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Innovative Entrepreneurship Theory and Practice



Lesson 7: Dynamic Innovation

Creative Destruction

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Creative Destruction

Schumpeter coined the term "**creative destruction**" to describe how the old is being constantly replaced by the new

the entrepreneur is a disruptive force in an economy

Creative Destruction

- Emphasized the beneficial process of ‘creative destruction’ in which the introduction of new products results in the **obsolescence or failure of others**
- Dynamic mechanism connected to the **continuous process of change in capitalist development**

Entrepreneurship “[i]ncessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.”

- Joseph Schumpeter

Creative Destruction



Creative Destruction – The Internet

- rendered many products, methods of production, and means of distribution obsolete.
- caused a drastic change in many jobs
 - including bank, secretaries, travel agents, and retail store employees.
- with the rise of mobile internet technology,
 - publishers of printed material
 - everything from magazines to maps—also suffered

Big Tech

The background features abstract, overlapping geometric shapes in various shades of purple, ranging from light lavender to dark, almost black, tones. The shapes are primarily triangles and polygons, creating a dynamic, layered effect that frames the central text.

Rise of (big) tech businesses



Rise of (big) tech businesses

- (Before the recent downturn) Collectively, the FAANMG stocks (Facebook, Amazon, Apple, Netflix, Microsoft, and Google) represent 23% of the value of the entire S&P 500
- The market values of Apple and Amazon both crossed the trillion-dollar line in 2018 (Apple was the first). In 2021 they were joined by Facebook for the first time in its history
- Further, just three companies (Samsung, Huawei, and Apple) hold nearly 50% of the worldwide market share of smartphones
- In 2007, Microsoft was the only technology company in the global top ten by market capitalisation. By 2022, Saudi Aramco was the only non-tech company

Rise of (big) tech businesses

Importance of 'network effects' (also called network externalities):

- Tech firms from Facebook to Intel to Microsoft are dominant because of network effects – the idea that some products and services get more valuable as more people use them. The same goes for social networks
- At a particular time, a new medium reaches the stage of critical mass, from that moment onwards the medium seems to diffuse as a matter of course until nearly all potential users are connected

Rise of (big) tech businesses

However, this also means a tendency towards monopoly or near monopoly:

- The trend in all sectors of communication tends to go from public monopolies to private oligopolies (a market in which only a few companies are dominant), including on an international level
- There are no total monopolies on the market – there is always some competition – but they can split the world market among themselves, fix prices, and benefit from inter-national regulations on standardization and interconnectivity – or become the dominant platform nearly every person, organization, and business needs to be on

Monopoly/dominant market position

- Contrary to its public origins, we now have an increasingly monopolised, privatised web. The internet's effect on economic concentration, however, may be even greater than the effects of the earlier communications media
- Today, Amazon alone has nearly half of online sales, Google dominates ad search, Google and Facebook dominate online advertising etc, and there are only two mobile app stores
- According to the 2021 Congressional report, just four companies (Amazon, Apple, Facebook, and Google) are worth more than \$5 trillion and now make up more than a third of the market cap of the S&P 100

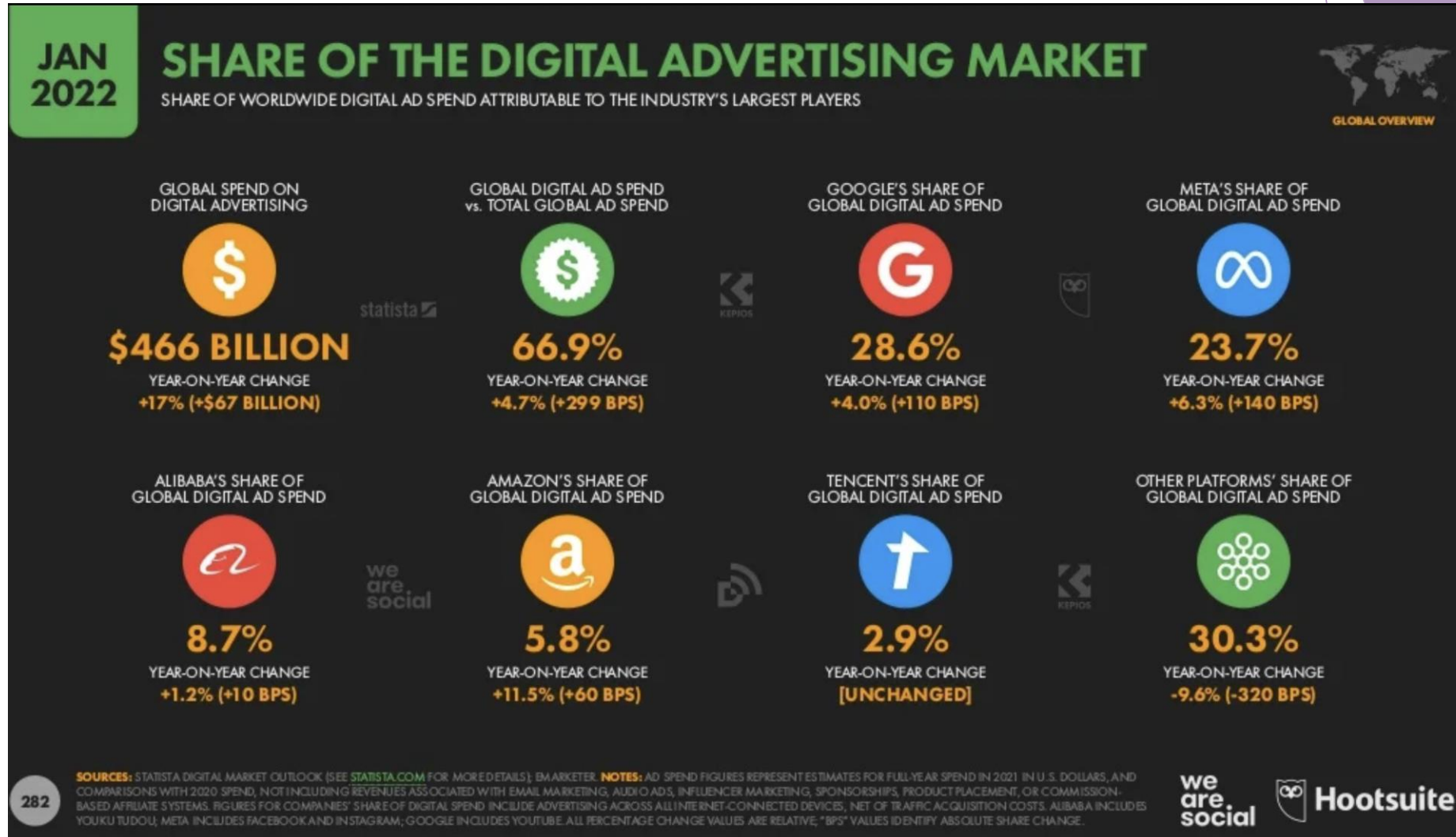
Monopoly/dominant market position

- Amazon probably captures more than 50% of U.S. online retail sales. There are over 112 million Prime members in the U.S. – about 44% of the adult population
- Google captures 81% of all search queries in the U.S. on desktop and 94% on mobile
- Google's Chrome and Apple's Safari control roughly 80% of the browser market
- iOS and Android run on more than 99% of mobile devices in the U.S. and globally

