

eBook: VAR's as Enablers of Disruptive Innovation



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Overview

Business disruption is not just a fad. Today it's something that companies face on a regular basis. Much of this is due to the benefits brought about by Cloud technologies, enabling new business models and processes to be introduced rapidly and relatively inexpensively. Look at any industry right now. Some company is either disrupting its competitors in some way or is being disrupted by them. The fear of being "Ubered" by competitors who appear from the mist is forcing business executives to look for ways to innovate faster and with less resources.

The challenge for technology VAR's and solution providers is to cut through the noise surrounding these new technologies and find ways to harness them for their clients in order to deliver competitive advantage. At the same time, the VAR must manage the risks inherent in pushing technology to the limits that is required for disruptive innovation.

What is Disruptive Innovation?

The term "disruptive innovation" is often used inaccurately. Many companies do not need truly disruptive innovation in order to achieve competitive breakthroughs and indeed for most it may not even be desirable as it often comes at considerable initial cost.

The theory of disruptive innovation was first coined by Harvard professor Clayton M. Christensen in his research on the disk-drive industry and later popularized by his book *The Innovator's Dilemma*, published in 1997. According to the [Wikipedia](#) definition "A disruptive innovation is an innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market leading firms, products and alliances".

Not all innovations are disruptive, even if they are revolutionary. In a [2015 Harvard Business Review](#) article Christensen notes that Uber is not a genuinely disruptive innovation while Netflix could be considered a "classically" disruptive model.

According to Christensen, in order for a business to be disruptive, it must gain a foothold in a low-end market that had been ignored by the incumbent in favor of more profitable customers. Alternatively, the disruptor must create an entirely new market, turning non-customers into customers. Uber doesn't fit into either of those boxes: it targets people who already use taxi services, and it doesn't provide a particularly lower-end or cheap experience. A truly disruptive business begins with

low-quality offerings, then eventually captures the mainstream market by improving quality.

This requirement to enter a low-end market with low quality offerings is the basis of Christensen's "Innovators Dilemma" and is something that every executive at an established company seeking a "disruptive innovation" needs to be aware of.

The Innovators Dilemma submits that "*The business environment of market leaders does not allow them to pursue disruptive innovations when they first arise, because they are not profitable enough at first and because their development can take scarce resources away from sustaining innovations (which are needed to compete against current competition). A disruptive process can take longer to develop than by the conventional approach and the risk associated to it is higher than the other more incremental or evolutionary forms of innovations, but once it is deployed in the market, it achieves a much faster penetration and higher degree of impact on the established markets.*" (source: [Wikipedia](#)).

Writing in the Harvard Business Review in 2002, Joseph Bower offers that "*When the technology that has the potential for revolutionizing an industry emerges, established companies typically see it as unattractive: it's not something their mainstream customers want, and its projected profit margins aren't sufficient to cover big-company cost structure. As a result, the new technology tends to get ignored in favor of what's currently popular with the best customers. But then another company steps in to bring the innovation to a new market. Once the disruptive technology becomes established there, smaller-scale innovation rapidly raise the technology's performance on attributes that mainstream customers' value.*"

In other words, the VAR that is trying to lead its client through a disruptive innovation within an established company has to convince the leadership to enter a (currently) relatively unattractive market with a low-quality offering chasing deal sizes below its minimum threshold!

The "innovator's dilemma" is the difficult choice any company faces when it has to choose between holding onto an existing market by doing the same, though slightly better (**sustaining innovation**), or conquering new markets by embracing new technologies and adopting new business models (**disruptive innovation**). At the

same time, a “sustaining innovation” can be what is called “discontinuous”, and this type of innovation can still lead to a competitive breakthrough.

