

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



U B E R



DOLLAR SHAVE CLUB

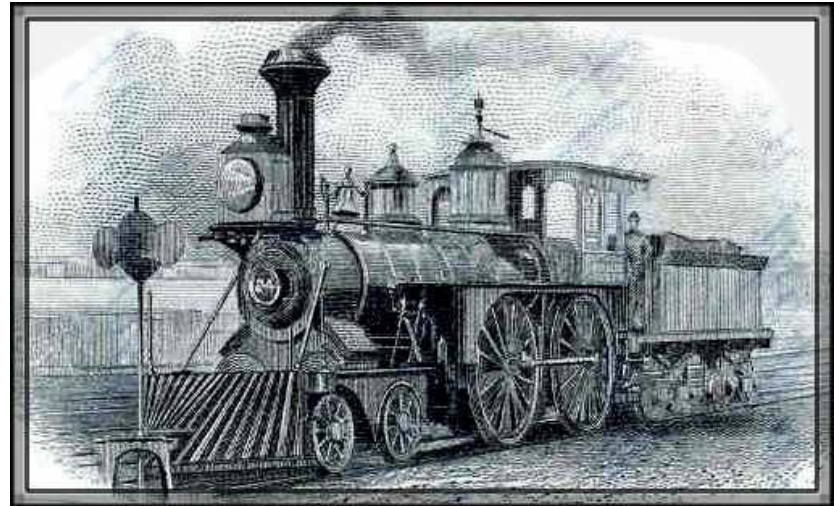
SHAVE TIME. SHAVE MONEY.

Theories of disruption

“Creative destruction” (1942)



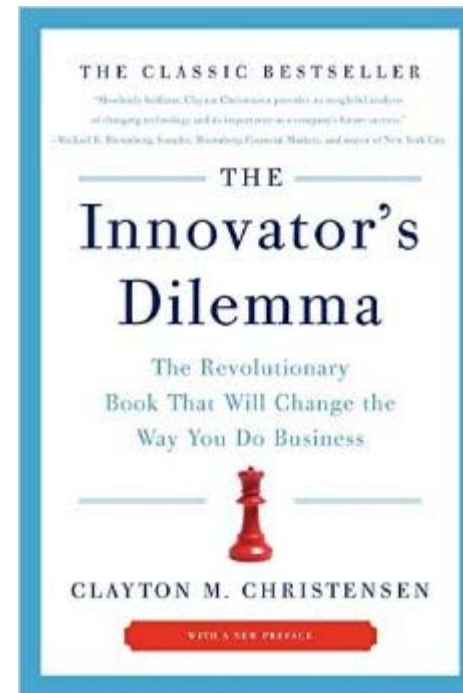
Joseph Schumpeter



“Disruptive innovation” (1995)

