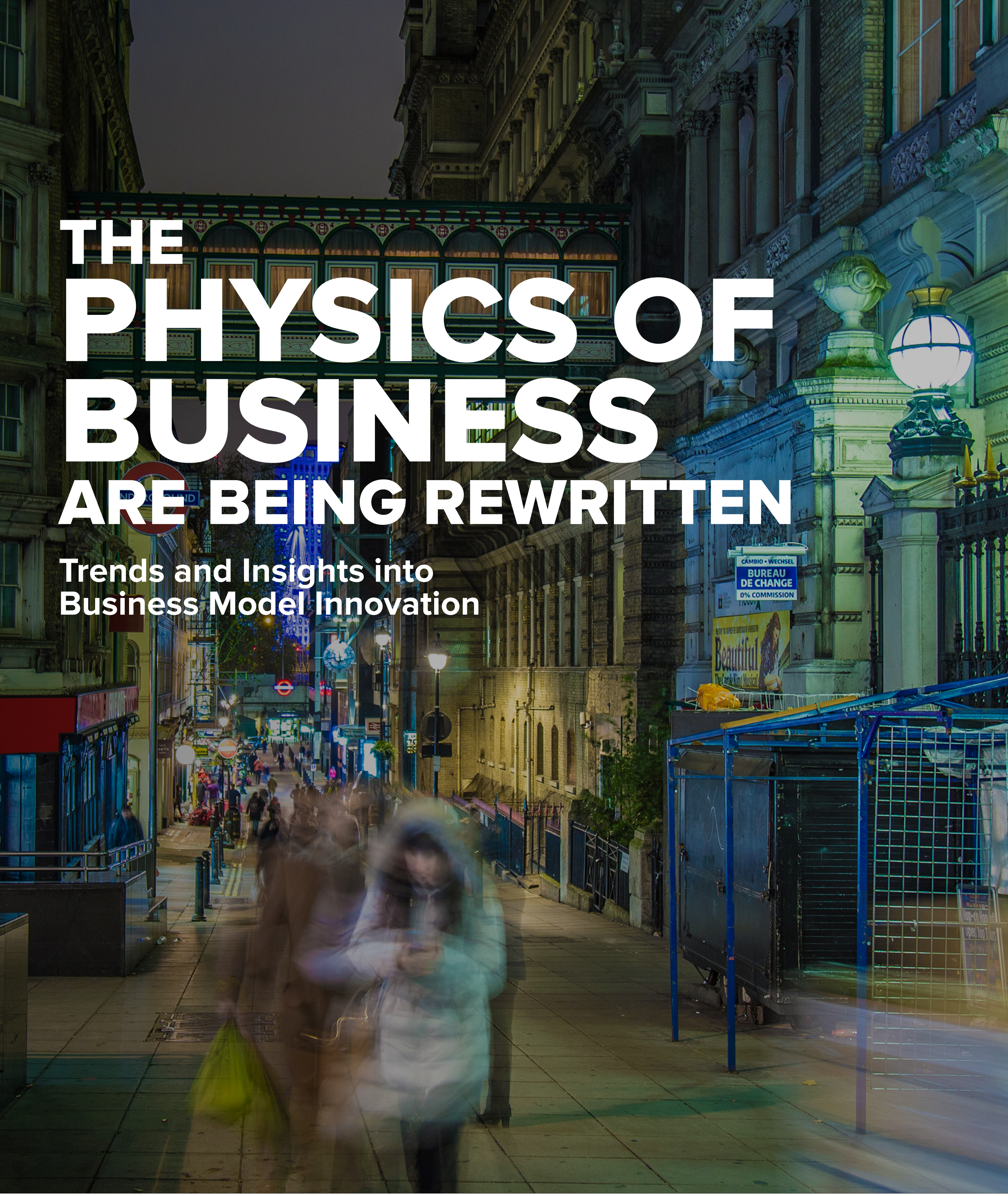
THE PHYSICS OF BUSINESS ARE BEING REWRITTEN

Trends and Insights into Business Model Innovation



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With NetSuite, the #1 cloud ERP, powering over 30,000 organizations, we have a unique view into the world of business. Among the many things we have learned is that if you want to run a modern business, you have to rethink everything. All the time. From online and in-store experiences to pricing models, there is nothing sacred.

Today, the physics of business are being rewritten by a new breed of bold CEOs, CIOs and CFOs. Yet, the harsh reality for most businesses is that the software systems that sit at the core of their organizations are not accelerating human ingenuity.

In this ebook, we examined the trends and factors driving change across virtually every industry. We also interviewed leaders from some of the most fastest-growing, disruptive companies around to share their key insights into business model innovation.

We hope these real-world tips and stories will inspire you to challenge the status quo and move at the pace of your boldest ideas.

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Chapter **1**

THE PACE OF CHANGE IS ACCELERATING

The rate of change has not only accelerated in the last two decades, it's moving at an exponential rate. All of the old rules across every industry are being challenged. Indeed, many products and services that were marketed as "revolutionary" even only five years ago are commonplace today.

