

The Innovator's Solution

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Introduction

Most companies believe that the process of business creation is unpredictable. So few have sought to study the process by which new businesses are created. In this exciting new book, Clayton Christensen and Michael E Raynor point out that just because the results of the innovation process look unpredictable, it does not imply that the innovation process cannot be understood. Managers can gain a lot by understanding the process by which new ideas are generated, screened and commercialized. This book is all about how to make innovation happen.

The process of screening ideas

Middle managers play a crucial role as they shepherd partially formed ideas into fully fledged business plans in an effort to get the approval of senior management. It is the middle managers who decide which ideas they will carry to upper management for approval, and which ideas they will simply allow to languish.

Unfortunately, middle managers typically hesitate to support new product concepts whose market is not assured. If a market fails to materialize, the company will have wasted plenty of money. So middle managers support their proposals with credible data on the size and growth potential of the markets that each idea targets. Such data typically come from existing customers and markets for similar products that have been successful in the past.

Middle managers are well aware that if they back ideas that flop, their prospects for promotion will suffer. Indeed, managers hesitate even to propose ideas that senior managers are not likely to approve. Because if that happens, their reputation for good judgment will get tarnished. Moreover, talented middle managers, keep moving to new assignments to broaden their skills and experience. What this means, is that middle managers who want to protect their reputation for delivering results will promote only those new-growth ideas that will pay off within the time that they reside in that particular job.

The process of sorting through and packaging ideas into plans that can win funding, in other words, shapes those ideas to resemble the ideas that were approved and became successful in the past. Business proposals that target markets where demand might be small, get rejected. Unfortunately, the exciting growth markets of tomorrow are small today. So by playing it "safe", managers kill potential blockbuster ideas.

Sustaining vs Disruptive innovation

In every market there is a rate of improvement that customers can utilize or absorb. Customers in the highest or most demanding tiers may never be satisfied with the best

that is available, and those in the lowest or least demanding tiers can be oversatisfied with very little.

In every market, there is a distinctly different trajectory of improvement as innovating companies introduce new and improved products. This pace of technological progress almost always outstrips the ability of customers in any given tier of the market to use it. A company whose products are squarely positioned on mainstream customers' current needs today will probably overshoot these needs in the future. This happens because companies keep striving to make better products that they can sell for higher profit margins to not-yet-satisfied customers in more demanding tiers of the market.

Christensen draws a distinction between sustaining and disruptive innovations. A sustaining innovation targets demanding, high-end customers with better performance than what was previously available. Some sustaining innovations are the incremental year-by-year improvements that all good companies grind out. Other sustaining innovations are breakthrough products. It does not matter how technologically difficult the innovation is. The established competitors almost always win the battle of sustaining technology. Because this strategy entails making a better product that they can sell for higher profit margins to their best customers, the established competitors not only have the required motivation but also the necessary resources to win.

Disruptive innovations, in contrast, don't attempt to bring better products to established customers in existing markets. They introduce products and services that are not as good as currently available products but they are simpler, more convenient, and less expensive products that appeal to new or less-demanding customers.

Once the disruptive product gains a foothold in new or low-end markets, the improvement cycle begins. And because the pace of technological progress outstrips customer needs, the previously not-good-enough technology eventually improves enough to intersect with the needs of more demanding customers. When that happens, the disruptors are on their way to crush the incumbents ultimately. Successful disruptions are almost always launched by new entrants.

The Innovator's Dilemma

Disruption has a paralyzing effect on industry leaders. With resource allocation processes designed and perfected to support sustaining innovations, they find it difficult to respond. They are always motivated to go up-market, and almost never motivated to defend the new or low-end markets that the disruptors find attractive. Christensen and Raynor refer to this phenomenon as asymmetric motivation.

Rational managers face the innovator's dilemma: Should we invest to protect the least profitable end of our business, so that we can retain our least loyal, most price-sensitive customers? Or should we invest to strengthen our position in the most profitable tiers of our business, with customers who reward us with premium prices for better products?

