The Benefits of Disruptive Innovation and Marketing:

A Special CMO Club Report

MIDAS EXCHANGE
A WPP COMPANY

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INTRODUCTION

If you’ve gotten a ride through Uber, booked a place to stay through Airbnb, watched a movie on Netflix, or received beauty and lifestyle products from Birchbox, then you’ve participated in disruption, even if you weren’t aware of it at the time. Disruptive Innovation and Marketing has become so commonplace in our business world that it is hard to tell the difference between whether something is shaking up the industry or just a darn good idea. Suffice it to say, disruption - despite being a trendy buzzword - is here to stay, and will have a lasting impact on the future of many industries.

WHAT IS DISRUPTIVE INNOVATION AND MARKETING

Disruptive Innovation is a term coined by Harvard Business School Professor Clayton Christensen. He describes disruptive innovation as “a process by which a product or service takes root in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors.”[1] Disruption has always been a part of the business world, particularly as technology continues to evolve. For instance, cell phones began disrupting landlines and telephone company’s years ago. However, the rate at which we see new companies disrupting industries has grown and changed at a rapid pace.

How does disruption differ from innovation? There are some crossovers between the two, but there are also differences. Just as all thumbs are fingers, but not all fingers are thumbs, ***all disrupters are innovators***, ***but not all innovators are disruptors***. Disruptors and innovators are similar in that they’re both creating and making ideas, items, products or services. However, the main difference is that a disruptor doesn’t just create something new or improve upon a process; they literally change the industry and alter the way we think, behave, and act about a certain idea, item, product, or service.

Another way to think about it is that ***innovators are rational, while disruptors are irrational***, according to Shilen Patel, founder of business accelerator Independents United. His example: “Hailo applied technology using a very rational set of rules to achieve innovation, whereas Uber’s irrational mindset asked: ‘What if I could get everyone in

[1] Source: http://www.claytonchristensen.com/key-concepts/

London to be a taxi driver?' They then applied technology to achieve that. Hotels.com is rational; Airbnb is 100 percent irrational."[2] ***Disruption still requires organization*** to it though in order to grow and be a success, Patel cautions.

Renowned expert in the world of disruption, Richard Branson, has said, "Disruption is all about risk-taking, trusting your intuition, and rejecting the way things are supposed to be. Disruption goes way beyond advertising; it forces you to think about where you want your brand to go and how to get there."[3]

A CLOSER LOOK

In late 2015, ***Forbes announced, "disruption is the new normal***."[4] And looking at their list of the 25 most disruptive brands of 2015, it's clear that they've all made their mark on the industry:

1. Uber	14. Warby Parker
2. Airbnb	15. Chipotle
3. Facebook	16. 72andSunny
4. Red Bull	17. SoulCycle
5. Snapchat	18. Rent the Runway
6. Alibaba	19. Houzz
7. Netflix	20. Waze
8. Under Amour	21. DraftKings
9. Instagram	22. Coke
10. Apple	23. Eataly
11. CVS	24. Birchbox
12. Taylor Swift	25. Virgin America
13. Google	

Let's look at some case studies from companies who surpassed the realm of innovation and made their mark as a disruptor.

[2] Source: http://www.telegraph.co.uk/sponsored/business/the-elevator/12168170/business-innovation-versus-disruption.html

[3] Source: http://www.forbes.com/sites/avidan/2015/11/29/the-25-most-disruptive-brands-of-2015

[4] Source: http://www.forbes.com/sites/avidan/2015/11/29/the-25-most-disruptive-brands-of-2015

Uber

When was the last time you hailed a cab? If it's been a while, it's probably because you've been using the ride-hailing service Uber, which makes finding a ride as simple as a push of a button - literally. Founded in 2009, Uber was created as an app "to request premium black cars in a few metropolitan areas."[5] Since then, Uber hasn't just conquered the United States; they've taken over the world. The ride-hailing app is now available in more than 500 cities all across the globe.