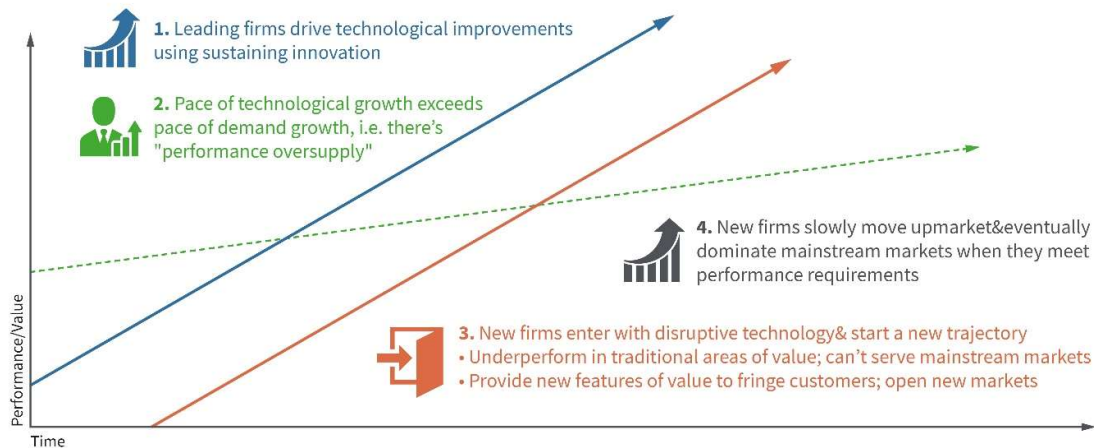


THE INNOVATOR'S DILEMMA

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Because established firms consciously (a) listen to the needs of their best customers and (b) focus their investments on innovations with the highest returns, they tend not to commit to disruptive technologies until it is too late.

How Great Firms Fail in Face of Disruptive Innovation



SOURCE: C.M. Christensen, The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail (Boston:Harvard Business School Press, 1997).

The VAR must understand that for many businesses it may be more productive to pursue “sustaining innovations” rather than those considered “disruptive”. In contrast to disruptive innovation, a sustaining innovation does not create new markets or value networks but instead evolves existing ones with better value, allowing the firms within to compete against each other's sustaining improvements. Sustaining innovations may be either "discontinuous" (i.e. "transformational" or "revolutionary") or "continuous" (i.e. "evolutionary").

Sustaining innovations are a close corollary to the concept of “creative disruption” which can also help executive teams to achieve competitive breakthroughs that are not necessarily “disruptive” in the classic sense.

The Business Model as an Enabler

Most disruptions have three enablers: a simplifying technology, a business model innovation, and a disruptive value network. The technological enabler transforms a technological problem from something that requires deep training, intuition, and iteration to resolve, into a problem that can be addressed in a predictable, rules-based way.

In [Creative Disruption](#), the goal is to expose flaws in the current business model, highlight areas where improvement/changes are needed, and to help inspire adaptation of the business model for future growth. Creative disruption is about identifying patterns that need to be proactively broken in order to add more value or to create an opportunity. For the VAR seeking to position themselves as an enabler of disruptive innovation, focusing (at least initially) on creative disruption may be the most effective starting point with a client.

In truth not every innovation can, or should, be a truly disruptive one. A more realistic stretch goal may be for VAR's to aim for creative disruption and discontinuous-type of sustaining innovations. These can still be game-changers that give the company a substantial edge over the competition without completely disrupting the entire industry.

In his sequel with Michael E. Raynor, *The Innovator's Solution*, Christensen replaced the term "disruptive technology" with "disruptive innovation" because he recognized that few technologies are intrinsically disruptive or sustaining in character; rather, it is the business model that the technology enables that creates the disruptive impact.

Business has warmly embraced this philosophy. An IBM Institute for Business Value report titled, "The Power of Cloud," found that 16 percent of survey respondents are using Cloud as a tool to enable innovation. The IBM Institute for Business Value projects that the number of companies that are using Cloud to drive innovation will more than double from 16 percent to 35 percent in just a few years.

