

Gregory John Lee & Brian Armstrong

# Disruptive Innovator Entry & Scaling Perspectives

From:



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## Introduction

A topic of great interest in the digital age is disruptive innovation (e.g., Christensen, 1997; Christensen, Raynor, and McDonald, 2015). In general, disruptive innovation is when new technologies and/or business models disrupt the status quo in an industry or sector or segment, often allowing new competitors to enter, scale and sometimes to displace existing incumbents. Consider, for instance, how hotel chains and sedan taxi services as the incumbents were disrupted by sharing giants.

In this section, we expand on two topics disruptive innovation topics, namely:

- The notion of broad models for disruptive innovators to penetrate an existing market, that is, to disrupt it. We refer to these as entry models.
- How disruptive innovators, which have succeeded in gaining an initial foothold, can then scale their efforts to fully take on incumbents. We refer to these as scaling models.

Before exploring this topic, it is important to distinguish disruptive and incumbent strategy and positioning. Markets are typically characterized by a set of incumbent innovators with more or less concentration and market dominance. We have noted in our full books (see the opening reference above) that market concentration is increasing, meaning incumbents are becoming more powerful. However, it is not impossible for firms – even those which are small or less resourced - to break into well-established markets with disruptive innovations. Disruptive innovation theory describes how this has typically been achieved in the past.

Before going into more detail on business models for disruptive innovators, it is important to make the link between digitalization and disruptive innovation. While there are a number of ways to disrupt, not all of which involve technology, disruption is increasingly achieved through innovative digitalization ranging from product innovations (e.g., AI-differentiated products) to service innovations (e.g., well-designed chatbots) amongst many others.

## Entry Models for Disruptive Innovators

Broadly speaking, there are three entry models through which a disruptive innovator can attempt to enter a market characterized by existing incumbents.

### **A. Enter with Similar Business Models to Incumbents and Huge Push Marketing**

A new, aspirant disruptor does have a very traditional means of attempting to disrupt, that is, to go into an industry or sector with a similar business model to at least one or more incumbents and attempt to capture market share with giant push marketing campaigns.

This is not seen as a typical or feasible entry strategy. Existing incumbents, by definition, have established significant brand reputation and loyalty, and the barriers to entry are likely to be large and expensive to overcome. The marketing budget required to push into the segment is

likely to be significant. Anyway, for the marketing to work, there must surely be some differentiation from incumbents. Therefore, at the very least, there is innovation in elements such as branding and communications.

What are the major alternatives to going toe-to-toe with the incumbents in this manner? Disruptive innovation theory (e.g., Christensen, Raynor & McDonald, 2015) discuss two major alternative entry strategies.

## **B. Entry through Low-End Footholds**

Low-end footholds are the first feasible entry option for disruptive innovators. As described by Christensen, Raynor & McDonald (2015):

*...as incumbents focus on improving their products and services for their most demanding (and usually most profitable) customers, they exceed the needs of some segments and ignore the needs of others. Entrants that prove disruptive begin by successfully targeting those overlooked segments, gaining a foothold by delivering more-suitable functionality – frequently at a lower price. Incumbents, chasing higher profitability in more-demanding segments, tend not to respond vigorously. Entrants then move upmarket, delivering the performance that incumbents’ mainstream customers require, while preserving the advantages that drove their early success. When mainstream customers start adopting the entrants’ offerings in volume, disruption has occurred.*

The below illustration gives an example of a low-end foothold strategy and business model.

### **Illustration: Township fiber example of low-end footholds as a disruptive entry model**

As an example of a low-end foothold, consider small companies currently installing fiber into households in very low-income areas and offering associated, appropriate business models. In South Africa, for example, such areas are known as townships. As predicted by disruptive innovation theory, large, established telecommunications firms mostly ignored such areas, focusing on the already-large task of installing fiber into wealthier areas where higher margins could be charged. This has left a gap for disruptors to gain a foothold.

