Lessons to jumpstart disruptive innovation

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In many markets, the current low-growth, high-unemployment environment favors disruptive innovation – products or services that offer a new combination of features and lower cost. For example, instead of plunking down $2500 for a top-of-the-line laptop, a lot of business consumers are learning to love the dazzlingly innovative $400 iPad that is missing quite a few features they usually take for granted.[1]

Innovative, disruptive competition is the name of the game at a time when customers need to reassess their previous assumptions about cost and value. Historically, corporate winners that emerge from a downturn are those that have changed the game, not stayed the course. Protecting a business by cutting costs alone cannot prevent innovative players from luring customers away via new value-creating offerings. In fact, even smaller companies, when they offer their customers more innovation for their money, can tilt the field in their favor regardless of their competitors’ size or cost management skills.

So now is the time for leaders to challenge their management teams to answer two questions: Are we prepared to disrupt our industry before our competition does? Does our organization know how to stimulate, manage and sustain disruptive innovation?

Experience suggests that most companies won’t be too happy with their honest answers to these questions. However, by following the best practices of successful innovators, leaders can guide their organizations through and out of this economic slowdown and avoid becoming one of countless business victims of ‘innovation inertia.’

Three critical lessons for disruptive innovators

A look at a wide spectrum of disruptive innovators over the past few decades reveals that their success as game changers is primarily driven by three critical capabilities:

1. The ability to anticipate and act on market discontinuities and unmet customer needs, with a particular focus on the business model.
2. The ability to link incremental and breakthrough innovation efforts by focusing on a single, shared aspiration.
3. A mindset that expects opportunities for disruptive innovation to inform strategy and for strategy to inform the search for disruptive innovation opportunities.

Companies looking to be disruptive in this current slow-growth environment should ask themselves, “What proactive steps need to be taken to anticipate, address, and even drive change?” Three lessons from successful disruptive innovators offer guidance.
Lesson #1: disrupt by anticipating and acting on market discontinuities and unmet customer needs, with a particular focus on the business model

The Starbucks coffee shop has become a familiar part of the American landscape. Now the largest coffee house chain in the world, Starbucks started in Seattle in the early 1970s selling just roasted beans, and it only began introducing customers to coffee custom brewed by skilled baristas in the 1990s. Nowadays, though the recession has forced many coffee-shop customers to cut back on $4 custom brews, there is still a big demand for high-quality coffee prepared quickly.

Research has shown that consumers want a lower-cost alternative that still produces excellent coffee, but eliminates the mess and time of making it at home. Enter Green...
Mountain Coffee Roasters with its Keurig coffee system and a whole new way to think about home-brewed coffee.

Green Mountain Roasters started in 1981 as a small café in Vermont. By the early 2000’s, this specialty coffee roaster had found a niche by bringing their premium-roasted coffees to customers through supermarkets, restaurants, and many other outlets. Seeking to grow, Green Mountain discovered significant “white space” by interviewing customers who valued the idea of premium coffee made simply and easily at home or office.[3]

Green Mountain understood that in order to deliver the key customer values of “simple and easy” the company would have to offer non-traditional methods of coffee making. The solution would need to be all-inclusive, non-messy and guarantee a perfect cup every time. And that’s where the company’s K-cup technology and Keurig coffee system, which they purchased in 2006, comes in. The customer value is clear – no more grinding beans, cleaning messy filters, or measuring water.

Finally, it’s important to note that Green Mountain didn’t initially push their coffee-capsule solution through the traditional retail channels. Instead, they made a very conscious decision to begin with businesses. The benefit of starting in the workplace was that future retail customers had the opportunity to learn how the product worked in the office and become familiar with its benefits before spending $150 to buy the system for the home. While many companies have struggled to survive in this economy, Green Mountain Coffee has grown – ranking #2 on Fortune’s list of Global 100 – Fastest Growing Companies.[4]

So how can your company take advantage of the innovation opportunities that occur amid changing customer needs and evolving trends? Two best practices:

1. Monitor customer needs through observation rather than just researching data. Remember that reports and analytics describe past actions customers have taken. In order to really understand customers’ current needs, spend time with them, talk to them, observe them, be like them.

2. Don’t be single-minded about assessing trends; instead look for the bigger picture. Major, disruptive market changes can rarely be traced back to a single shifting trend. Rather, it’s the combination of trends that, when considered together, open a fundamental opportunity in the marketplace.

Lesson #2: link incremental and breakthrough innovation efforts by focusing on a single, shared aspiration

Many companies segregate their innovation efforts into incremental and game-changing initiatives. On problem with this approach is that it can sometimes be impossible to tell an incremental idea from a game-changing idea in its early stages. Innovations with the power to disrupt typically have roots in existing products or services, so why pull them apart?