A disruptive business model that can generate attractive profits at the low end, can be easily carried up-market to make higher-performance products that sell at higher price points. In contrast, it is far more difficult to take a higher-cost business model down-market to sell products at lower price points.

Assessing disruptive potential

Executives must answer three sets of questions to determine whether an idea has disruptive potential. The first set explores whether the idea can become a new-market disruption. For this to happen, answers to at least one and generally both of two questions must be positive:

- Is there a large population of people who historically have not had the money, equipment, or skill to do this thing for themselves, and as a result have gone without it altogether or have needed to pay someone with more expertise to do it for them?
- To use the product or service, do customers need to go to an inconvenient, centralized location?

If the technology can be developed so that a large population of less skilled or less affluent people can begin owning and using, in a more convenient context, something that historically was available only to more skilled or more affluent people in a centralized, inconvenient location, then there is potential for converting the idea into a new market disruption.

The second set of questions explores the potential for a low-end disruption. This is possible if the answer is yes to two questions:

- Are there customers at the low end of the market who would be happy to purchase a product with less performance if they could get it at a lower price?
- Can we create a business model that enables us to earn attractive profits at the discount prices required to win the business of these overserved customers at the low end?

Often, the innovations that enable low-end disruption are improvements that reduce overhead costs, enabling a company to earn attractive returns on lower gross margins, coupled with improvements in manufacturing or business processes that turn assets faster.

Once an innovation passes the new-market or low-end test, there is still a third critical question:

- Is the innovation disruptive to all of the significant incumbent firms in the industry? If it appears to be sustaining to one or more significant players in the industry, then the odds will be stacked in that firm's favour, and the entrant is unlikely to win.

If an idea fails what Christensen and Raynor refer to as these litmus tests, then it cannot be shaped into a disruption.

Assessing customer appeal

Only if managers define market segments according to the circumstances in which customers make purchasing decisions will they be able to understand which products really appeal to customers. When managers segment markets in other ways, they often fail.

Customers have “jobs” that arise regularly and need to get done. When customers become aware of a job they need to get done, they hire a product or service to do so as effectively, conveniently, and inexpensively as possible. The functional, emotional, and social dimensions of the jobs that customers need to get done constitute the circumstances in which they buy. Companies that target their products at the circumstances in which customers find themselves, rather than at the customers themselves, are those that can launch predictably successful products. Put another way, the critical unit of analysis is the circumstance and not the customer.

Knowing what job a product gets hired to do can give innovators a much clearer road map to beat the true competition from the customer’s perspective. Observation and questioning to determine what customers are trying to do, coupled with rapid development and fast feedback, can greatly improve the probability that a company’s products will converge quickly upon a job that people are trying to get done.

With low-end disruptions, it can be easy to determine the right sequence of product improvements in the up-market march. The low-end disruptor’s marketing task is to extend the lower-cost business model up toward products that do the jobs that more profitable customers are trying to get done. With new-market disruptions, in contrast, the challenge is to invent the upward path, because nobody has been up that trajectory before. Choosing the right improvements is critical to the disruptive march up-market. Here again, job-based segmentation can help.

There are various reasons for managers to target innovations that are not aligned with the way that customers live their lives. These include fear of focus, the demand for crisp quantification and the structure of many retail channels.

The more clearly a product is focused on getting a specific job done perfectly, the less appealing it becomes when hired for other jobs. Many companies find it difficult to make a disciplined trade-off. Focus may look scary – but often it means turning one’s back on markets we could never have anyway. Sharp focus on jobs that customers are trying to get done, improves the odds of success in new-product development.

It is often difficult to quantify the demand for a new product. Business cases involve demand by actions. They demand better quantification, which is difficult in case of new products.

Many retail and distribution channels are organized by product categories rather than according to the jobs that customers need to get done. This channel structure limits

innovators' flexibility in focusing their products on jobs that need to be done, because products need to be slotted into the product categories to which shelf space has been allocated.