Monopoly/dominant market position

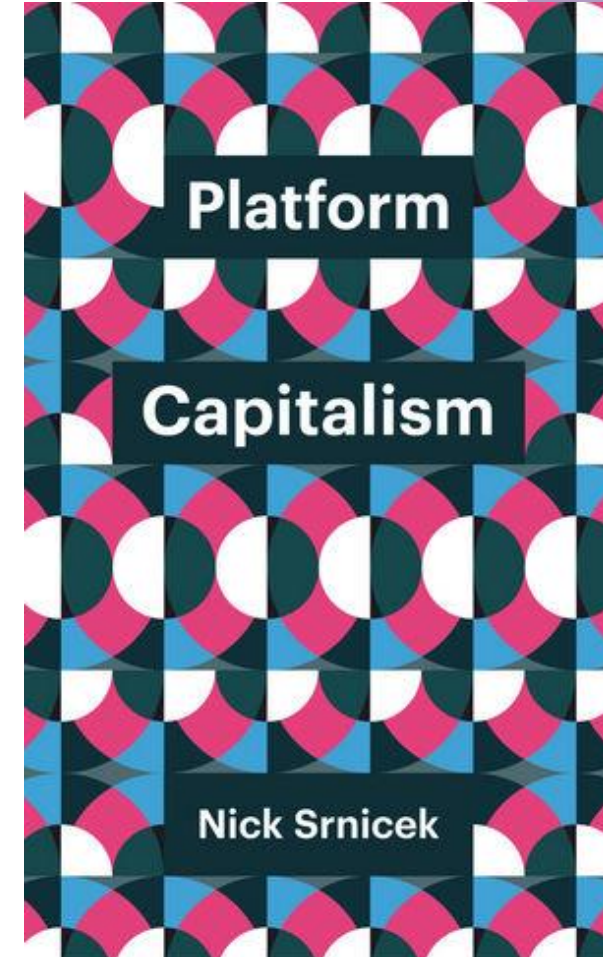
- Google and Facebook account for nearly all of U.S. digital advertising revenue
- Through Google Maps, Google captures over 80% of the market for navigation mapping services

Monopoly/dominant market position



‘Platform capitalism’

- *Platform Capitalism* by Nick Srnicek explains how major companies are transforming themselves into platforms
- Digital platforms (like Google, Facebook, and Amazon) are a means of consolidating or seizing a kind of monopoly leverage over not only distribution but also production
- For Srnicek “platforms are the only business model adequate to the digital age.” The more users (data) a platform accumulates, the more potential it has to generate value from its users and their activities on the platform



‘Platform capitalism’

- And now, the so-called ‘super apps’ such as Line, Grab, and WeChat
- In apps such as WeChat, users can access pretty much any business or service they need without ever leaving the platform (they are ‘super sticky’). Thus WeChat derives revenues from e-commerce and not advertising
- As Srnicek sees it, the WeChat model of a monopoly platform is our most likely future: we’re headed towards “one massive, closed, expansive, monopolistic platform(s)”

The logo for Grab, featuring the word "Grab" in a stylized, rounded green font.The logo for LINE, consisting of a green speech bubble icon with the word "LINE" inside, followed by the word "LINE" in a bold, green, sans-serif font.

