Mastering Disruptive Business Models

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“disruption”
Definition:

Business disruption happens when an existing industry faces a challenger that offers far greater value to the customer in a way that existing firms cannot compete with directly.
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Business disruption happens when an existing industry faces a challenger that offers far greater value to the customer in a way that existing firms cannot compete with directly.
Not every innovation is disruptive
Disruption requires an incumbent

Vs. ??
Disruption in the digital age
“Software is eating the world.” – Marc Andreessen
Theories of disruption
“Creative destruction” (1942)

Joseph Schumpeter
“Disruptive innovation” (1995)

Clayton Christensen
Steps in Christensen’s “new market” disruption

1. Challenger starts selling to “new market” (customers not served by incumbent)

2. Challenger product is inferior in performance, but cheaper or more accessible

3. Incumbent ignores the challenger’s inferior product because its customers aren’t interested, continues to improve its own performance

4. Over time, challenger’s innovation improves performance, while staying much cheaper / more accessible.

5. Challenger becomes “good enough” alternative for incumbent’s customers; they rapidly defect

6. Incumbent is unable to compete

Source: The Innovator’s Dilemma (1997)
Source examples (B2B)
Christensen interviewed on the iPhone in 2007

He predicted that it would fail to disrupt the incumbent mobile phone manufacturers like Nokia --

“The iPhone is a sustaining technology relative to Nokia. In other words, Apple is leaping ahead on the sustaining curve [by building a better phone]. But the prediction of the theory would be that Apple won’t succeed with the iPhone. They’ve launched an innovation that the existing players in the industry are heavily motivated to beat:
It’s not [truly] disruptive. History speaks pretty loudly on that, that the probability of success is going to be limited.”

This was not a mistake (the iPhone did not fit the theory)
The Business Model
Theory of Disruption

David L. Rogers, “The Digital Transformation Playbook”
Definition:

A **business model** describes a holistic view of how a business creates value, delivers it to the market, and captures value in return.
The four-box business model

- Customer Value Proposition
- Key Resources
- Key Processes
- Profit Formula

<table>
<thead>
<tr>
<th>Key Partnerships</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
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<th>Cost Structures</th>
<th>Revenue Streams</th>
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"Seizing the White Space: Business Model Innovation for Growth and Renewal" by Mark W. Johnson

Foreword by A.G. Lafley
Two sides of a business model
Value Proposition  +  Value Network

the value you offer to the customer

people, partners, assets that enable you to create, deliver, & earn revenue from it
Value Proposition?
the value offered to the customer

Value Network?
people, partners, assets that enable Columbia Business School to create, deliver, & earn revenue from that value
Two differentials of disruptive business models
Value Proposition

that dramatically displaces the value provided by

the incumbent
Value proposition generatives

- Price
- Free offer
- Accessibility
- Simplicity
- Personalization
- Aggregation
- Unbundling
- Integration
- Social
- etc.
Value Network
that creates a barrier to imitation by the incumbent
Value network components

- Customer segments
- Channel partners
- Value creation partners
- Revenue partners
- Cost structure
- Network effects
- Data
- Customer intimacy
- etc.
Business Model Theory of Disruption:

Disruption happens when a challenger enters with

A) a value proposition that dramatically displaces the value provided by the incumbent, and

B) a value network that creates a barrier to imitation by the incumbent.

David L. Rogers, *The Digital Transformation Playbook*
Christensen’s “new market” theory of disruption is a special case of business model disruption, where:

- **Value proposition differential** is a difference in *price* or *access*

- **Value network differential** includes a difference in *customer segment* (challenger is pursuing a different customer segment)
3 cases analyzed by business model disruption theory
iPhone vs. Nokia
**Value Proposition**
- Design
- Simplicity
- Integration (mp3, phone, computer)

**Value network**
- Retailer subsidy
- Unlimited data from telco
- iTunes integration
- App developers
Netflix (DVD service) vs. Blockbuster
Value Proposition

- No late fees
- Easy access (comes to you)
- Wider choice
- Personalized recommendations

Value network

- Subscription pricing
- Ecommerce website
- Data assets & recco engine
- Distribution system
- No retail costs
WARBY PARKER

$95 Prescription Glasses.
Free Shipping. Free Returns.

Shop Men >  |  Shop Women >
<table>
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<tr>
<th>Differential</th>
<th>Value Proposition</th>
<th>Value network</th>
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<tr>
<td><strong>Price</strong> ($95)</td>
<td><strong>Online channel</strong></td>
<td>• <strong>Price</strong> ($95)</td>
</tr>
<tr>
<td><strong>Accessibility</strong> (online)</td>
<td><strong>Low retail costs</strong></td>
<td>• <strong>Accessibility</strong> (online)</td>
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<td><strong>Social cause</strong></td>
<td><strong>Vertical integration</strong></td>
<td>• <strong>Social cause</strong></td>
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<td><strong>Lack: Immediacy?</strong></td>
<td><strong>B corp status</strong></td>
<td>• <strong>Lack: Immediacy?</strong></td>
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Disruptive Business Model Map

Challenger

Customer

Incumbent

Value Proposition
Generatives
Differential

Value Network
Components
Differential

Two-Part Test
Radically displace value? Barrier to imitation?
After lunch:

Apply the model to create & test a disruptive challenger
Exercise: The Disruptive Business Model Map

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Our goal:
Creating & assessing a disruptive business model
Disruptive Business Model Map

Challenger

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Generatives

Differential

Value Network

Components

Differential

Two-Part Test

Radically displace value?

Barrier to imitation?
Step 1: Brainstorm a “disruptive” new business

• Pick an industry:
  - personal finance, OR
  - travel/hospitality

• Identify an unmet consumer need ("pain point")

• Think of a new business offering that would meet this consumer need
Step 2: What’s the business model?

- Who is your (core) customer? (who will love you the most)

- What is your value proposition? (value you offer them)

- What is in your value network? (people, partners, assets that enable you to create, deliver, & earn revenue from this)
The Test:
IS YOUR BUSINESS MODEL DISRUPTIVE?
Step 3: The Disruptive Business Model Test

1. What is your challenger business?

2. Who is the incumbent?

3. Who is your shared customer?

4. How does your value proposition differ?
   - Does that displace the value of the incumbent?

5. How does your value network differ?
   - Does that provide a barrier to imitation?

* Did you pass 2-part test (#4 & #5) to be disruptive?
Disruptive Business Model Map

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Incumbent

Value Proposition

Generatives

Differential

Value Network

Components

Differential

Two-Part Test

Radically displace value?

Barrier to imitation?
The rest of the Business Model Theory of Disruption:

How do you respond if you DO face a disruptive challenger?
Further reading

“Surviving Disruption: 6 Incumbent Responses to a Disruptive Challenger”
Disruptive Response Planner

Customer Trajectory
Outside-in v. Inside-out
Who’s first
Next + triggers

Disruptive Scope
Use case
Customer segments
Network effects

Other Incumbents
Value train
Substitution
Laddering

Six Incipient Responses
Becoming the disrupter
Acquire
Launch
Split

Mitigating losses
Refocus
Diversify
Exit
Questions?