Strategic Disruption in Going to Market: Taking on Established Players

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Overview

• Playing the Innovation Game: The Challenges
• Playing the Innovation Game: The Opportunities
• Developing a Strategy: Deciding Where to Compete
• Developing a Strategy: Creating Competitive Advantage
• Forming and Pursuing an Entrepreneurial Venture
• Summary and Q&A
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The Essence of Innovation

Innovation =

Invention

+ Entrepreneurship
Genesis of an Innovation

Source: Innovation in Industry
Success = \( f(c_i, u_i) \)

- **Controllable Factors**
  - People
  - Idea
  - Financing
  - Market

- **Uncontrollable Factors**
  - Timing
  - Competition
  - Regulatory
  - Government
  - Public Image
Innovation Success Factors

- Technology
- Resource Base
- Human Resources
- Production/Operations
- Marketing
- Financing
- Competition - Established - New
- Substitutes
- Cooperation
- Economic Conditions
- Economic Performance
- Socio-Political Conditions
- Competitive Posture
- Industry Structure
- Socio-Economic Environment
- Commercial Success

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The Challenge: Established firms have many strengths, but often struggle to sustain their innovative edge over time

Some have succumbed…

**BORDERS**

**Kodak**

**RIM**

**Blockbuster**

**BlackBerry**

Many face the challenge now…

**Microsoft**

**intel**

**Google**

**CISCO**

**Pfizer**

**GM**

**ExxonMobil**

**YAHOO!**

Some have reinvented themselves…

**Apple**

**IBM**

**GE**

**amazon.com**

**3M**
The Causes: Innovation requires technology, strategy, and organization to be aligned and adapt continuously

• Nature of innovation ⇒ Entails complexity and uncertainty

• Patterns of technological evolution ⇒ Follows nonlinear trajectories and cycles

• Organizational inertia, stemming from efficiency-effectiveness tradeoffs ⇒ Makes recognizing and acting upon changes hard

• Increased rate of technological change, globalization, and competition ⇒ Intensifies locus, scale, and pace of pressures
The Corporate Entrepreneurship Challenge
The Innovation Challenge

• Cheaper
• Better
  and
• Faster
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Innovation Drivers (1/2)

R&D

Technology

Push

Innovation

Market

Pull

Radical/Revolutionary

Incremental
Innovation Drivers (2/2)

- 75% comes from some form of market pull. 25% from technology push.
- What drove the transistor – technology or market? BOTH!
- Tech Push ➔ Radical, Revolutionary innovations
- Market Pull ➔ Incremental innovations
- Examples?
The Innovation Spectrum

Continuous Innovations

Incremental
-Enhancements
-Sustaining

Radical
-New Generations

Revolutionary
-New Rules
-New Infrastructures
-Disruptive

Discontinuous Innovations

Established Firms

Camera Phones

Emerging Firms

Smart Phone

Transistor
S-Curves and New Discontinuous Technologies

Figure 3-5: Technology S-Curves -- Introduction of discontinuous technology

a) New technology has steeper s-curve

b) New technology has higher s-curve

Source: Schilling
The Technology Cycle

Era of Incremental Change
- Elaboration of Dominant Design

Era of Ferment
- Design Competition
- Substitution

Technological Discontinuity

Dominant Design Selected

Anderson and Tushman

Source: Schilling
Market Adoption of New Technologies: Cumulative Adopters

Figure 3-5: Technology Diffusion S-Curve with Adopter Categories

Panel A) S-curve of cumulative adopters

Source: Schilling
Market Adoption of New Technologies: Market Share

Figure 3-5: Technology Diffusion S-Curve with Adopter Categories

Panel B) Normal (bell-shaped) curve of market share

Source: Schilling
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Strategic Planning in a Box

• Assess Current Position
  ▪ Perform an External Analysis
    ➢ Porter’s Five Forces (+1) Model
    ➢ Stakeholder Analysis
  ▪ Perform an Internal Analysis
    ➢ Value Chain Analysis

• Identify Core Competencies and Capabilities
  ▪ Test for Core Competencies and Capabilities
    ➢ Does it provide customer-perceived value?
    ➢ Does it extend into multiple existing or new markets?
    ➢ Is it difficult to imitate?
  ▪ Identify Core Rigidities and Dynamic Capabilities