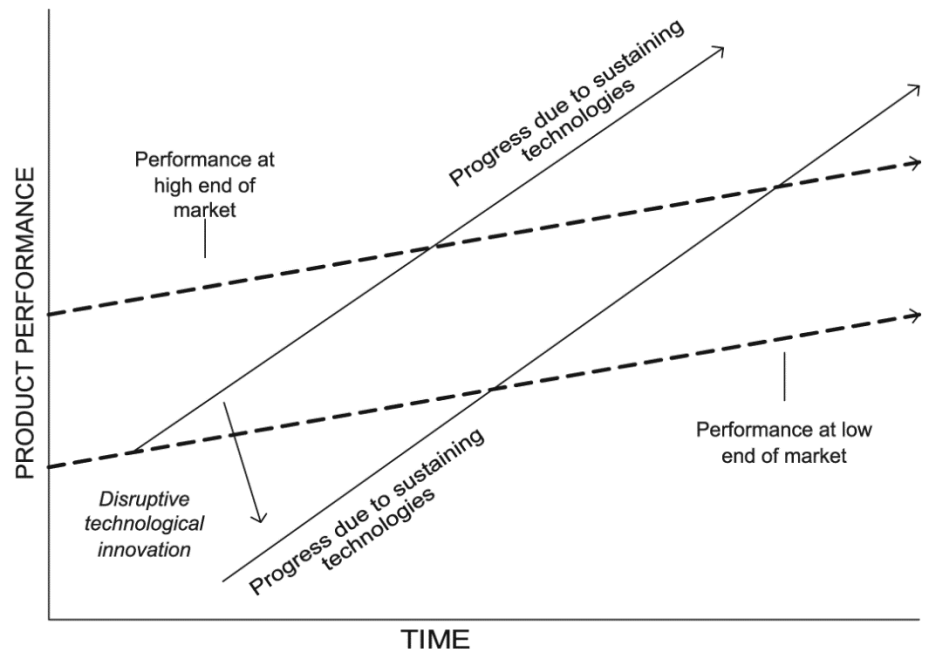


Clayton Christensen



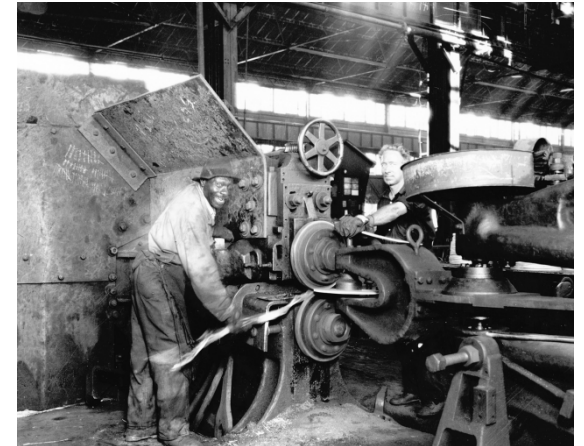
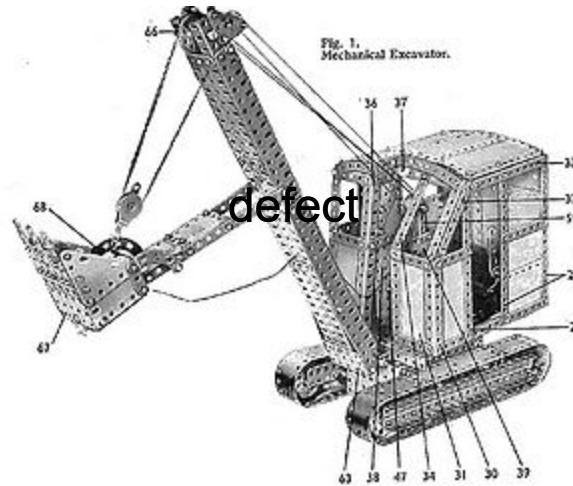
Steps in Christensen's "new market" disruption

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)



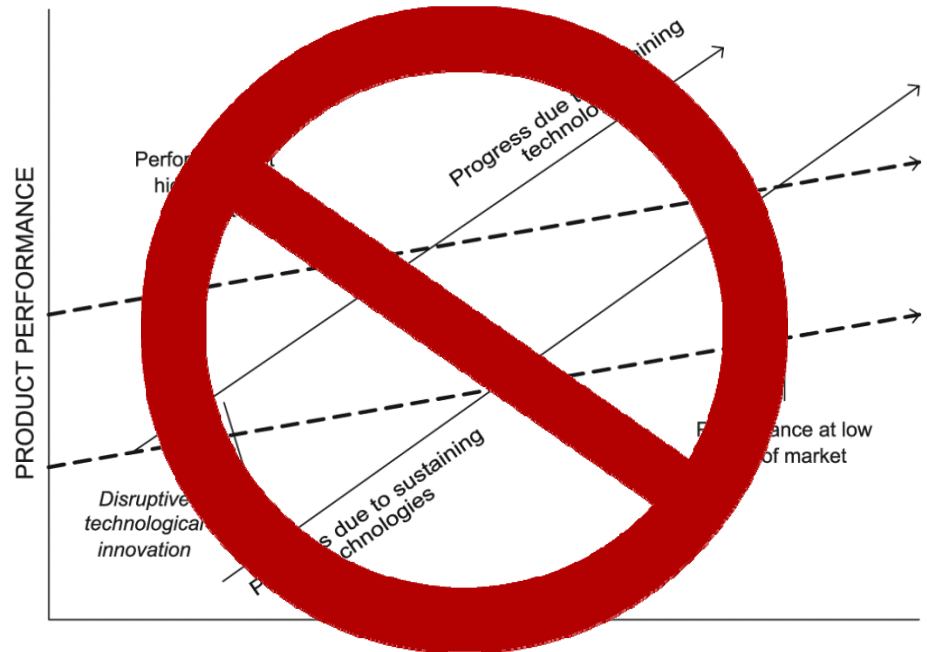
Christensen interviewed on the iPhone in 2007

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.”