Economically Sustainable

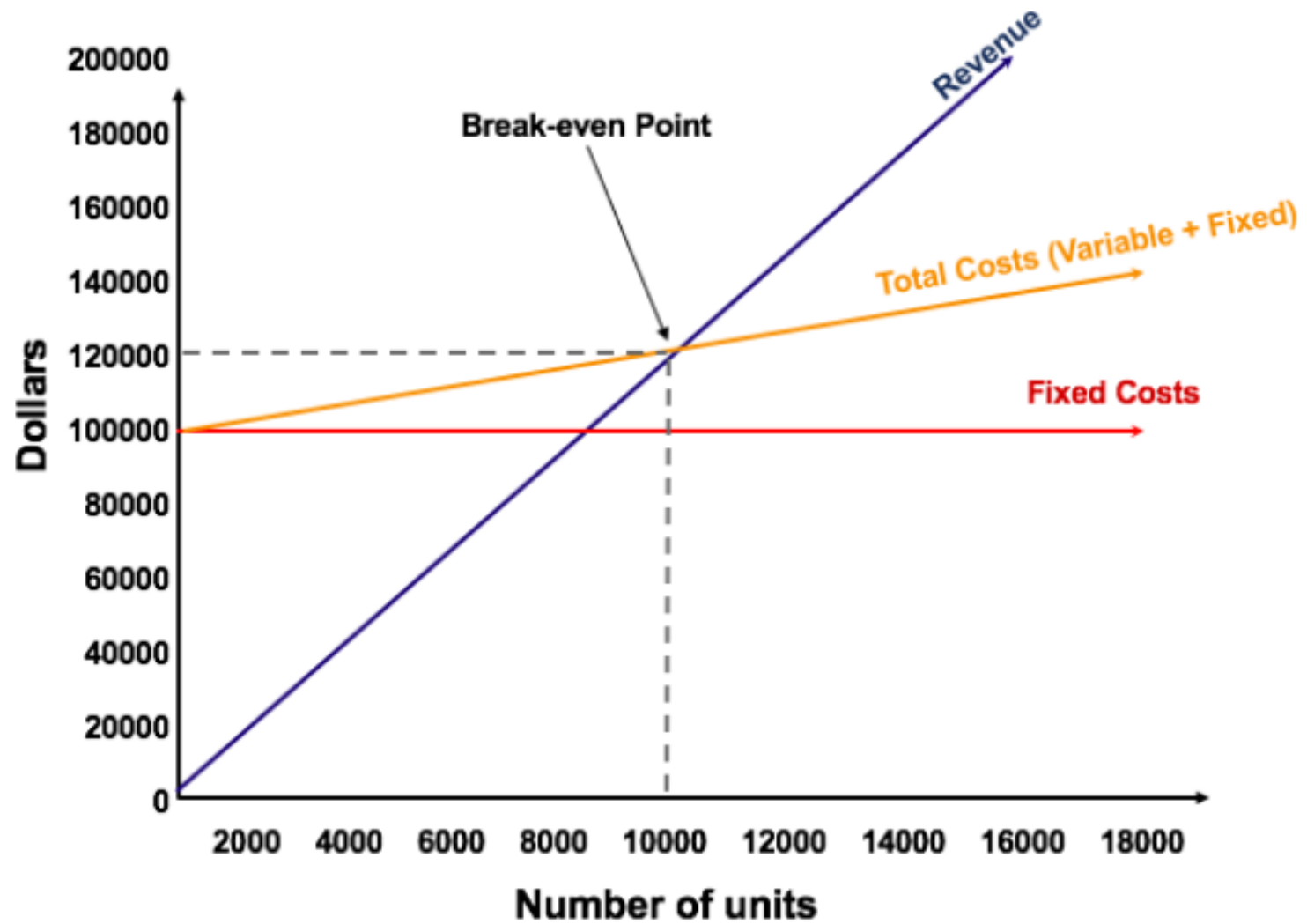
Remember

Innovation (disruption) is not the same as
sustainable profitability
(making money in the near future)

Breakeven analysis

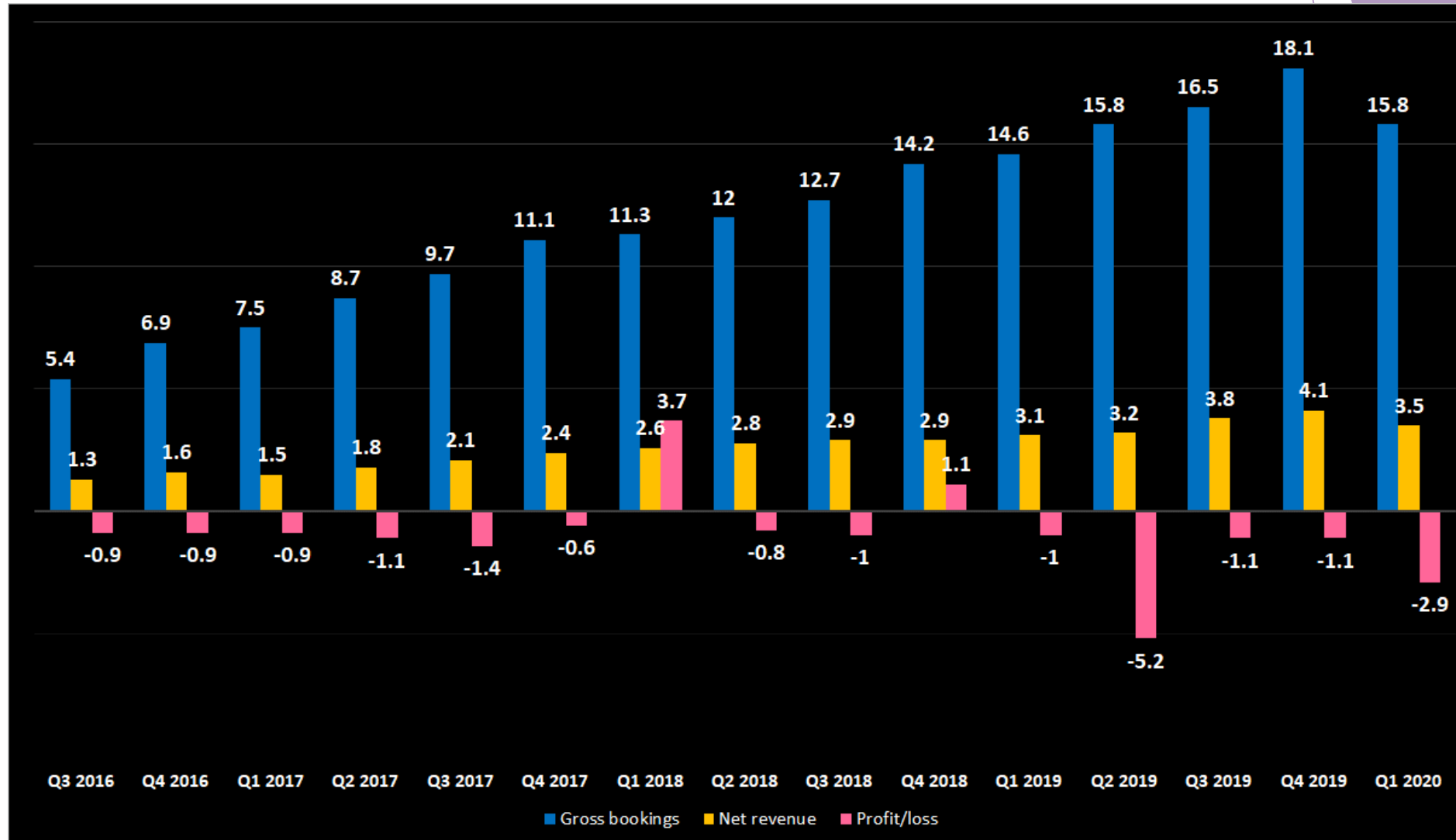
- The entrepreneur should know how many products/services etc they have to sell before attaining a profit
- The breakeven point is the production level where total revenues equals total expenses
- It is the minimum point, below which the company will start incurring losses, and above which the company will start having a profit

Breakeven analysis





Uber doesn't make a profit



Uber doesn't make a profit



Forbes magazine (December 2017): “The taxi industry that Uber is seeking to disrupt was never profitable when allowed to expand in unregulated markets, reflecting the industry’s low barriers to entry, high variable costs, low economies of scale and intense price competition – and Uber’s current business model doesn’t fundamentally change these structural industry characteristics. It is indeed ironic that Uber’s fierce determination to avoid regulatory oversight condemns the company to unprofitable operations that the taxi industry experienced during its pre-regulatory era.”