An important point which Christensen and Raynor make is that at a fundamental level, the things that people want to accomplish in their lives do not change quickly. This is why the trajectories of improvement that customers can utilize in any given application or tier of the market tend to be quite flat. An idea stands little chance of success if it requires customers to prioritize jobs they haven't cared about in the past. Customers do not just "change jobs" because a new product becomes available. Rather, the new product must help customers accomplish more effectively and conveniently what they have been doing in the past. Innovations that make it easier for customers to do what they weren't already trying to get done must compete against customers' priorities. This is hard to do.

Identifying disruptive footholds means connecting with specific jobs that people are trying to get done in their lives. Unfortunately, while building convincing business cases for new products, managers are compelled to quantify the opportunities they perceive, and the data available to do this are typically cast in terms of product attributes or the demographic and psychographic profiles of a given population of potential consumers. This mismatch between the true needs of consumers and the data that shape most product development efforts leads most companies to aim their innovations at wrong targets. The importance of identifying the jobs to be done goes beyond simply finding a foothold. Only by staying connected with a given job as improvements are made, can a disruptive product stay on its growth trajectory.

Targeting the right customers

Which initial customers are most likely to provide the right foundation for a successful growth business? And how should we reach them?

The ideal customers for a low-end disruption are current users of a mainstream product who seem disinterested in improved-performance products. They may be willing to accept improved products, but they are unwilling to pay premium prices to get them. The key to success with low-end disruptions is to devise a business model that can earn attractive returns at the discount prices required to capture the low end of the market.

It is much trickier to find the new-market customers or "nonconsumers." How can we know whether current nonconsumers can be enticed to begin consuming? When only a fraction of the population is using a product, some of the nonconsumption may simply reflect the fact that there is no job needing to be done in the lives of those non-consumers. That is why the "jobs question" is a critical early test for a viable new-market disruption. A product that purports to help non-consumers do something that they weren't already prioritizing in their lives is unlikely to succeed.

Christensen and Raynor explain the building blocks of new market disruption. The target customers are trying to get a job done, but because they lack the money or skill, a

simple, inexpensive solution has been beyond their reach. Such customers will compare the disruptive product to having nothing at all. They are delighted to buy it even though it may not be as good as other products available at high prices to current users with deeper expertise in the original value network. The performance hurdle required to satisfy such customers is quite modest. The technology that enables the disruption might be quite sophisticated, but disruptors deploy it to make the purchase and use of the product simple, convenient, and foolproof. It is the “foolproofedness” that creates new growth by enabling people with less money and training to begin consuming. The disruptive innovation creates a whole new business model. The new customers typically purchase the product through new channels and use the product in new venues.

What kinds of customers are most desirable? Companies must look for customers who have long wanted their product but were not able to get one until they arrived on the scene. They must be able to easily delight these customers. They must be able to have them all to ourselves, protected from the advances of competitors. The customers should be so attractive that everyone in the value network is motivated to cooperate in pursuing the opportunity.

Despite how appealing these kinds of customers appear to be on paper, the resource allocation process forces most companies, when presented with such opportunities to pursue exactly the opposite kinds of customer: They target customers who already are using a product to which they have become accustomed.

Defining the scope of a business

It has now become a fad to state that the scope of a business must be related to its core competence. Christensen and Rayor point out the limitations of core competence. What might seem to be a noncore activity today might become an absolutely critical competence to have mastered in a proprietary way in the future, and vice versa.

Instead of asking what their company does best today, managers should ask, “What do we need to master today, and what will we need to master in the future, in order to excel on the trajectory of improvement that customers will define as important?”

A product’s architecture determines its constituent components and subsystems and defines how they must interact – in order to achieve the targeted functionality. The place where any two components fit together is called an interface. Interfaces exist within a product, as well as between stages in the value-added chain.

