



Disruption – A New Core Business Model

Shattering a glass. Such a spectacular site when a pitch so intense can shatter a finely designed drinking glass. So substantial is the event and is a sight to behold. A market disruption is of that same spectacular sight.

Actually, shattering a glass requires more than just a high pitched high volume sound. It requires an exact residence of the glass, focused sound at one location very close to the glass. Bottom line, there needs to be several calculated and controlled items in exact specifications to make the glass shatter. If all elements are in alignment, the glass will shatter. It is not random, guessed or magically. It occurs with an exact plan and execution.

Shattering a glass is very much like developing a new core business model. So many times, we see the emergence of a new product or company with the prospects of new concepts and ways to improve. The reality is that these new products or companies just don't throw ideas into an open market and see what sticks to a customer. A new core business model requires a set of variables that are synchronized, balanced and most of all fulfill the *law of business reality*. Remember, all core business models are a subset of the law of business reality which is to serve customers in a profitable way or the company will cease to exist.

Core Business Model – serve customers *uniquely* (different from other competitors) in a profitable way or cease to exist (*see resource “Do The Right Thing In Business Improvement”*)

A core business model is created when a new way to fulfill the law of business reality is developed from either a new environment element, innovation, or operation (*see also Core Business Model Influencers Insight Paper*). If any one of these influencers significantly changes a core business model element, a new product or operation could be realized. The following are influencers of a core business model:

- **Environment**—industry, geography, governments (regulations), and competitors
- **Operation**—resources, execution, ownership, and leadership
- **Innovation**—technology, methods, and procedures

If one of these influencers induces a new core business model than a market disruption may occur. These influencers are the key to many new core business model

developments and disruptions. Many times, we do not even realize that these items have had an influence on a new product or company. Let's review each of these "Influencers" and see how it has impacted the development of a new business, product, core business model and market disruption.

Environment Influencer

There have been many new core business models that have been developed by an ever-changing environment. Whether a new industry, government regulation or new competitor, the environment is ever changing. Take for example the government regulations. New companies and even industries have emerged by a new governmental law.

For instances, new energy laws. We have seen new products and companies emerge all the time. One is LED lights. Just a few years ago, we might not even know that LED light bulbs were an option. But now many houses have been fully converted to low energy consumption LED lights.

Also, just like regulation, deregulation can influence new core business models. A great example is the airline industry. Since deregulation we have seen a consolidation and reformation of the airline industry. New low cost carriers like JetBlue and Southwest have grown in popularity offering the ability to fly to locations at much lower price point than other traditional airlines.

Plus, the defense industry is significantly impacted by government policies. Great example is the joint strike force aircraft. The government wanted to reduce the cost of developing fighter aircraft for different branches of the armed forces (XPlanes). The F-35 Lighting fighter was developed and selected to fill each of the three main types of fighter aircraft; VOTL, carrier and ground to air. The aircraft also required to include stealth and air to air combat capability. The program had many issues and many cost overruns but the main objective: manufacture consolidation was achieved.

The environment influencer has a major impact of new core business models. I am sure if took some time you can see how your environment has changed based on the companies' response to the environmental influencer impact.

Operations Influencer

Operations and innovations are so tied together that sometimes it is hard see the differences. Operational influencers may produce a new core business model when a product needs an operation to actualize the ability to serve customers in a profitable way.

There have been many new core business models that have been developed by an innovation that was needed to support an existing product or delivery system. Regardless of a new technology, productive operation or resource a new core business model disruption may occur when a unique operation is produced. Let's review some previous disruption based on new operations that impacted their industry significantly.

Ford Motor Company. Ford did not discover the gasoline engine and he did not invent the automobile. Ford did not develop the first manufacturing facility for the automobile either. All those aspects were already in the market. What Ford did was develop a process to mass produce the automobile and to make it affordable for his customer. Hence his assemble line manufacturing lowered costs and made the automobile affordable for his customers (Rouge October 2016). A market disruption occurred when Ford realized the operational innovation of the automobile assembly line.

FedEx. Before the 1960's, shipping logistics was basically a multiple city connection delivery system. Frederick W. Smith in 1960's, outlined a delivery system that would deliver packages overnight to anywhere in the world. He wrote this idea in an economics paper while attending Yale University. The paper highlighted an overnight delivery service in the information age (Entrepreneur October 2008). Later, Frederick raised the capital to start his organization on that principle of what we call today as the "hub" system. An operational change that caused a market disruption in delivery logistics and today this operational system is widely used all over the world.