‘Gig economy’ platforms





- Grab's top-line growth and market dominance is impressive, but it's still deeply unprofitable. Its net loss widened from \$2.75 billion in 2020 to \$3.56 billion in 2021, as its adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) loss widened from \$780 million to \$842 million
- Grab's losses are widening because it's still offering a lot of loss-leading incentives to its partners and consumers as it expands its market share

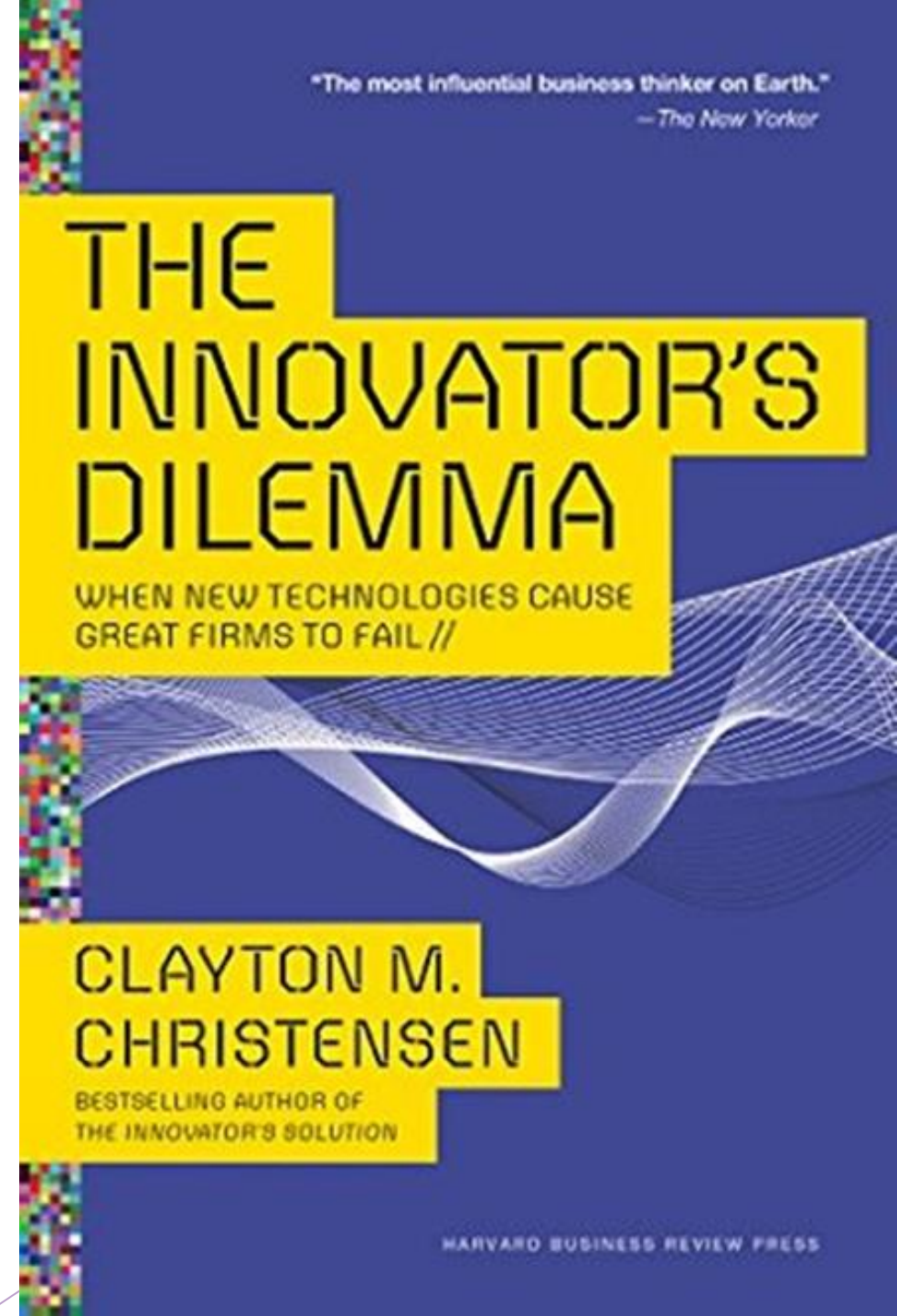
Disruptive innovation

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Disruptive innovation

the process of **transforming** an expensive or highly sophisticated product or service into one that is simpler, more affordable, and more accessible to more people

has been called the most influential business idea of the early 21st century



Disruptive innovation

gets the job done - good enough

- lower quality
- cheaper
- easier to use
- can be bought and used by more people

This creates a new market or expands the existing market

Low-cost carriers (LCCs)

Low-cost airlines offer less services (no free food or drink, no free checked bags etc)

But cheaper flights means more people can afford to travel

Densification of seats

Electronic ticketing

Dynamic (demand-led) pricing

Removal and charging for ancillary services (free meals, seat allocation etc)



Multiple flights per plane per day, quick turnarounds, maximizing plane usage

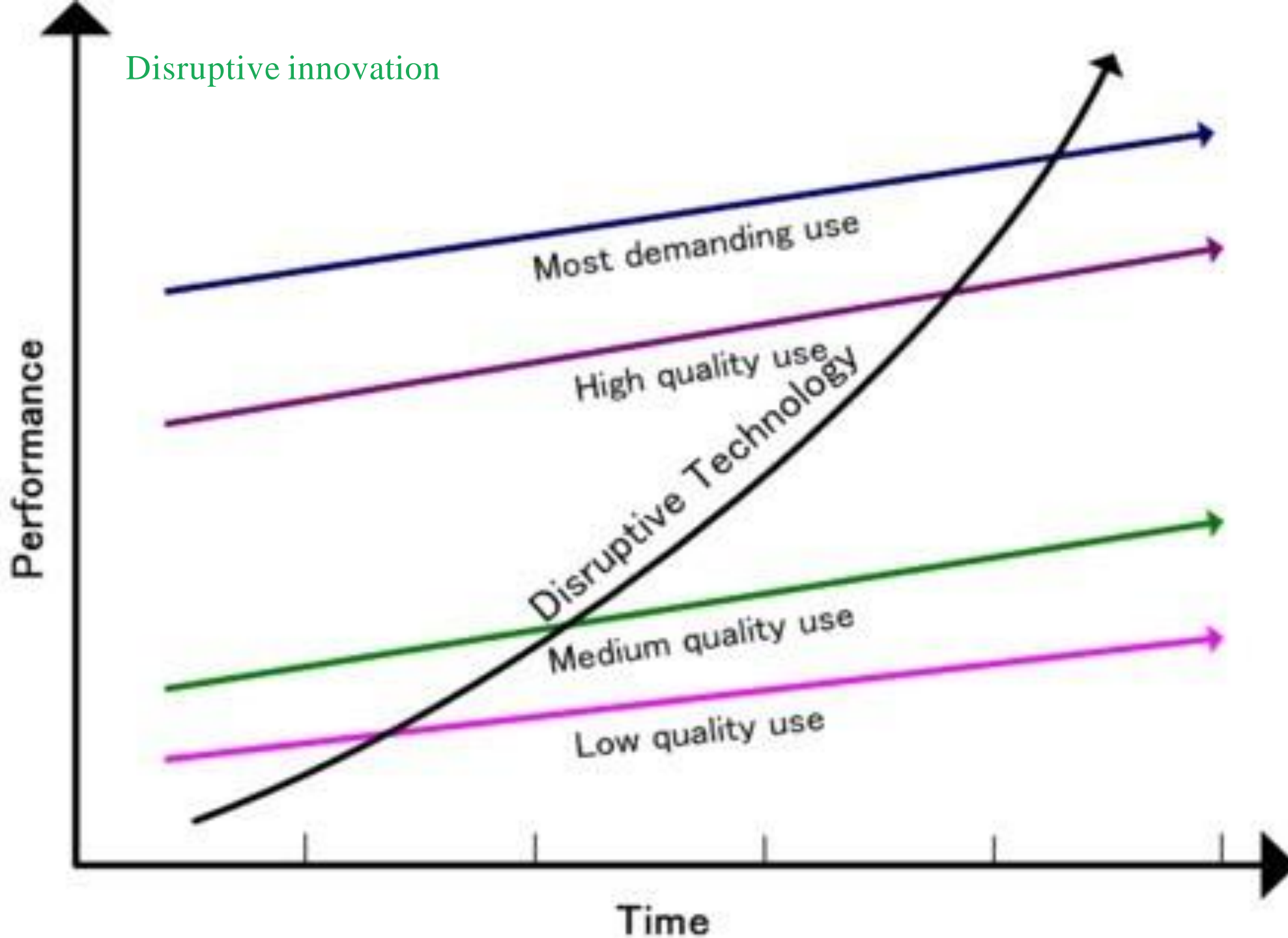
Use of single (new, more efficient) plane type to reduce training and maintenance costs