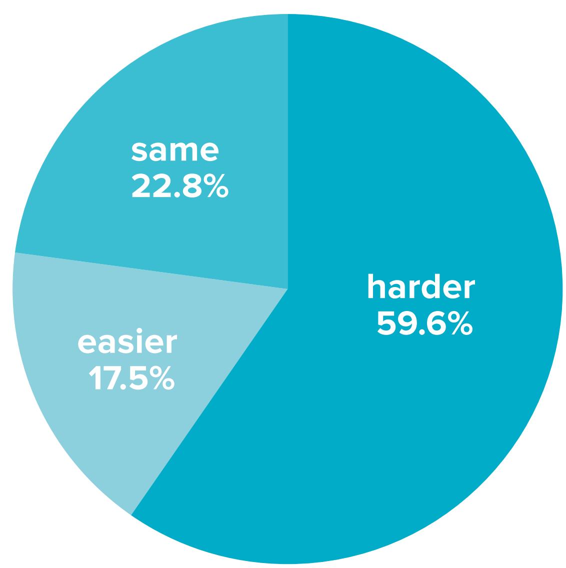
In 1955, the average lifetime of a company on the Fortune 500 list was 37 years. Forty years later, in 1995, that number was cut by more than half. Today, the average life expectancy of a Fortune 500 is less than 15 years and still declining.

As we will explore later, innovation is not limited to radical new products. In fact, it's often simply rethinking old ways of doing things.

Prevailing sense that change is due

There is a good sense among business leaders, regardless of their tenure or category they work, that the business climate is more challenging today than it was a decade ago.

How hard is it to maintain a business compared to 10 years ago?



Eleven, inc ERP survey, 2015
Q19. Growing a business today is: (N=307)

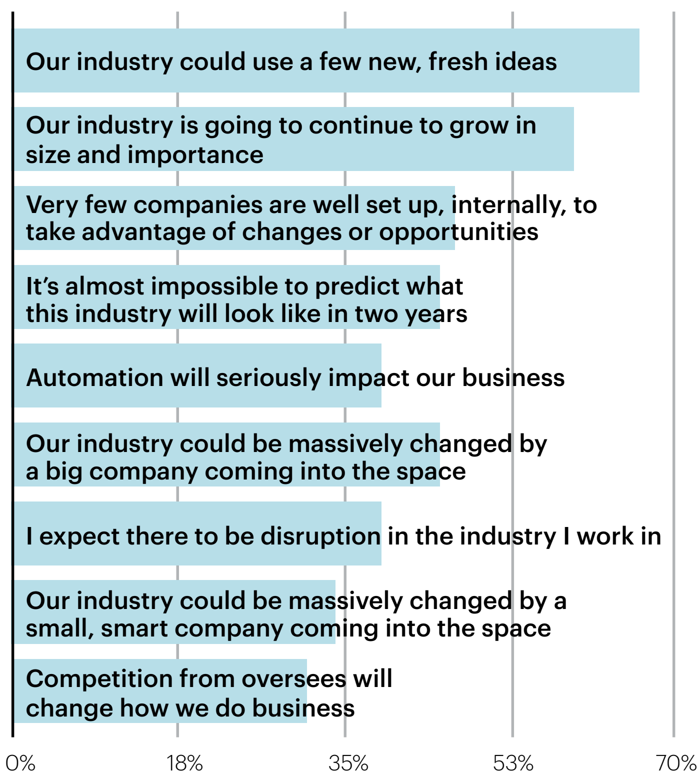
A recent survey by marketing agency Eleven found that at least 54% of business leaders think growing a business is harder today than it was ten years ago. According to the study, a clear majority of respondents, nearly 60%, agree that maintaining a business today is harder today than it was a decade ago.

"There is a huge amount of competition in business today, across all categories," notes the study. "Plus there are disruptive technologies and ideas that consistently pop onto the scene, making any company, no matter how well established they are, susceptible to being taken down or at least knocked off their position at the top."

The most prevalent attitude about business among respondents was the strong need for new ideas to shake up their industry. Over 65% of business leaders surveyed say their industry could use new, fresh ideas. However, to go along with all of this desire for new ideas in a growing industry, there is a clear sense among respondents that they are just not ready. About 45% of leaders recognize that only few companies are well set up, internally, to grow and take advantage of new opportunities.

As business leaders look toward the future, approximately 60% of them believe their industry will continue to grow in size and importance as the economy expands and business grows. Still, there is a good sense that massive changes for their industry are coming, with 36% expecting disruption in the industry they work in. As for who is expected to make waves in their industry, an estimated 38% of business leaders agree that a big company coming into the space could greatly change the industry while 34% say a small, smart company entering the industry could create massive changes.

Desire for Ideas, But Lack of Organization to Handle Them



Chapter **2**

RECOGNIZING DISRUPTION

How do we define disruption?

At a high level, there are three types of disruption: disruptive technological innovation; business model innovation; and radical product innovation.

Disruptive technological innovation

Harvard Business School professor Clayton Christensen, the father of "disruptive innovation" theory, describes it as the phenomenon by which an innovation transforms an existing market by introducing simplicity, convenience, accessibility and affordability. The impact of this type of innovation will first be seen in a niche market that may initially appear unattractive or inconsequential to industry incumbents. However, it's usually this kind of oversight that may allow the new product to take hold and eventually reshape an entire industry.

Bold technological innovations have become a sign of our times: from analog to digital, physical to electronic, no industry has escaped this phenomenon. Music is perhaps the clearest example: cassettes were replaced by CDs, which in turn were superseded by downloads, and later by streaming. This has forced the music industry to constantly adapt and come up with new pricing schemes to capture revenue. The potential of the Internet of Things is yet to be seen, such as a refrigerator knowing when it's time order milk for delivery to your home. But some applications are already at work: Streetline's sensor technology lets drivers navigate to the nearest open parking spot using their mobile phones.

