

# The art of disruption

George Vlachonikolis looks at case studies of modern business models to see if they provide examples of disruption

Purple Bricks has caused genuine disruption in the real estate market

As students of modern-day business, we are constantly being told that disruption is everywhere. The traditional processes of industry are falling away and news stories abound with warnings that robots are about to take our jobs. But are they? What does 'disruption' really mean?

## What is disruption?

In a recent article in the *Harvard Business Review*, Clayton M. Christensen — the man who coined the term *disruption* — was forced to readdress his original concept, which he argues is being constantly misused. According to Christensen:

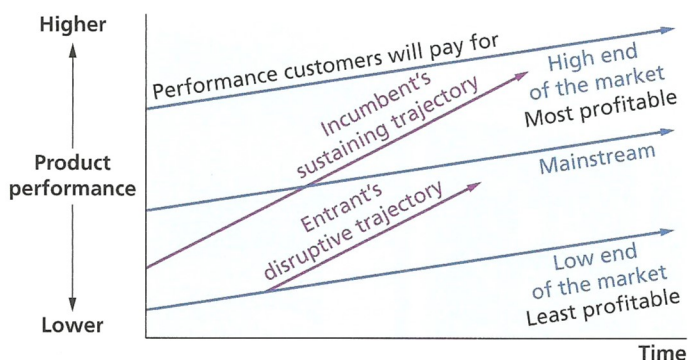
Disruption is a process whereby a smaller company with fewer resources is able to successfully challenge established incumbent businesses. Specifically, as incumbents focus on ever-improving products and services for their most profitable customers, they pay less attention to less-demanding customers. In fact, their offerings often overshoot the performance requirements of the latter. This opens the door to a *disruptive* new entrant which begins by successfully targeting those overlooked segments with a 'good enough' product (often at a lower price).

'What is disruptive innovation?', *Harvard Business Review*

Explained like this, there are two key characteristics of true 'disruption'.

## Low and new

First, disruptive innovations originate in low-end or new-market footholds. The new entrant must have specifically targeted a



Source: *Harvard Business Review*

Figure 1 High end vs low end

market segment that was overlooked by larger companies. Maybe these were low-end consumers, or even non-consumers.

## Inferior products

Second, disruption only truly occurs when there is an inferior product (or at least it is considered inferior by most mainstream customers). The disruptor company can eventually move itself upmarket by delivering the performance that more mainstream customers require, while preserving the advantages that drove its early success. But it is a defining aspect of 'disruption' that new disruptive innovations don't catch on with mainstream customers until the quality meets their standards.

## Case studies

One of the most consistent patterns in business is the failure of leading companies to stay at the top of their industries when technologies or markets change. In 2019 we see this everywhere we look, from taxi services (Uber) and home entertainment (Netflix) to real estate (Purple Bricks). But are these all examples of disruption?

## Uber

Despite the tendency to use Uber as a classic example of disruption, it doesn't really fit Christensen's definition. Uber was never really focused on the low-end consumers — it was mainstream and mass-market from the beginning. Just because it is more accessible and cheaper than existing taxi services does not make it disruptive.

Uber can be discounted on the second criteria of a disruptor as well. According to *Harvard Business Review*: 'Uber's service has rarely been described as inferior to existing taxis; in fact, many would say it is *better*.'

Verdict: not disruption

## Netflix

The history of Netflix reflects the disruptive process much better. When Netflix launched in 1997, its initial service of DVD rentals by post wasn't appealing to most customers of video-rental chain Blockbuster, who rented movies (typically new releases) on impulse at the store. Netflix was exclusively online and delivery through the mail system meant selections took several days to arrive.





Is education immune from disruption?

The original Netflix service appealed to a few market niches: movie aficionados who didn't care about new releases, early adopters of DVD players and online shoppers. The product was just 'good enough' for them. This perhaps explains why Blockbuster never saw reason to buy Netflix until it was too late.

Verdict: disruption

### Purple Bricks

Purple Bricks has been called the disruptor of the real estate industry. It already has over 7% market share and saw its revenues increase by 81% in 2017 alone. Purple Bricks is certainly an inferior product to the classic high-street estate agents. It is the 'do-it-yourself', 'cheap and easy' version, but its rapid rise in popularity perhaps shows how much dissatisfaction there was with the traditional industry.

Purple Bricks is certainly aimed at the low end of the market: those people with relatively low value houses who were often overlooked by estate agents, didn't get as much facetime with their sellers and ended up paying extortionate commissions as a result. Purple Bricks offered them a 'good enough' service. Its advertising strapline 'Save yourself from commiseration' is a play on the idea that you can save yourself some money and still get the job (of selling your house) done.