An architecture is interdependent at an interface if one part cannot be created independently of the other part – if the way one is designed and made depends on the way the other is being designed and made. When there is an interface across which there are unpredictable interdependencies, then the same organization must simultaneously develop both of the components if it hopes to develop either component.

Interdependent architectures optimize performance, in terms of functionality and reliability. Such architectures are proprietary with each company developing its own

interdependent design to optimize performance in a different way. On the other hand, a modular architecture specifies the fit and function of all elements so completely that it does not matter who makes the components or subsystems, as long as they meet the specifications. Modular components can be developed in independent work groups or by different companies working at arm's length. Here, vertical integration is not desirable.

Modular architectures optimize flexibility, but because they require tight specification, they give engineers fewer degrees of freedom in design. As a result, flexibility comes at the sacrifice of superior performance.

When product functionality and reliability are not yet good enough to address the needs of customers, companies must compete by making better products. Firms that build their products around proprietary, interdependent architectures will enjoy an important competitive advantage against competitors whose product architectures are modular. The standardization inherent in modularity takes away much of the flexibility from engineers. Companies that compete with proprietary, interdependent architectures must be integrated. They must control the design and manufacture of every critical component of the system in order to make any piece of the system.

Three conditions must be met in order for a firm to procure something from a supplier or partner, or to sell it to a customer. First, both suppliers and customers need to know what to specify – which attributes of the component are crucial to the operation of the product system, and which are not. Second, they must be able to measure those attributes so that they can verify that the specifications have been met. Third, there cannot be any poorly understood or unpredictable interdependencies across the customer-supplier interface. The customer needs to understand how the subsystem will interact with the performance of other pieces of the system so that it can be used with predictable effect. These three conditions – specificity, verifiability, and predictability – constitute an effective modular interface.

When product performance is not good enough, these three conditions are often not met. When there are complex, reciprocal, unpredictable interdependencies in the system, a single organization's boundaries must span those interfaces. People cannot efficiently resolve interdependent problems while working at arm's length across an organizational boundary.

Understanding Commoditization & Decommoditization

An important point which Christensen and Raynor make is that whenever commoditization is at work somewhere in a value chain, a reciprocal process of de-commoditization is at work somewhere else in the value chain. While commoditization undermines differentiability, de-commoditization affords opportunities to create and capture value. The reciprocity of these processes means that the locus of the ability to differentiate shifts continuously in a value chain as disruptive technologies emerge. Companies that position themselves at a spot in the value chain where performance is not yet good enough will capture the profit.

The cycle of commoditisation & de-commoditisation proceeds as follows. A company develops a proprietary product that, while not good enough, comes closer to satisfying customers' needs than any of its competitors. It does this through a proprietary architecture, and earns attractive profit margins. But as the company strives to keep ahead of its direct competitors, it eventually offers more functionality and reliability than what customers in lower tiers of the market need. This precipitates a change in the basis of competition in those tiers, which trigger off an evolution toward modular architectures. This facilitates the dis-integration of the industry and makes it very difficult to differentiate the performance or costs of the product versus those of competitors, who have access to the same components and assemble according to the same standards.

It is useful to understand the reciprocal process of de-commoditization. The low-cost strategy of modular product assemblers is only viable as long as they are competing against higher-cost opponents. As soon as they drive the high-cost suppliers of proprietary products out of a tier of the market, they must move up-market to take on them again in order to continue to earn attractive profits.

Because the mechanisms that constrain or determine how rapidly they can move up-market are the performance-defining subsystems, these elements become not good enough. Competition among subsystem suppliers causes their engineers to devise designs that are increasingly proprietary and interdependent. They must do this as they strive to enable their customers to deliver better performance in their end-use products than the customers could if they used competitors' subsystems. The leading providers of these subsystems therefore find themselves selling differentiated, proprietary products with attractive profitability. This creation of a profitable, proprietary product is the beginning, of the next cycle of commoditization and de-commoditization.