Business model innovation

Business model innovation describes the way a company competes in an existing vertical structure with a new business model. This type of innovation enlarges the pie, either by bringing new customers to a market or by giving existing ones an incentive to increase consumption.

Business model innovations can take the form of new products, pricing models, markets, channels or realized through mergers, acquisitions and divestitures.

Most people can recall that when Amazon emerged on the scene, it forced giant bookstore retailers like Borders out of business by allowing consumers to purchase books for less online. Walmart's model disrupted tried-and-true businesses like Macy's by becoming a one-stop retailer that offers a large selection of goods and services at very low prices. Lyft changed the taxicab business model by introducing a mobile application to the process, as well as allowing drivers to use their own cars.

Radical product innovation

Radical product innovation refers to businesses that create products radically new and different. These products upset the status quo because they introduce value that changes consumer habits or behaviors.

One could argue Facebook is the most radical product innovation of the last decade. The social media platform changed the fabric of human interaction and launched hundreds of variations that cater to different social needs. Streaming devices such as Roku have also affected the way we watch television and consume media content. Jawbone has given us more control over our health by measuring the quality of our sleep and the number of calories burned.

Disruption is not a one-time event

No single event, such as the debut of a groundbreaking product or the sudden growth of a company, can aptly mark the moment of disruption. Rather, the forces of disruption are constantly at work. "Disruption is a process, not an event," write Clayton M. Christensen and coauthor Michael E. Raynor in their book, The Innovator's Solution: Creating and Sustaining Successful Growth. The forces of disruption, the pair of researchers argue, "are operating all of the time in every industry."

> "In some instances it might take decades for the forces to work their way through an industry. In other instances, it might take a few years. But the forces—(namely) the pursuit of the profit associated with a competitive advantage—are always at work."

To their point, look at the evolution of Corporate America. If you compare the Fortune 500 list from 1955 and 1995, you'll only find 61 companies that endured over the decades. Nearly 88% of companies on the 55 list have been acquired, gone bankrupt, or have witnessed shrinking revenues.

Esteban Kolsky, founder and principal of thinkJar, an advisory and research think-tank focused on customer strategies, echoes Christensen and Raynor's observation. "Most organizations don't understand the length of time to disrupt a market," says Kolsky. "An idea for disruption can be had in hours, implemented in weeks, and not be finalized for years (if not decades). The lack of patience to see the results is what results in shelving disruptive solutions as 'being too early to market'. If a disruptive idea is properly implemented the results won't be seen for at least 36 months—and in most cases longer than that."

Chapter **3**

TRENDS DRIVING DISRUPTION TODAY

"A lot of companies throw around the word 'disruption' a lot but to be a truly disruptive technology you have to not only change the companies you deal with but change the world you live in. That means that what you do is so important and you do it so well that your customers all see results that are beneficial for them, but more importantly, it revolutionizes the way that business gets done to the point that laws and regulations bend in its path. THAT'S disruption."

— **Paul Greenberg,** President of the 56 Group, Godfather of CRM

While there are often unique trends in each particular industry or market, there are a few that cut across the board. While none of these will likely come as a surprise to most people, they are important enough to quickly touch on.

The Cloud has won

Many industry watchers have billed cloud technology as the most disruptive technology ever, because it effectively changed the economics of doing business. It has set the stage for disruptive business models not yet imagined. The cloud put an end to manual software upgrades: It's flexible, scalable, real-time and always available. Anybody with an Internet connection can tap into its disruptive forces.

New products can be created overnight

Innovative technologies are hastening exponential disruption and even driving it. With the advent of 3D printing, for example, companies can virtually create complex products overnight. 3D printing can also reduce the costs of industrial manufacturing and labor and has the potential to eliminate the need for tools. Many manufacturers are already taking advantage of this technology, with 67% already have implemented 3D printing and another 25% plan to adopt it in the future.[1] Lastly, this technological driver allows mass customization, meaning numerous products can be manufactured simultaneously according to the clients' requirements at no extra cost.

[1] **"Roundup of 3D Printing Market Forecasts and Estimates",** Forbes, March 31st, 2015: http://www.forbes.com/sites/louiscolumbus/2015/03/31/2015-roundup-of-3d-printing-market-forecasts-and-estimates/

A modern business platform lets you keep up with trends

Aspiring entrepreneurs have more options for funding

Kickstarter, meanwhile, lets you raise funds for a new venture. Pebble made international headlines when it raised $10 million on the crowdfunding site in April 2012 to bring out a disruptive technology—a smartwatch—years before Apple and Samsung. More recently, the company broke Kickstarter records again by raising over $20 million for its latest innovation, Pebble Time.

IoT

Currently, the Internet of Things (IoT) is all the rage. The notion of everyday objects having network connectivity and the ability to send and receive information has opened an enormous market. Besides appliances, IoT also applies to components of machines, which communicate by exchanging data. By 2020, there will be over 26 billion connected devices.[1]

Customers expectations have won

Even though there are many factors in the equation, customer expectations play a crucial role for every business. To be sure, what customers expect from companies has changed dramatically over the last decade—and is ever-changing. Doing business is not merely a transaction anymore—it's a relationship. Customers want to know you care about them and that they can trust you. They want personalized experiences (personalized offers and customized service).

Today, businesses that are able to orchestrate unified customer experiences across all channels will have a decisive edge over their competitors. The key here is to leverage a platform that enables you to connect everything, see anything, and go anywhere (instore and online).