As one example, consider Kayamandi fiber project of Fibertime (previously Isizwe). As described by Crouth (2022), this project involves a project to offer fiber to residents of Kayamandi, a low-income township in the Western Cape area of South Africa. There was an opportunity due to the legacy lack of interest of the large telecommunications firms to serve this area with high-speed internet. As noted by Alan Knott-Craig Jr, founder of Fibertime (Crouth, 2022):

*This is not a charity or philanthropy: it is entirely private sector-driven and for profit, to bridge the digital divide sustainably so it can be replicated anywhere across the continent. We believe there is a lot of money to be made at the bottom of the internet pyramid, just like Pep Stores has done by selling quality clothing at affordable prices, and like Capitec has done by bringing affordable banking to everyone... The project is about making telecoms better for everyone, down to the poorest of the poor.*

Fibertime have deployed a range of innovations in their business model, most notably charging a low per-day rate for 100mbps of uncapped fiber (R5 per day over the early to mid 2020s, equating to about \$0.25) and also including creating a blockchain-based wallet for payments, and partnering with other services to create supplementary value propositions. Their initial launch attracted hundreds of thousands of users in this initial proof-of-concept. Fibertime intend to extend the

project across not only South Africa but, perhaps, export it to other countries with similar low-income areas.

Fibertime is not the only disruptive innovator chasing the low-end foothold of township fiber. Others are also engaged in this endeavor, illustrating that the concept of low-end footholds applies in the otherwise concentrated telecommunications arena.

There is a third possible entry strategy for disruptive innovators, as discussed next.

### C. Entry through New Market Footholds

In addition, disruptive innovations can often be those which create new product categories and new markets. By definition, a new market or category is one that incumbents have not yet dominated, or often even considered. Therefore, the new market or category can be penetrated even by a small or poorly-resourced firm so long as they can establish the innovation with customers.

The below illustration gives the well-known Uber example of creating a new category.

#### **Illustration:** *Uber as an example of a new market/category disruptive entry model*

The Uber story is well known and we present a full case on it in our collections.

One point that can be expanded on in this case study is that Uber was a very good example of a new market or category foothold. As an initial disruptor, Uber would have faced massive barriers to entry in trying to disrupt the traditional taxi industry (which were not only well-established in many geographies, but which were highly regulated and licensed). However, Uber did not try to go toe-to-toe with these incumbents as much as they essentially created a mostly new category within the sector: middle-to-upper class suburban commuters taking sedan-type taxis. While there are some cities in which middle-to-upper class suburban commuters might regularly have taken sedan-type taxis (e.g., New York and inner London), in most geographies it would be the norm for such customers to buy and use their own cars or to use trains or the like. In such areas, traditional taxis focused on inner-city needs, often on non-residents, and proved expensive and cumbersome for residents to use regularly (e.g., they required telephonic booking with no further way to track rides, they required correct cash, and they offered only implicit verification of driver quality).

Uber disrupted by offering a service that appealed to the mostly untapped category of middle-to-high income resident commuters, where the business model included not only low pricing but also elements never before seen together as discussed previously, such as an app service with car tracking, merchant services to pay via card, and explicit driver rating. By penetrating first into this new category, Uber bypassed not only competition from the traditional incumbents at first, but also regulation. In many geographies it took years and even more than a decade for sustained push-back to occur from taxi competitors and regulators. This advantage largely occurred because Uber was operating in a new category.

There is one further note to be made on this case. As we report in our full Uber case study, until recently Uber has made spectacular losses, obliterating tens of billions of dollars in investor capital. Why would investors allow such losses? The answer may well lie in the fact, again, that Uber was pushing the use of taxi-type services into a huge new market. Investors in digital enterprises are often willing to endure such losses in such cases, in the belief that the establishment and maximization of the new market or category will lead to sufficient profit-taking in the future.

(As a side-note, a similar argument can be made for the early billions poured into virtual and augmented reality headset companies by investors. The investments will probably never be recouped by headset sales alone. However, the real market here is content sales. It was necessary to invest in

the hardware to establish the new market. Profit taking will follow). Indeed, Uber has now tracked into profitability, as expected by their investors.

This section has established three strategies and models through which disruptors might try to enter a market. Next, we discuss models for disruptors who have successfully created footholds to scale and start to really take on incumbents.

## Scaling Models for Disruptive Innovators

Christensen's theory of disruptive innovation, introduced above, proposes that in many cases the disrupting innovative product or service initially enters the market as inferior to incumbent products (or perceived as inferior). Sometimes it is a more simple and low-cost option trying to reach low-end footholds and, therefore, literally inferior in some ways. Sometimes, it may be perceived as inferior by customers who are more used and loyal to incumbent brands even if the product is not necessarily inferior (as we may be seeing with the entry of good quality Chinese car brands at the moment).

How, then, can the innovator firm position its product in the market to gain early adopters and start the process of iterative improvements and progressive adoption to reach the point, ultimately, of disrupting incumbents?

