The Innovator's Solution

By Clayton M. Christensen and Michael E. Raynor
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"A dearth of good ideas is rarely the core problem in a company that struggles to launch exciting new-growth businesses. The problem is in the shaping process."

Prior to 1960, handheld electric tools were heavy and rugged, designed for professionals, and very expensive. Black & Decker created plastic-encased tools with universal motors that only lasted 25 to 30 hours. That was plenty for do-it-yourselfers' lifetime at a tool bench, and nearly every one of them could afford drills at a $20 price point (in today's dollars) vs. the $150 price point at which the pro drills sold.

Black & Decker in essence, then, launched a multibillion-dollar industry that includes not only tools for homeowners, but an energized retail environment with fierce, ever-diversifying competitors, new education opportunities for hobbyists, and a number of cable entertainment channels and programs dedicated to do-it-yourselfers.

As marketing has become more sophisticated in its embrace of metrics, it has applied scientific sophistication to customer segmentation. Slowly it has come to accept that that the largest, most obvious market isn't always an attractive target. But growth from the nonconsuming segments doesn't often make the cut in the strategy-planning meetings at established firms.

Clayton Christensen, professor of business administration at Harvard Business School, and Michael Raynor of Deloitte Research recommend companies seriously consider nonconsuming members of the marketplace who lack the money or skill to consume what's already available. Often, they'll gravitate to a "disruptive" product even though it's substandard, and with their purchases, they'll create a whole new value network.

A "sustaining innovation" targets demanding, high-end customers with better performance either through incremental improvements or development breakthroughs. Sustaining innovators make better products for their best customers that sell at higher profit margins.

But marketers without a history or infinite resources can shake up Corporate America with what Christensen and Raynor call "disruptive innovations." These aren't better products for established markets but not-as-good, less expensive products for new or less demanding customers.

The authors offer as an example Canon and Ricoh. Both began marketing slow, poor-resolution desktop copy machines in the early 1980s. The quality of the output didn't matter much to the product's early adopters; they were just happy to be able to make their own photocopies for little money and no inconvenient trip to a copy center.

Gaining a Sustaining *Advantage* from Disruption

Customers hire products to do specific jobs, whether it's something as tangible as hanging shelves and making copies or something as emotional as comforting them after a rough day at work. This approach to product development determines marketing ##market segmentation, brand management, product positioning, etc. The critical unit of analysis is the circumstance, not the customer. And knowing what job a product gets hired to do and knowing what jobs are out there not getting done gives innovators a job to do themselves.

Once the disruptive product gains a foothold, the improvement cycle begins. And because the pace of technological progress outstrips customers' abilities to use it, the previously not-good-enough product improves enough to deliver on the needs of more demanding customers. At that point, the disruptors know that they will crush the old-schoolers who since have tried to compete in innovation. Industry incumbents almost always triumph in sustaining innovation, but new entrants rule the disruption landscape.

Going Where the Money Will Be

Even commoditization shouldn't get marketers down because commoditization initiates a reciprocal process of decommoditization that occurs in places in the value chain where profits were formerly not available. Brands become commoditized and decommoditized, too. The authors maintain that brands are most valuable when they are created at the stages of the value-added chain where things aren't yet good enough. When customers aren't yet certain whether a product's performance will be satisfactory, a well-crafted brand can step in and 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 command.

This book successfully teaches marketers to predict more accurately where new opportunities for profitable growth through proprietary products will emerge. These transitions begin with disruptors and proceed upmarket tier by tier. Take heed: This process creates opportunities for new companies to thrive by eating their way up from the back end of an end-use system. But there's a message here for CMOs at old-school companies, too, namely to scan the market vigilantly because both commoditization and decommoditization begin at the periphery.