[1] **"A Simple Explanation of The Internet of Things",** Forbes, May 13th, 2014

Chapter **4**

PREDICTING DISRUPTION

Today, a crowd of startups is coming to disrupt virtually every industry. But how do you stay on top of the disruptive ideas and emerging players? While it's difficult to fully predict what will disrupt an industry, it's not exactly impossible. In fact, there are a few key indicators that can help you to better understand what's coming.

We recently asked VML's Research Team to see if they could identify the drivers and predictors of disruption. The research found that disruption is driven by a plethora of factors, such as a static landscape where industries are out of touch with their consumers. In such a case, one way to predict looming disruption in the industry is to examine the burgeoning crops of startups entering the space. The chart below contains a number of drivers and predictors of disruption to consider when looking to develop a disruptive business model.

Disruption comes in many shapes and sizes and carries varying degrees of risk to existing firms. As Christensen and Raynor noted in their book, disruption is a process: Disruption doesn't happen overnight, though it may appear as if it did. Disruption is not something that can be validated with a successful product launch or high quarterly earnings. It's a process.

"To be able to pull and to understand trends and patterns and the interconnectivity of what's happening through the data is absolutely vital." — **Guy Courtin,** VP and Principal Analyst of Constellation Research

Drivers and Predictors of Disruption

DRIVERS	PREDICTORS	POTENTIAL DATA SOURCES
Changes in Technology	Emerging tech, upticks in adoption, improvements to existing tech	Rate of change in adoption statistics among key market segments
Industry out of touch with consumers	Crops of startups emerge	KickStarter funding stats by industry, sentiment of industry on social media, verticals with steady stock value declines, where VC funds are investing
New Market	Glut of new products	
Maturing New Market	Shakeout of products, narrowing to a few competitors	Mergers, acquisitions
New Tech Taking Hold	Major players in the vertical launching competing new tech products	Product launches by vertical
New Tech Taking Hold	Major players in the vertical acquiring crops of related companies	Acquisition announcements by vertical
New Tech Taking Hold	Major players colluding to fight new tech	Any press releases that reference a company and its major competitor
Innovation at Existing Firms	New technology introduced by a major player	Product and service introductions from industry leaders
Weak Culture at Large Firms	Poor morale, inflexible structure, and culture that doesn't encourage innovation can leave a firm vulnerable to disruption.	High attrition, poor recruiting ability, policies that discourage (or fail to incent) innovation, social media sentiment.
Startup Strategy	Startups that don't invoke direct competition from incumbents are more likely to succeed	Examine for strategies around inferior tech and lower costs or inventing a new market
Affordability	New technology that is priced well compared with other solutions or unique and affordable	New product releases
Evolving Consumer Behaviors & Attitudes	Increased willingness to try relevant products or technology	Consumer research from sources like Pew & Forrester

"Being a disruptor and an innovator is an evolutionary behavior. In nature, it takes eons to evolve, because it's a blind trial and error. In technology and civilization, it takes overnight, or a month or two," estimates Marin Tchakarov, CFO of smartwatch innovator Pebble.

For Tchakarov, being a disruptor is a behavior that demands being intolerant of existing problems, and recognize them before the masses do. "Then, offer a gallant, seamless or elegant solution to such problems", he explains.

Chapter **5**

EVERYONE IS A STARTUP NOW

"Digital Darwinism is unkind to those who wait. Clear winners and losers will emerge in every industry. Disrupt or be disrupted."

— **Ray Wang,** Principal Analyst, CEO and Chairman, Constellation Research

You need a startup state of mind

The term startup isn't merely a description of the size or stage of a company. Rather, it's also a state of mind required to survive in the modern business world. Today, small companies must act big to compete on a larger, global scale. Large enterprises must also have the agility and flexibility of a startup.

Who's doing the disrupting?

When thinking of disrupting companies, startups immediately come to mind—and for good reason. Many startups have come on the scene with disruptive concepts, especially in the Internet age.

The truth is, however, that it's often the more established companies that are forcing disruption.

Although conversations about disruption often turn to the Lyfts of the world, it's not accurate or wise to think of disruption solely as the result of a "lower attack" from an innovative startup. (In classic disruption theory, a lower attack refers to the introduction of new technology that is perceived as inferior by the mass market, but is actually superior in a new dimension for an emerging niche audience.)

According to one study on predicting disruptive technologies, attacks from smaller companies rarely cause technology and firm disruptions. The widely quoted research article, Demystifying Disruption: A New Model for Understanding and Predicting Disruptive Technologies, found that incumbent businesses cause 50% of all technology disruptions and 62% of all firm disruptions.

"Though an entrant disrupting a well-funded, giant incumbent with a lower attack always makes for a good story, such disruptions account for only a small fraction of all cases," reads the study. "For example, only 8% of all technology disruptions and 25% of all firm disruptions were caused by entrants using a lower attack."

Even the top company in an industry is vulnerable to disruption though. According to the Demystifying Disruption article, because it is such an impressive feat for an entrant with inferior industry knowledge, market expertise, or lack of substantial resources to displace an incumbent—the incumbent firm's internal culture may have played a role in leaving it vulnerable to disruption.

While the research didn't attempt to sort out the causes, there are a number of suspects: Poor morale, lack of incentives to innovate, and inflexible structures are likely at play. In other words, they lost the startup mentality that likely got them there in the first place.

“Never be comfortable. If you’re comfortable you’re not doing something right.” — **Mike Cagney,** CEO of SoFi

The enterprise state of mind

Just as every business must have a startup mentality in terms of agility, flexibility, and innovation, every company—from a fledging entrepreneurial venture to a Fortune 500 firm- must also think big to get ahead. Entrepreneurial enterprises are nimble, but enterprise-minded startups can compete by thinking on a global scale.

