

Disruption, Risk or Opportunity?



If you are unwilling to disrupt your business, there will always be someone willing to do it for you.

We often hear and read about disruptive technologies and business ideas. What is disruption and how does it happen?

What is Disruptive Change? Disruptive change occurs because of innovation in industries, change in the company's structure, or transformation in business models. These fundamental changes disrupt the way an organization conducts business.

In practice, disruption happens when traditional value drivers in an existing market are significantly changed. Typically, a new player enters an existing market with new technology or business model (or a combination of these two), providing a new kind of value that differs from the incumbent's offerings.

Features and challenges of disruption

1. Disruption is continuous

It stays disruptive until something else disrupts it. There are many triggers for disruption. They can be business, technology or societal, but there is one guarantee: Once disruption starts it will deliver continuous shocks to the status quo. The disruption must be profitable soon. Delay profits too far into the future and you may never see them. Several disruptive start-ups are mounting losses each year. Whether they will turn the corner and recoup the losses before they get disrupted is to be seen. Tapes and vinyl records were the mainstays of the music industry for many decades until disrupted by CDs. CDs and pen drives have had much shorter shelf lives, disrupted by the Cloud.

2. Disruption cannot be avoided

Just like water finds its way, so will disruption. We cannot hide from disruption. We must be prepared to act. Kodak invented the digital camera but kept it under wraps worrying that it will disrupt its photo-film business! Apple on the other hand created the iPhone, which disrupted its iPod.



3 . Disruption requires preparedness

Unilever may not be unduly worried about P&G. They perhaps bring out the best in each other. But what if Siemens invented a washing machine which does not require detergent? Given the emphasis on the environment and sustainability, these organisations will be aware of market shifts. In response, their focus will be to innovate more efficient products and diversify their portfolio so that a significant adverse impact on a single product does not cascade on the organisation.



4 .Temporary disruptions and missed profit opportunities

Several businesses prided themselves on being great disrupters and innovators during the pandemic, showing tremendous growth in consumers/revenues. Many businesses were piggybacking on the work-from-home phenomenon. People are back at office and some of these organisations are facing stagnating/declining revenues. This also emphasises the point; don't delay profits.

Types of disruption

1. Offense (innovation):

Pushing others out of the way. For example, Google pushed competitors Alta Vista and Ask Jeeves out of the way to be the top search engine.

2. Defense (competition):

Counteracting the disruption in response to a missed opportunity. For example, Google bought Android to compete with Apple's iPhone and iOS.



3. Serendipity (chance):

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4. Destruction (anarchistic):

Not reacting to disruption at all, ending in destruction. For example, over time, Netflix had a destructive impact on Blockbuster's business.

5. Self-disruption (reinvention):

Disrupting yourself before someone else does it to you. For example, Apple created the iPhone, which cannibalized its iPod market but paved the way for better, more wide-ranging market opportunities like photography, personal navigation and even augmented reality.

The Risk Manager's Role

- As part of our Risk Management activities, we must evaluate how resilient the business is to disruption. Evaluation could be based on the following:
- Is business alert to emerging technologies, trends & business models?
- Does the organisation have a robust New Product Development function?
- Does business continuously interact with key stakeholders and is agile to changes?
- Are business tracking competitor product developments and launches?

In conclusion, be aware and agile. The objective is to always be prepared for change.



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