Building a Disruptive Business

By Peter Meyer

http://www.meyergrp.com/index.html

Founder and principal of The Meyer Group in Scotts Valley, California, which specializes in executive and management development, Peter Meyer has over 15 years' experience as a successful manager and problem solver for two of the largest communications and technology companies in the world and one of the smallest. He has done speaking tours on management, technology, and strategy throughout the United States and in Europe, Asia, and Australia. He has also twice addressed the Commonwealth Club of California, and guest lectured at the University of California and Santa Clara University. He is regularly published in business journals, including The Wall Street Journal, The Canadian Business Review, Business Horizons, Dateline, Internet Business Journal, Executive Female*, and* The Recorder*. A profile of him also appeared in* Entrepreneur*. Peter Meyer has previously published in* B>Quest *and served as the contributing editor for technology for the* Business & Economic Review*. He is the author of three popular business books. His next book is partially available in his blog at http://meyergrp.com/growing_your_blog.html.*

Abstract

Many business owners and managers strive to create businesses that disrupt a market. If they succeed, they open up an opportunity to define and dominate the future. They can take charge of where their business will grow.

While disrupting a market is an attractive idea, only a few attempts work. Creating a market opportunity is not about a product or a technology or a new form of media. It is about how you approach your business.

This article discusses how to build a disruptive business. If you want to grow your revenue, people and time, the discussion presented here should be deeply embedded in your overall strategy.

The Start to Building a Disruptive Business

You've heard and you may have asked: Is there is a systematic way to build a disruptive business? And if so, then how?

The answer to the first question is yes. There is a systematic way to build a disruptive business.

The answer to "how" starts when you create something new. It isn't about initiating a new product. It's about creating and starting a new market.

> ***"Disruption starts when you create something new. It isn't about initiating a new product. It's about creating and starting a new market."***

Creating a new market is not more difficult than inventing a new product. What makes it different is where you begin. Many teams I work with start with a focus on having a great product that should disrupt something. This approach can work—all you need to do is look at Airbnb, the iPhone, Nexmo[1], PalmPilot or Uber or many other projects I've consulted on over the years.

But if you look at the numbers, it is clear that the chances of success are not just small—they are staggeringly small. That is because technology itself is not disruptive. However, how you apply your technology can be. What matters is where you start.

Where Do You Start? In One of Three Positions

Most of us look at our market position in one of three ways:

1. Zero-Sum, where you want your team to get all the market share possible. In this model there is only one winner and you want your team to be that winner so you can get all the (metaphorical) cake that is on the table.

2. Win/Win, where you want to share the cake in such a way that everyone comes out a winner.

3. Growing, where you want your team and business to grow and perhaps help your customers to do the same. In this model, you chose to make more cake.

Some of us manage our businesses as though we are in a Zero-Sum market, some in Win/Win, and some in Growth. Your starting assumption defines what you will get.

Let's take a closer look at our three possible positions.

Zero-Sum Assumption

When you assume that you lose if another gains, or vice versa, you are playing Zero-Sum. Zero-Sum is a condition "in which whatever is gained by one side is lost by the other.[2] The board game Monopoly is an example of Zero-Sum. In that game, as you gain property and build hotels, everyone else loses. A limited market is Zero-Sum. So is wanting to control an existing market.

You may remember this story: A dad carefully divided a wedge of cake between two children to ensure that neither got more. One child immediately burst into tears. The father asked if this wasn't being fair. The child sobbed, "Yes, but I want more than her!"

The Zero-Sum assumption is that only so much revenue (the metaphorical cake) is available. We win by getting more than the other person or company does. In IBM we would talk about settling for our fair share of the business. We'd then joke that our fair share was 103% of the computer market. This position can work for you if you are dominant in a market, but it's not a path to building a business that disrupts and defines markets.

Win/Win Assumption

What about the Win/Win assumption? Are there times when we want to make sure that we succeed and that others do as well?

It happens in business, even in fast food franchises in the United States. Some storeowners will put competing franchises next to each other to increase the sales of each. Having a McDonalds across the street from a Taco Bell seems to improve revenue for both. A Starbucks coffee shop moving near a local coffee shop can increase the revenue for both shops. It's a net benefit for both, or a Win/Win.

