Succeed in Disruptive Technologies by Succeeding in Innovation

3rd Annual Disruptive Technology Conference

Washington, DC | September 7, 2006
The MP3 revolution

1998  15%
2000  3%
2002  -7%
2003  -7%
2005  ??

Annual Growth in CD sales ($)

Source: RIAA Web Site; Innosight Analysis
Where’s Sony?

Share of MP3 player market
% 2004

80

Apple

Sony

“Where’s Sony?”

“I don’t really like hard disks – they’re not Sony technology. As an engineer, they’re not interesting.”

— Sony Engineer, *WSJ*, 2004

“I think we fell asleep for a while … Maybe part of [the problem] was being affiliated with a music company.”

— Sony Executive, *CNN/Money*, 2004

Source: Literature Search; Analyst Reports; Innosight analysis
Innovation is More Than Technology

Dell: New process

iTunes: New service

MinuteClinic: New business model
Sustaining versus Disruptive Innovation

Performance

Time

Sustaining innovations

Disruptive innovations

Pace of Technological Progress

Performance that customers can utilize or absorb
Adjectives That Describe Different Types of Innovation

**Sustaining Innovation**
- Better
- Next-generation performance
- Great leap forward
- Complicated

**Disruptive Innovation**
- Different
- “Good enough” performance
- Great leap downwards
- Simple
UAVs – Addressing the Low End?

Source: OSD UAV Roadmap, 2002
Disruptive Innovations that Democratize and Decentralize

1) Is consumption of a product or service limited to the wealthy?

2) Do you have to have special expertise in order to consume (or produce)?

3) Does the need to go to a centralized, inconvenient location limit consumption?
What Makes These Innovations Hard For Established, Incumbent Institutions

Resources
- People
- Technology
- Products
- Equipment
- Information
- Cash
- Brand
- Distribution

Processes
- Hiring & Training
- Product development
- Manufacturing
- Planning & Budgeting
- Market Research
- Resource allocation

Values
The criteria by which prioritization decisions are made
- Ethics
- Customer focus
- Engineering Mindset
- Economic Model
Strengths in One Context Are Often Weaknesses in Another

Processes: How?
- Strategic Planning
- Program Management
- Engineering Approach
- Compensation and Incentives

Values: Why?
- Customer Focus
- Product Quality
- Engineering Mindset
- Economic Model

“Organizational DNA”
Set Up the Right Processes and Values Appropriate to the Circumstance
Focus on the ‘job’ to be done

- Consumer is looking for a quarter inch hole, not a quarter inch drill
- Focus on the circumstances over the demographics
- Close observation and deep interactions with consumers can be key way to find target jobs
- Beyond “voice of the customer”: “If I'd listened to customers, I'd have given them a faster horse” – Henry Ford

“Kill small snippets of time productively”

“Make sure I don’t run out of cash”
Get the ‘gives’ and ‘gets’ right

Don’t introduce the FunSaver

Introduce the FunSaver

At Disney World … forgot my camera

Remember: Quality is relative
More than 90% of successful new ventures start off following the wrong strategy.
Understanding the Knowledge to Assumption Ratio

- Core (Incremental)
- Core (Discontinuous)
- Reach New Customer
- Create New Market

Knowledge
Assumptions

Sustaining
Disruptive
Continue Adapting Until Signs Are Clear

Point Where Signs are Clear
- Successful business model
- Key assumptions addressed
- Ratio of knowns to unknowns increasing
- Path to success clear

Successful Strategy
Summary

1) Have a common language about Innovation

2) Match the Innovation with the right Processes and Values

3) Focus on the “job” to be done

4) Utilize a planning process focused on learning

5) Precision around assumptions, not metrics