Previously underserved short- and medium-length routes

Preference for secondary uncongested airports

Point-to-point (P2P) routes, elimination of connecting flights

Disruptive innovation



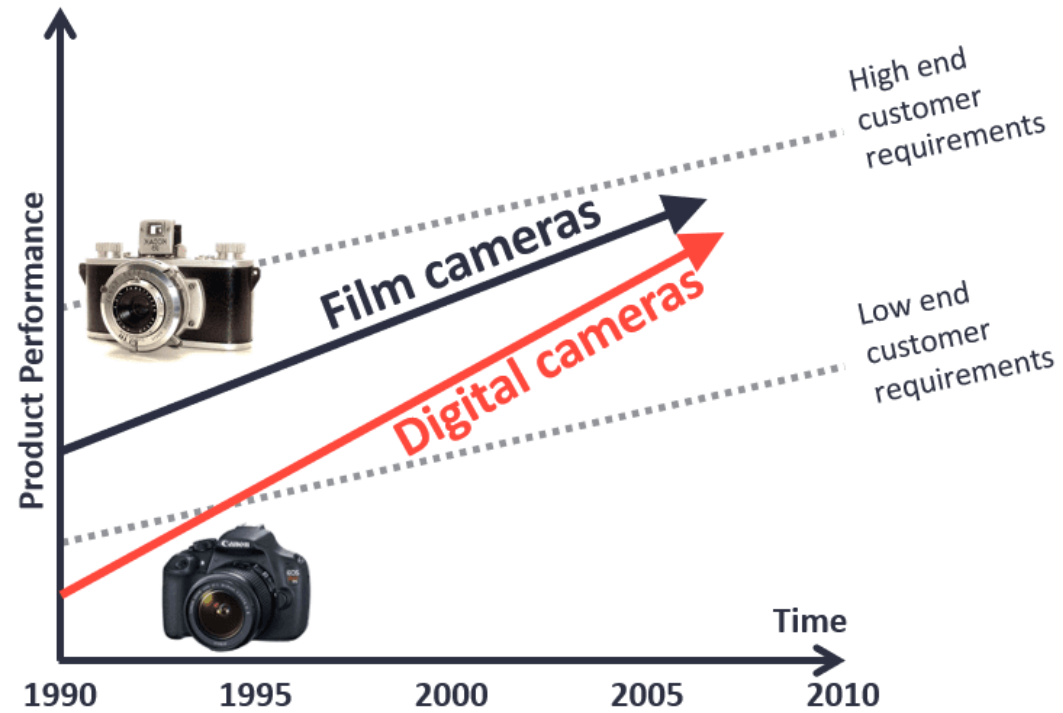
<https://medium.datadriveninvestor.com/why-aldi-is-americas-most-disruptive-grocer-market-mad-house-9bf1673d6496>



<https://www.usatoday.com/story/money/business/2013/04/17/tesco-exits-usa/2090801/>

Disruptive innovation

The disruption of film cameras



So why do businesses not innovate?

Larger, successful companies tend to focus on:

- More expensive, higher profit margin products
- Pleasing their existing customers
- Incrementally improving their existing products
- Adding new features and complexity to existing products to improve margins
- Big, profitable new markets – not smaller, emerging markets

So why do businesses not innovate?

- So why would they threaten their own, successful, high performance, high margin products, which have a lot of customers...
- ...with untried, lower performance, low margin products, which they don't know if there are customers for?

Google's innovator's dilemma

- Google successfully disrupted advertising (and much else) through its domination of search (Google Ads)
- Now it faces its own innovator's dilemma with generative A.I.
- Google developed some of the key A.I. technologies - but OpenAI (part-owned by Microsoft) launched its ChatGPT publicly first
- Does Google risk undermining its search engine business by promoting its own A.I. – or try to ignore it?

Creative accumulation

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Creative accumulation

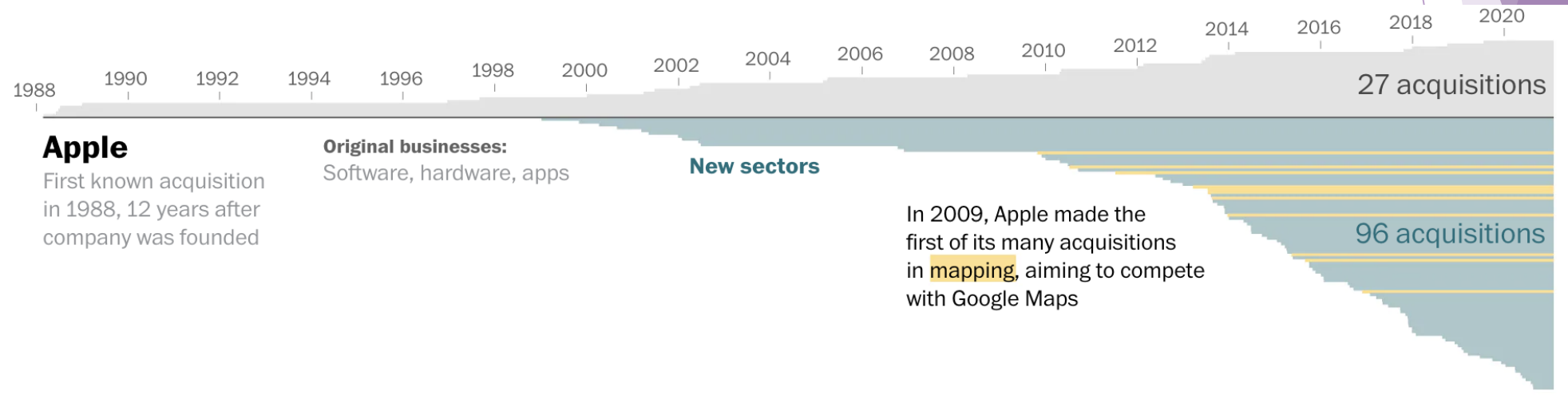
So Google needs to be successful at ‘creative accumulation’:

