PLN Advisory

Innovation and Disruption

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25.11.2016

Key Points

- Striving for innovation has always been part of good business models but disruption is fast becoming a crucial consideration in the way forward.
- The difference between innovation and disruption can be confusing but a simple way to differentiate them is by understanding that "disruptors are innovators, but not all innovators are disruptors."

Introduction

The difference between innovation and disruption can be a bit tricky for some. Forbes writer Caroline Howard says that a very simple way to differentiate one from the other is that "disruptors are innovators, but not all innovators are disruptors".

Innovation is simply a new method of doing things, taking an idea or invention and changing it to make an improved product which will add value to what you do. Disruptive innovation, on the other hand, literally uproots and changes the way we go about doing things or behave. As explained by the Harvard Business School professor and the guru on Disruption, Clayton Christensen, a disruption displaces an existing market, industry or technology and produces something new which is simpler, convenient, accessible and affordable.

A very simple example would be: moving from video tapes to laser discs and then to DVDs was an innovation - an improvement in the product to make it more efficient. While, the streaming technology that now allows programs such as Netflix to download movies and television series online is a disruptor – it completely changes the way we consume audio-visual entertainment.

Mobile internet which enabled emails was proven disruptive to postal letters. Cloud technology, renewable energy and energy storage are other examples of disruptive innovations that are revolutionising the way we live and do business.

Why is Disruption Often Ignored Initially - The Ice Business Example

Companies generally have their designated team on the lookout for innovation, technology changes and trends in the industry including keeping a tab on what is happening globally and what the competitors are doing. Sustaining innovation of this nature is generally part of a business model where improvement is constantly sought after.

However, established businesses can sometimes be too engrossed with improving their existing products in order to sustain or grow customer base against the competition that they often disregard the disruptive innovation happening around them. This is mainly because the emerging product generally aims for a lower end of the market and in need of improvement. So while the mainstream company is busy managing established products and stakeholder expectations, the disruptive innovation has time to mature and slowly displace the mainstream product.

One of my favourite examples is from Guy Kawasaki, a venture capitalist on ice business. In the 1900s, ice harvesting was great business. People used to cut blocks of ice from frozen lakes to sell them to consumers. That was before the ice factories came about and then later we had personal refrigeration. The ice harvesters followed by the ice factory operators were too busy improving their own game to really stop and ask one fundamental question - What does the end consumer really want? Meanwhile someone ascertained that the ultimate customer need was to merely keep things cold and anticipated the demand for having one's own fridge! That is a great example of disruption.

Another great example in more recent times where an established business collapsed is that of Blockbuster, which specialised in movie and video game rental services. The disruptor as aforementioned was Netflix. Ironically, Netflix was even offered to Blockbusters in 2000 for only $50m. Netflix is now worth over $50bn today and Blockbuster is not around.

The key to disruptive innovation is to identify markets where there is some kind of constraint that inhibits consumption, a situation that presents dissatisfied consumers because there are skills lacking, or the product is too expensive or it cannot be accessed too easily. Look at some of the unsatisfying jobs that need to be done around you, a problem or a frustrated customer, and the answer might be right there.

For this very reason, the sharing economy is really taking off. A series of services are springing up to fill the void that exists. And most of them are taking off on the back of some technology platform where it is as easy as a tap of a button on your smartphone, whether it is ride sharing or giving your car for hire over the weekend if you are away or even finding a home for your dog when you are going away for a vacation.

Pacific and Regionalism

The Pacific is faced with unique challenges of remoteness, geography, history, politics and economies of scale. Regionalism allows integration and co-operation amongst individual self-governing states in the Pacific, giving us the ability to pool our resources and capacity where we can in order to achieve economies of scale. It delivers the opportunity to have a united voice on matters that affect the island countries such as climate change and the ocean.

Some innovations from the last decade are having a major impact on the way we do things in the Pacific, improving the platform for regionalism. Technology is changing the way we are able to communicate, use social media to make a united stand, share information and remain connected. The level of penetration with mobile phones and technology is also revolutionising our payment systems and being able to reach into remote areas. Cloud storage, digital presence and various technology platforms are becoming an essential part of doing business in the Pacific.

However, it is also important to note that businesses in the Pacific have to be more diligent and adaptable now as information is readily available on advancements being made in other parts of the world. That combined with increased commuting to and from the Pacific is constantly changing our customer expectation, demanding businesses to evolve as well.

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