

Disruptive Innovation

If you haven't read Clayton Christensen's *The Innovator's Dilemma*, it's well worth a read and is the basis for this short blog post – providing far greater detail than that presented below. Here we are simply seeding the concept of Disruptive Innovation and how we believe it applies to the SaaS business model.

In a very stylistic view there are two key types of business evolution: Sustaining Innovation – incremental improvement of an existing product or service providing better value for the customer, and Disruptive Innovation – radically different perspective on innovation providing the market with something different from what might be expected by default.

Disruptive Innovation is often thought of as an advanced technology that displaces the incumbent product; for example DVD's and CD's versus cassette tapes. Another classic example presented is the invention of the automobile replacing the horse-drawn cart, where the disruptive innovation was not the invention of the automobile, but actually the advancement in the mass-production of the automobile. However, disruptive innovation as a business model also presents itself in the different guise of providing low-end market disruption by targeting the least profitable customers with a "good enough" product. In this instance the customer is not willing to pay premium for enhanced functionality that they will not use. In this approach the disruptive innovation does not attempt to bring a better product into an established market, rather it introduces simpler, more convenient and less expensive products. Here the innovation initially targets both the low-value market of the incumbent and new-market customers that did not previously exist.

The Innovator's Dilemma presents greater detail into this framework that has evolved out of research into how innovation impacts markets – specifically: when do incumbents prevail and when do new entrants win. When does David beat Goliath and vice versa. Take a look for more background information.

Why we see SaaS is an example of disruptive innovation...

Recently there has been a rapid change in the way products are being delivered to the market, in the form of Software as a Service (SaaS). Where SaaS is a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted in the cloud by independent vendors. Compared to the tradition licensing approach which involves a large up front capital investment and often ongoing servicing costs, the SaaS approach has different characteristics which the market is appreciating, both the users of the product and those with capital to invest in the business opportunity. The disruptive innovation here can be summed up as rather than having software and data storage spread-out amongst the individual users of the product, the point of execution for this has moved back with the developers of the software. Put it another way the concept is, rather than being sold software to use and run (with a helpline), at a significant up-front cost, the user is subscribing to a product whose up-keep remains the responsibility of those who developed it.

The products of a SaaS business model often also provides further scope for disruptive innovative particularly in the case of low-end market disruption. Within the SaaS business model it is easier to develop and deploy slimmed down simpler products to the market at lower prices targeting customers that did not consume incumbent products – these are the customers who didn't previously consider the product because of the price premium on the functionality that wasn't required.

This has been short and sweet – that was the intention, introduce the concept of disruptive innovation, briefly highlight how we believe it applies to the SaaS business model and leave you wanting more...

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- Assisting clients by completing analysis of issues.
- Assisting clients to complete commercial transactions.

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