Creative accumulation requires businesses to manage three challenges simultaneously:

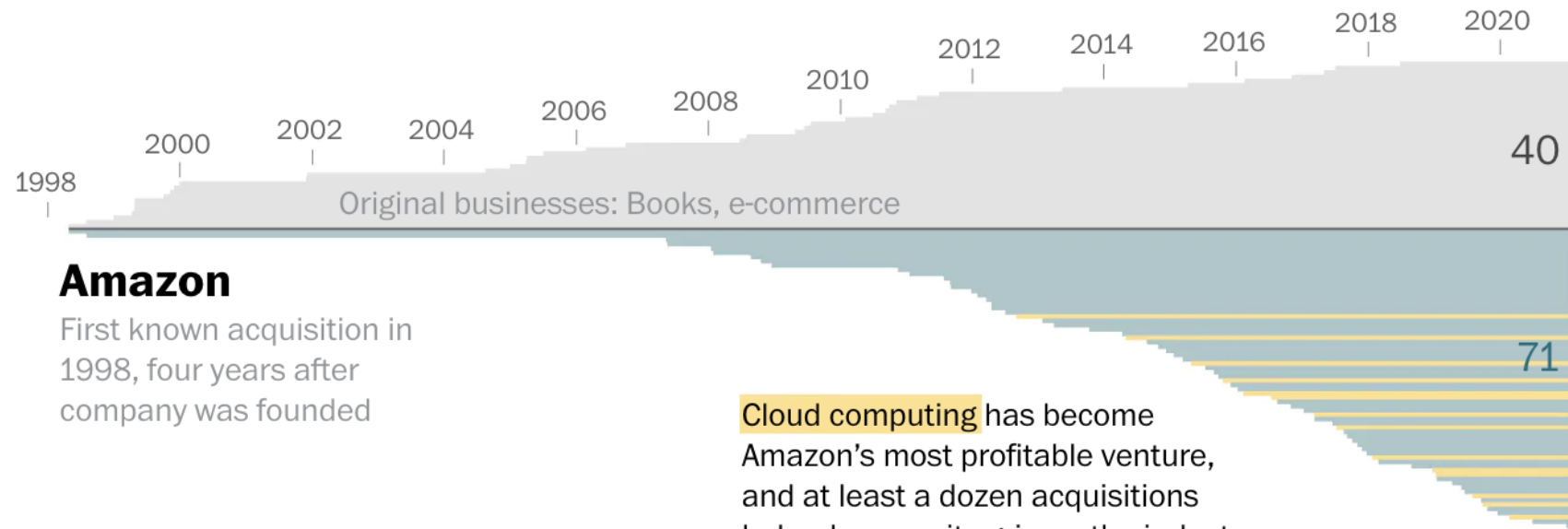
- fine-tuning and evolving existing technologies at a rapid pace
- acquiring and developing new technologies and resources, and
- integrating novel and existing knowledge into superior products and solutions

Bergek, A., Bergren, C., Magnusson, T., and Hobday, M., 2013, ‘Technological discontinuities and the challenge for incumbent firms: Destruction, disruption or creative accumulation?’, *Research Policy* 42, 1210–1224.