Bohnsack and Pinkse (2017) provide some guidance on this important challenge:

*Disruptive technologies have the potential to reinvent a product by introducing new attributes that could become a key source of competitive advantage. Yet, initially, only customers on the fringe tend to value such new attributes. Breaking into the mainstream remains a challenge, because these technologies seem to underperform on more established attributes mainstream customers currently value most. Disruption occurs only when these customers also make the switch to the new technology. This happens when product performance on established attributes has improved to an acceptable level, and mainstream customers have also started to value the new attributes. However, this could be a lengthy process ....*  
(Bohnsack & Pinkse 2017, p. 279).

The business model is a key tool to address this challenge: there is ample evidence that “an inferior technology with a *better business model* will often trump a better technology commercialized through an *inferior business model*.” (Chesbrough, 2003, p. 43, author's emphasis). And at the heart of the business model is the value proposition to customers. Bohnsack and Pinkse (2017), therefore, argue that configuring the value proposition to appeal initially to early adopters, but then rapidly reconfiguring it to appeal to the mass market – an approach they call *value proposition reconfiguration* – is an answer to this dilemma.

There are two steps to scaling for disruptive innovators, namely analyzing their current position vis-à-vis the competitors and then creating strategies and associated business models to scale from their current position into incumbent positions. These two steps are discussed next.

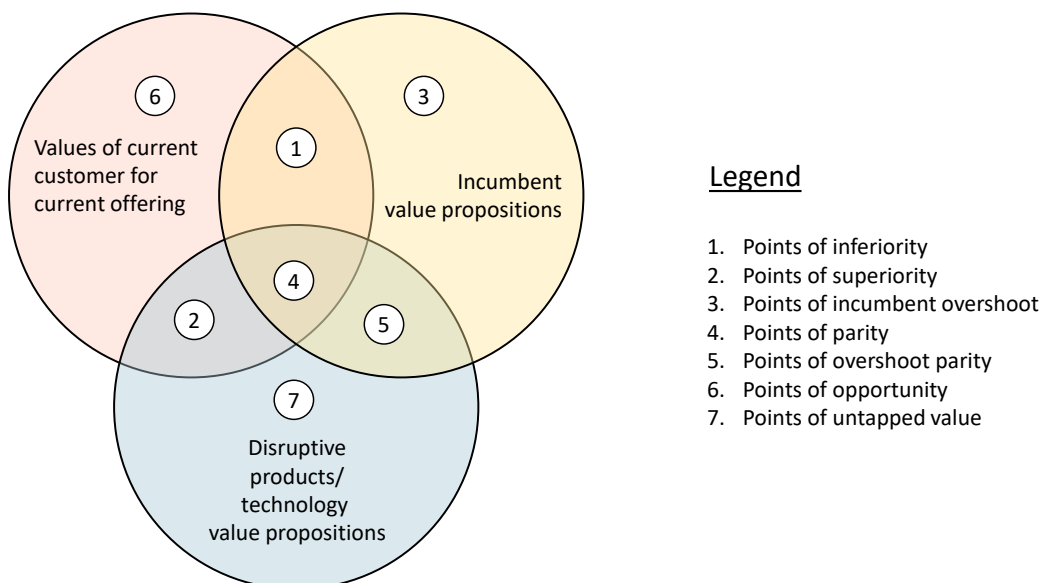
### A. Analyzing Disruptor Versus Incumbent Value Propositions

In this subsection we describe a tool for analyzing disruptor offerings versus incumbent offerings in the context of customer needs. Usually, this tool will be used by the disruptor.

We note that for this type of tool it is necessary to generalize. There will tend to be a range of incumbents each with their own value propositions. For example, Bohnsack & Pinkse (2017) analyze electric vehicles as the disruption versus internal combustion vehicles as the incumbent category. Obviously, there are a wide range of internal combustion vehicles, so this analysis must generalize the category, although it would be possible to specify a specific segment of electric car (e.g., electric SUVs) and be more specific about SUVs as the incumbent. As another example, we could be a digital bank that has made a foothold and now seeks to scale to take on traditional incumbent banks: the latter ('traditional banks') are also a range and we must generalize their value propositions.

Marketing theory describes that customer purchase decisions relating to a new product take into account, in differing degrees, three value dimensions: *points of parity*, where the product provides the same performance compared with the best alternative; *points of difference*, where the product provides superior or inferior performance compared with the best alternative; and *points of contention*, where there is disagreement about the product being superior or inferior to the available alternatives. Taking all these value dimensions into account allows a firm to position its product and marketing messages to enable customers to recognize and appreciate what is distinct about the product, and which resonates with their purchase decision criteria.