So how did an app take on the well-known yellow taxicab service - a staple and icon of transportation in major cities for decades? By providing a service that was cheaper, easier and more modern. What Uber did was they took a previously dated model of transportation and gave it a modern, technological spin that simplified the whole process. Why stand outside trying to hail a taxi (which may or may not come) from the sidewalk and try to find exact change to pay or search for a cab equipped with a credit card reader, when you can simply open an app that not only hails the cab to your exact location, but also processes your payment and tips the driver all at once. All you have to do is push a button, get in and get out. It's that simple. What's more, in general, getting a ride with Uber is cheaper than using a taxicab.

Uber's disruptive innovation affected not just the customer but also the driver experience. Remember, Uber's mantra was that everyone would want to become a driver. Uber's customers are its drivers and its riders.

If the number of Uber locations around the world and the fact that they've given more than one billion rides[6] since starting doesn't convince you they're a disruptor, then just look at how they've impacted the taxi industry. Earlier this year, San Francisco's largest cab company, Yellow Cab, filed for bankruptcy,[7] while in Los Angeles, the arrival of Uber, and fellow ride-hailing app, Lyft, has "devastated" the taxi industry resulting in a 30 percent reduction of taxi rides in just three years.[8] It's clear that Uber shaped the future of ride-hailing services – and, equally important – the platform in which those services are traded.

[5] Source: https://www.uber.com/our-story/

[6] Source: http://fortune.com/2015/12/30/uber-completes-1-billion-rides/

[7] Source: http://www.sfexaminer.com/yellow-cab-to-file-for-bankruptcy/

[8] Source: http://www.latimes.com/local/lanow/la-me-ln-uber-lyft-taxis-la-20160413-story.html

Airbnb

Similar to Uber, technology and the internet is what allowed Airbnb to begin taking a stake in the hotel industry's share of tourism and travel dollars. Founded in 2008, Airbnb has housed more than 60 million guests in more than 34,000 cities around the globe in 191 countries.[9] Airbnb isn't just popular because you can rent one of the 1,400 castles available on their site, what made them popular - and a disruptor of the hotel industry - is the peer-to-peer aspect of the site.

One of the ways the internet has influenced industries is that it put small businesses and larger companies on the same playing field - they both can have a presence online. Instead of booking a hotel through a travel agent or a major corporation, the internet has allowed consumers to take research and booking into their own hands. In addition, Airbnb was able to capitalize on these shifts in consumer behavior; by connecting potential guests with homeowners directly, Airbnb was able to capitalize on the rise of the peer sharing economy and give consumer's options beyond major corporations.

As Airbnb's influence continues to grow, it's expected that the company will continue to pose a threat to the hotel industry. From October 2014 to September 2015, travelers spent $2.4 billion on Airbnb lodgings, according to a study by CBRE Hotels' Americas Research. While that amount still only accounts for a small percentage (1.7%) of the $141 billion generated by hotels, it's a significant jump from the same time period the year prior.[10]

Netflix

When Netflix first launched in 1997, it was a competitor with the now-defunct Blockbuster offering mail-order movies for a small subscription fee. Since then, Netflix has evolved to take on the cable industry and shake up the way we "watch" (a.k.a. stream) movies and television shows.

Netflix is often described by Christensen as a "classically" disruptive model, in that early on Netflix's services didn't' appeal to Blockbuster's mainstream customers. However, "as its quality improved, so did its appeal to Blockbuster's customers, who eventually peeled off in high enough numbers to force the incumbent business into bankruptcy in

[9] Source: https://www.airbnb.com/about/about-us

[10] Source: http://www.usatoday.com/story/travel/hotels/2016/02/02/airbnb-hotel-industry-threat-index/79651502/

2010."[11] In 2011, Blockbuster was acquired by Dish Network Corp., which announced in 2013 that it would phase out all mail order service by mid-December 2013 and be closing all of the remaining 300 Blockbuster retail stores in the U.S. by early January 2014.[12]

But it wasn't enough for Netflix to disrupt the video rental industry. They then set their sights on going after the broadcast cable subscription based industry by also providing their own original content (movies and television series) that are only available for streaming on Netflix. In a study from Forrester Research, they found that 18% of the U.S. population has never signed up for traditional pay-TV service (called cord-nevers), while another six percent have cut the cord by canceling their cable or satellite subscription. What's more is that nearly half of the digital cord-nevers use Netflix or YouTube.[13] It appears, for the moment at least, that the fate of TV is now in Netflix's hands.