Big tech companies buy lots of smaller innovative companies



Big tech companies buy lots of smaller innovative companies

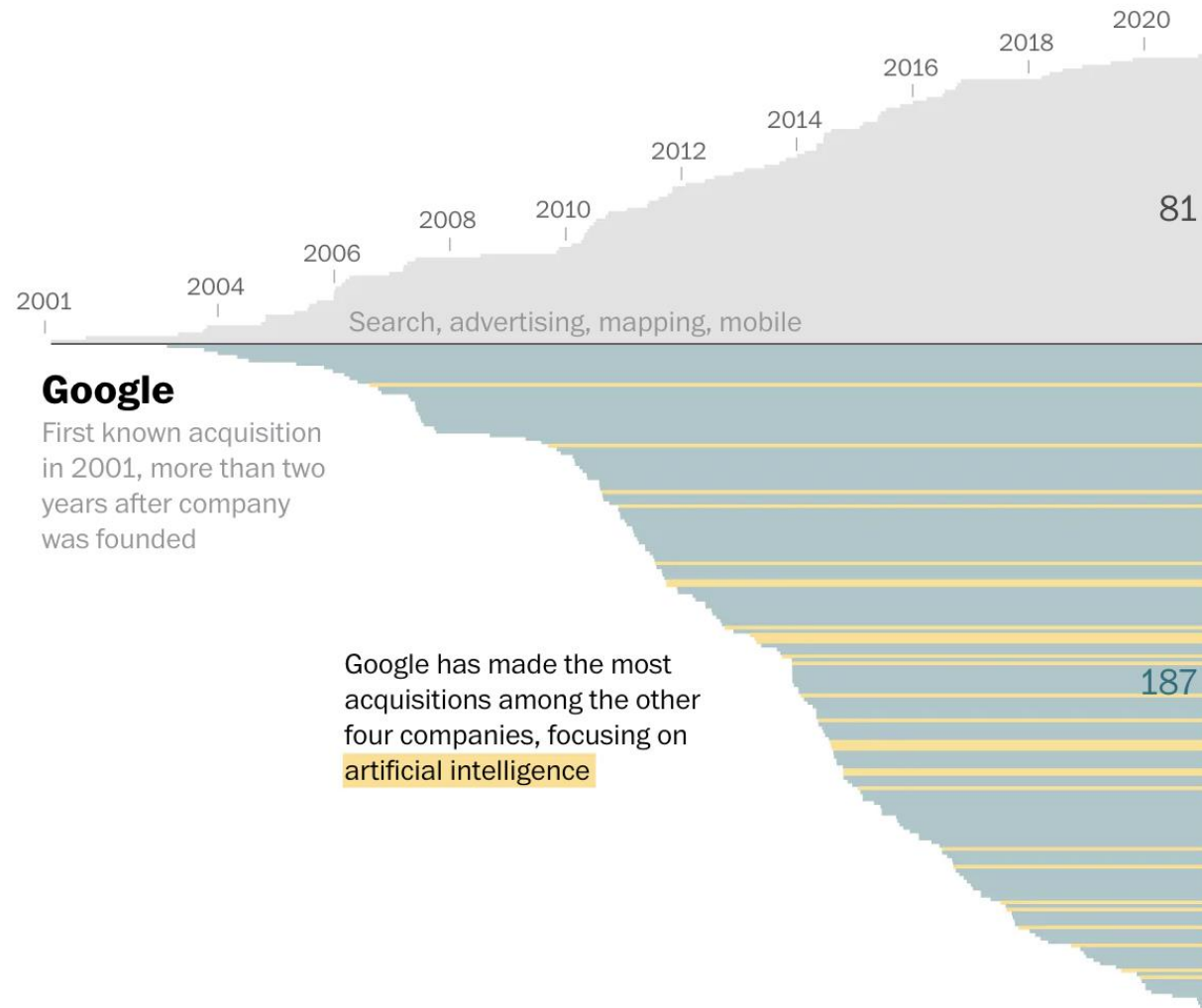


Amazon

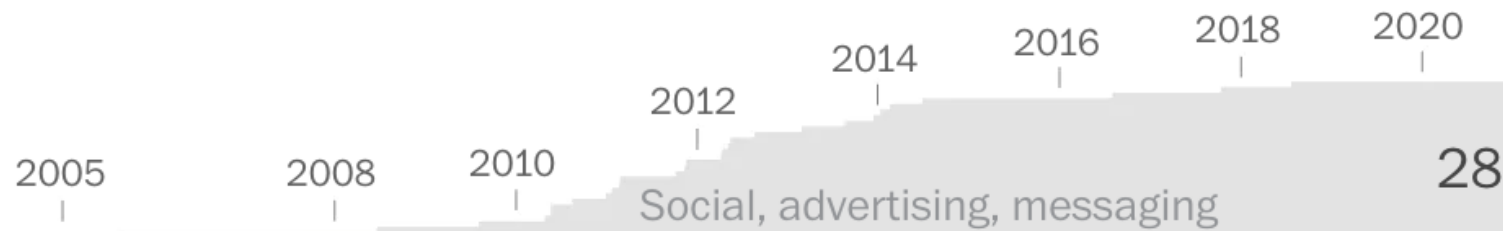
First known acquisition in 1998, four years after company was founded

Cloud computing has become Amazon's most profitable venture, and at least a dozen acquisitions helped secure its grip on the industry

Big tech companies buy lots of smaller innovative companies



Big tech companies buy lots of smaller innovative companies



Facebook

First known acquisition in 2005, one year after company was founded

Facebook dominates social media not just on computers but on phones, thanks to the acquisitions of Instagram, WhatsApp and nearly a dozen **mobile development** companies

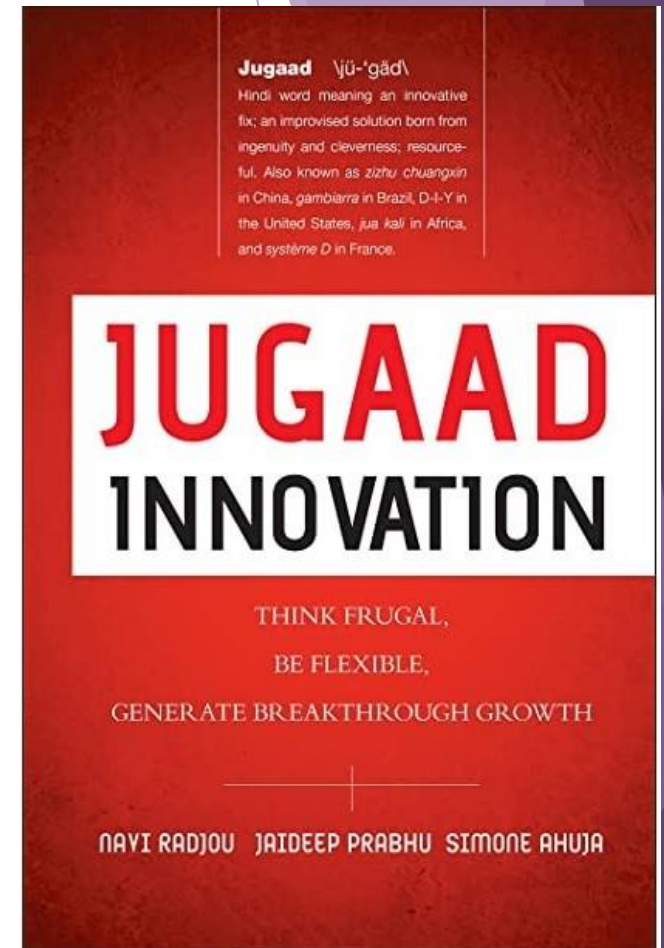
But is this – the domination of some big tech companies – part of the reason that ‘we’ are becoming less innovative?

Low-cost innovation

The background of the slide is white with abstract purple geometric shapes on the right side. These shapes include overlapping triangles and polygons in various shades of purple, from light lavender to dark indigo. The shapes are layered, creating a sense of depth and movement.

Frugal innovation

- ‘Jugaad’ is a Hindi word meaning an innovative fix or an improvised solution born from **ingenuity and cleverness with limited resources**
- (In emerging markets) Businesses are being compelled by cost-conscious and eco-aware consumers, employees, and governments to create offerings that are **affordable, sustainable, and high quality**
- Even more than a strategy, frugal innovation is a whole new mindset – a flexible approach that sees **resource constraints not as a debilitating challenge but as a growth opportunity**



Frugal innovation



For example, millions of people in Africa rely on M-PESA, a service that enables them to save, spend, and transfer money using their cell phones without having a bank account

Frugal innovation



Or SELCO, which provides solar energy at very low prices to over 125,000 households in remote Indian villages, debunking the myth that poor people can't afford clean technology

Frugal innovation



Unilever packages its washing detergents, shampoos etc in smaller single use sachets that consumers in developing and emerging markets can afford to buy, rather than bottles that could cost the equivalent of a week's wages or more. But in the wake of the Global Financial Crisis, this also proved popular in many countries in Europe.