Clearly, companies that are only using the Cloud as a cost-cutting vehicle are missing the greater opportunity. More worryingly for these companies, the numbers indicate that their competitors are not and they may soon find themselves leap-frogged through technology-enabled innovations. As [Joe Weinman](#), author of *Clouconomics* points out, cloud isn't just plumbing, it can become a cornerstone of your strategy, even in non-IT intensive businesses. The challenge for the VAR is to

help the company to both envision these greater opportunities and understand the breakthroughs that their competitors may already be working on.

The same IBM research identified three business archetypes, representing the extent to which organizations use Cloud to impact value chains and customer value propositions:

- *Optimizers* use Cloud to incrementally enhance their customer value propositions while improving their organization's efficiency.
- *Innovators* significantly improve customer value through Cloud adoption, resulting in new revenue streams or even changing their role within an existing industry ecosystem.
- *Disruptors* rely on Cloud to create radically different value propositions, as well as generate new customer needs and segments – and even new industry value chains.

Whether companies choose to become optimizers, innovators or disruptors depends on a variety of factors, including how much risk they are willing to assume and their current competitive landscape. The authors suggest that business leaders carefully assess their organizations to determine which archetype they most closely match – as well as which one they aspire to in the future – and how they can leverage Cloud to create new business models that promote long-term growth and profit.

The VAR's Dilemma

When a disruptive technological enabler emerges, the leaders in the industry disparage and discourage it because, with its orientation toward simplicity and accessibility, the disruption just isn't capable of solving the complicated problems that define the world in which the leading experts work.

Always, the technological enablers of disruption are successfully deployed against the industry's simplest problems first. They then build commercial and technological momentum upon that foothold and improve, progressively displacing the old, high-cost approach application by application. For example, Cisco deployed its switches to route data, not voice – because data didn't care about the router's four-second latency delay.

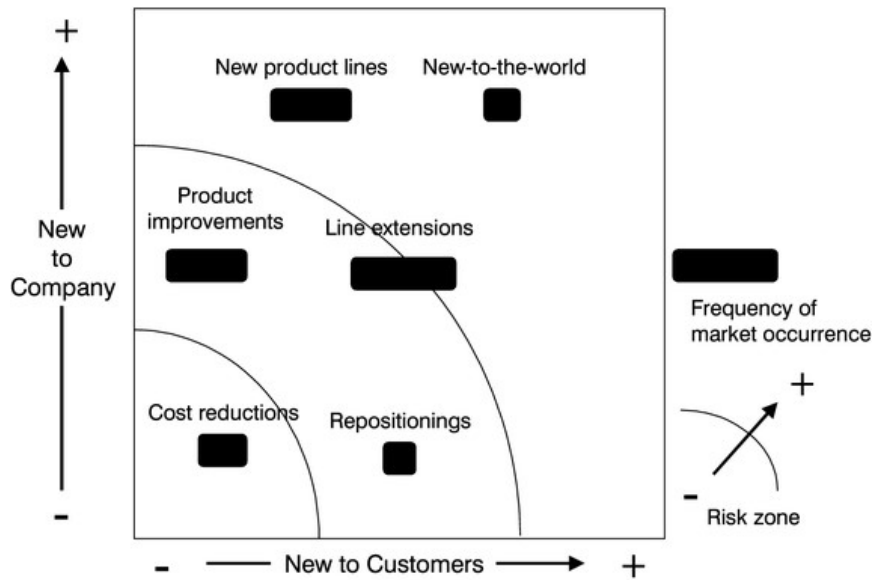
The VAR must carefully choose their “enablement conversation” with each client individually. Where they lie on the trust spectrum with a client should dictate just how deeply into the disruptive conversation they go. Pushing too far, too early could well lead to outright rejection. Initial deployments of new disruptive enablers against simpler solutions, and thereafter moving to more mission critical areas may be the most prudent course for VAR’s working with newer clients.