When you work from a Win/Win position, it seems wrong if either party gets more cake than the other. If feels right to share equally. Then there are only winners, no losers.

The starting point here is that there is only so much cake to share. Win/Win works from the premise that there is a limited resource. That may be a common assumption, but it may not be the best one.

> ***"Win/Win and Zero-Sum work from the premise that there is a limited resource. That may be a common assumption, but it may not be the best one."***

A friend recently shared a story about two friends in a pit. They have a ladder that is just barely long enough to get them out. These gentlemen want to find a Win/Win solution so that they can both climb up at the same time and succeed side by side. That intent to share success evenly reflects a desire to come from equality. We take a limited resource and share it evenly among the people involved, so each gets the same value at the same time.

What was the Win/Win story for these two men in the pit? In order to be perfectly fair to each other, they cut the ladder in half so that each had a matching length. They took a limited resource and shared it in the most equitable of ways. Both of them were equally unlikely to succeed.

You can imagine these two gentlemen

shaking hands and congratulating each other on a process victory and on how well they are treating each other. They feel good about themselves! However, they are still stuck in the pit. Splitting a limited resource may feel fair, but it did not get them to objective success.

To be clear, there is nothing wrong with others doing well. The question is: How much do you want to invest in the success of others? The time and effort you spend hoping to help them thrive is time and effort that your team cannot give to your own work. It does not help your customers succeed. If you assume there is a limited cake, sharing it just reduces the success for you both. You wind up in the same place as the two guys in the pit with that ladder. You may feel good but you are still in the pit. It comes back to where you start, to your core assumption.

Illustrations by Marguerite Meyer
www.margueritemeyer.com

Growth Assumption

A growth perspective is different. We don't assume that we need to take all of a limited amount of cake, or that we should share the cake to reduce the waste of competition. Instead we assume that we can make more cake.

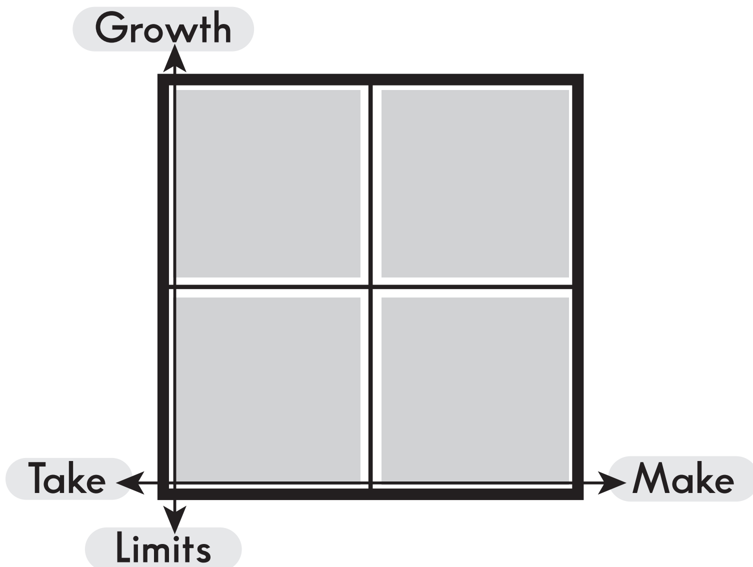
> ***"We don't assume that we need to take all of a limited amount of cake. Instead we assume that we can make more cake."***

You may have seen this discussion in Mindset by Dr. Carol Dweck. She asks: Does a child assume that he or she has a limited potential, or does the youth assume that there is more upside available? When a child assumes limits, she or he will work to that upper boundary and then perhaps defend that boundary.[3]

You do the same thing as that child when you start with the premise that there is only so much revenue in a market. It leads to either a sense of defeat or to the Zero-Sum perspective.

If the child in Dweck's research assumes that she or he can grow past previous limits, then he or she will work to get past those restrictions. How far she or he may go is not defined in advance. Instead, the child continues to strive.

