to places that being practical will not. • Learn to think as an insider. • You elaborate on the success factors to be tested ... gaps to be closed. You elaborate on the opportunity in depth ... you consider many market scenarios. • First you are looking to have all the questions and key challenges well defined. • You are building strong business case for investment ... you are picking it apart. The business case may suggest that it is not a good investment. Remember terminating the venture early is a win ... terminating it late after significant investment, is true failure.

STAGE 4 – Launch Readiness



Perspective	<ul style="list-style-type: none"> • The scale of market entry matches the magnitude and the specific areas of unresolved risk. • The channel of distribution is chosen with tight focus on early success and economically reaching early adopter customers. • Your supply chain is designed with flexibility and agility ... scale comes later
Action	<ul style="list-style-type: none"> • You resolve all early entry financial, market and technology risks. • You are listening to the 'lone voices' about features and about pitfalls ... you need to remain flexible and agile.

STAGE 5 – Smart Market Entry



Perspective	<ul style="list-style-type: none"> • You have planned to entry smartly ... being agile, flexible. • The mistake is to execute the plan and ignore subtle cues. In market failures there is noise and there are weak yet vitally important signals. You are actively seeking out, listening for weak signals.
Action	<ul style="list-style-type: none"> • Look for subtle cues to make course adjustments ... rapidly and often if suggested.

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