A second, related reason for not segregating incremental and breakthrough innovation efforts is that breakthrough innovations are often dependent upon the competencies of the organization to be successful. Failures in breakthrough innovation efforts are often times a result of organizations trying to step too far outside of what they understand. In some such cases, the new business is so different from everything they do that no one really wants to
own it. This is the historical lesson taught by the breakthrough innovation efforts of Xerox PARC, which failed to foster commercialization of the PC.[5]

An alternative to separating incremental and breakthrough innovation is to connect them using a platform-based approach that focuses on delivering a single, shared aspiration of the future. This approach begins with making a declaration about what a company wants to be in the future and then defining a plausible set of steps/actions that help it attain that future. In other words, how can a company migrate from what it is today, to what it wants and needs to be tomorrow?

This is the approach that Crayola has taken over the past few years. After several failed attempts at breakthrough innovation, Crayola refocused its efforts on "dreamspaces." These spaces described a future ambition shaped by marketplace insights and a thorough understanding of the competencies of their own organization. With its dreamspaces defined, Crayola crafted migration maps (see Exhibit 1) that provided a playbook for moving towards their dreamspace.

Through this initiative Crayola developed a "No Limits" platform, a highly innovative set of children’s arts and crafts solutions that limit the amount of mess for the parents. Traditional products were modified and new products were created. Crayola didn’t achieve breakthrough innovation by sending a group of individuals off to think and develop in an entirely new space. Instead, breakthrough innovation was achieved by aligning all the efforts of the organization on a single, shared ambition.

To ensure that both game-changing and incremental innovation will be served:

1. Do not select opportunities at the idea stage. Instead, use ideas as building blocks for broader opportunities and elaborate these opportunities to the point where it is possible to assess their overall potential and risk.

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*Source: Strategos analysis based on company announcements and other publicly available data*
2. Create growth platforms organized as a sequence of incremental innovations that build up to a game-change. New approaches need to be learned, technologies found and licenses obtained. All these steps can be sequenced into a migration path that combines different levels of innovation and that guides an organization to its goal.

**Lesson #3: recognition that disruptive innovation can inform strategy, just as strategy can and should inform disruptive innovation**

Having a well-articulated corporate strategy is imperative to crafting, planning and executing disruptive innovation. Too frequently, however, companies don’t clearly articulate the link between innovation and strategy. The mindset should be “how we work toward where we want to be.” Done right, disruptive innovation will push the boundary on strategy — forcing senior management to make explicit decisions about what’s in the innovation program and what’s out.

This observation prompts two questions:

- What is the role of innovation in the overall strategy of your company?
- Is your innovation capability aligned with your strategy?

To address these questions:

1. Be clear about your company strategy and innovation’s role in its execution. Making explicit strategy-to-innovation linkages will help you stretch a strategy at a time where it might be tempting to hold back.

2. Follow an industry best-practices approach to innovation. A generic innovation capability will likely yield opportunities that mimic those of rivals, leading to a fatal onset of strategy decay and convergence. Learn how to customize innovation efforts for your particular operation.

**Significant change poses challenges**

Successfully delivering on disruptive innovation can have lasting beneficial effects on an organization. Innovation capability begets innovation capability.

**The time challenge.** If a company starts with a low capability for innovation, fast and stellar innovations are not going to happen overnight. Focus first on accelerating existing

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**Case: McDonald’s surprising success with fries and DVDs**

In considering McDonald’s success with Redbox in light of this lesson, the question is: How do DVD kiosks deliver against a strategy built around burgers, fries and cokes? Here’s the simple answer: Redbox exemplifies McDonald’s efforts to test and stretch the boundaries of its strategic options, rather than to presume self-imposed constraints about its strategy. In other words, should McDonald’s only offer burgers, fries and cokes, or can it use its competences to also provide value-based retail convenience across new and different categories? While a number of quick, inexpensive and learning-focused experiments by McDonald’s revealed some limits to these retail categories, Redbox emerged as a clear winner. More importantly, the willingness to test its strategic assumptions through innovation efforts helped to clarify and further define its strategy. Learning from Redbox thus helped McDonald’s make better strategic choices around what it would not do, as well as choose wisely where it would devote further attention.
opportunities already in the pipeline. Use the lessons learned to work on a set of more ambitious innovation opportunities.

The commitment challenge. Consider a low-resource approach that can get past temporary economic challenges or emergencies. Work on specific innovations that can produce early wins. Not all platforms have opportunities that can achieve their promise in the short term. In these more difficult times, choose those platforms that take advantage of opportunities faster.

The inclusiveness challenge. Disruptive innovation involves many people in many areas of the organization but not all people and not all at the same time. Frequently communications with future participants are often neglected and the project suffers in the long-term. So take care to engage key future players for the purpose of building motivation and commitment. Ask your innovation teams to communicate through informal networks and to target influencers. As work progresses, identify the individuals and organizations needed to take next steps. Involve them as early as possible.

By meeting these challenges, top performing companies have learned how to meld disruptive and incremental innovation in disciplined and systematic fashion. By adopting their best practices, almost any company can learn to out-compete their rivals by creating new products, finding white-space markets and imagining new business models, even in these toughest of times.

Notes
1. Current models of the iPad have no USB port, no internal drives for CD/DVD, no hard drive; they do have up to 64 GB of flash memory -- enough to hold photos, video, music, and ebooks.
2. McDonalds sold a partial interest in Redbox to Coinstar in 2007 and the remaining interest in 2009.

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