Combining this perspective with the recognition that new and disruptive technologies, combined with the right business model, will have points of inferiority, superiority, and difference relative to incumbent technologies and products, that yields a valuable insight into value proposition configuration and reconfiguration for disruptive business model design. This is illustrated in Figure 1.



**Figure 1:** *Elements of value proposition configuration*

Source: Bohnsack & Pinkse (2017)

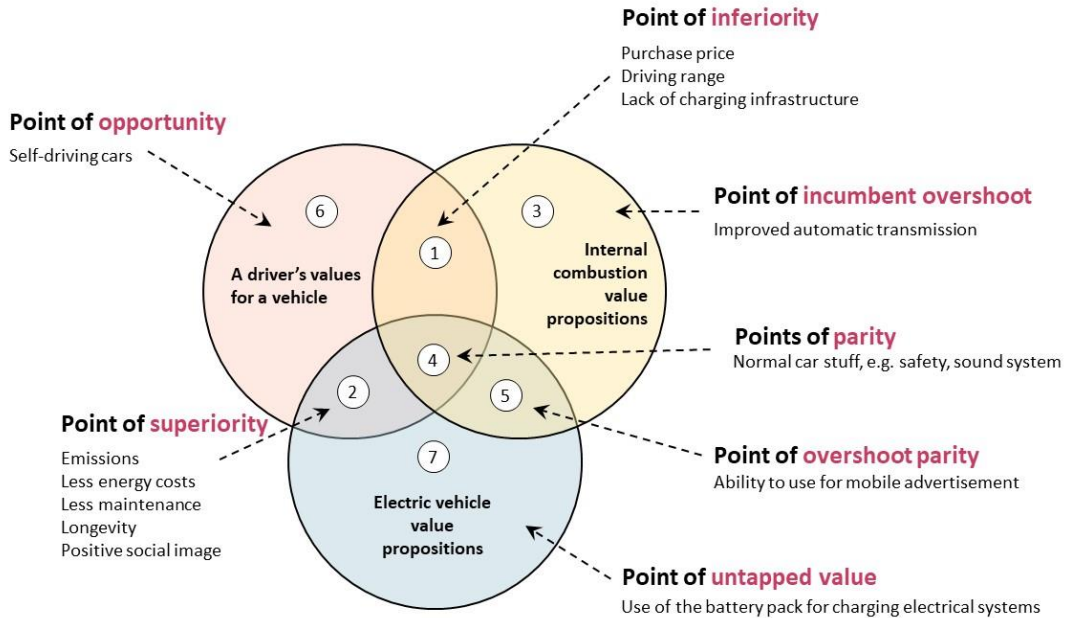
Each of the seven 'zones' of the Venn diagram in Figure 1 represent a particular permutation of factors for the disruptor firm to consider, and to deliberately configure their value proposition to optimize its favorable consideration by targeted customers, enhance its competitive position, and hopefully "cross the chasm" to mass adoption more rapidly, and

disruptively for incumbents, than would be the case if non-intentional approach was pursued. We explore each of these seven zones below. A key point here is that we use the term *product* attributes as opposed to *technology* attributes, because even though the technology in itself may not satisfy a particular customer value requirement, the technology, combined with the right business model, and presented in the right product through the right channels, provides alternative points of opportunity to meet the customer value expectation.

1. **Points of inferiority:** these are value elements to which customers ascribe significant value and which incumbents satisfy, but the disruptor value proposition does not. This is the primary reason that the disruptors face difficulties in penetrating their targeted markets, and it needs to be resolved before mainstream adoption is possible. These can be addressed by improving the technology/product itself, but Bohnsack and Pinkse (2017) argue that it can be more rapidly achieved by reconfiguring the business model, which can address the customer perception of inferiority, or reduce the relative importance of the point of inferiority relative to points of superiority.
2. **Points of superiority:** when the disruptor meets valued customer needs and incumbents do not. Clearly, these are at the heart of the disruptor value proposition and market entry strategy, and need to be fully exploited in the business model.
3. **Points of incumbent overshoot:** these are not valued by customers but are present in incumbent value propositions. They are not offered by disruptors, but this is not a disadvantage because customers place no value on them. These inevitably carry direct or indirect costs which will manifest ultimately in excessive incumbent prices relative to customer-valued needs. This creates the fertile soil for Christensen's disruptive innovation.
4. **Points of parity:** these are value attributes which customers value, and both the incumbents and disruptors satisfy.
5. **Points of overshoot parity:** where both incumbents and disruptors provide product features which the customer does not value. As with points of incumbent overshoot, these inevitably carry direct or indirect costs which manifest ultimately in higher prices relative to customer-valued needs. Disruptors need to minimize such costs (by minimizing this zone of the Venn diagram) to maintain cost advantage.
6. **Points of opportunity:** these are product attributes which customers value but are not yet available in the market, either by incumbents or by disruptors. If these could be satisfied, they would provide disruptors additional points of value to encourage customer adoption.
7. **Points of untapped value:** these are capabilities or potential value elements of the disruptor's technology or new business model, which are feasible and potentially available, but customers do not yet realize they value them. These capabilities are not available to incumbents. Therefore, disruptors need to raise customer awareness and appreciation of these value attributes to covert points of opportunity into points of superiority.