It is wrong to conclude that an industry is inherently unprofitable, where as others are inherently profitable. Profitability depends on the circumstance in which companies happen to be at a particular point in time, at each point in the value-added chain. The companies that are positioned at a spot in a value chain where performance is not yet good enough will capture the profit. That is the circumstance where differentiable products, scale-based cost advantages, and high entry barriers can be created.

Christensen and Raynor emphasise that core competence, is a dangerously inward-looking notion. Competitiveness is far more about doing what customers value than doing what we think we are good at. As the basis of competition shifts, companies must be able to learn new things, instead of clinging hopefully to the sources of past glory.

Executives who seek to avoid commoditization often rely on the strength of their brands to sustain their profitability- but brands can get commoditized, too. Brands are most valuable when they are created at the stages of the value chain where things aren't yet good enough. When a product's performance is still uncertain, a well-crafted brand can close some of the gap between what customers need and what they fear they might get if they buy the product from a supplier of unknown reputation. The role of a good brand in closing this gap is apparent in the price premium that branded products are able to

command in some situations. For similar logic, however, the ability of brands to command premium prices tends to atrophy when the performance of a class of products from multiple suppliers is manifestly more than adequate.

Branding power tends to migrate in a market that is composed of multiple tiers. The brands of companies with proprietary products typically create value mapping upward from their position in the improvement trajectory – toward those customers who still are not satisfied with the functionality and reliability of the best that is available. But mapping downward from that same point – toward the world of modular products where speed, convenience, and responsiveness drive competitive success, the power to create profitable brands migrates away from the end-use product, toward the subsystems and the channel.

Christensen and Raynor have coined the law of conservation of attractive profits. The law states that in the value chain there is a requisite juxtaposition of modular and interdependent architectures, and of reciprocal processes of commoditization and de-commoditization.

When the functionality and reliability of a product become more than good enough, the basis of competition changes. What becomes not good enough are speed to market and the rapid and responsive ability to configure products to the specific needs of customers in ever-more-targeted market segments. The customer interface is the place in the value chain where the ability to excel on this new dimension of competition is determined. Hence, companies that are integrated in a proprietary way across the interface to the customer can compete on these not-good-enough dimensions more effectively (and be rewarded with better margins) than can those firms that interface with their customers only in an arm's length, "modular" manner. Companies that integrate across the retail interface to the customer, in this circumstance, can also earn above average profits.

Assessing the organization's capabilities

Many innovations fail not because of some fatal technological flaw or because the market is not ready. They fail because managers are not up to the task. The very skills that propel an organization to succeed in sustaining circumstances systematically bungle the best ideas for disruptive growth. An organization's capabilities become its disabilities when disruption is afoot.

Three classes or sets of factors define what an organization can and cannot accomplish: its resources, its processes, and its values.

Resources include people, equipment, technology, product designs, brands, information, cash, and relationships with suppliers, distributors, and customers. Resources usually can be hired and fired, bought and sold. Most resources are visible and often are measurable. So managers can readily assess their value. They tend to be quite flexible as well. It is relatively easy to transport them from one place to another.

Organizations create value as employees transform inputs of resources – the work of people, equipment, technology, product designs, brands information, energy, and cash – into products and services of greater worth. The patterns of interaction, coordination, communication, and decision making through which they accomplish these transformations constitute the process. Processes include the ways that products are developed and made and the methods by which procurement, market research, budgeting, employee development and compensation, and resource allocation are accomplished.

A process that defines a capability in executing a certain task concurrently defines disabilities in executing other tasks. In contrast to the flexibility of many resources, processes by their very nature are meant not to change. They are established to help employees perform recurrent tasks in a consistent way, time after time.

The most crucial processes aren't the obvious value-adding processes involved in logistics, development, manufacturing, and customer service. Rather, they are the enabling processes that support investment decisions. These include how market research is habitually done, how such analysis is translated into financial projections, how plans and budgets are negotiated and how those numbers are delivered, and so on.