While global U.S. companies account for less than 1% of all American companies, they earned 25% of total U.S. gross profits, according to a McKinsey & Company study. With e-commerce and cloud computing, going global has never been easier.

It has long been said that the Internet is the great equalizer. Mobile devices multiplied the reach of the web by putting shopping in the palms of millions of hands. According to Google, over 1 billion people use mobile devices as their primary access point. Now comScore reports mobile is now the primary access point to online retail for most customers.

In a new, globally connected world, everyone must have an enterprise mentality. This is especially true when it comes to your business model. Today, multi-tax, multi-lingual, and multi-currency businesses must be the norm. Every company should ensure the systems running its business are primed for global expansion.

Driving business model innovation

One way startups can act like an enterprise—and enterprise-sized companies can act like startups— is with business model and technology innovation. That means new products, new markets and new channels, but it can also mean delivering existing products to existing markets with existing technologies.

Here are a few of the most notable examples from the last few years:

Lyft

Lyft is disrupting the taxi business model by leveraging existing technology: a smartphone. Through its mobile application, passengers in need of a ride can connect with drivers with their own cars. By the end of 2015, an estimated 13 million people will be connected to Lyft through their smartphones each month, enjoying 90 million rides.

Transportation

SoFi

Marketplace lenders like SoFi are unbundling services traditionally offered by banks, such as mortgages, student loan refinancing, and unsecured personal loans. The company refinances student loans for early stage professionals with a holistic approach, taking into account not just their credit report but their graduating school and career prospects. As the largest marketplace lender, SoFi has funded more than $4 billion in debt since 2011, and expected to surpass $6 billion in loans by the end of 2015.

Financial Services

HP Software

A classical example of vertical growth combined with the disruptive nature of a startup, HP Software has gone on becoming the third largest company of its kind. The business' coin of trade is business management software, as well as cloud solutions and professional services. Currently, HP Software is focused on helping organizations use data and analytics to build customized new products. With that in mind, the division aims to harness all types of data, including that of the Internet of Things.

Software

Snapchat

Snapchat not only introduced a novel concept—a disappearing photo-sharing service—the business keeps infrastructure costs low by running its entire system on third-party servers. The platform-as-a-service (PaaS) model accommodates over 400 million snaps exchanged daily. But the company hasn't stopped there. In 2014, Snapchat ventured into the mobile payment space through a partnership with Square, which enabled 100 million daily users to send money through their smartphones.

Social Sharing

Tile

A crowdfunding success story, Tile's strength lies on a simple, yet undeniable clever concept: An app-hardware combo that helps users locate lost items. Even if the missing phone or keychain Tile is attached to is not in bluetooth range, other Tiles may be, and can be used to track down the item. Users never have to remember to replace the battery. When Tiles reach their guaranteed one-year lifespan, subscribers are sent new Tiles and envelopes to send back their used ones for recycling.

Hardware

Warby Parker

The name of Warby Parker already hints at a different kind of disruption: It refers to the combined names of two characters created by Jack Kerouac, who singlehandedly changed American literature in the 50's. True to form, Warby Parker's eyeglasses are vintage inspired and accessible. The look of the product is just one of the ways Warby Parker has been disruptive. By dealing with customers through its online channel and stores and keeping the design in-house, Warby Parker avoids costs such as markups and licensing. As a result, the company can offer high-quality, striking eyewear for a smaller price than the competition.

Eyewear

Twitch

Twitch has demonstrated that, contrary to popular belief, there are plenty of people interested in watching others play video games. The social video platform/gamers community has over 100 million unique viewers per month, and features more than 1.7 million broadcasters. The popularity of the streaming video service—Twitch is the fourth largest source of internet traffic during peak hours in the US—can be traced back to the rising of eSports or competitive video gaming. Twitch is the chosen platform for nearly every major tournament. Their stranglehold in the market can only be compared to all major sports channels rolled into one.

Social Gaming

Jawbone

A wearable technology maven, Jawbone is in the Internet of Things business, or as defined by the company's co-founder, "The Internet of Me". Jawbone's wide variety of hardware products all include software platforms powered by data science. The UP series provides the user with insight regarding physical activity, food consumption and even sleep. For Jawbone, developing consumer technology is a cornerstone of their business model. The company has over 600 patents granted or pending involving wearables and the manufacturing process of said products.

Consumer Technology

Nest

Another pioneer of the Internet of Things, Nest has disrupted the home security field by introducing programmable, sensor-driven, Wi-Fi enabled cameras, smoke detectors and thermostats. Each one of these products can support the other ones. Nest thermostats are self-learning, in order to optimize heating and cooling and reduce energy consumption. The company also has a program that allows Nest products to communicate with other brands' devices. Fully aware of Nest potential, Google purchased it in 2014 for US$ 3.2 billion.

Energy

Square

As applications go, Square can actually claim it disrupted the way retail merchants operate. The app allows businesses and individuals to charge debit and credit cards using their smartphones, even offline. This, through a small reader connected to the device's audio jack. The developer's approach to innovation is horizontal: New products have brought other financial operations into the fold, starting with person-to-person money transfers and merchant's cash advances. Since launching the service, Square has improved on encryption safety and now prepares to introduce a chip reader.