This tool allows us to thoroughly understand the position of the disruptor versus the established market, in the context of the customer's needs.

Figure 2 shows an illustration of the use of this tool to analyze electric vehicles (as of the mid-2010s especially) to electric vehicles versus internal combustion.



**Figure 2:** Application of Bohnsack & Pinkse (2017) to electric vs. internal combustion cars

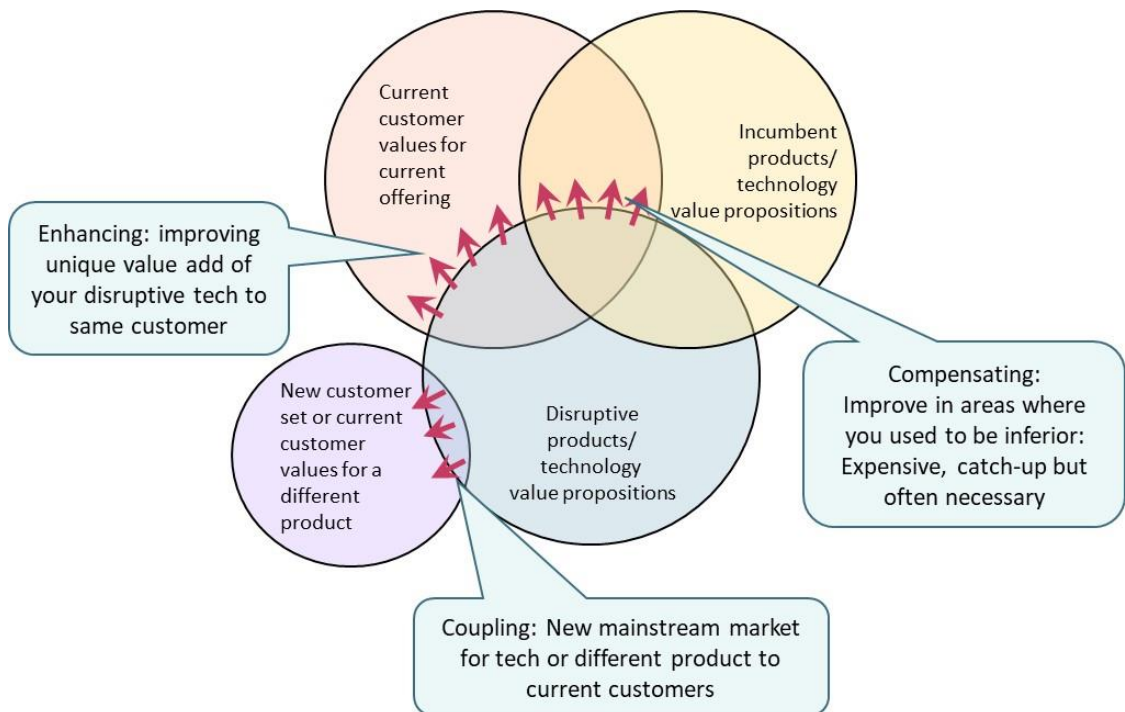
The next question is how to scale the disruptive innovation from its current position to successfully take on incumbents.

## B. Strategies for Scaling Disruptive Innovations

Bohnsack and Pinkse (2017) describe three possible value proposition reconfiguration tactics which are shown in Figure 3.

