Disruptive innovation critical thinking sample

Business, Company

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Introduction

Disruptive innovation involves the whole process of creating new markets for an array of products. The idea of disruptive innovation is best explained by Christensen, C. M. (2003) as the creation of new value networks and markets, something that would cause disruptions in the existing market. Disruptive technology has created a competitive advantage for many business organizations, where a new and more superior product or service is introduced to the market. This knocks out the competitors since the products or services do not exist on the general market. Superior goods and services would, therefore, force the general existing market prices to go down. Disruptive technology is often confused with disruptive innovation with the two terms occasionally being used interchangeably. Market disruption is not a function of technology itself but rather it is a function of the changes in the application of technology. Technological innovations are not disruptive innovations, for example, the automobile industry. The innovation of the first automobile was a great technological innovation but the early vehicles were extremely expensive and, therefore, very few people could afford them. On the market, there already existed horse-drawn vehicles. Since the newly invented automobiles were considered expensive and luxurious, they did not disrupt the market in any way. People still preferred the horse-drawn vehicles since they were affordable. Disruptive innovation occurs when the entire market is revolutionized, with people preferring the new products and services and, therefore, switching. For example the invention of mobile phones completely replaced the use of landline telephones. The use of wireless communication has taken over the communication market. Such a situation is referred to as a market disruption (Erwin, 2004).

Disruptive technology is a technology that displaces the existing technology unexpectedly. Disruptive technology can be categorized in two according to Professor Clayton M. Christensen of the Harvard business school; sustaining and disruptive technology. In defining sustaining technology, Professor Clayton M. Christensen referred to it as a type of technology which depends on the incremental development to an already existing technology e. g. the improvement of the engine power of a vehicle to cover more mileage and also increase its acceleration ability. Disruptive technology, according to Clayton, is new and as such, lacks refinement, often has performance problems because it is new, it appeals to a small audience, and its practical application is not yet proven to the market. The market is uncertain of the capabilities of such technology.

Theories of disruptive innovation and value innovation

Clayton M. Christensen on disruptive innovations

According to Clayton M. Christensen, disruptive innovations are products and/or services created to suit new sets of customers. He asserts that in some occasions disruptive innovation can hurt and undermine the success of very successful business organizations. Successful companies are responsive to their clients or customers and all activities should be carried out in their interest. According to Clayton, such companies tend to ignore areas that are most susceptible to disruptive innovations. This leads to an unnecessary loss of customers which might collapse the organization in the long run. Focusing on the customer is imperative for any organization that intends to be successful since this focus is counterproductive .

O’Ryan argues that, on the contrary, disruptive innovations are not necessarily destructive to some of the successful business organizations. He disagrees with Professor Clayton M. Christensen by emphasizing on the fact that proper integration of the existing technology and ideas with the new ones coupled with proper innovative thinking can go a long way in improving a business’ performance. Forward thinking is critical according to O’Ryan, since maintaining an open and critical mind will enable the management of the organization in question to see disruptive innovation as a new business idea but not as a threat .

Christensen divides disruptive innovation into two: new-market disruption and low-end disruption. Low-end disruption targets clientele who do not call for the full performance, something that is treasured by customers at the high end of the market. New-market disruption, according to Christensen, targets clientele whose needs were previously not served by current incumbents. When the rate at which products improve or progress surpasses the rate at which customers can adapt to these changes, then the low-end disruption occurs. The inability of the customers to keep up with the changing nature of the products creates a disadvantage on the side of the organization in the sense that customers are on a different page with the business organization in terms of developmental issues. The performance of the product might occasionally exceed the actual need of the customers . According to Christensen, a disruption technology can be introduced in the market in case of such a situation. The purpose of such a disruptive technology is to produce a product that has relatively lower performance than the existing product. This would enable the organization gain a grip in the market.

Gradually, a disruptor gets hold of the entire market under the nose of the incumbent. This disruptor, targets customers who arouse a lower interest to the incumbent i. e. the least profitable customer. Such customers, according to Christensen, are not willing to pay any extra cent for improvements on the product. They would instead pay for a product they consider to be good enough for them. After the disruptor has gained a foothold/grip of such a customer, the next objective of the disruptor becomes to expand and extend the profit margin. The disruptor innovates to get the attention of a customer who would be ready to pay for something extra for better quality. The incumbent is not so interested in these less profitable segments of the market, which allows the disruptor to exploit these areas. The incumbent would only target the attractive areas of the market, and with time, the disruptor would have taken up the better part of the market leaving the incumbent to operate on a small share of the market. New-market disruption, according to Christensen, occurs when a certain product fits in an emerging market section that is not served by the existing incumbents in the particular industry.

