ARTICLE

DISRUPTIVE INNOVATION

How Likely Is Your Industry to Be Disrupted? This 2×2 Matrix Will Tell You

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The topic of industry disruption — “a process whereby a smaller company with fewer resources is able to successfully challenge established incumbent businesses” — is rife with misconceptions. One
of the biggest is that it is a mysterious, random, and unpredictable event. Another is that it happens to you in ways that are beyond your control. Those views may have been valid at one time, but they no longer apply. Industry disruption, as Accenture research has found, is reasonably predictable. And with wisdom about its predictability comes opportunity.

To help business leaders better understand industry disruption, we developed an index that measures an industry’s current level of disruption as well as its susceptibility to future disruption. For the former, we examined the presence and market penetration of disruptor companies; we also considered incumbents’ financial performance. For the latter, we measured incumbents’ operational efficiency, commitment to innovation, and defenses against attack.

Ultimately, Accenture’s Disruptability Index positioned 20 industry sectors — and 98 segments within those sectors — against those two axes. We then used the median scores as dividing points to highlight four distinct states of disruption: durability, vulnerability, volatility and viability.

The Four States of Disruption
How susceptible is your industry?

Our research showed that it is possible for business executives to assess how susceptible their industry is to disruption and why, and to do the same at a more granular level for their company. Armed with that knowledge, they will be better able to define the right strategic response and act with confidence.
In the *durability* state, we found efficient, mature industries — think alcoholic beverages or tires and rubber. Incumbents in these industries often own established brands, proprietary technology, and control of distribution channels. These advantages can be used to control against the sudden influx of non-traditional competition, if executives are prepared to respond to changing consumer demands and take advantage of the growth opportunities those trends may reveal. For instance, in the United States and Europe, consumer tastes have shifted toward local craft beer. There were more than 5,000 craft breweries in the United States alone in 2016, compared with 1,400 a decade ago, according to Statista. Multinational beer companies have responded by investing in or acquiring large craft brewers such as Lagunitas, Craft Brew Alliance, and Goose Island to gain an immediate foothold in the market.

In the *vulnerability* state, incumbents benefit from the continued presence of high barriers to entry such as regulation and capital requirements. But companies in this state often face increasing pressure to improve efficiency and reduce operating costs in their legacy businesses, and this pressure attracts opportunistic disruptors. Consider the health care sector: Newer companies are entering the market with the embedded ability to use connected sensors and artificial intelligence to monitor in real time the conditions of patients — especially those suffering from chronic conditions. Meanwhile, increasing numbers of incumbents are being compelled to adopt these technologies to stay competitive, even as cost and productivity pressures become acute.

In the *volatility* state, industries experience high levels of disruption and are susceptible to even more disruption in the short term. Previously strong barriers to entry have perished; fixed assets such as car fleets, hotels, bank branches, and landline infrastructure have become weaknesses. In transportation, for example, on-demand options have roiled the market, and traditional taxis are fighting back, belatedly, with apps such as Arro and Way2Ride. New competitors are not even staying away from more traditional, low-margin industries. Supermarkets are a case in point. Amazon’s acquisition of Whole Foods is forcing many incumbents in the grocery segment to rethink their go-to-market strategies.

The state of *viability* is where we found new or reborn industries that have endured a significant disruption. The competitive landscape brings opportunities for new structural efficiencies, but high rates of innovation mean that sources of competitive advantage are often short-lived as new disruptors continually emerge. In this state, disruption is not (or is no longer) sudden and violent; it has become a constant. Consider the newspaper-publishing industry. Following a dramatic decline in print sales and advertising, some newspapers have reestablished themselves as digital platforms. Others are exploring subscription models. But the industry continues to face significant and persistent challenges related to ad revenues, as well as labor and production costs and shifting consumer demand.

When faced with disruption, many leaders cling to their legacy business. But leaders who understand the various disruptive states and their company’s place therein will be more likely to see disruption as a positive force — not as a cue to protect the old but as a compelling prompt to lead in the new.
They will see disruption as a means to improve their organization and become more financially viable, possibly by venturing into new markets.

Based on the unique characteristics of the four states, our research suggests the following strategies can help business leaders take control of disruption:

In the *durability* state, companies must actively reinvent their legacy business rather than focus on preserving it. This means taking steps to both maintain cost leadership in their core business while also running extensive experiments to increase relevance — for example, by making key offerings not only cheaper but also better for their customers. The home retail segment, for example, underperforms the average investment in R&D for all industries by a factor of seven. There are exceptions, however, such as Lowe’s, the home-improvement retailer. In 2014, the company created *Lowe’s Innovation Labs*, an initiative that has produced the “Holoroom,” an evolving, mixed-reality design experience, and the “LoweBot” autonomous retail-service robot. This venture signals the home-improvement retailer’s commitment to building a customer experience that will appeal to the rising generation of so-called digital natives.

Those in the *vulnerability* state must address productivity challenges in their legacy businesses right away and thoroughly to get in shape for future innovations (their own or competitors’). One way is by reducing dependence on fixed assets. Another is by taking underused assets and monetizing them. Leading independent power producers, for example, have begun to deploy asset-light, platform-based business models. Consider *Next Kraftwerke* in Germany, which has developed a network of more than 3,000 distributed power-producing and consuming assets in Central Europe to create a “virtual power plant.” Next Kraftwerke offers services such as demand response, which reduces their customers’ electricity usage during peak periods to reduce costs.

For companies in the *volatility* state, decisively changing the current course is the only way to survive. Rather than simply abandoning the core business, companies will need to strike a delicate balance when making corporate and financial restructuring moves. The Danish conglomerate Maersk is one company that is acting wisely in the volatility state of disruption. It is separating its oil exploration and production, drilling rig, and oil tanker businesses into a new energy unit to be spun off, sold, or merged with other companies. It has already sold off Maersk Oil in a *deal with Total* for $7.5 billion. This pivot has enabled Maersk to lift its performance, focus on growing its core transport and logistics business in which it has global scale, and seek new opportunities for growth.

Companies in the *viability* state must embrace strategies that keep them in a constant state of innovation. This involves increasing the penetration of innovative offerings with existing customers while expanding aggressively into adjacent or entirely unchartered markets by leveraging the strength of their core business. To revisit the newspaper-publishing industry, consider the *New York Times*, which has close to 2.5 million digital-only subscribers and is continuously adding features and services. The company’s AI-powered chatbox enabled users to access up-to-the-minute polling data and analysis during the 2016 election. And its virtual-reality movies allowed subscribers to immerse...
themselves in journalists’ journeys. The Times has ambitious targets for international growth and is striving to double its digital revenue to $800 million by 2020.

Marie Curie, who was awarded the Nobel Prize in Physics in 1903 and in Chemistry in 1911, had a point of view that would serve today’s business leaders well. “Nothing in life is to be feared; it is only to be understood,” she said. Understanding where your industry sits in terms of its susceptibility to disruption will help you make momentous strategic choices. The right time to start taking control of your unique state of disruption is now.

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