On the following Growth Grid, striving to succeed beyond previous limits is displayed on the vertical axis.



In this two by two grid, both Zero-Sum and Win/Win assume a previously defined and limited market, so they are low on the vertical axis. Working from a Growth position assumes that we can make a larger market, so it is higher on that axis.

A child with a limited assumption might react as the youngster did with the cake. You get a lot of tears that way. When you work from a Growth assumption, you go get more cake. Or you make it.

> *"When you work from a growth assumption, you make more cake."*

As business people we can operate from low or high on the vertical axis. However, you'll do better at growing your business or disrupting a market when you move up the axis from an assumption of limits to an assumption of growth potential.

To Predictably Disrupt a Market, You Grow It

When you grow a market, you change the potential for your business. In effect, you are making a new space for new ideas and new revenue. That space allows you to grow a market. Growing a market is the surest way to disrupt it.

> *"Growing a market is the surest way to disrupt it."*

Nexmo, an international high tech company, supplies a great example. Only a few years ago, communicating with large numbers of customers by text message (also known as Short Message Service or SMS) was both difficult to manage and expensive to operate. The product, messages sent, was poorly differentiated. Vendors were in constant price competition, and service across international boundaries was poor.

The founders of Nexmo, Tony Jamous and Eric Nadalin, chose to disrupt the business model. They developed a set of tools that could more quickly deliver text messages and do so with a higher certainty of delivery and a more predictable (and potentially lower) price.

Although these tools were innovative, they did not disrupt the market. It was Jamous and Nadalin and their team who did that. They made the intentional choice to grow the market instead of just competing for existing business.

Nexmo's pitch to prospective customers was easy: "If you want to grow your business into new countries and markets, start your growth in less than a week, and get predictable delivery, then you should use Nexmo to open your own new markets." To be clear, the firm took substantial business from traditional suppliers, but the company has built its own tremendous increases in revenue on making new business opportunities possible for Nexmo customers. As the Nexmo team grew the market, the company was able to change the character of competition in that space. Nexmo disrupted the market. Your company can do the same.

What Makes Disruption?

It seems clear that you can use technology to make a disruption happen, but technology is not the common denominator in successful disruption. Mitchell engineering and many other drillers have used their flexibility to apply low-technology fluids to shale and produce cheaper oil. Apple built a vertically integrated marketplace to make the iPhone successful where the Newton failed. Costco uses market power to quietly sell perhaps twice as much in books as Amazon.com.

William Gibson noted that "The future is already here—it's just not very evenly distributed.6 What defines the disruptive future is the skill of good management. It is not technology that disrupts. Management makes disruption, using technology and skill and sometimes sheer determination and expansive thinking. Is technology disruptive? Or is it entrepreneurial skill? When disruption occurs, it seems to be the latter.

Initiating Your Own Disruption

How do you make this sort of disruption happen for your business and team? Start with how you can help your own customers grow. To replicate Nexmo's success, you would go to your prospective customers and offer to help them grow into new businesses. This is not a technology play. It is a market play.

Let's look at Apple Computer and the payments business. In approaching the payments markets, Apple has not led with technology. Instead, "the pitch (to) retailers and e-commerce sites was straightforward: Apple Pay will help you convert more mobile visitors into purchasers.[4]

This is not about technology; it's about growing the number of customers who purchase during each visit. More customers means more space in the market, and that is space into which Apple can move. When Apple can help e-commerce sites convert more visitors into purchasers, the result is sites that grow their revenue with Apple Pay built into the model.

What is the disruptive force? The disruption happens because the Apple team makes it easier for the retailer to grow more revenue from the same number of visitors to each site.

As the business grows, a new market space is created. The new market disrupts the old payments business model. This is not about technology; if it happens it will be because Apple helps a retailer get more paying customers than before.

To be clear, Apple's payment technology may be advanced, and their security protocols may be better than any others. But these are not what make the disruption work. What makes it work is that Apple is helping their customers grow.

Is Technology Disruptive?

One of the most attractive ideas in Silicon Valley is that technology is disruptive. From the Jetsons' self-driving cars to the promise of computer-driven education, the idea that technology drives change is often in the media and our imagination.