THE FUTURE OF DISRUPTIVE INNOVATION

It's clear the need to embrace the tenets of disruptive innovation isn't just for those well-established industries. It's not enough to just disrupt an industry, but like Netflix, to continue to act as a disruptor in continuously challenging the terms of the buyer and seller relationship, and the platform through technology, on which they trade.

Industries Ripe for Disruptive Innovative Strategy

While the world may not yet need another Netflix, Uber, or Airbnb, one thing we know for certain is that these industries will one day dramatically change as a result of technology and marketplace. Disruptive innovation can help any buyer and seller's market including age-old industries like construction, agronomy, and robotics. Websites like Zillow, Trulia, and Realtor.com have changed the real estate market in how we find open houses, list places for sale, and more. It is only a matter of time for the entire real estate industry to make way for a new buyer and seller platform that bypasses realtors all together, and makes buying and selling a house a peer-to-peer process.

[11] Source: http://fortune.com/2015/11/17/uber-disruption-christensen/

[12] Source: http://abcnews.go.com/Technology/blockbuster-shut-remaining-stores-dvd-mail-service/story?id=20805588

[13] Source: http://www.wsj.com/articles/tvs-looming-threat-cord-nevers-1444151008

The rise of e-commerce and prevalence of mobile devices is changing the model on how consumer packaged goods companies reach consumers. Brands like Casper, Birchbox and Peapod are now reaching consumers directly and selling items that are typically purchased in stores, such as mattresses, beauty supplies, and even groceries. Amazon alone has tested a number of new models to sell consumer packaged goods through their Amazon Pantry, Prime Now and, Dash Button programs.

Literally, any industry can adopt a disruptive innovation strategy that reaches new consumers, and paves the way to changing the buying and selling platform of their industry. To get companies started, the Harvard Business Review[14] recommends you ask three basic questions:

1. **What jobs/goals can't our existing customers achieve today?**
   Take a step back and really get into your customer's head. Your product or service may be great, but it may not solve every problem for them. Ask yourself what help/jobs do your customers need that are currently not available to them? Alternatively, do they use your service or product in unusual "off-brand" ways that could offer an opportunity to innovate?

2. **Who are the industry's worst customers?**
   Again, really dig into your customer data. It's not enough to just know who loves your product, but also who doesn't love it, or who uses it incorrectly and why. Who are your potential outlier customers? Why don't they use your product or service - Is it too expensive? Are they not familiar with your brand? Does your business not work for them? What would they want?

3. **Where are the barriers that constrain consumption?**
   Think carefully about your product and service offerings and the process to procure those services - and where in this chain issues might arise that stop a customer from buying or using your product or service. Those areas can offer new, organic growth opportunities.

[14] Source: https://hbr.org/2006/05/mapping-your-innovation-strategy

By answering these three questions, you will begin to see opportunities in your industry, where consumer needs are not being met, and the ways in which you too can innovate to become a disruptor.

THE BENEFITS OF DISRUPTIVE INNOVATION AND MARKETING

We have reviewed how several companies have used the principles of disruptive innovation to launch their businesses into successful enterprises, and also led to profound changes in the buying and selling platform of their industry. You may be thinking to yourself "That's great for Uber, but why do I have to disrupt an industry? Why can't I just create and innovate?" Disruption has inevitably evolved as the new norm for every business as we fight to stay relevant and ahead of an ever-changing market. The important benefits for clients that have applied any or all of the principles of disruptive innovation, even for those companies not in the "disruption business" include:

