Chief Executive

Disrupt Yourself—Before Someone Else Does

How established companies can bring out new products that compete with the old.
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Posted by: William J. Holstein May 18, 2016

Matco Tools had a problem. The toolboxes that it sold to auto mechanics across North America—the flagship of its business—were becoming dated as manufacturers loaded more and more technology into their automobiles. Mechanics needed more sophisticated tools like vehicle diagnostic kits and recharging stations, and their needs varied from model to model.

So, starting about two years ago, Matco, a $450 million subsidiary of Danaher, based in Stow, Ohio, launched an innovation project with an outside business-innovation firm, Cleveland-based Nottingham Spirk, to disrupt its biggest line of business. Matco assigned some of its best and brightest to an innovation team that also included representatives from Nottingham.

Why work with an outside partner? “Sometimes you can have a view of what your products or markets are, but having outside eyes come in, people who challenge what we think, is really is a critical thing,” says Tim Gilmore, Matco’s president. “They challenge us. And our team will challenge them. That helps us to push the envelope as to what the customer is looking for.”

The end result was a brand new type of toolbox, starting at about $4,000 and ranging as high as $40,000, that provides room for laptops and iPads, plus charging systems for anything that needs power, and a newer way of organizing tools for easier access and therefore, enhanced productivity. These Revel and RevelX boxes were unveiled in February and Gilmore expects they will cannibalize the sale of existing toolboxes when they go on sale this autumn.

“Our approach is, how do you cannibalize yourself so that you’re out in front with the innovation?” Gilmore asks. “Disruption has to happen. For example, what you might have used to jumpstart a vehicle years ago might have been large and heavy. Now, with the advent of lithium ion batteries, that device can fit in the glove compartment. That will obviously cannibalize the sales of the older product; but if it is designed right, it will drive incremental sales.”

CEOs across many different traditional sectors of the American economy are realizing that they must disrupt themselves and that technological disruption, a term famously created by Harvard’s Clayton Christensen in his 1997 book The Innovator’s Dilemma, does not apply only to Silicon Valley. Leaders of companies of all sizes, in every sector of the U.S. economy, must overcome inertia and sometimes outright resistance from inside their organizations to not only allow, but encourage disruption, particularly in view of intensified global competition.

The key question is how to do it. Vijay Govindarajan, a professor at Dartmouth and Harvard universities and author of a new book entitled The Three Box Solution, argues that CEOs have to think of their current business as representing Box 1, old products that are fading as Box 2 and future products as Box 3. The most difficult thing to manage is the gap between the present (Box 1) and the future (Box 3). “They require different capabilities and different metrics,” Govindarajan says. “This is the central strategic challenge.”

Govindarajan is skeptical of turning to outsiders for product design help. He argues that transferring any new product ideas from an outside team back into the heart of the business is too difficult. Instead, a CEO has to create a separate internal innovation team by borrowing people, technology and resources from his existing business unit in Box 1. The Box 3 team should be physically separated from people running the existing business, he says.

In this process of cross-fertilization, there are bound to be clashes between the teams, and only a CEO can manage those. A chief innovation officer may be able to act as a champion for disruption, but only a CEO can control the necessary resources to make it happen. “The reason this is so hard to do is that you, as CEO, have two jobs,” he adds. “There are inherent tensions between them.”

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Not everyone agrees with Govindarajan. Bill Nottingham, a principal at Nottingham Spirk, argues that there is great logic in a CEO’s working with outside experts. “A partnership mentality makes business sense,” he says. “The market keeps changing and, if you as a CEO have to keep creating new teams and paying for them, that gets expensive.” Why not, he asks, bring in specialized brain power, a kind of a SWAT team, and use them on a case-by-case basis? His firm says it has helped companies create new products that have reached a total of $50 billion in sales.

From the Inside Out

Nottingham does agree that working at a full arm’s length from an outside design firm can create difficulties. Many firms want to create cool designs that win industry awards, but they have scant ideas on how to turn them into businesses. That’s why it is important to include manufacturing, engineering and sourcing mavens in any design team, and that’s why Nottingham Spirk calls itself a “business innovation firm.” “If you want to scale a new idea, you have to build in a business mindset,” he argues.