Jena McGregor, “Clayton Christensen's Innovation Brain,” *Businessweek*, June 15, 2007.

This was not a mistake



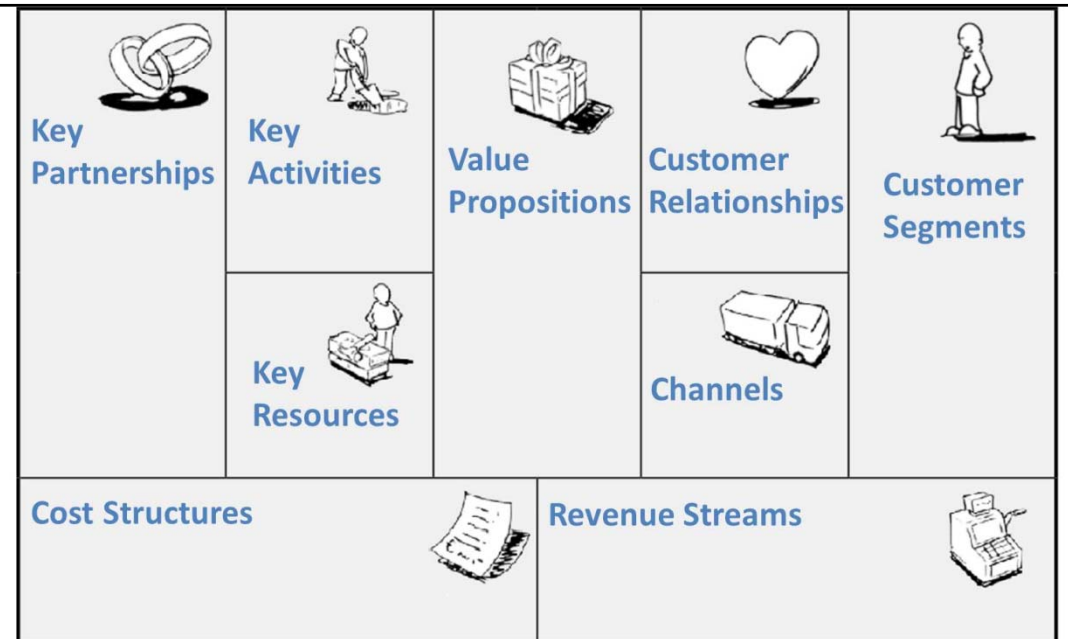
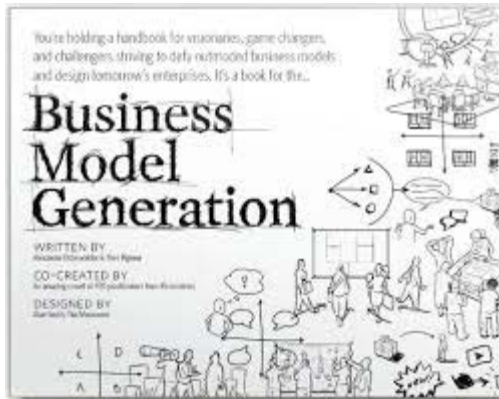
(the iPhone did not fit the theory)

The Business Model Theory of Disruption

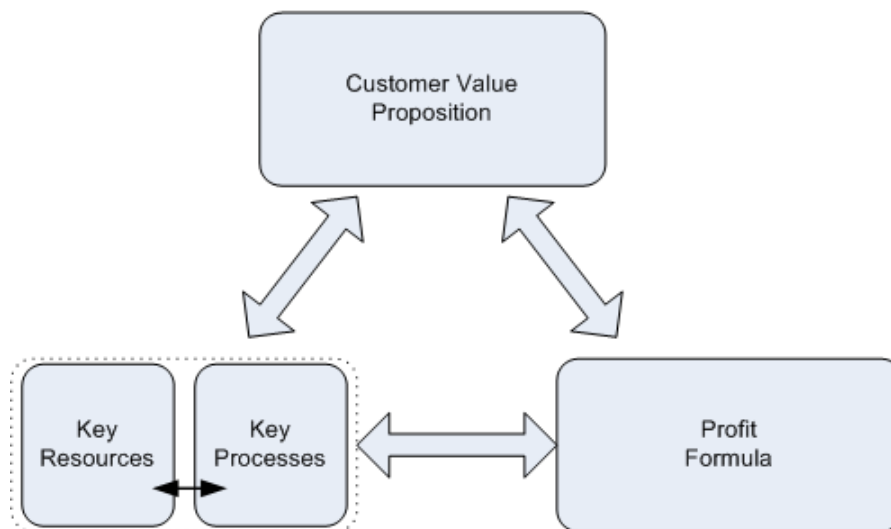
David L. Rogers, “The Digital Transformation Playbook”