These three tactics are:

- Compensating tactics** are the most intuitive choice for reconfiguration. They aim to change the perception of points of inferiority (zone 1) to make them points of parity (zone 4), but leave the existing business model intact. When a technology is perceived as performing not well enough on a key attribute, the mainstream market will not accept the product. Compensating tactics therefore focus on tackling a disruptive technology's disadvantages compared with the main attributes of the incumbent technology. However, the interrelatedness of value elements is still a challenge, because performance on salient elements influences how customers perceive other elements. When salient elements remain inferior, mainstream customers may feel that adopting the product requires too much compromise when points of superiority fail to offer sufficient compensation. The main objective of compensating tactics is to ensure that mainstream customers see a disruptive technology as a reasonable choice and improve the technology's legitimacy. Still, compensating tactics alone may be insufficient to win over mainstream customers. Also, compensating tactics are often expensive. Enhancing tactics may better serve this purpose.



**Figure 3:** *Value reconfiguration options for scaling disruptive innovations*

*Source: Bohnsack & Pinkse (2017)*

- **Enhancing tactics** go one step further and try to identify points of opportunity (zone 6, i.e., where neither incumbents nor disruptors currently satisfy a valued customer need) which could be satisfied by the disruptor value proposition, and thereby extend the scope and impact of the points of superiority (zone 2). In this case, customer values are targeted that the incumbent technology does not cover yet. Instead of reaching parity on what used to be seen as inferior elements, enhancing tactics are more ambitious. They leverage the superior value elements of the disruptive technology. Enhancing tactics aim to go beyond the status quo to break new ground by offering value-added services or by creating new value not yet seen in the industry. While enhancing tactics provide a possible basis for differentiation, they often require a change to the existing business model. As a consequence, such tactics can be difficult to implement for incumbents, since they create conflict with the existing business model.
- **Coupling tactics** differ from compensating and enhancing tactics in seeking to find synergistic value with an entirely different product or service compared with the original, or with a new use for the current product or service to a different market. These tactics utilize elements that were points of untapped value (zone 7) and turn them into points of superiority for a different product or service valued by the same customer. Firms can often look outside their industry for partners who could exploit their untapped value elements in the partner's customer value proposition. For example, with EVs, manufacturers have tried to create coupled value with electricity firms, charging-system providers, and solar system developers to double the car as a home-power system when it is not being driven, which can even be charged by solar. This combines the need for sustainable mobility with the need for energy autonomy.

Note that, in this example, the same individuals (the car driver and the home-owner) may be the customer and the product (the EV) is the same. However, the individual as a home owner is seen effectively as a different market to the same individual as a driver, and the EV as a car is, in essence, a different offering to when it is used as a home power source. Coupling tactics use new combinations of products and services to create “points of coupled value,” which can become more dominant in the future. Coupling tactics not only involve a change of existing business models, but may also lead to a redefinition of markets or industries.

Table 1 shows the example of how electric vehicle manufacturers might try to apply these three strategies.

**Table 1:** *Electric vehicle example of three strategies for scaling disruptive innovators*  
 Source: Bohnsack & Pinkse (2017)

Compensating Tactics	Enhancing Tactics	Coupling Tactics
Points of inferiority	Points of superiority	Points of untapped value
<ul style="list-style-type: none"> <li>• Separately renting the battery (reduces price of the car)</li> <li>• Extended warranties (reduces uncertainty of unproven technology)</li> <li>• Guaranteeing fixed residual price (reduces uncertainty about second hand value)</li> <li>• Roadside Assistance (reduces uncertainty about reliability)</li> <li>• Providing fast-charging (reduces fear of getting stuck)</li> <li>• Providing conventional exchange cars (reduces fear of not being able to go on holidays)</li> <li>• Dashboard tools</li> <li>• Different drive modes</li> </ul>	<ul style="list-style-type: none"> <li>• Provide mobile applications (adds transparency &amp; connectivity, fits the electric character of the car)</li> <li>• Embed the EV in a system of alternative modes of transport (fits more innovative character of the electric drive train)</li> <li>• Set up car-sharing services (increased flexibility; more suitable for EVs than conventional cars due to reduced maintenance requirements &amp; cost-effectiveness with increased utilization)</li> <li>• Provide free maintenance (still unusual, but possible due to little maintenance required by the technology)</li> <li>• Offer home charging (increases independence due to ability to charge anywhere from the grid)</li> </ul>	<ul style="list-style-type: none"> <li>• Collaborate with energy providers and providers of solar systems (allows using the battery of the car for storage of self-generated energy)</li> <li>• Collaborate with home-charging station providers (allows autonomy from the grid by connecting the household to the EV battery, beneficial against blackouts)</li> </ul>

## Conclusion

Being a disruptive innovator is not easy. However, an increasing number of tools ranging from those shown here to others such as the lean startup toolkit (Blank, 2013) are equipping disruptive innovators with options for success.

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