However, when we look at major economic inflections, the question becomes whether it is the technology that is disruptive or something else. Let's look at three major examples: Fracking, iPhones, and selling books.

Oil and Economic Disruption

One of the most disruptive economic changes in the past decade has been plummeting oil prices. It has changed the balance of influence between countries, the way automobile companies operate, and the amount of spending money available in the U.S. consumer economy. The current availability of cheap oil traces back to the use of "fracking."

Fracking (hydraulic fracturing) is core to the change, but it is neither a technological advance nor new. It had been tried in the 1940s, but modern fracking started with a single engineer at Mitchell Engineering in 1997.7 He was desperate to make one well work. He used a cheap, low-tech solution and a lot of experimenting.

That description—low-tech and a lot of experimenting—describes fracking today. In 2016 it's profitable for small wildcatting firms. However, the larger vertically integrated oil companies have been unable to match the flexibility and management innovation required to modify drilling on a daily or hourly basis.[8] Fracking works when local management can be fluid with old technologies.

The disruption of cheap oil comes from low-tech tools applied by very flexible managements. The lower cost of oil is a success of management irrespective of technology.

A Computer in Your Pocket or Purse

There is a reasonable chance that as you read this you have an Apple or Android phone near you. Effectively, you have a computer that can slide into your pocket or purse. That is an incredible technical advance over what we had only a few years ago.

But did the technology disrupt a market, or was it good management? The first pocket computers/personal digital assistants (PDAs) were incredibly powerful. They were made by large companies such as Apple (the Newton), General Electric and IBM. All of them failed to disrupt the market or even gain sales traction.

The first mass market PDA was developed by a small independent company called Palm. The chief of design, Jeff Hawkins, took the position that it was not the technology but the way the PDA worked that would make it useful. He and Donna Dubinsky (Palm's CEO) produced the equivalent of a wildcatter business that used then-prosaic technologies in a new way. This was a success of management when technology had not produced results.

Today, the Apple iPhone next to my hand uses incredibly advanced technologies. But what made the disruption that has wiped out other cell phone companies? It was Apple's choice to make a vertically integrated ecosystem for applications, software, calling, and information access. The choice to make the phone easy, not just advanced, was a success of management.

Who Sells You Books?

When we think of book sales, we tend to think of Amazon.com. The online platform sold approximately $5.25B of physical and electronic books in 2013. As impressive as that is, it isn't close to a majority of sales in the industry. The book market is dominated not by the best online technology, but by a brick and mortar retailer. In 2014, book sales volume reached $28B,[9] an increase over previous years. It seems likely that Costco sold perhaps half of those books. In other words, Costco may have sold $14B, or twice the volume of Amazon.com.[10]

Jeff Bezos' team gets and deserves praise for the work that they have done in using technology to make books available. But the disruption of the book market is more likely a function of Costco's market power than it is of Amazon.com's technology.

Your Choice to Take or Make

Disrupting markets starts with choosing an assumption: Either you've reached your limit or you're going to strive to grow more.

Let me make two key, if obvious, points about disruptions and assumptions:

1. Technology is not disruptive, but how you use technology can be.
2. Where your team starts matters. Since this is your best point of leverage, we'll begin there as well.

The American photographer Ansel Adams generated market disruption in commercial picture making. He was clear on his assumption: "You don't take a photograph, you make it." He didn't take snapshots, he chose to define and then craft what would work for him.[5]

Even though the "product" here is art, you can plot this on the horizontal axis of the 2x2 Growth

Grid. At the left of that line you place photographers who point and shoot at what is there. Further to the right, you place artists who find a way to make the image they wish.

The same applies in business. On the left you place owners and managers who choose to wait for the economy to help them. On the right, you place managers and owners who choose to try to make a market where none has ever existed. The Apple Pay strategy that I described earlier fits on the right. Competing for existing credit card revenue would be on the left.

This is not a static discussion. In any strategy, this line is a spectrum. The good news is that you can move back and forth to meet our current needs. The core assumption is that you can make as well as take. You get to choose when you do one or the other.

