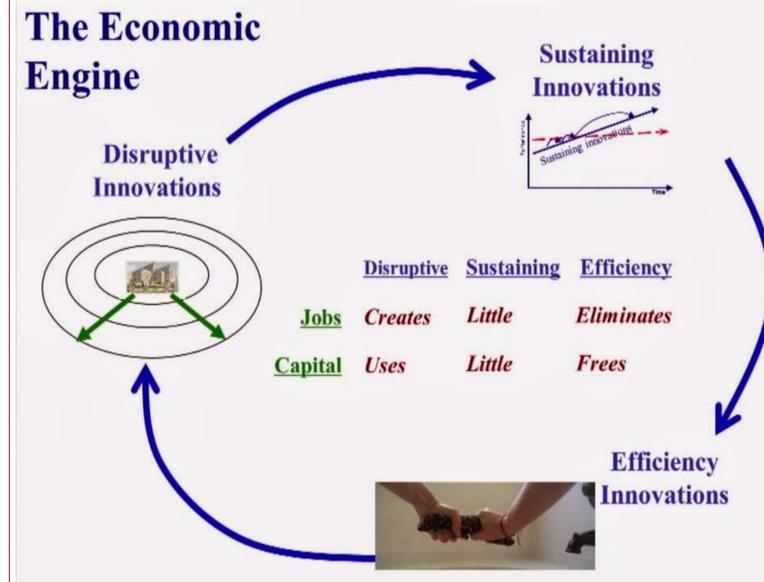


What is Disruptive Innovation?

Disruptive innovation is an economic theory based around an innovative product entering the low-end foothold of the market which then competes against the high end established incumbent firm. The established firm usually gains profit from leaving the low-end foothold while the new disruptive innovator gains profit from entering it.



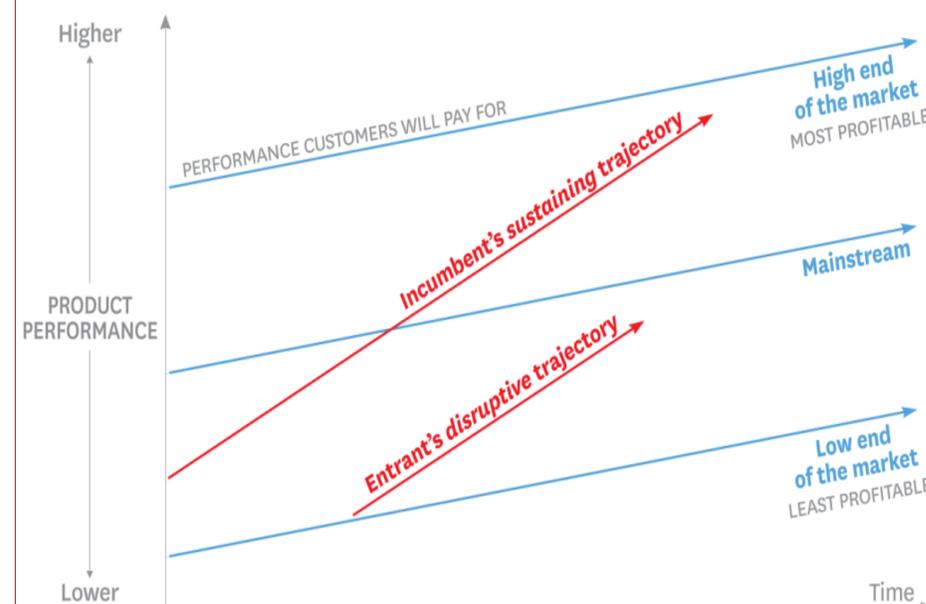
Economic Engine of Disruptive innovation

The cyclical engine contains three key elements

1. Disruptive innovation: creates jobs, but uses capital
2. Sustaining innovation: improves products, but limits job growth while using little capital
3. Efficiency innovation: frees up massive amounts of capital while eradicating job growth

The Disruptive Innovation Model

This diagram contrasts *product performance trajectories* (the red lines showing how products or services improve over time) with *customer demand trajectories* (the blue lines showing customers' willingness to pay for performance). As incumbent companies introduce higher-quality products or services (upper red line) to satisfy the high end of the market (where profitability is highest), they overshoot the needs of low-end customers and many mainstream customers. This leaves an opening for entrants to find footholds in the less-profitable segments that incumbents are neglecting. Entrants on a disruptive trajectory (lower red line) improve the performance of their offerings and move upmarket (where profitability is highest for them, too) and challenge the dominance of the incumbents.

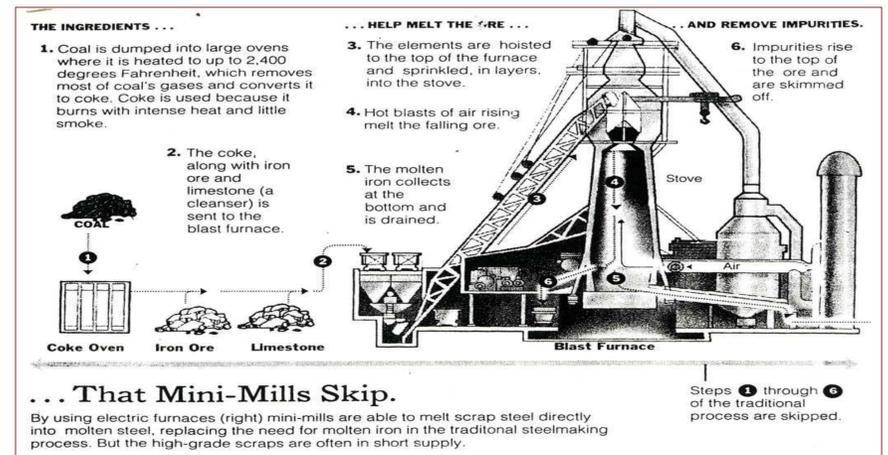


SOURCE CLAYTON M. CHRISTENSEN, MICHAEL RAYNOR, AND RORY MCDONALD FROM "WHAT IS DISRUPTIVE INNOVATION?" DECEMBER 2015

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Digital Disruptors or Disruptive Innovation?

Uber, Spotify, and Amazon are often confused with disruptive innovators. Many of these firms can be classified as efficiency innovations or even cases of digital disruption which generate revenue, large market space, and strong IPR. These digital disruptors are notably not profitable.



Characteristics of a Disruptive Innovation

1. Evaluated as unprofitable by market research
2. Low-quality product before becoming mainstream
3. Turns non-consumers into consumers

Sources

See attached pages