Verdict: disruption

### Disruption in education

So, is disruption really everywhere? As a teacher, I seem to be part of a trade that assumes it is above disruption, and that there simply isn't a viable replacement for schools and human teachers.

But education is already being disrupted. The information you need to pass an exam no longer must be contained in the brain of your teacher, it is found on many different media platforms:

- e-books
- bitesize revision cards
- YouTube videos
- podcasts
- multiple-choice quiz apps
- online assignments

And many more...

The provision of educational resources has grown exponentially, and anyone can be a student now. More importantly though, anyone can be a teacher. The offerings of new entrants may not yet be superior to the 'Harvard experience' but, for an increasing number of customers, they are good enough. You don't have to pay huge school or university fees, and



Traditional video rental stores like Blockbuster did not consider Netflix a threat — then it switched from DVDs to streaming...



the information is out there cheaply (sometimes free). The rise of massive open online courses (MOOCs) and other offerings by websites such as the Khan Academy confirm that this is taking place. Thus, Christensen's criteria have been achieved: new entrants are focused on the low-end customers and non-consumers, and they are currently providing an inferior but 'good enough' service. Disruption has taken place.

### Already disrupted?

The question now is whether new entrants can follow the disruptive path and move upmarket without incurring the incumbents' high costs. The quality of online learning is improving and innovators are making inroads into the mainstream market at a stunning pace. Universities like Cambridge and Harvard might do well to avoid the mistakes of Blockbuster by taking a broader approach in their next SWOT analysis. They should not just be asking 'Who is an immediate threat?' but also 'Who is on the periphery?' and 'Who is providing good-enough services for the low-end customers?'

Several large, traditional universities in the USA are offering online versions of their courses. In the UK, the Open University is approaching its 50th anniversary, showing perhaps that education was disrupted a long time ago. It is interesting to note that the University of Buckingham is now one of the most popular UK institutions, thanks to its offering of 2-year degree courses instead of the more traditional 3- to 4-year courses. These courses are not just seen as 'good enough' — they are incredibly appealing to a

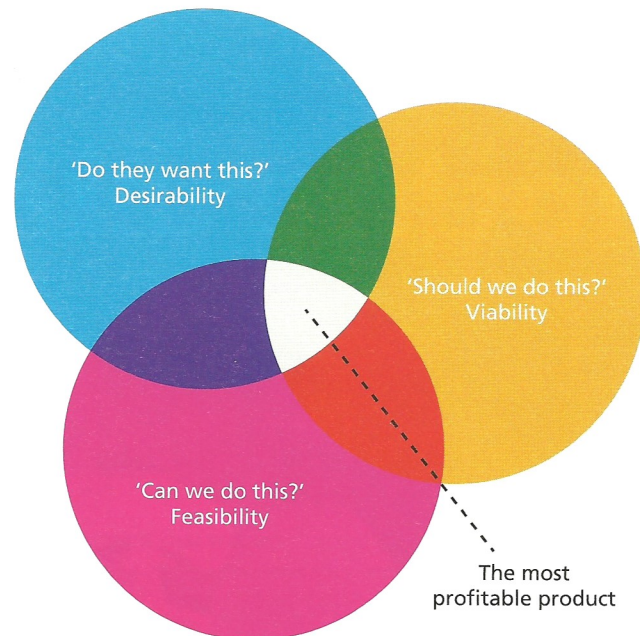


Figure 2 The three tenets for new products

much larger segment of students who are starting to question the value of obtaining a degree against the cost and debt incurred.

### Unserved needs

Ultimately, the idea of disruption has been around for over 100 years. In the late nineteenth century, Ralph Waldo Emerson said:

“If a man can write a better book, preach a better sermon or make a better mouse trap than his neighbours, though he builds his house in the woods, the world will make a beaten path to his door.”

Basically, the three tenets of product development are that any new idea should be economically viable, marketable and technically possible (Figure 2). The key is to meet unserved consumer needs and change the business model.

It is always worth viewing an incumbent's behaviour along with the new disruptors. Famously, Kodak failed to react to the disruption of digital technology, as the business model that made it successful was based on printed photographs. This means that while Kodak created the technology, the disruptors came from outside the organisation.

With the advancement of technology — especially via the use of the internet — the concept of disruption has become more mainstream and commonplace in our society. But business has always been about creating value for customers and giving them what they want — even if they did not realise they wanted it. As Henry Ford memorably said:

“If I had asked customers what they wanted, they would have asked for a faster horse.”

Disruption is and always will be a vital aspect of business.

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## Answers to 'Brainteasers' (p. 24) and 'Making connections' (p. 25)

- 1 (c)      3 (d)      5 (a)      7 (b)      9 (b)  
2 (b)      4 (d)      6 (b)      8 (c)      10 (a)