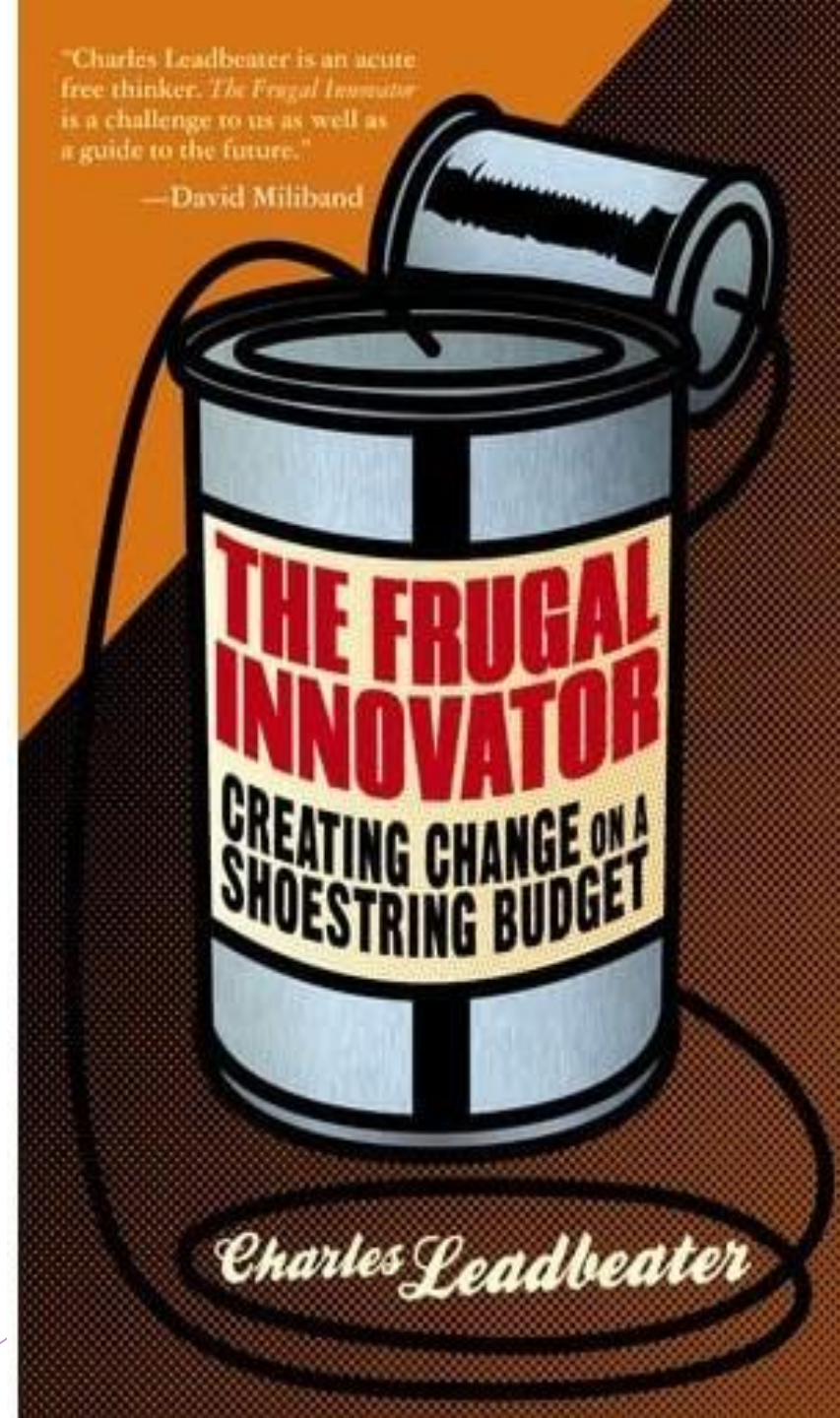
Frugal innovation



The Dacia Logan is a family of automobiles produced and marketed jointly by the French manufacturer Renault and its Romanian subsidiary Dacia since mid-2004. Renault saw the need for a modern, reliable, but much more affordable car for some developing markets (the car has 50 per cent fewer parts). Renault then realized it could sell well in developed markets as well – and it has.

Innovation on a shoestring

- ‘**Reinventing**’ can be better than inventing – use something that already works!
- These innovations are also more likely to spread, because **people already understand them**
- E.g. In Mexico, healthcare can be too expensive for many people. Pedro Yrigoyen set-up a call center (Medicall Home) for simple medical conditions. For \$5 a month, people can get basic medical advice
- The system earns a referral fee for people who need doctor/hospital care, part of which pays for discounted healthcare



INNOVATION

Student Inventor's Cheap, Portable Baby Incubator Wins Dyson Award

An innovative way to take care of premature babies in places with inadequate medical care has won a young inventor this year's Dyson Award.



<https://www.nbcnews.com/tech/innovation/student-inventors-cheap-portable-baby-incubator-wins-dyson-award-n241251>

Jobs to be done

“Make something people want”
- YCombinator’s motto



Y Combinator teaches how to market their product, refine their teams and business models, achieve product/market fit, and scale the startup into a high growth business

Our job is to figure out what they're going to want before
they do

- Steve Jobs

If I'd ask customers what they wanted, they would've told me
a faster horse

People don't know what they want until you show it to them.
That's why I never rely on market research.

- Henry Ford

The Jobs to be Done model

NOT

what features a customer might want to buy

BUT

**find out what job/outcome a
customer is trying to accomplish**

(what frustrates them),

and then develop something which helps

them achieve that

JOBS TO BE DONE

THEORY TO PRACTICE

ANTHONY W. ULWICK

FOREWORD BY **ALEX OSTERWALDER**

"I call him the **Deming of Innovation** because, more than anyone else, Tony has turned innovation, into a science." -**PHILIP KOTLER**



exam prep
and practice

exam prep

no multiple choice questions (mcq)
- this is why

‘A’ students deserve an ‘A’
all students deserve to be evaluated on their
ability, knowledge and skills



examples of types of exam questions

1. simple questions (3 minutes)
2. shorter questions (15 minutes)
3. essay-type questions (30 minutes)

example exam questions

simple questions (3 minutes each)

1. What is the term in innovation to describe how the old is being replaced by the new?
2. What innovation is “the process of transforming an expensive or highly sophisticated product or service into one that is more affordable, accessible and simpler”?

example exam questions

short question (15 minutes)

Why is the Internet a good example of creative destruction?

*suggested answer length in an exam: write one or two paragraphs
(15 minutes)*


example exam questions

essay-type questions (30 minutes)

1. Where does innovation come from? Give examples of ideas and opportunities
2. Give examples to explain what is creative destruction and why is it important.

suggested answer length in an exam: write for 20 to 30 minutes

Drucker's seven sources of innovative opportunity are 1. The unexpected, 2. Incongruities, 3. Process need, 4. Market structures 5. Demographics, 6. Changes in perception, meaning, or mood, 7. New knowledge



Thank you!
any questions?