Payments

Water for People

Providing access to clean water and sanitation to developing counties is not a new aspiration, but Water for People's approach to the problem is. Instead of examining households and villages, Water For People studies districts and regions, making sure no resources are wasted on repeating the same exercise over time. The goal is not to build wells, but establishing long-lasting infrastructure that has a positive societal impact. To make this operation sustainable over time, Water For People guarantees at least ten years of monitoring and evaluation, as well as ensuring that, if something breaks, there will be someone around to fix it.

Nonprofit

Chapter **6**

RETHINKING EVERYTHING: TIPS & BEST PRACTICES FOR BUSINESS MODEL INNOVATION

Peyton Jenkins and Colin Hunter, co-founders of Alton Lane—a premium tailored apparel store that lets users design their own custom suits, blazers, tuxedos and shirts—are rethinking the fashion industry from every angle. For them, it starts with the product, then goes to the supply chain.

"We rethink (the) experience. The menswear industry is this massive multibillion-dollar industry, but most men hate to shop," they explain. "Now, every guy still wants to look good. What we're trying to do is redefine shopping. It's one-on-one for every single customer. Instead of a typical store, we have what feels like a bar or your buddy's bachelor pad, and yet we use this amazing technology to deliver a more personalized experience and a much better fit."

Inspired by the children's classic "Willy Wonka and the Chocolate Factory", Dylan's Candy Bar also turned the simple act of treating oneself on its head. With the clear goal of becoming the largest unique candy store in the world, Dylan's carries over 7,000 sweets of around the world. To further differentiate itself from the competition, the retailer incorporated fashion, pop art and candy culture into the experience.[1]

3 Tips for Business Model Innovation

1
Reconsider the industry from every angle, from the supply chain until the moment the product reaches the customer. Nothing is off- limits. The director of global operations at Avant, Andrew Beck, explains it this way: "If we are systematically reviewing our key challenge areas, and taking a rigorous but nimble approach to operational and strategic improvement, we believe we can meet any development quickly and effectively."

2
Rethinking the business also means looking outside of one's own field and bring in applicable ideas that may provide an edge. The VP and principal analyst of Constellation Research puts it perfectly: "I never use the cliché 'thinking outside the box.' I think it's more about thinking inside other boxes." Similar to how Apple became a content publisher with iTunes, LinkedIn added content apps like SlideShare and Pulse in a play to become the definitive professional publishing platform. Whether you are a B2B or a B2C, inspiration can come from anywhere.

3
Bet on being different. In the words of SoFi's CEO Mike Cagney: "Our mantra is to ask for forgiveness, not permission."

[1] **"Candy Queen: Dylan Boesnach-Lauren, the daughter of billionaire fashion designer Ralph Lauren, has found her own sweet spot."** Forbes, July 21st, 2010

Adding new products

One way to potentially disrupt an industry is by adding new products to the business model. This is easier said than done. One must consider supply chain management, financing, and acquiring the proper pricing perspective, among other factors.

Let's start with the supply chain. In order to deliver on new product launches, a business process must be in place. Many companies invest heavily on research and development but fail to consider what it takes to execute the supply chain management involved in the equation.

Early and frequent communication is critical to success. The absence of it is often the point of failure for companies adding new products to the mix. Anticipating potential issues before they arise is vital.

Cross-functional planning should lead to agile execution and set the stage for disruption. Take Williams-Sonoma: The kitchenware giant has slowly but consistently introduced new products only indirectly related to their main business, namely housewares, furnishings, specialty foods and bath products. Heavily invested on an omnichannel approach, Williams-Sonoma has simultaneously developed store experience, catalogue sales and it's own online channel.

Considering this expedient and snug setting, the drama of introducing new products is reduced to a minimum. The strategy has worked brilliantly: in 2014, Williams-Sonoma reported a sales increase of over 7% and earnings of 9.2%.[1]

3 Tips for Adding New Products

1

Before launching a new product, being prepared for the impact of said product at every stage of the production process is fundamental to succeed. As the VP of Design Within Reach, Bethany Kemp, explains it, having the right product demands having the right people to sell it: "The sales associates in our studios are interior designers, they're architects, they have a background that helps them to work with our clients to build a space, build a living environment versus just selling you a sofa."

2

Communication between departments is the key to a successful launch. As the Chief Operating Officer of Lovesac, Ryan Johnson, puts it succinctly: "You got to have big goals, you got to get stuff done, and you got to have everybody around you pitching to help."

3

The readiness of the different stages of the production process is inversely proportional to the level of drama involved in launching a new product. The co-founder and CEO of Tile, Mike Farley, likes to quote Wayne Gretzky in this regard: "You miss 100% of the shots you don't take. Keep taking shots. You've got to go out there and give it a go. There's going to be uncertainty, and that's part of the fun."

[1] **"Is Williams-Sonoma's Business Model a Blueprint for the Future?"** Multichannel Merchant, April 15th, 2015: http://www.williams-sonomainc.com/company-overview/

Subscription billing

The pricing of new products in any business model may not be disruptive on itself, but it could help to cause a disruption. Consider the growth of cloud billing services: They are expected to generate nearly $10 billion in 2018, according to Research and Markets.

Some products—like clothing and food—lend themselves to one-time fees, but the rise of cloud technology has led to subscription models that have disrupted pricing. Wall Street loves them and economists are trumpeting a societal shift in service consumption. Today, 80% of businesses are reporting changes in how their customers want to access services. Over half are integrating new pricing and delivery models with recurring payments.