Credit Cards—Disrupting How We Buy

Apple Pay is not the first attempt to disrupt the market for how we pay for things. There is a useful example in credit cards and disrupting business. What is really interesting is the role technology played or didn't play in that disruption.

In approximate chronological order from first to last, the developers of popular credit cards were:

Diners Club
American Express
MasterCard (Interbank)
Visa (Bank of America.)

First mover and technological innovation turned out not to be important in market disruption. Instead, it was the choice to take a risk and to grow the market that was the disruptor.[11]

The first cards from Diners and Amex were effectively ways to reduce the amount of cash you needed to carry. Instead of having a lot of cash, you could "charge" items and pay for them all once a month. This was important, especially if you traveled. You could write one check every month and the amount of cash you needed to carry was much smaller.

The second set of cards, now known as MasterCard and Visa, added one key feature that grew the market considerably: paying over time. With cash or the first cards, you would wait to buy until you had the money to cover the cost. If you wanted a bicycle for your child before the money was available, you might borrow it but that was clumsy and often time-consuming.

With a newer charge card from what is now MasterCard or Visa, you were able to borrow the money immediately, almost anywhere, without any procedure more difficult than signing on a carbon paper form. The dramatic difference was the opportunity to pay with a card and then pay the bank over time instead of paying for everything in the same month. This was revolving credit, suddenly available for millions of purchases.

The choice to offer revolving credit added the equivalent of billions of dollars to the economy, allowed retailers to grow their annual sales, and member banks to process and collect fees for billions more transactions than could happen in a cash society. The decision to offer revolving credit increased the market dramatically. It was truly disruptive.

The revolving credit decision did not come from product or technology innovation. It came from the management team at Bank of America deciding that they would take the risk of lending money by credit card. Bank of America changed commerce and built a disruptive business with a decision that required guts instead of technology. And it worked.

The Growth Assumption: You Can Make Something New

It starts with the cake. Do you assume that there is only so much cake available, or do you assume that you can make a new cake? This is Dr. Dweck's discussion applied to your market. The growth assumption says that you can make a new market, that you can carve out a space or niche or opportunity that never existed before. This new growth is the key to disrupting old markets.

The new growth is in the upper-right quadrant of the grid. When we successfully create something new, we create incremental space in the market. That is inherently disruptive.

The Growth assumption offers a new playing field, a model that is different from what most businesses use. It is not limited by the Zero-Sum or Win/Win models.

In the Growth model, generating and validation come from an internal locus. It assumes that you can pass limits. When you work from Zero-Sum, you still generate but you start with the assumption that you have a firm limit. With a firm limit, there is no more cake available.

And because the Growth model is about adding, not splitting, it isn't Win/Win. In the Win/Win model, you assume that you have a limit but can share the cake so that there is no competition. However you still assume that there is only so much cake. (Or ladder, as in the story about the two men in the pit.)

If you make the choice to focus on growth, you are making the opportunity to stand out. Instead of competing in an existing (and possibly crowded) market, you might generate a market where you dominate.

What or Who Disrupted Photography?

What or who disrupted the photography market? Was it rapid growth in technology or was it management taking advantage of a market opportunity?

As a serious photographer, I can easily focus on the technology in my hands when I make images. But what is in my hand no longer uses the Kodak or Polaroid names. Those companies are effectively gone from popular photography.

Firm numbers are difficult to pin down but it seems quite clear that photography is growing exponentially. Film still sells, but nowhere as much as in the last century.[12] Single lens reflex cameras are selling at nearly the same level as a decade ago. That isn't a source for growth. The new high-end mirrorless cameras are a hot but small-volume item, and camera phones are selling at a stable rate. None of these drive the growth in photography. None are making the next market.

Kodak and Polaroid had access to new technology. When Kodak introduced their DCS digital camera lines in the 1990s, they had a chance to change the market forever. Polaroid might have had similar opportunities. However the change didn't come from either industry leader.[13] Working to dominate an existing market with digital technology was not disruptive.

