

## SCRIPT: STRATEGIES BASED ON RADICAL INNOVATIONS

### I. Introduction

- a. Radical innovations-innovations that prove to be revolutionary or disruptive in their industries.

### II. What is an Innovation? A new product or service that comes from a creative idea.

- a. Needs to be: a) novel, b) useful, and c) successfully implemented in order to help companies succeed.
- b. Strategies based upon more radical innovations-innovations that draw on different knowledge bases to create value in truly unique ways.
  - i. Use new technologies
  - ii. Employ fundamentally different business models than rivals,
  - iii. Example-Blockbuster and Netflix
    - 1. Blockbuster dominated the home video rental market by building 5500 stores around the country where they offered more than 1000 different movie options. Blockbuster made a huge investment in stores and in DVDs.
    - 2. Blockbuster didn't make money from the videos sitting on the shelves, so it needed to get customers to rent the DVD and return it as quickly as possible.
    - 3. To encourage customers to return the DVDs quickly, Blockbuster charged late fees. This strategy worked extremely well...
    - 4. Until Netflix entered the movie rental business. Instead of building stores, Netflix shipped DVDs directly to customers' homes.
    - 5. Netflix made money when customers *didn't* watch their DVDs.
      - a. As long as customers held the DVDs, Netflix didn't have to pay return postage or mail out the next DVD.
    - 6. This is exactly the opposite of Blockbuster
    - 7. Netflix didn't have to build stores, hire sales clerks, or buy inventories for every store, it had more than a 30 percent cost advantage over Blockbuster.
    - 8. Netflix defeated Blockbuster by deploying an innovative strategy that used a fundamentally different business model.

### III. 3 Types of Radical Innovation

#### a. Eliminate Activities in the Value Chain

- i. The most typical pattern is to eliminate a step in the channel to the customer, such as a store, which also eliminates the need for salespeople and inventory.

1. This allows the innovating company to offer similar products and services at much lower prices.
- ii. Examples:
  1. Netflix gained a cost advantage over Blockbuster.
  2. Amazon eliminated the brick and mortar bookstore and shipped directly to customers.
  3. Southwest airlines eliminated meals, seat reservations, and luggage transfers in order to lower total costs.
- b. Low End Disruptive Innovations-**Using different technologies than rivals to produce low cost products or services.
  - i. A firm leverages new technologies to launch a product at the “low end” – the most price-sensitive segment of the market – and then gradually moves upmarket as it improves its technology and processes.
  - ii. Example-Nucor Steel.
    1. Nucor pioneered a new way to create steel products
    2. This process was much simpler and cheaper than the traditional method.
    3. Initially, mini-mill product quality was poor, so they could only make rebar – material used to reinforce concrete.
    4. This was a low-margin market that the big steel makers were happy to abandon.
    5. Nucor’s mini-mills improved their quality, their cost advantage enabled them to trounce the integrated producers in higher margin products.
  - iii. Example-Apple and IBM
    1. Micro-computers were inferior to the mini-computers sold by DEC and Data General.
    2. Over time their performance improved enough that companies dumped mini-computers for the micro-computers that became good enough to do the job.
  - iv. Example-Skype
    1. Cheap – and often free – phone service is gradually moving upmarket as the quality of calls improves and as the technology allows for video conferencing and other higher end business services.
- c. High End Disruptive Innovations-**
  - i. High end disruptive innovations actually outperform existing products when they’re introduced and they sell for a premium price.
  - ii. Examples
    1. Apple iPod out-play’s Sony Walkman
    2. Starbuck’s beans and atmosphere drowns coffee shops
    3. FlashDrives zip past floppy disks and zip drives.
  - iii. These products typically rely on “radical” or leapfrog technologies are quite expensive initially.

- iv. The costs gradually decline as companies make improvements in production technology.
- v. A high end disruptive innovation may serve a specialized, high-end niche of a market for years before it finally trickles down to mainstream markets.
  - 1. Examples-
    - a. Electronic Fuel Injection (EFI), a technology that first replaced carburetors in high performance racing cars before finally making its way to Detroit.
    - b. Cell phones, which originally cost \$3995, followed a similar pattern.
- d. Design the Value Chain for Mass Customization**
  - i. New technologies and processes have allowed for the mass production of individually customized goods or services.
  - ii. Examples-
    - 1. Build a Bear Workshop-The components of the teddy bear are mass produced but put together in a customized way.
    - 2. Dell- Dell sold directly to customers and allowed them to choose the components that mattered most to them.
- e. Create New Markets by Targeting Non-Consumption-“blue ocean strategy.”**
  - i. A company can best succeed by creating new demand in an uncontested market space.
  - ii. Blue Ocean success relies on swimming to empty water; in other words, offering value that is *very* different from anything on the market.
  - iii. Examples-
    - 1. Cirque de Soleil-Cirque created an offering that was so unique that there was no direct competition. Moreover, it pulled in a whole new group of customers who were willing to pay several times the price of a conventional circus ticket for a unique entertainment experience.
    - 2. ChotuKool-More than 70 percent of households in India do not have a refrigerator because they are large, expensive, and require continuous electricity to run. Appliance maker Godrej created a small refrigerator targeted at non-consumption – those 125 million households without a fridge. They created a \$49 cooler size refrigerator that is bringing refrigeration to everyone in India.

#### IV. Conclusion

- a. A company’s ability to deliver value in innovative ways is limited only by the creativity of its people.

- b.** Success requires radical, rule-breaking ideas that are effectively implemented as part of an innovative strategy.