THE GLOBE AND MAIL

How to spot the warning signs of disruptive innovation before it hurts your company

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SPECIAL TO THE GLOBE AND MAIL

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Is it possible for a small, young company to outperform an industry titan, for David to beat Goliath? Just ask Uber, Netflix and Airbnb.

Upstart Uber became one of the world's largest taxi companies without owning a single taxi. Netflix revolutionized the video market, essentially putting Blockbuster out of business. Airbnb has become an accommodation provider to be reckoned with, without acquiring real estate.

It's called disruptive innovation. And senior leaders across North America lose sleep thinking about whether it could happen to their company and, perhaps more importantly, how they could prevent it.

Disruptive innovation is when a company, usually a startup, introduces new products or services, often technology-based, to gain advantage over established competitors. And in this context, the word "disruptive" does not mean to interrupt or cause disorder, but to replace. If you're a behemoth in your industry, that should be cause for angst.

Historically, established corporate leaders don't often see disruptive change as a hazard, usually because it starts when their own company's profitability is robust and the competitive impact is minimal. However, by the time the threat is conspicuous, the disruptive force has already gained so much traction that any efforts to reverse the tide are futile. So what is really needed is an advance-warning system: specific actions leaders can take to assess whether their company and industry will come under attack, well before the threat becomes a reality. Here are three things you can do to ensure you don't become collateral damage when your market niche is disrupted.

IDENTIFY POTENTIAL DISRUPTORS

First, keep a vigilant eye on your potential disruptors. Listen when your customers tell you their pain points and pay close attention to who is stepping in to alleviate the ache. Monitor online forums and social media. The companies that are addressing your customers' complaints about your product or service are the ones that will pull ahead to disrupt your business. The biggest grievances with the traditional taxi model included long wait times, poor in-car service, payment hassles and a perceived lack of safety. Uber's model directly addressed each of these concerns – and all at a lower price. The warning signs were all there, but nobody in the taxi industry knew, or cared, to pay attention.

DETERMINE YOUR COMPETITIVE ADVANTAGES

Second, be pro-active in determining where your organization's advantages lie. For an example, consider higher education. Online universities have economies of scale. Because they use e-learning technologies, they can enroll, educate and grant degrees to far more students at a much lower cost than traditional universities, which matters if you are a student with a limited budget. But for those students who want an exclusive university on their résumé, or who are seeking the college social experience, an online university cannot meet their needs. So traditional bricks-and-mortar universities will do better to focus on these two aspects when looking to differentiate themselves from their online competitors.

EVALUATE YOUR DISRUPTORS' BARRIERS

Third, look beyond the present. What barriers would your disruptors have to surmount for them to wipe out your existing differentiators? In other words, how easy is it for you to lose your current competitive advantage? Consider these five types of barriers to disruption, ranked from easy to very difficult to breach:

1. Momentum: Customers stay with you only because they are used to the status quo. Not surprisingly, these clients will jump ship quickly.
2. Tech implementation: Current technology only needs to be implemented for your customers to leave you.
3. Ecosystem: The business environment would have to change for your potential disruptor to become a viable competitor.
4. New technologies: New technology would have to be developed in order for disruption to occur.
5. Business model: The disruptor would actually have to adopt your cost structure in order to compete with you. If this is true, your company is likely safe – at least for now.

Even if your competitive advantages fall into the fourth or fifth type, don't think you are immune. For years, the worldwide accommodation business had high barriers to entry for competitors. But when Airbnb capitalized on the massive reach of the internet by connecting providers with potential customers, the world of overnight lodging was turned on its ear.

No matter what industry you're in, disruptive innovation can be a threat. But with intelligent watchfulness, it doesn't have to be a source of anxiety.