ATT Digital. In 1995, ATT's cell phone business was not performing. The company invested in a new technology for cell phones leveraging digital communication instead of existing analog. The company wanted to get a larger piece of the market by using the new digital technology. To get a step ahead of their competitors, ATT decided to offer an operational service of unlimited minutes for all their digital users. No other carrier offered unlimited minutes for phone service. ATT leveraged the digital technology and gained a major market share becoming one of the top cell phone providers. Because of the large digital footprint, ATT became the exclusive supplier of the new Apple iPhone disrupting the communication industry from both cell service and smart phone products.

Operations can generate a new core business model and cause significant market disruption. Operational innovations can provide disruptions and is the same fashion innovation can generate new products which will also create disruptions in the market.

Innovation Influencer

Innovations is the fastest and most popular way to develop new core business models that transform entire industries. A new technology, method, or procedure will produce a new way to serve so profoundly that it will change the market. There have been many new organizations that have leveraged innovation to produce new products and operations. Let's review a few of these product innovations that changed their industry.

Cotton Not Tobacco. The Cotton Gin not only changed the textile industry, it shifted a country's focus on its main economic producer. In 1780's America the main agriculture crop was tobacco. Difficult to grow but easy to harvest. Cotton was easy to grow but hard to harvest because the seeds in the cotton were difficult to separate from the cotton lint. In 1794 Eli Whitney invented a machine that would separate cotton from the seeds and changed the economic landscape of America. The new machine called the Cotton Gin could do in one hour what took many people ten hours to complete. With that level of productivity and cotton being easier to grow, many farmers switched from tobacco to cotton (Cotton Gin). The Cotton Gin innovation was so impactful that farmers switched from growing tobacco to cotton and changed not only the textile industry but changed the economics of the America's.

Stable Fuel. Standard Oil. Many people know of the Standard Oil Company and its history. But many do not know the innovation that enabled the company to produce kerosene more cost effectively and provided fuel stability for house lamps. The process was called fractional distillation and was developed by a chemist named Samuel Andrews. Andrews was a partner of the company and developed this new process to refine crude oil at a much lower cost while producing a more stable product. Leveraging this refining process, the Standard Oil company went on to be the largest producer of kerosene in the world (Stable). The innovation of fractional distillation produced a new core business model in the refining industry and disrupted the market that is still used today.

Content Delivery. Netflix. Some of us can remember when we would go to a brick and mortar store to rent movies. Reed Hastings disrupted all that when he started Netflix all because he was charged a late fee from Blockbuster. Leveraging the internet, Hastings developed a delivery service for DVD's that could be sent directly to a customer's house instead of going to a store. The company developed a new operation for the existing movie rental industry and completely disrupted the market (Loudenback). Once the service was established, Netflix moved into the direct delivery system now called "streaming video". Netflix leveraged the internet for a service innovation to create a new core business model and completely disrupted the

status quo. So much was the disruption, new industries were transformed including content delivery and content creation. The company continues to disrupt industries by developing original content for their company's delivery system and its brand.

Accessible Transportation. Uber. I am sure that you have heard of Uber, a company that transformed an entire market. Before the 2000's, short term point to point transportation also known as cab service had been the same for 100 years (or more). Uber leveraged advanced logistics, mobile computing and created a core business model that produced an "on-demand" transportation model that customers could access from anywhere (Transport). A truly customer centric service that created one of the most productive interactive models for transportation.

Uber's core business model was so significant that it disrupted common taxi services in almost every large US city. Uber also did not stop at just taxi services, they started UberRush aimed at rush delivery in New York and UberCargo aimed at truck delivery services. Uber continues to disrupt markets with its innovative core business model. Uber also is aggressive at opening new markets. It now has moved into the China, and other world markets continuing its market disruptions.

These previous stories highlight the impact of an innovation on an operating environment. When combined with the full set of influencers a new core business model were introduced and a market disruption occurred. Whether it is an operational innovation or a new product innovation either can produce a market disruption and for these examples, had completely changed their market and industry.

Innovation Influencer Explosion

The advance of technology and core business model influencers have accelerated innovation and intern disruptions. In fact, there is an explosion of new technology and innovation. Such advancements as digital, cloud systems, big data, internet of things, machine learning, blockchain, predictive analytics, sustainable energy have changed the landscape and new incubated brand new operational platforms. This has created an explosion of innovation.

This explosion and quick market acceptance has created an environment for new core business models such has never seen since the great industrial revolution. There is so much change and new technology that we see not just one but multiple reports every day of the new discoveries introduced into the business environment. The potential for business improvement is somewhat unmeasurable and new opportunities generators have never been so great.

