53

DISRUPTION

Simon Devonshire

Context is a powerful thing

Business is not for the faint-hearted. Companies do not operate in a vacuum. At any given moment there are any number of forces that can cause disruption. Whether that is the consequence of:

- competitor activity,
- innovation, or
- environmental/circumstantial events.

Disruption often originates from sources that are totally beyond the control of those that it impacts. New technology and innovation are transforming how people live, work, learn, travel, shop, and entertain. That is why this is arguably the most fertile time to be entrepreneurial, and equally so, the threat of disruption has never been greater.

Understanding the opportunity landscape

In order to understand and manage the effects of disruption, it is important to also understand innovation and how it causes disruption.

Innovation causes disruption when customers choose a new product or service in preference to the established player.

The cost of innovating has never been lower, and so the barriers to innovation have also never been lower too. Consequently, innovation is coming from every angle. Businesses are no longer being disrupted by the usual suspects and the usual players.

Although boards may want to talk innovation, the most dominant conversation in boardrooms is “**disruption**.” There is a big difference:

- Innovation is a positive state. Innovation represents “offence.” Innovation is about the future of an organisation.
- Disruption is negative state. Disruption represents “defence.” Disruption is about the preservation of the organisation’s past.

It seems the relationship between innovation and disruption is inversely proportional. The more positively impacting innovation is, the more negatively severe its disruptive consequence can be.

Contemporary businesses build communities

The repeat behaviour common to successful entrepreneurs is their consistent ability to leverage innovation as a tool with which to build communities, ecosystems, and rapport.

Innovation is a topic that stakeholders want to hear organisations talk about. Innovation is a key with which to unlock the permission to engage, the permission to build rapport. Innovation is key to demonstrating a company’s vision, mission, and values. The delivery of innovation is a powerful proof-point, and when innovation is effectively leveraged, its impact and influence can be more effective and more compelling than traditional advertising.

- Innovative organisations are inventive, progressive, agile.
- Disrupted organisations are stale, anxious, defensive.

And so, the question that boards should be asking themselves is:

- Is our organisation a **disruptor**, or is it **being disrupted**?

And irrespective of the answer:

- What is the evidence?

Problem statements

The repeat behaviour common to successful entrepreneurs is that they are especially good at defining what problem they are solving. In the language of investors, this is referred to as a “problem statement” – investors look for entrepreneurs who can powerfully articulate the problem that their business solves. Innovation demonstrates that your organisation knows what problem it is solving and that it is passionate about solving it. The boardroom question is:

- What problem does our organisation solve?

Rules and regulation

The biggest difference between incumbent businesses and up-start newcomers is their relative conformity to “the rules.” Infuriatingly, new entrants don’t play by the old rules. With regard to corporate reverence to regulators, there is a real risk of “doing what was said, not what was wanted.” Some corporates disingenuously hide behind regulatory constraint in order to avoid “innovation-hard-yards.” And so key questions are:

- What are the biggest regulatory constraints that hold back the transformation of our customer experience?
- When was the last time the CEO met the regulator?

The risk of conformity

There is so much that directors can learn from early-stage ventures and the investors who back them. Investors share a common belief that conformity only ever yields average results.

Sticking to convention is often the root cause that allows disruptors to disrupt. For example, supermarkets like Sainsbury's and Tesco are indelibly attached to stocking as many brands and varieties of products as possible. That is their convention. They are being disrupted by Aldi and Lidl, which not only fail to subscribe to that convention, but worse, do the exact opposite. And so, the question that directors should be asking themselves is:

- What are the established conventions of this business?
- What are the beliefs, attitudes, and behaviours common in our industry or sector, and what specifically would represent the most notable paradigm shift if incumbent conventions were deliberately ignored?

The unusual suspects

The competitive landscape is constantly shifting – more rapidly now than ever. The threat of new competition may not necessarily come from the usual suspects. It may in fact come from completely outside your industry sector. Not only must organisations watch their peers, but they must also actively watch and track the funding and progress of start-ups in their sector too. More challenging still, is the need to monitor start-ups from outside the sector because disruption may come from entirely new sources previously disassociated with the core business.

- Which start-ups are attracting the most publicity, investment, and attention in the sector?
- If Amazon were to launch in this market, what might their service look like?

Old school, new school

It is not just competitors that look different, but the way business is being done is fundamentally changing as well. The classic professional disciplines are changing face too. Key functions such as marketing have changed beyond recognition. No function is immune to the degree of change that is happening (even if some inaccurately believe that societal changes are somehow less applicable/relevant to them). The problem with the old-school approach is that it:

- fails to understand and leverage the power of communities and eco-systems;
- does not get digital and data;
- still wants to compel by telling rather than demonstrating; and
- doesn't understand the science and process of validation.