• Establish Strategic Intent
  ▪ Set ambitious long term set of goals
  ▪ Identify resources and capabilities to develop or acquire
  ▪ Develop a balanced scorecard measurement system that includes critical success factors and measurements

Source: Schilling
Five Forces Model
Five Forces and Industry Profitability

Margin x Volume = Profits

BUYER POWER

RIVALRY

SUPPLIER POWER

Price

Total Cost

Input Cost

THREAT OF SUBSTITUTES/ENTRY
Assessing the Intensity of the Forces

Intensity of Rivalry
- Price competition*
- Industry growth
- Concentration

Threat of Entry
- Fixed costs* (Mktg/Mfg/R&D)
- Network Effects
- Incumbency advantage (e.g., Brand identity, learning curve)

Threat of Substitutes
- Price/performance ratio*
- Buyer switching cost

Buyer Power
- Concentration of customers*
- Buyers’ switching cost
- Standardized products

Supplier Power
- Concentration of suppliers*
- Cost of switching suppliers
- Differentiated inputs

Airlines vs. Luxury goods
Short-haul Trucking vs. Payment Platforms
Long-distance Telephony vs. Enterprise Software
Agriculture vs. Education
PC vs. Apparel
Key Elements of Five Forces Analysis

1. Market Definition (product market/geography based)
2. Identify key participants (buyers, suppliers, competitors, substitutes, potential entrants)
3. Five forces analysis (which forces are strong/weak and why)
4. Consider industry dynamics (Trends over 3-5 years)
   • Market growth
   • Changes in technology
   • Changes in five forces
Some Issues with the Five Forces Framework

1. Fixed profit pool
   - *Mostly about splitting the pie (profits) among industry participants, no consideration of growing the pie*

2. Doesn’t include complementors in the firm’s business environment
   - *Analysis of microprocessor industry (Intel, AMD) would not include operating system (Microsoft, Apple) firms.*

3. No consideration of firm specific strengths and weaknesses
   - *More diversity of performance within industries than across*
The Value Net

- Emphasizes increasing the pie before splitting the pie
  - Smaller piece of a big pie > bigger piece of a small pie
- New industry participant: Complementors
- Players can take multiple roles
- Eliminates “blind spots” and reveals new strategic opportunities
Stakeholder Analysis

1. Who are the stakeholders?
2. What does each stakeholder want?
3. What resources do they contribute to the organization?
4. What claims are they likely to make on the organization?
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Value Chain

Identify the firm’s strengths and weaknesses. Helpful to consider each element of the value chain.
Sustainable Competitive Advantage

- Assess which strengths have potential to be sustainable competitive advantage
  - Rare
  - Valuable
  - Durable
  - Inimitable

- Resources are difficult (or impossible) to imitate when they are:
  - Tacit
  - Path dependent
  - Socially complex
  - Causally ambiguous

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Sources of Competitive Advantage

POSITION IN INDUSTRY

Attractiveness
Barriers to entry
Segmentation

NEUTRALIZING COMPETITION

Competitor Capabilities
Nature of Competitive Game

LEVERAGING CAPABILITIES

Skills
Resources
Learning
Complementarity

Competitive advantage as source of economic value
Positioning: Cost and Differentiation

Productivity Frontier (State of Best Practice)

Source: Porter (1996)
Three Generic Strategies

Strategic Advantage
- Uniqueness
- Low cost position

Overall Cost Leadership

Differentiation

Focus

Industry

Strategic Target

Segment Only

"Determining the cost/value tradeoff you wish to offer consumers is the most critical decision" - Porter

Competitive Strategy, Porter 1985

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Entry Timing Options

- **First Mover**: First to sell a new product or service category ("pioneers")

- **Early Follower**: Early to market *but not first*

- **Late Entrant**: Do not enter the market until the product begins to penetrate the mass market or later

*Source: Schilling*
First-Mover Advantages/Disadvantages

• Advantages:
  ▪ Brand loyalty and technological leadership
  ▪ Preemption of scarce assets
  ▪ Exploiting buyer switching costs
  ▪ Reaping increasing returns advantages

• Disadvantages:
  ▪ High research and development expenses
  ▪ Undeveloped supply and distribution channels
  ▪ Immature enabling technologies and complements
  ▪ Uncertainty of customer requirements

*Source: Schilling*
Factors Influencing Optimal Timing of Entry

1. How certain are customer preferences?
2. How much improvement does the innovation provide over previous solutions?
3. Does the innovation require enabling technologies, and are these technologies sufficiently mature?
4. Do complementary goods influence the value of the innovation, and are they sufficiently available?
5. How high is the threat of competitive entry?
6. Are there increasing returns to adoption?
7. Can the firm withstand early losses?
8. Does the firm have resources to accelerate market acceptance?
9. Is the firm’s reputation likely to reduce the uncertainty of customers, suppliers, and distributors?