The online music service Rdio offers two subscription alternatives: Ad-supported free streaming and ad-free subscription. It's available via website or as an application for any model of smartphone. Besides featuring content from the four major record labels and a number of aggregators, Rdio offers social networking features (song sharing) that aim to increase subscribers' engagement.

The subscription model offers a steady revenue stream, cash flow and revenue projection, potential cross-sell and up-sell opportunities and many other benefits. While not all products and services lend themselves to this approach, with the rise of subscription boxes—a disruptive business model that sends a box of curated samples from snacks to beer to beauty supplies every month—it may be time to consider how to integrate this model.

3 Tips for Subscription Billing

1
Most businesses can benefit from the subscription approach, as it translates into a recurring stream of revenue.

2
In a subscription model, focus on retention and keeping your customer churn low. Real-time visibility into your customer and revenue churn can help you identify churn triggers.

3
Your subscribers are your biggest asset to reduce customer acquisition costs. Make the opportunity to impress them every single month count.

Expanding to new markets

Bringing disruptive products into new markets—or even disrupting new markets with already existing products—demands forward-thinking and strategic planning. At a ground level, one must understand local cultures and customs. At a high level, it's necessary to learn to navigate local laws.

From a technology perspective, it's impossible to go far without localized tax reporting and filing. With that in mind, it's important that a business' Enterprise Resource Planning (ERP) system comes pre-configured for indirect tax and online-filing ready. It's also imperative to be able to transact in different currencies if doing business beyond U.S. borders.

From a strategy perspective there is a cadre of concerns, but perhaps the biggest consideration is whether the product or service in question solves a challenge or pain point in the target new market.

Philz Coffee, for example, started as a grocery store in San Francisco. The founder, Phil Jaber, developed over thirty coffee blends and personalized the customer experience by handcrafting every cup. This approach attracted plenty of fans and translated into new locations around the Bay Area. In 2013 Philz made it to Los Angeles and now the coffee chain has secured $15 million in funding, aiming to go nationwide.[1]

One doesn't have to be a disruptor to succeed in a new market, but failure is certain if the product or service doesn't meet a need among consumers. Defining and analyzing the market, assessing internal capabilities, and developing market entry options are vital to expand a business' horizons, let alone thinking like a startup.

3 Tips for Expanding into New Markets

1

Success is more likely if the business understands the local laws and customs of the target market. Mike Cagney, CEO of SoFi, knows this by heart: "Couple 'local' with mobile and you have the ingredients to deliver rich, contextual experiences to users."

2

Identifying a pain point in the new market is the cornerstone of any expansion plan. As the co-founder of Alton Lane, Colin Hunter puts it, "I could disrupt the suiting market by making a suit with no sleeves, and it's not going to be all that popular. No one would want it."

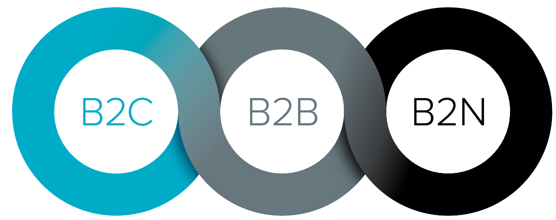
3

An ERP system capable of dealing with foreign markets can prevent major headaches. Look for one with foreign currency capabilities, localized tax functionality, International Financial Reporting Standards (IFRS), and statutory reporting capabilities.

[1] **"Silicon Valley Favorite Philz Coffee Gulps Up $15 Million to Expand Nationwide"** TechCrunch, February 18th, 2015

Adding new channels

The proliferation of technology means that today's modern businesses no longer have to be limited by the rigid models of being either business-to-business (B2B) or business-to-consumer (B2C). They have the flexibility to pivot between B2B to B2C models and venture beyond to what we call a "B2N" or business-to-anything model.



Companies can just as seamlessly adopt a strategy whereby they start their business online, move to a storefront, and reach consumers both globally and locally.

Take the case of Tacoma Screw Products, a family-owned distributor of fasteners, tools and construction supplies. After initially selling to B2B customers through its 16 stores in the Pacific Northwest, the company expanded its business nationwide with the launch of an ecommerce platform in 2012. The new ecommerce channel grew its B2B customers who switched over to online purchases and captured new B2C customers across all 50 states.

An omnichannel business model enables companies to drive a unified, consistent customer experience across all channels and to ultimately develop a stronger customer relationship.

With its ecommerce platform, Tacoma Screw was able to deliver a seamless, B2C-like customer experience for its traditional B2B customer base. B2B customers could buy online and pick up the supplies for next day's job in store.

3 Tips for Adding New Channels

1

New channels help extend market reach. Companies can capture both B2B and B2C customers across different geographies.

2

Businesses can use multiple channels to engage their customer during all phases of the consumer buying cycle, from traditional brick- and-mortar stores to ecommerce, to mobile apps, to sales representatives and beyond.

3

The key is to have a robust foundational system to adapt to any form of engagement.

Pricing matters

New channels can mean new revenues, if you build the right ecosystem with the right pricing. Having a strong channel partner program with data-driven channel management and vendor-led marketing is promising, but if the pricing is wrong, the results won't be as desired.

If the goal is to demystify disruption—and even predict it—here's one secret: pricing matters.

Regardless of the form or source of the attack, a new technology is most likely to cause disruption if it is priced right. Often, right pricing means a lower exchange than the competition. This is especially true for startups, but also applies to the largest enterprises.