The key questions directors should be asking in order to better understand which areas are stuck in the old school, or have migrated to the new school, are:

- To what extent does the workforce/senior leadership team work flexibly?
- What new technology does your department intend to implement in the next 12 months and what benefit will it deliver to your key stakeholders?

Non-incumbent thinking

Disruptors are fresh thinking. They are not encumbered. New talent is the antidote to a lack of thought diversity. Diverse thinking is difficult to quantify. Helpfully, diversity of recruitment is much easier to measure. The most anxious businesses most fearful of disruption, are also those that have a tendency to hire from their established competitors. And so, the key question is:

- What percentage of new hires are from outside the organisation's sector?

Differentiation

Disruptors disrupt not by being the best – they win business by being **better**. The key questions about differentiation are:

- What makes customers compelled to choose this organisation's products versus the alternatives available?
- What makes the organisation's product better than the competition?
- What's the next new product feature that will be launched, and when will it land?

Protecting legacy revenues

New entrants have the liberty of not having to protect legacy revenues. It is easier for new entrants to demolish established industry margins. The protection of legacy revenue can distract attention and resources from the creation of new revenue from the delivery of new products and services. The questions that this provokes are:

- What products and/or customers currently deliver 80% of the company's revenue?
- How would the company replace that revenue if it had to?

The innovator's dilemma

Rarely will new products deliver substantive incremental revenue in comparison to legacy revenue. Corporate expectations and demands for new products are invariably unrealistic – corporates want new ventures to yield too much revenue too quickly. Often that means new products are at best a disappointment, and worse, not even worth pursuing in the first place. This is known as the “innovators dilemma.” Unrealistic revenue expectations are a common insurmountable barrier to corporate innovation.

For new innovation to succeed, its success must be calibrated in more than simply the revenue generated. The introduction of a new product is unlikely to yield transformative revenues – but perhaps it might help drive substantial awareness and interest in existing products. The question this provokes is:

- How do we as the board evaluate new innovation opportunities?
- What are the right metrics to measure innovation performance and success?

Innovation is predictable

Some forms of disruption are unpredictable; however, most competitor disruption is signposted way in advance of it hitting the market. Three examples that bring this to life are the following:

- Scientists are compelled to publish.
- Corporates are compelled to patent.
- Start-ups are compelled to raise funds.

These examples effectively broadcast the direction of travel and the innovation that is coming. Universities are home to scientists; they are fertile breeding grounds for innovative start-ups; universities prize their collaborations with corporates. So the questions directors should be asking are:

- Which universities are consistently yielding thought leadership and scientific breakthroughs in our core industries?
- How should our organisation partner/collaborate with the best universities that work in this field?

The megatrend megatrend

There have always been megatrends, an ageing society and the rise in obesity being just two examples. What makes this era so remarkable is that there now seems to be the following:

- There are more megatrends than ever before.
- The megatrends feel more significant than ever before.
- The megatrends are more measurable than ever before.

The advantage that megatrends create for innovators is: inevitability. And so the question that boards should be debating is:

- What are the megatrends that will affect this industry most?

The elimination of doubt

One of the most negative consequences of disruption is **uncertainty**. Uncertainty causes **doubt**. The impact of doubt in organisations is that it causes people to throttle-back. Throttling-back can have a devastating impact on productivity. Productivity is vital to business success.

The best antidote for doubt is visible leadership and the constant reiteration/reaffirmation of business strategy. Nothing beats a whites-of-the-eyes

delivery from the CEO combined with fluent/coherent unscripted answers to challenging questions. The key questions therefore that directors need to ask are:

- How frequently does the CEO present to key stakeholders, especially staff?
- What are the headline messages over the course of the next six months?

Adaptability

In periods of change and disruption, people need to learn how to adapt quickly. The repeat characteristic of successful entrepreneurs is that they are especially adaptable.

- What programmes are in place to teach staff the practical advantages of an entrepreneurial mindset and acquire resilience and adaptability?

The MPA

The repeat behaviour common to successful entrepreneurs is their ability to **focus**. Once an organisation is clear about what problem it solves, the key question directors need to ask is:

- What is singularly the Most Powerful Action that will move the success of this organisation furthest forward?

In summary

The key questions directors should be asking are:

Defensive: Is this organisation going to be disrupted?

Offensive: What are its opportunities to disrupt?

Capability: Is your team capable of seeing the opportunity?

Initiative: Does the organisation have the competencies to do something about it?

Purpose: What problem does the organisation solve?

Differentiation: What makes this organisation's product better than the alternatives?