What did disrupt the market? What worked was growing a new consumer market. While Kodak built their DCS products to serve a high-end market, the opportunity for growth was in finding ways to make and immediately share spontaneous photos.[14] Better technology did not grow that market. Nimble management teams found ways to make the path from click-to-share a seamless experience. Technology was not disruptive, management was.

Finding ways to increase the spontaneity of sharing without being tied to a technology has helped entrepreneurs build Instagram and Snapchat and many others. The market for photography is larger than ever. I'm suggesting that users are not loyal to the technology, they are loyal to their desire to share instantly. Kodak's management missed that.

Conclusion: Making the Disruptive Business

You have a disruptive business when you come into a marketplace and drive growth. When you make this work it is wonderfully exciting. Exciting to you because you are creating something new. Exciting to customers because they have new ways to achieve their own goals.

While this is an aspiration for many entrepreneurs, successful disruptive businesses are few in number. The key to success is not technology, but how technology is used. In order to disrupt, you need to grow into new areas, to innovate the business even more than the technology.

To borrow a phrase: Technologies do not innovate, people do. You make the difference, and the technology you choose is a tool. FedEx used an old technology to disrupt the way we handle documents and packages. AOL used old technology to disrupt the habits of online and physical communities. Apple harnesses new and old technologies in their attempt to disrupt retail payments. Successful disruption is not a function of the tools, but what you choose to do with them.

"Successful disruption is not a function of the tools, but what you as management choose to do with them."

The best way to make a disruptive business is to start with a problem that no one is solving. In the Nexmo example, Tony Jamous and Eric Nadalin started the company to solve a problem that really mattered. They built a technology that is interesting, but they chose to focus on growing the market into a new space. Instead of working within existing limits by choosing a Zero-Sum or Win/Win model, they assumed growth beyond those limits. That assumption, that you can make growth happen, is something that you can, and should, choose as your starting point.

The key to disrupting markets is to grow them and then be the leader of the new growth market.

You wind up creating and dominating a new market when you do that. When you solve a real problem, just as Nexmo and FedEx and Apple have done, you disrupt everything and you can win by being disruptive. This is a choice that you get to make. And you can choose to disrupt and then define a new market by growing an old one into a new space. The key is to make, not take, the opportunity to do so.

References

1 Nexmo, now a subsidiary of Vonage Holdings, is a former client of the author. The company has given permission to be used as an example, but has not influenced this article.

2 Definition from the Oxford English Dictionary: https://en.oxforddictionaries.com/definition/zero-sum

3 Dr. Carol Dweck's initial book on this is Mindset: The New Psychology of Success, 2006.

4 This Apple Pay quote is from Jason Del Rey writing on re/code: "Apple Pay Coming to Mobile Websites Before Holiday Shopping Season," March 23 2016, http://www.recode.net/2016/3/23/11587214/apple-pay-coming-to-mobile-websites-before-holiday-shopping-season

5 For more on Ansel Adams' assumptions and his use of make and take, see Ansel Adams, An Autobiography, 1985.

6 The Economist, December 4, 2003 at http://quoteinvestigator.com/2012/01/24/future-has-arrived

7 http://www.theatlantic.com/business/archive/2013/11/breakthrough-the-accidental-discovery-that-revolutionized-american-energy/281193/

8 http://www.wsj.com/articles/too-big-to-frack-oil-giants-try-again-to-master-technology-that-revolutionized-drilling-1471362741

9 http://publishers.org/news/us-publishing-industry%E2%80%99s-annual-survey-reveals-28-billion-revenue-2014

10 http://www.forbes.com/sites/jeffbercovici/2014/02/10/amazon-vs-book-publishers-by-the-numbers/#45b0da4d65a3

11 A useful history of the development of credit cards is at: http://www.creditcards.com/credit-card-news/credit-cards-history-1264.php

12 http://petapixel.com/2011/09/16/film-photography-peaked-in-2000-with-85-billion-photos-taken-then-plummeted/

13 https://www.extremetech.com/extreme/88352-the-history-of-digital-photography/

14 http://petapixel.com/2014/12/15/chart-shows-badly-digital-camera-sales-getting-hammered-smartphones/

Photography illustrations by Dr. Carole E. Scott