Enabling Line of Business Disruptors

Cloud offers VAR’s a platform for the kind of tech experimentation, rapid development and distribution that used to be the province of the IT department. All of which means that at a time when corporate IT budgets are tied up in operations and maintenance, other business managers are turning to Cloud computing to expand their businesses.

This creates the exciting prospect that a Head of Operations or Customer Service can now lead disruptive initiatives within their company without the need for intensive input from the IT department. VAR’s can move outside of the IT department, enabling Line of Business Heads to develop new operating capabilities that transform the business; or disrupt existing patterns in their own operations and their competitors to create new value chains, changing their industry's economics.

The chart below may be helpful for VAR’s and their clients to use as a guide to the different types of innovation that they can bring to their company through new Cloud-based technologies. Although it comes from a theory developed in 1982, the same principles hold true. The chart illustrates the continuum of innovation that business executives can bring about. It is worth noting that “New to the World” innovations many not necessarily be classically “disruptive”. They may fall into the category of a “transformational” innovation within the “discontinuous” category. For business executives the names and categories are less important than the business impact.



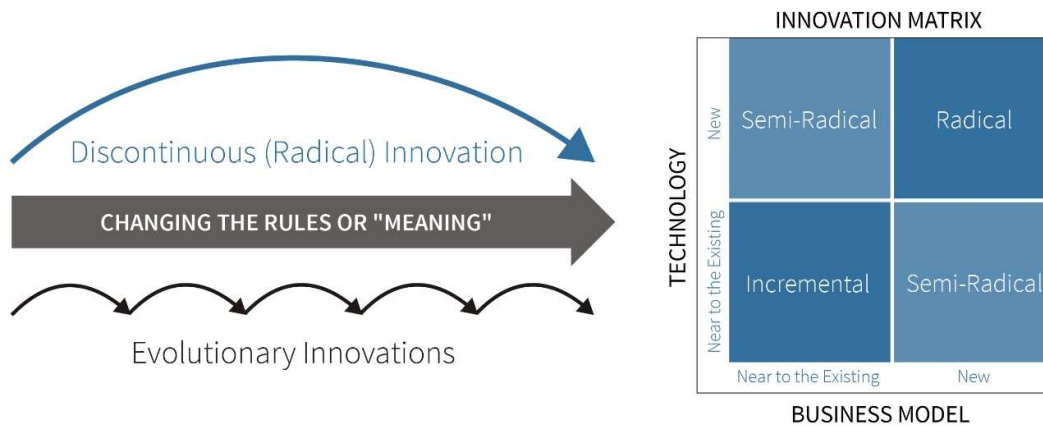
Source: Adapted from Booz, Allen and Hamilton (1982)

The important learning for the business executive is to try and leverage new technologies in order to move beyond “evolutionary innovations”. Their goal must be to seek out more “radical innovations” while managing the increased risk that is inherent in new business models.

The diagram below provides an interesting summary of how a single radical innovation can leapfrog a series of incremental, evolutionary innovations giving the company a first-mover advantage in a new segment.

CONTINUOUS VERSUS RADICAL INNOVATION

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A good example of radical innovation enabled by technology is Drivewyze. The company piloted a hands-free application called Drivewyze PreClear that offers a safe and secure way for truckers to request and receive bypass clearance at both permanent weigh stations and mobile inspection sites.

After its successful pilot, Drivewyze needed to move the service into production. Evaluation of the costs of building its own infrastructure was prohibitive. Drivewyze decided to build the Drivewyze PreClear service based on IBM SmartCloud Enterprise+ which provides a fully managed and production-ready Cloud infrastructure.

IBM's Cloud offered a highly secure environment, a critical component to a Drivewyze service that accesses carrier and vehicle safety records that are screened by law enforcement. The Cloud infrastructure provided Drivewyze with a cost-effective technology solution that enabled them to rapidly introduce a market changing innovation.