The third class of factors that affect what an organization can or cannot accomplish is its values. Values are the standards by which employees make prioritization decisions – those by which they judge whether an order is attractive or unattractive, whether a particular customer is more important or less important than another, whether an idea for a new product is attractive or marginal, and so on.

Over time, the values of successful firms tend to evolve in a predictable fashion. As companies upgrade their products and services to capture more attractive customers in premium tiers of their markets, their overheads increase. As a result, gross margins that at one point were quite attractive will seem unattractive at a later point. The second dimension along which values can change relates to how big a business has to be in order to be interesting. Many managers will not be thrilled unless the business is big enough.

In the start-up stages of a business, much of what gets done is attributable to its resources – particularly its people. Over time, however, the organization's capabilities shift toward its processes and values. As established companies introduce new and improved products in order to gain an edge over the competition, they refine processes for evaluating the technological potential and assessing their customers' needs for alternative sustaining technologies. In other words, the organizations develop a capability for sustaining innovation that resides in their processes. Sustaining-technology investments also fit the values of the leading companies, because they promise improved profit margins from better products.

Established companies have the resources – the engineers, money, and technology – required to succeed at both sustaining and disruptive technologies. But their processes and values constitute disabilities in their efforts to succeed at disruptive innovation.

In contrast, smaller, disruptive companies are actually more capable of pursuing emerging growth markets. They lack resources, but that doesn't constrain them. Their values enable them to embrace small markets, and their cost structures can accommodate lower margins per unit sold. Their less formal market research and resource allocation processes allow managers to proceed intuitively instead of going by careful research and analysis.

Established companies are prone to push disruptive ideas into the mainstream market, forcing them to compete against consumption on a sustaining-technology basis. As long as the strategies for developing and commercializing these disruptive innovations are developed within the mainstream organization, this is the only outcome that we can expect. An organization's processes and values ensure that only sustaining innovations can be implemented.

There is an important lesson here for innovative companies who try to strengthen their capabilities by acquisitions. If the acquired company's processes and values are the real drivers of its success, then the last thing that needs to be done is to integrate the company into the new parent organization. Integration will vaporize many of the processes and values of the acquired firm as its managers are required to adopt the buyer's way of doing business and have their new-growth proposals evaluated according to the decision criteria of the acquiring company. A better strategy is to let the acquired business stand alone, and for the parent to infuse its resources into the acquired firm's processes and values. If, on the other hand, the company's resources are the primary rationale for the acquisition, then integrating the firm into the parent makes a lot of sense – essentially plugging the acquired people, products, technology and customers into the parent's processes.

Strategy development

More than finding the right strategy, it is more important for organizations to focus on the strategy development process.

In every company, there are two simultaneous processes through which strategy comes to be defined. The deliberate strategy-making process is conscious and analytical. It is often based on rigorous analysis of data on market growth, segment size, customer needs, competitors' strengths and weaknesses, and technology trajectories. Strategy in this process typically is formulated in a project with a discrete beginning and end, and then implemented "top down." Emergent strategy is the cumulative effect of day-to-day prioritization and investment decisions made by middle managers, engineers, salespeople and financial staff. These tend to be tactical, day-to-day operating decisions that are made by people who are not in a visionary, futuristic, or strategic state of mind.

The deliberate strategy process should be dominant once a winning strategy has become clear. In those circumstances, effective execution often spells the difference between success and failure. Deliberate processes are appropriate if three conditions are met. First, the strategy must encompass and address correctly all of the important details required to succeed. Those responsible for implementation must understand each important detail in management's deliberate strategy. Second, the strategy needs to make

as much sense to all employees as they view the world from their own context as it does to top management, so that they will all act appropriately and consistently. Finally, the collective intentions must be realized with little unanticipated influence from outside political, technological or market forces. Because it is difficult to find a situation in which all three of these conditions apply, the emergent strategy-making process almost always alters the strategy that the company actually implements.

