

# The Second Derivative is Positive

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## How to organize for disruptive innovation

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### The Challenge

"We'll be fine."

That was Blackberry's co-CEO Jim Balsillie when Apple launched the iPhone in 2007.<sup>1</sup> At that time, RIM, the maker of Blackberry, held a 30 percent smart-phone market share in the United States.<sup>2</sup> Today, its market share is marginally zero percent.<sup>3</sup>

Many articles have been written about what happened to RIM, on issues ranging from technical product differences to contract negotiations to marketing plans. The underlying mistake, however, was simple: confusing exponential growth for linear growth. Change is not constant. Change is, in fact, accelerating. If your organization is struggling to keep pace, it's not alone. It is, however, risking obsolescence.

A look at key macro trends – data created worldwide, new social media users, U.S. patents filed, to name a few – shows a hockey-stick growth rate. As Hal Varian, Chief Economist at Google, said, "Between the dawn of civilization and 2003, we only created five exabytes [of data]; now we're creating that amount every two days. By 2020, that figure is predicted to sit at 53 zettabytes (53 trillion gigabytes)—an increase of 50 times."<sup>4</sup> Not only is the world changing, but the rate at which the change is happening is itself increasing. Put another (mathematical) way, the second derivative is positive.

The impact? Once stable companies can quickly find themselves sidelined. In 1964, a company listed in the S&P 500 could expect an average lifespan of 33 years. By 2016, it was 24 years. By 2027, it is forecasted to be just 12 years. At this rate, half the companies in the index will be replaced over the next 10 years.<sup>5</sup>

While it's easy to point out RIM's mistakes in hindsight, it's instructive to consider what your company would have done differently in their shoes: Respond aggressively to the new entrant and get whipsawed by every new product? Wait and see, and risk a new company stealing market share from you?

We believe predicting the market is a fool's errand. Rather, having a pipeline of innovative ideas at the ready is the best defense. The first step is to get organized for disruptive innovation.

### Point B's Perspective

A wise Japanese proverb says, "Vision without action is a daydream. Action without vision is a nightmare." Without taking the proper time to organize for disruptive innovation, the results can be disastrous.

At Point B, we see three foundational imperatives to disruptive innovation:

### 1. Have clear definitions—and align on them.

During a recent survey at a national financial firm, we asked executives what innovation meant to them. The answers came back: "Challenging the status quo, doing things differently;" "Innovation is not doing things totally new;" and "Any change that makes us better." Given such a wide range of responses, it's no wonder the firm was struggling to launch an organization-wide innovation initiative.

We believe disruptive innovation is fundamentally different from core innovation. We define core innovation as focusing on the business of today. It is ongoing process improvement, and often yields steady but incremental benefits, perhaps keeping pace with the market. Necessary, but not game-changing. Disruptive innovation, on the other hand, focuses on the business of tomorrow. It sparks big, transformative changes for the organization, such as spawning new businesses. Its goal is to get ahead of the market—even create a new market. Clearly acknowledging which type of innovation you are going after, and why, is crucial to success.

### 2. Be able to articulate the "why."

Should you earmark \$1 million for disruptive innovation—or \$100 million? Which deserves more funding: Idea A or Idea B? The answers to these questions depend on knowing why your organization exists, and why it's going after disruptive innovation.

In his famous TED talk, "How great leaders inspire action," Simon Sinek points out the importance of starting with "why." The idea of buying a watch from a computer manufacturer may seem absurd, yet we have no trouble buying laptops, watches, phones and mp3 players from Apple. Not so with Dell or Lenovo. Apple has a clearly articulated "why", a purpose that allows consumers to connect with this seemingly unrelated suite of products differently.

More tactically, it's important to know the size of investment you will need. Forecasting five years into the future, and taking into account the current and planned initiatives, what is the gap in financial performance vs. goals? Going through a robust exercise to figure out your "growth gap" will help determine the size of investment needed to reach your goals.

### 3. Organize differently for disruptive innovation.

A recent report by Accenture found 82 percent of organizations apply the same development process to core innovation and disruptive innovation. Not surprisingly, CB Insights reports 60 percent of companies take a year or more to create new products. Undoubtedly, many have missed the market by then.

These statistics point to a lack of organizational readiness around disruptive innovation. By attempting to force-fit exponential business ideas into linear processes, organizations often squash good ideas on the drawing board. Managerial practices, such as pay for performance and the traditional strategic planning process, often don't know how to account for disruptive innovation, with all its unknowns and assumptions. Emerging practices such as discovery-driven planning, which builds adaptive plans with a high ratio of unknowns to knowns, are better suited for such tasks.

## The Bottom Line

As the business and economic world changes -- and changes faster than ever before -- being organized and ready to respond is your competitive advantage. The best way to adapt is to never stop adapting.

<sup>1</sup> <https://www.forbes.com/sites/parmyolson/2015/05/26/blackberry-iphone-book/#6532ce2863c9>

<sup>2</sup> <http://fortune.com/2013/03/20/chart-of-the-day-u-s-smartphone-market-2005-2012/>

<sup>3</sup> <http://nymag.com/selectall/2017/02/blackberrys-global-market-share-is-now-0-0.html>

<sup>4</sup> <https://medium.com/@steadydee/sharder-chinas-sleeping-giant-of-data-storage-d0e51316276c>

<sup>5</sup> <https://www.innosight.com/insight/creative-destruction/>