It's not difficult to predict whether a startup will succeed or fail. Research from startup predictor Thomas Thornton (founder of Growth Science International) reveals startups are 30% to 40% more likely to survive when their strategy consists of one of two elements:

1. Selling products and services that are cheaper and generally inferior in the eyes of the mass market
2. These products and services create an entirely new market that did not exist before

Thornton's research concluded that startups do best when they avoid invoking a competitive response from incumbent companies.

Warby Parker, the eyewear company, distinguished itself by featuring vintage-inspired frames. Because the glasses are designed in-house (eliminating licensing fees) and the company sells directly to customers (to avoid retail markups), Warby Parker can offer a lower price than the competition.[1]

The technology industry has slews of examples of this sort of disruption, from EMC and NetApp in the data storage market to broader technologies like cell phones versus landlines.

Again, pricing matters.

[1] **"Hip Eyewear: Warby Parker's New Spectacles", Bloomberg Businessweek,** June 30th, 2011

3 Tips for Successful Pricing

1
If startups avoid triggering a response from the competition, they are more likely to succeed. Tile, for example, focuses on a problem nobody else was: Locating lost items. Tile's co-founder and CEO Mike Farley elaborates: "We are embracing the clean and simple user experience and trying to deliver an end-to-end solution that does not introduce a number of other problems."

2
Startups can achieve this by selling products that are cheaper and create a market that wasn't there before. Andrew Beck from Avant chimes in: "Avant became one of the fastest-growing startups in America by lowering the costs and barriers of borrowing that have prevented thousands of middle-class Americans from getting the financial support they deserve."

3
Investing in an omnichannel approach helps build a lasting bond with the client. Erica Stevens, VP of supply chain and information technology of Dylan's Candy Bar believes so: "The omnichannel experience has allowed us to continue our relationship with customers that are coming from out of state or even out of country."

Mergers, acquisitions and divestitures

Mergers and acquisitions create value for a company in various ways. It can help to improve a company's performance by allowing it to capture a greater market share or it can accelerate growth by reaching a unique mix of customers. In some cases, divesting is the prescribed approach for an established company to act nimble.

American Express is a prime example of a worldwide company with a startup state of mind. American Express sold off 50% of its Global Business Travel (GBT) division in 2013, creating a joint venture in partnership with an investor group led by Certares. The $900 million investment paved the way for GBT to improve its suite of products and services, attract new customers and grow internationally to deliver more value to existing customers. The move proved to be synergistic.

The Chief Strategy officer at AMEX Global Travel, Steve Curtis acknowledges his company is looking to differentiate itself from their competitors while making the travelers experiences better: "We're rebuilding the platform so that we can introduce more products and better technology. We are aware there's a bunch of startups and a lot of new market players that have newer technology."

Of course, American Express has a long history of thinking like a startup. The company nearly disappeared in 1929 when Chase National Bank nearly bought up all its shares. In the 1970s, American Express made several large acquisitions, including Shearson Loeb Rhoads, First Data Resources, Trade Development Bank, Lehman Brothers Kuhn Loeb, and Investors Diversified Services.

The synergies didn't pay off and the company shed noncore activities to build the core in 1985. The result of the strategy: 1986 became a banner year for Amex, with earnings exceeding $1 billion. Years later, the CEO admitted, "If not for the strength of our brand name, American Express would have collapsed by the late 1980s."

3 Tips for Mergers, Acquisitions & Divestitures

1
A joint venture is a good idea if it brings new customers and improves the products and services of the companies involved.

2
Offering more products and better technology is the best strategy for established companies to fend off startups.

3
If the synergy approach doesn't work, shedding peripheral activities and focusing on the business' core is the best approach.

CONCLUSION

The physics of business are currently being re-written by a new breed of bold thinkers. Leaders that can't be held back by legacy thinking and legacy technology. Disruptors that share a common set of beliefs:

1. The physics of business are being rewritten. Businesses (and 'business' itself) are being reframed. Slow-moving traditional businesses are being devoured by swift upstarts. Disruptive businesses are increasingly made of code. Constant re-invention is required to stay alive.

2. The business world is a world of unknowns. New competitors come from outside the category. Customers change preferences quickly. Business models need to be re-thought. The only thing that can be future-proof—in a world that is in constant flux—is the technology and tools the business uses and the cultural mindset surrounding that technology.

3. Everyone is a startup now. "Startup" isn't a type of business—it's a state of mind that is required to survive in the modern business world.

4. The technology a business uses shapes its culture and potential. Implementing software is implementing a culture—it can define the thinking and ability of the business, and either empower or disempower it.

5. The walls are coming down. Walls between siloed departments, between the back office and the front office, between the company and the consumer—all must be torn down.

6. There's wisdom in the connected crowd. When business processes, employees, and customer behavior are all connected across an integrated platform, limitless business insight and intuition are surfaced.

7. Modern business favors the fearless. Change is the only constant in today's business. Modern companies plan for and embrace change as a way of being. Fearless. Bold. Brave. Agile. This is the culture of the cloud.

8. The quick will disrupt the world. Data blindness and manual, labor-intensive processes have businesses playing constant 'catchup'—'now' in most organizations reflects the past. 'Now' needs to move at the pace of human thinking to survive.

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Whether you run a team of six or a massive global enterprise—modern leaders must provide their teams with radical flexibility to enable change.

While you may not see everything that comes at your business, you need to have the flexibility and agility to react in a way that looks after the long-term interest of your company. Maintaining a startup state of mind and acting at the pace of your boldest idea is a modern day requirement for all businesses.

The platform for the fastest growing, most disruptive companies in the world.

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