Emergent process should dominate in circumstances in which the future is hard to read and in which it is not clear what the right strategy should be. This is almost always the case during the early phases of a company's life. The need for emergent strategy also arises whenever a change in circumstances indicates what worked in the past may not be as effective in the future.

An important point which Christensen and Raynor make is that a company's strategy is what comes out of the resource allocation process, not by the intentions and proposals that go into it.

Entrepreneurs rarely get their strategies exactly right the first time. The successful ones make it because they have money left over to try again after they learn that their initial strategy was flawed, whereas the failed ones typically have spent their resources implementing a deliberate strategy before establishing its viability. One of the most important roles for senior management during a venture's early years is to learn from emergent sources what is working and what is not, and then to cycle that learning back into the process through the deliberate channel.

The process by which a viable strategy emerges must be accelerated by ensuring that business plans are designed to test and confirm critical assumptions. Senior executives must personally and repeatedly intervene, business-by-business, and judge whether the circumstance is such that the business needs to follow an emergent or deliberate strategy-making process. CEOs must not leave the choice about strategy process to policy, habit, or culture.

The right kind of capital

The type and amount of money that managers accept, define the investor expectations that they'll have to meet. Those expectations then heavily influence the types of markets and channels that the venture targets. The process of securing funding forces many disruptive ideas to get shaped as sustaining innovations that target large and obvious markets. So the process of getting the money to start a new venture needs to be carefully understood.

The best money during the nascent years of a business is patient for growth but impatient for profit. Capital which is impatient for growth but patient for profit might kill a new venture. Competing against non-consumption and moving disruptively up-market involves small markets for a time. The only way that a venture can instantly become big is for existing users of a high-volume product to be enticed to switch en masse to the new

enterprise's product. This is a battle of sustaining innovation. Start-ups can rarely win such a battle.

Money needs to be impatient for profit. When new ventures are expected to generate profit relatively quickly, management is forced to test as quickly as possible the assumption that customers will be happy to pay a profitable price for the product. If a venture's management can keep returning to the corporate treasury to fund continuing losses, managers can postpone this critical test and pursue the wrong strategy for a long time. Expectations of early profit also help a venture's managers to keep fixed costs low. Early profitability also protects a growth venture from cutbacks when the corporate bottom line turns sour.

Tuning the growth engine

All companies desire for growth. But most struggle to grow. The growth engine is a much more delicate machine that must be kept running continuously by process and policy, rather than by reacting when the growth gauge reads empty.

- Launch new growth businesses regularly when the core is still healthy – when it can still be patient for growth – not when financial results signal the need.
- Keep dividing business units so that as the corporation becomes increasingly large, decisions to launch growth ventures are made within organizational units that can be patient for growth because they are small enough to benefit from investing in small opportunities.
- Minimize the use of profits from established businesses to subsidize losses in new-growth businesses. We must be impatient for profit: There is nothing like profitability to ensure that a high-potential business can continue to get the funding it needs, even when the corporation's core businesses turn sour.

The role of senior executives

Senior executives must stand astride the interface between disruptive growth businesses and the mainstream businesses to determine through judgment which of the corporation's resources and processes should be imposed on the new business, and which should not. They must facilitate a process which capably and repeatedly launches successful growth businesses. They must sense when the circumstances are changing, and keep teaching others to recognize these signals.

For those decisions that the mainstream processes and values were designed to make effectively, less senior executive involvement is needed. It is when senior executives sense that the processes and values of the mainstream organisation are not designed to handle important decisions in an organization that they need to participate. Because the values of the mainstream business have evolved to weed out the very sorts of ideas that have disruptive potential, disruptive innovation is the category of circumstances in which a powerful senior manager must personally be involved. Sustaining innovation is the circumstance in which delegation works effectively. A senior executive is needed to break the grip of corporate processes and decision rules when they are not.