Of course, CEOs use many other strategies and they all have their strengths and weaknesses. Some argue that mergers and acquisitions can lead to the absorption of new technology that disrupts, but others say that the burden of integrating two organizations can actually interfere with innovation. Other CEOs are fans of internal innovation labs, crowd sourcing and open innovation with other companies. None of these are perfect.

The Value of Varying Approaches

It may be that a CEO should use a variety of these tools—depending on the nature of the enterprise and scale of the attempted disruption. Matco Tools, for example, does not rely on any outside partner when it works with a supplier to improve a particular finished good that it, in turn, resells to auto technicians. That approach is considered an open innovation model of collaboration.

How does the company decide on which disruptive innovation model to use and when? “The key thing is the complexity of what we’re looking at and the overall impact on the business,” Gilmore explains. Improving a specific tool might yield only incremental gains. But toolboxes are the major money-makers. “We decided we want to spend more resources on that,” he says.

One of the industries that, perhaps surprisingly, relies on a constant stream of disruption is the toy and game industry. Hasbro, based in Pawtucket, Rhode Island, makes everything from the Monopoly board game to Star Wars paraphernalia.

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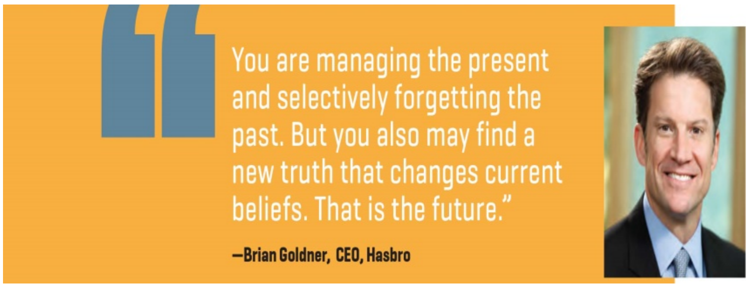
With $4.4 billion a year in sales, CEO Brian Goldner says that 75 to 80 percent of its products are new each year, meaning there is a constant flow of new items replacing the old. “I am reinventing and reimagining our brands all the time,” says Goldner. His philosophy of disruption is a twist upon Govindarajan’s three-box theory. Hasbro builds teams that manage each brand globally, including household names like Nerf and Play-Doh. They conduct their own research with customers and potential customers. But the company also has its own future-focused innovation groups, including one called the i-Play team, that conduct research on how to take physical toys or games and make them digital or how to adapt them to social media. It’s up to the teams managing each brand to recognize and embrace a disruptive idea.

“I think of the three-box strategy as being more like the Matryoshka Russian dolls that nestle together,” Goldner explains. “You are managing the present and selectively forgetting the past. But you also may find a new truth that changes current beliefs. That is the future. You have to think about all of these at once. They inform each other. I don't think they are separate processes but rather nestled within each other. The core brand team needs to have a sense of all three boxes at once."

One of fastest-growing brands within Hasbro, ironically, is Play-Doh, which has existed for 60 years. "We looked at the present, selectively forgot the past and imagined the future," Goldner says. "You look around the world and people are very focused on helping their children to concentrate on achieving development milestones."

So Hasbro developed playsets and figurines to sell with the Play-Doh itself, allowing children to do things such as build a village or an imaginary scene. That enhances their creativity and story-telling capabilities, encouraging parents to buy more. In short, the company reimagined how Play-Doh could be used. As a result, Play-Doh sales grew more than 30 percent last year and have doubled in size over the past three years.



In summary, there are many different disruption models and CEOs can decide when to use a particular example. Large companies have the benefit of bigger budgets, more specialized expertise and global scale. But smaller companies can use less formal methods of disruption and can act faster than their larger peers. It seems every CEO needs a toolbox of disruption strategies that everyone in the company understands and embraces. These strategies must be accompanied by the right mindsets and culture, as well as the compensation systems that support the most collaborative and inventive behaviors. The effort is necessary to maintain a competitive edge. Any CEO who is not thinking about disrupting his or her business is exposed to the possibility that someone else will.

Sidebar: Solving the Disruption Dilemma