- **Your company will expand its market and/or find its niche.**
  Find an area for opportunity based on changing consumer behavior in reaction to traditional industries. Don't worry if the opportunity in the beginning seems to be shrinking and not expanding market share or margin. Christensen says that many characteristics of disruptive businesses include lower gross margins, a smaller target market, and simpler products or services that may not appear attractive to larger, more traditional companies, but with volume and scale, it can in fact overtake the former models. He explains: "Because these lower tiers of the market offer lower gross margins, they are unattractive to other firms moving upward in the market, creating space at the bottom of the market for new disruptive competitors to emerge."[15]

- **You'll improve your own processes along the way.**
  Anytime we take a step back to examine current market share and possible solutions to consumer needs, it goes in hand that we evaluate our own processes and how better to adapt, change or improve to provide a better service, product; disruption within your

[15] Source: http://www.claytonchristensen.com/key-concepts/

industry. Identifying new areas for improvement internally is a crucial step to staying relevant and being able to quickly adapt to a changing industry, thereby applying the principles of disruptive innovation to pivot and expand more quickly.

- **You'll recruit forward-thinking leaders from a diverse array of backgrounds.**
  Businesses that are curious and open to new challenges tend to put a premium on innovation and will attract people with those same qualities. Attracting diverse people from an array of backgrounds brings unique perspectives and helps the company as a whole think outside of the box. Research shows that diverse companies perform better financially than less-diverse companies. In January 2015, McKinsey published their *Diversity Matters* report that analyzed 366 public companies. What they found was that of those companies, those in the top quartile for gender diversity are 15 percent more likely to financially outperform their national industry peers. Additionally, they also found that those companies in the top quartile for racial and ethnic diversity are 35 percent more likely to financially outperform their national industry peers.[16]

- **You'll be open to new opportunities as they unfold.**
  When you're open to new ideas and innovation, you're opening yourself up for new opportunities in the future that may not even exist at the moment. When Netflix first launched in 1997, it was a competitor with Blockbuster not cable companies. As it evolved with the industry and remained open to new opportunities, it became one of the largest threats to the cable industry - something executives probably didn't have on their minds nearly 20 years ago.

[16] Source: http://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters

THE MIDAS EFFECT

Disruption always involves change - a change in process, service, or products, and certainly a change in thinking. Change is critical for future success. When thinking about making a change, it's important to not let old or outdated assets or lack of funding hold you back. At Midas Exchange, we help you fund innovation, while also protecting your market share and increase revenue and sales. Midas Exchange is a subsidiary of WPP and powered by GroupM, which allows us to deliver superior media quality at incredible pricing efficiencies while being held to the highest accountability.

One of the biggest benefits of working with Midas Exchange is that we can purchase and restore your assets to their full book value. Our team of analysts will inspect the inventory, conduct market research, determine a price, and provide the solution. We work with more than 95 clients from a wide array of industries including Boston Market, Nestlé, DSW, Shell, Citibank and AARP to name a few. Trade marketing finance is a great tool that clients use to increase bottom line return on assets while also reducing cash outlay on future media expenditures.

CONCLUSION

Disruptive innovation is going to continue to occur in every industry. It is critical that you explore emerging tactics that adopt processes and attracts leaders and companies who are open to change, challenge the status quo, and never stop thinking of ways to innovate and improve. The principles of disruptive innovation allow companies to take a step back and analyze their current products and services, what areas can be improved, where an opportunity exists in consumer needs that can benefit from an innovative solution and more. By adopting all or some of these principles, you may find that your business isn't just thriving within the industry, but completely changing the way things are done within the industry.

About Midas Exchange

Midas Exchange is a 100% owned subsidiary of WPP, a public company traded on LSE (WPP) and NASDAQ (WPPGY). Our position as a WPP company, powered by GroupM, the #1 global media investment management group, enables us to develop and execute transformative media and asset trading programs that deliver significant media leverage, superior media quality and trade accountability. Our trade programs generate higher ROI and sales revenue, as we all increase the return on assets and improve EBITDA for our clients.

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