Below is a diagrammatic representation, of the predictive nature of the disruptive innovation theory, by Professor Clayton M. Christensen. Source: www. claytonchristesen. com/

W. Chan Kim and Renée Mauborgne on disruptive innovation

The above authors believe that all organizations have a responsibility of providing goods and services that will create demand which they popularly refer to as blue oceans. Head to head competition with incumbent organizations according to W. Chan Kim and Renée Mauborgne is improper. Differentiation and low costs in value innovation would help propel organizations to higher achievements. Creating new market places and opportunities enables organizations to see the bigger picture and think beyond the existing demand and competition (Kim & Mauborgne, 2004).

The comparison between the “ the red ocean” and the “ the blue ocean” by W. Chan Kim and Renée Mauborgne shows how a disruptive innovation does not necessarily have to be a disruption. Red-oceans are like a market place where the rules already exist and are known. In this type of market, companies compete to outdo one another. With time the market gets too crowded. Growth and profit making becomes a too distant dream then cut-throat competition sets in blue-oceans, the market is new and it, therefore, has no rules. Organizations create demand in this case rather than fighting over it. An unexplored market has wider and deeper potential compared to an already explored market. Strategic competition is not sufficient to maintain high performance; organizations need to create new markets (blue-oceans) in order to better their performance (Kim & Mauborgne, 2004).

Comparison

According to W. Chan Kim and Renée Mauborgne, the disruptive innovations theory about red and blue oceans, advocates for the creation of demand rather than fighting for it. Disruptive innovations involve organizations working hard to grab as much foothold as they can. This is insufficient to achieve a higher level performance. Clayton M. Christensen argues that disruptive innovation is a means by which new firms come in to the market to provide better products and services than the incumbent organizations. His theory explains the predictive nature of disruptive innovations on the performance of a business. A disruptor gradually takes away the market share from the incumbent organization.

Apple Inc and disruptive innovation

Apple Inc has recorded tremendous success in the past five years. The development of hi-tech technological devices has transformed the technology industry. Under the superb leadership of the late Steve Jobs and now Tim Cook, the company has taken over then energy industry by surprise.

The development of the ipad by Apple has an interesting story attached to it. Steve Jobs created the ipad after meeting a business partner from Microsoft who showed him the prototype of their tablet computer that was yet to be unleashed to the market. Apple, being a disruptor, created an ipad immediately and released it to the market. The ipad was almost similar to the tablet computer, but it also had more advantages e. g. it was lighter and comparatively cheaper. The ipad did very well on the market. This is a manifestation of strategic competition in the technology industry .

The invention of tablets, iphones and iTunes by Apple limited the market for some technology companies all over the world. The tablets performed the same function as computers. In fact, these tablets had better features and were lighter when compared to most computers. This attracted more customers who opted for tablets instead of computers. Computer producing companies like IBM experienced a hard time surviving this competition. Other devices like iphones have almost phased out the cell phone producing companies .

Clayton M. Christensen explains how a disruptor in the market gradually gains control of the entire market. The slow but strategic taking up of the segments of the market considered by the incumbent company as less profitable and later taking up the bigger share of the market is what Clayton M. Christensen explains as the role of a disruptor in the market. Apple Inc has grabbed a big share of the market through the production of superior products like iTunes.

However, apart from the iTunes and iphones, Apple has faced various down downsides. The big losses it in the year incurred 2012 were the highest losses they had made in over four years. Competition has not always favored this them; their closest rival Google play outdid them in the share market that year. The theory by W. Chan Kim and Renée Mauborgne about the Red

Ocean and blue oceans could be an appropriate application in this predicament by Apple. The idea about creating new market places instead of relying on strategic competition could be well illustrated by companies like Apple inc. when Steve Jobs, the then chief executive officer of Apple Inc, created an ipad after realizing Microsoft was building a tablet computer.

W. Chan Kim and Renée Mauborgne advocate for creation of new market places; what they refer to as blue oceans. Companies like Apple should invent new products that are not yet on the market. This way, the company would be in a better position to improve its performance, since there would be no existing rules or competition. Competing for demand, limits the company's ability to improve its performance. Apple's dismal performance in 2012 could be attributed to the cut-throat competition in the red-ocean in the technology industry. W. Chan Kim and Renée Mauborgne believe that strategic competition is important for the economic success of a business, but it is far from sufficient to enable such an organization improve its performance (Kim & Mauborgne, 2004).

Conclusion

Disruptive innovation is advantageous to the consumers; those who have the desire to have better quality or change of brand. As W. Chan Kim and Renée Mauborgne rightly point out, it is high time business organizations stopped creating cut-throat competition in " red-ocean" type of market for their own sake and invest in new market places or " blue-oceans"

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