Disruption

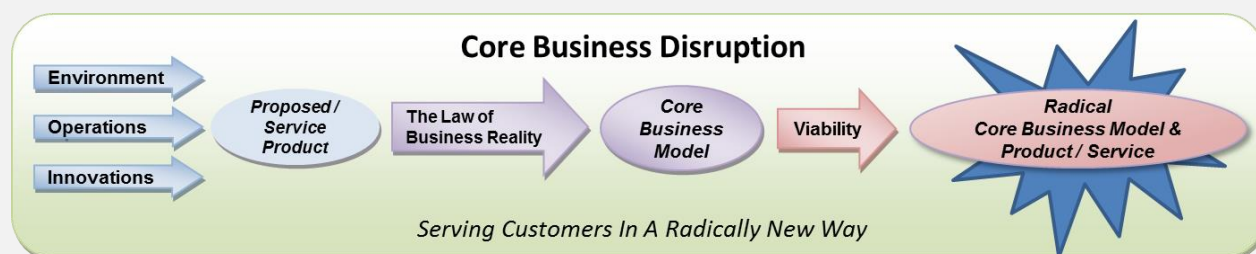
A market disruption is a remarkable occurrence especially when the customer is the winner. But there is so much innovation that it is hard to sort out true when it will develop a true disruption. Not every new business core business model is going to be a market disruption. In fact, many of the new companies do not cause a market disruption at all. Some are just new entrants and some just fail. So how is it that a true market disruption is caused by the entrant of a new core business model?

As mentioned before, a new core business model requires new techniques, methods, innovation and balanced influencers that must all be synchronized to fulfill the law of business reality. When a viable operation with a needed new product is realized, it will produce a new core business model. That will develop a new entrant in the market but not necessarily a disruption. The issue is a disruption.

A disruption takes careful understanding of how a new core business model will serve customers in a profitable way. When Netflix developed its at home service it was unique to the industry. When ATT developed its new digital service it was unique to the industry and when Ford developed its manufacturing process it was unique to the industry.

There still must be a need for the customer and a new business model must perform it in a unique way. The issue for each of these examples were that it served customers in a **radically needed new way**. That is what caused the disruption. Let me show you what I mean. Standard Oil radical changed the industry by suppling stable (safe) oil at a very low cost which was different from the other competitors. Fedex overnight very reliable package delivery service which was different than the standard. Netflix provide DVD rentals directly to the home at a very low cost which was very different from the standard.

In each case the disruption occurs when a product or service is so radically different than the standard and is offered at a very high value. That is a radically needed new way at a high value to the customer. That is when a market disruption can occur. Where is the most likely for a disruption? When an industry is so stuck that it is commoditized. A commoditized industry is where a disruption can have the most impact and where many of the disruptions will emerge.



Disruption Opportunity

The opportunity for a market disruption is not something that happens by chance. For every disruption, there must be a set of circumstances and orchestrations to produce a core business model and product/service to cause the disruption. The following are a list of questions that identify whether a core business model will be a potential disruptor:

Disruption Model Points

- Review Your Industry – has it been commoditized?
- Does the operation serve Customers Uniquely and fulfill Customers Want?
- Has Innovation Changed the Operating Model or Product?
- Have Influencers Modified the Current Environment?
- Can an Operation be built productivity and profitably?
- Will Customers buy it?
- Will you be able to scale with an evolving business model?
- Will you be able to match capital and earnings for growth?

These “model points” need to be in alignment or a disruption will not occur. For that matter the most significant is making a core business model viable. After that it is mostly on the customers to gain the market to make the disruption realizable. The opportunity is remarkable occurrence when it does happen.

Challenges to Disruption

Like most disruptive companies, they faced a lot of opposition as its new core business model changed price structures and operating environment for the market. The number one concern for many existing business leaders is facing a new disruptive entrant.

Anytime a new core business model enters the market it has the potential to be a disruption. Disruptive models will get push back from the industry and some leaders try to use all kinds of barriers to stop the new entrant, even government and legal efforts. Lobbyists feed on this opposition and especially the status quo for many industries. I have even seen government leaders pass laws to inhibit a disruptive core business model in state legislations.

Change is hard but disruption is all about change. Change to radically improve a customer offering. Some companies cannot or will not react to the new market produced by a disruptive new core business model. Those companies will be left behind to eventually merged or dissolved.

It is up to leadership to provide the fortitude to push forth a new disruptive core business model. What is at stake is the stunting of innovation, operation and most of all the benefits to the end customer. They are the big winner and a company will have the privilege of proving a product or service that betters their lives overall.

Look around. I am sure if you look hard enough you can see the affects of a new core business model that was developed by some new operation or innovation that was realized productively and profitable. There are new ones being developed every day. It is exciting to see how the new disruptions will change the way we live and which ones will shatter the glass in a spectacular way.

Keep looking for ways to shatter the glass. The winner is the customer.

David A. Duryea

Look for David A. Duryea’s highlighted emerging disruptions in the white paper “The Waiting Disruptions”. I thought provoking view of what could be next in Core Business Disruptions.

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