An engine that facilitates disruptive innovation on a sustained basis must have four critical components. First, it needs to operate rhythmically and by policy, rather than in response to financial developments. This will ensure that new businesses get launched while the corporation is still growing robustly, and that new businesses are not under pressure to grow too big too fast. Second, a senior executive who has the confidence and the authority must lead the effort. This is particularly important in the early years, when success still depends more on resources than on processes. Third, it must have a small corporate-level group – movers and shapers – whose members develop a practiced, repeatable system for shaping ideas into disruptive business plans that are funded and launched. Fourth, it must have a system for training and retraining people throughout the organization to identify disruptive opportunities and to take them to the movers and shapers.

The best time to invest for growth is when the company is growing. Companies that build while they are growing can shield new businesses from the pressure of the stock market. This will give them time to iterate toward a viable strategy and take off.

Senior executives must actively coordinate action and decision when no processes exist to do the coordination. They must break the grip of established processes when a team is confronted with new tasks that require new patterns of communication, coordination and decision making. When recurrent activities and decisions emerge in an organization, executives must create processes to reliably guide and coordinate the work of employees involved. Senior executives need to stand astride the interfaces of those organizations – to ensure that useful learning from the new growth businesses flows back into the mainstream, and to ensure that the right resources, processes, and values are always being applied in the right situation.

Getting the initial conditions right

Where we start, relative to the direction of the competitive, technological, and profit-seeking forces acting upon us, can make the difference between success and failure. When we start a new business we do not need to envision accurately or predict foresightedly how technology will evolve. Rather, we need to focus primarily on getting the initial conditions right.

Business must start with a cost structure in which attractive profits can be earned at low price points and which can then be carried up-market. The business should be disruptive relative to competitors so that they are motivated to flee rather than fight. The business must start with a set of customers who have been nonconsumers so that they are pleased with modest products. Businesses must target jobs that customers are trying to get done. Businesses must attempt to move to where the money will be, not to where it was. The right managers must be chosen. Initially, businesses must be flexible to respond as a viable strategy emerges. They must start with capital that is patient for growth and important for profit.

Concluding Notes

Innovation is a serious and risky business. While the chances of failure are high, for those who succeed, the rewards are handsome. Christensen and Raynor have the following words of advice for companies who are serious about innovation:

- A strategy that targets customers and markets that look attractive to an established competitor is unlikely to succeed. Instead, the team should identify a niche segment that established competitors will be happy to ignore or be relieved to walk away from. This is a point which Peter Drucker also has made in his book, “Innovation and Entrepreneurship.”
- It is not advisable to target customers who are already using pretty good products. Companies must find ways to target people who want something but are not getting it.
- Serving customers who have not found the product they want so far makes a lot of sense. If there are no nonconsumers available, the team must explore whether at the low end of the market, there are customers who can’t use all the functionality for which they currently must pay.
- Innovation means putting ourselves in the shoes of customers. Companies must look for ways to help customers get done more conveniently and inexpensively what they have been trying to get done unsuccessfully in the past.
- If the team’s product or marketing plan focuses on market segments whose boundaries mirror the organization’s boundaries, or if the targeted market is segmented along the lines for which data are readily available, the possibility of disruptive innovation is low. The market must be segmented in ways that mirror the jobs that customers are trying to get done.
- Companies must develop competencies to get into businesses where the money will be made in the future instead of clinging to those skills that brought the company success in the past.
- The management team for a new venture should be selected carefully. Team members should be assessed on the basis of the problems they have grappled with in the past. These problems should be compared with those that this venture may face.
- In the initial phase of a new venture, the development team must be flexible about what is the best strategy in terms of products, customers, and applications. Humility is a great virtue here. The willingness to drop what does not work and embrace what does is the stuff of great entrepreneurship.
- A company must keep growing. Disruption requires time before growth comes. If corporate growth slows and the new businesses are forced to attempt too fast a takeoff, the management will end up making fatal mistakes. Indeed, if corporate management is desperate to make a new venture very big very fast, it means introducing a disruptive technology into an established market. Chances of success are remote.