Cloud technologies are phenomenal enablers of business models that can be built quickly and relatively inexpensively to deliver a disruptive impact. Rather than the onerous costs and time pressures previously associated with bootstrapping IT infrastructure, Cloud enables anyone with a disruptive business idea to launch their product quickly. The scalability and availability of Cloud means they aren't restricted

by their IT needs. New ideas can start small, without a large capital outlay, allowing business to remain agile by failing fast and trying new things without large costs and overheads.

The disruption that is taking place in most modern businesses represents a huge opportunity for many companies. Disruption led by the efficiencies and possibilities of the Cloud presents an opportunity for Challenger brands to address a gap in the market or offer in a new way of meeting and sometimes exceeding an existing consumer need. For market leaders, Cloud offers the possibility of evolving their business model, collaborating with developers and getting their products to market faster.

Disruptors live by the “fail fast” motto of trying many different experiments with their products until one breaks through. They can fail fast because the Cloud minimises the risks involved in launching products quickly. Large enterprises are often hesitant to launch new systems, products or services because the approval process is so slow and acts as a barrier to rapid innovation. With the Cloud, that way of thinking has outlived its usefulness. The alternative to innovation is irrelevance.

Market Positioning

Positioning refers to the place that a brand (company, product or person) occupies in the mind of the customer and how it is distinguished from products from competitors. Its objective is to occupy a clear, unique, and advantageous position in the consumer's mind. It requires the VAR to create a distinct position in the buyers mind through appropriate communication activities. What matters is how the buyers perceive the company, not how the company sees itself. Most importantly, it is about how the VAR is seen relative to its competitors.

For the VAR that wants to be perceived as an enabler of disruptive innovation by clients, it is not enough to simply state this concept. Nor is it enough to just develop the internal capabilities.

Positioning is only as good as the communication that drives it. In a 2007 study, Deloitte & Touche (Marzec, 2007) found that companies which communicate their business strategies, achieve on average 43 % higher market to book ratio comparing to the ones which don't communicate their strategies at all.

The Consequences of Poor Positioning

In 2016 [The Statistic Brain Research Institute](#) compiled a variety of statistics on business failure rates and the underlying reasons. In their “Information” category (which includes technology resellers) they found a 63% failure rate within the first four years. The same study identified “Incompetence” as causing 46% of failures, which included “Lack of Planning”.

Multiple [studies](#) have also confirmed the relationship between differentiation and company profitability. A [2014 Millward Brown study](#) found that “people who believe a brand is meaningfully different on average pay up to 22 percent more than those who do not “.

Viewed from the buyers’ (and often a technology Vendors’) perspective this “generalist” strategy is counterproductive. The reseller is seen as a generic supplier of technology products and services, but a “Master of None”. They cannot be “Best in Class” in any area with this approach and are therefore less valuable as a strategic supplier / partner.

Within the technology industry anecdotal evidence suggests that high failure rates amongst VAR’s can often be attributed to a lack of clear differentiation and positioning. From the technology resellers perspective it is an advantage to be a “Jack of All Trades”. They can provide solutions from multiple vendors across the entire technology stack, and thereby never have to lose a sales opportunity.

Positioning as a VAR that enables disruptive innovation to deliver competitive advantage for clients is a realistic proposition for many companies. Building your internal capabilities to reinforce this claim and communicating this message clearly in your market can lead your company to increased profitability, competitive strength and company growth.

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About Ridge Consulting

Ridge Consulting helps small and mid-size technology companies with their company direction and strategic planning. This in turn provides a strong foundation for their marketing strategies and plans.

With a specialization in technology resellers, Ridge Consulting is comprised of a number of qualified Chartered Directors, accredited by the Institute of Directors, and considered to be the global “gold standard” in company governance and direction.

Ridge Consulting is engaged by many of the world’s leading technology companies to provide strategy development, business transformation, disruptive innovation and marketing workshops (including digital marketing and strategy) to their top VAR’s and resellers to drive sales performance.

Learn more about our worldwide workshops for technology VAR’s and Solution Providers here:

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More information:

Email: info@ridge-consulting.com

Web: www.ridge-consulting.com