Source: Schilling
Industry Life Cycle

- Time
- Sales

- Emerging
- Growth
- Mature
- Declining

Place your strategic bets
Determine your competitive advantage
Defend your competitive advantage
Manage the “endgame”!

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MIIC, Strat. Disruption in Going to Market
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The Entrepreneurial Continuum

<table>
<thead>
<tr>
<th>STAGE</th>
<th>DRIVER</th>
<th>STAKEHOLDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idea</td>
<td>Product or Service</td>
<td>Entrepreneur</td>
</tr>
<tr>
<td>Opportunity</td>
<td>Market Need/ Value Proposition</td>
<td>Target Customer</td>
</tr>
<tr>
<td>Business Opportunity</td>
<td>Economic Feasibility</td>
<td>Business Entity/Business Model</td>
</tr>
<tr>
<td>Investment Opportunity</td>
<td>ROI Attractiveness</td>
<td>Investors</td>
</tr>
</tbody>
</table>

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THE BUSINESS PLAN FOR YOUR START-UP IS IDIOTIC BUT I'M GOING TO PROVIDE THE VENTURE CAPITAL FUNDING ANYWAY.
WE'LL GENERATE LOTS OF MEDIA HYPE, GO PUBLIC AND MAKE MILLIONS BY SHAFTING GREEDY AND IGNORANT INVESTORS.
The Latin word for "close your eyes and open your mouth" is "prospectus."

This is exactly why I’m afraid of dogs.
What they say...

• We conservatively project....
  ▪ We read a book that said we need $50MM in 5yrs
• The project is 98% complete
  ▪ To complete the remaining 2% will take as long
• Our business model is proven
  ▪ If you take the best evidence of one week and extrapolate
• We only need 10% market share
  ▪ As do the other 50 entrants getting funded
• We have no competition
  ▪ Only IBM, MS, Sun or
  ▪ There is no market or
  ▪ We have no idea about the industry
• A select group of investors is considering the plan
  ▪ We selected them from an internet search
• We seek a value added investor
  ▪ We are looking for a passive, dumb-as-rocks investor
The Elevator Pitch

Product/Service Offering  What will it cost?
Customer  Who is it for?
Value Proposition  Why they will use it?
Size & Trend of Opportunity  How much will they pay?
Status  Where are you?
Needs  Where do you want to go?
Future Growth & Exit  What’s in it for me?
Managing Technology and Innovation
The Solutions: How to align technology, strategy, and organization while dynamically adapting to evolving markets

• Focused technology strategies relating to competency pool
• Cohesive and risk-diversifying project planning
• Aligned, flexible organizational structures and processes
• Consistent and enduring cultures and incentives
• Sophisticated capabilities for inorganic growth and sourcing
# Technology Strategies: Examples

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Companies</th>
<th>Who Hire?/Linkages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technological Leadership</td>
<td>Intel, Dow, Corning, Kodak</td>
<td>PhDs/Universities</td>
</tr>
<tr>
<td>Applications Development</td>
<td>Infosys</td>
<td>Field Application Engineers/Clients, Product Firms</td>
</tr>
<tr>
<td>Process Innovation</td>
<td>Dell, FedEx, Honda</td>
<td>Process Engineers, Systems Engineers/Suppliers, R&amp;D, Production</td>
</tr>
<tr>
<td>Process Development</td>
<td>Timex, Walmart, Southwest Airlines</td>
<td>Systems Engineers/Logistics, Suppliers</td>
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In Summary...

- Success = $f(c_i, u_i)$

- Entrepreneur’s job → Leadership across business strategy, team development, business process and environment

- Finding ideas is easy. Choosing where to focus energy and how is hard.
  - Disciplined approach
  - Match personal goals with business opportunities
  - Cash is king / Variable costs are key
Any other questions?