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



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*

Classical theory vs Business Model Disruption Theory?

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



Vs.





Vs.



Value Proposition

Differential

- Design
- Simplicity
- Integration (mp3, phone, computer)

+

Value network

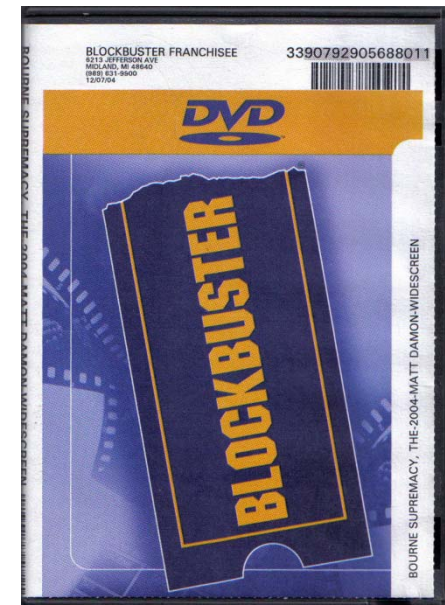
Differential

- Retailer subsidy
- Unlimited data from telco
- iTunes integration
- App developers

Netflix (DVD service) vs. Blockbuster



Vs.





Vs.



Value Proposition

Differential

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

+

Value network

Differential

- 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 >](#)

WARBY PARKER
eyewear



Vs.

LUXOTICA[®]
GROUP

Value Proposition

Differential

- Price (\$95)
- Accessibility (online)
- Social cause
- *Lack: Immediacy?*

+

Value network

Differential

- Online channel
- Low retail costs
- Vertical integration
- B corp status

Disruptive Business Model Map

Challenger

Incumbent

Customer

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

Incumbent

Customer

Value Proposition

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

Challenger

Incumbent

Customer

Value Proposition

Generatives

Differential

Value Network

Components

Differential

Two-Part Test

Radically displace value?

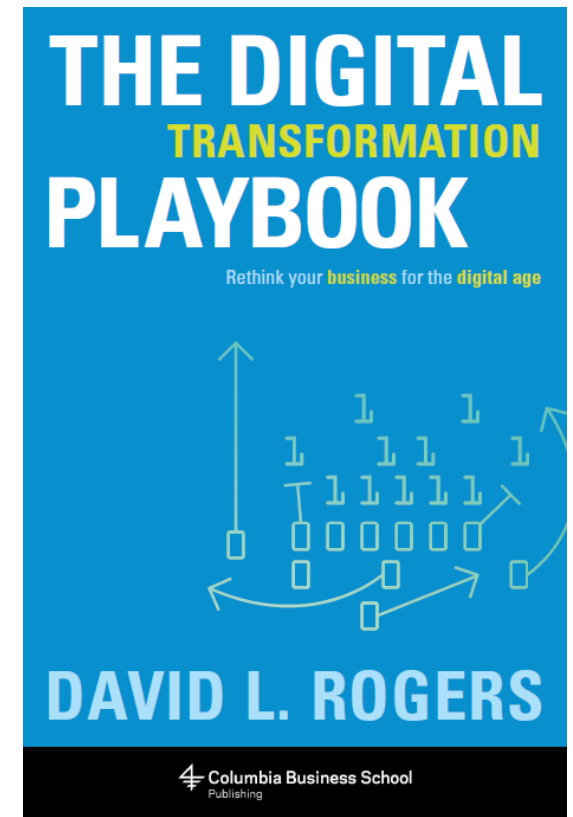
Barrier to imitation?

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 Incumbent Responses

Becoming the disrupter

Acquire
Launch
Split

Mitigating losses

Refocus
Diversify
Exit

Questions?