The disruptive change I’ll describe is one that my employer exerted on a market and I was heavily involved in. To protect the “innocent” I won’t give all the information. The company I worked for has a large, make that LARGE business in a certain kind of food which they sell mostly in the consumer foods or retail grocery market. They have plenty of cash and R&D resources to work on disruptive changes. There was a group within R&D that was charged with coming up with disruptive changes. A product that they developed was much closer to a scratch, home made product than what the company was selling, but it required different production technology to make it. Because of this the product would have lower margins, just like the disruptive technologies described by Christensen & Overdorf (2000).

The higher profit margin of the standard product is due to the scale of production infrastructure to make it. The new product, while better quality, would not only be lower margin, at least until it reached a similar demand and production scale, but it would cut directly into the market share of the already profitable product. So every sale of the better product would be worse for the company. At the time I was working in the fairly small, and treated as a red headed step-child foodservice division, which was seen by many as just a place to sell big packages of food at lower margin. This scrappy little division was out to prove that we had some good things up our sleeves as well.

We were working on some disruptive things of our own when the disruptive technology group brought us prototypes of the new item and asked if it had any place in the food service business. It did. There is a big restaurant company that sells a lot of this food product and at the time they were making all of it in their restaurants from a partially assembled “mixes” sourced from several vendors (that part gets important) and adding other fresh ingredients to call their offering “home made”. When we brought them prototypes of the new take on this item, which was ready to just take out of storage and cook, they were blown away with the quality. There were discussions on the cost and we learned the price point at which we had to deliver it to get a shot at this business. There was a recently closed plant in the organization that had some of the right equipment to make this product and we worked with the manufacturing leaders to take a chance on buying some equipment to make the product on a scale big enough to run test markets in the idle plant. The new product was liked better by consumers and because no finishing was required labor cost was a fraction of the “homemade” product. The biggest cost saving was that the “homemade” product could only be made in batches. If they were running low on the product as closing time, and low customer volume approached, the only option was to make one full batch of the item and through away what didn’t sell. Because our new product went from storage to cooking they only had to make what they guessed they would sell, plus a few for safety stock, and threw away much less product.

Because of the consumer liking, labor, flexibility and waste advantages the restaurant company couldn’t wait to get as much of it as they needed, which was way more that we could produce. Never before in their history did they have a single supplier of a key item on their menu and they worked with several other vendors to match our product. No one could. In the mean time we invested in the ability to make this product on a scale much larger than what this one company needed because we didn’t want to be in the position of a single customer for this promising technology. By working closely with them to reveal our cost structure and investigating every possible way to control cost we got to a point where both companies were at a cost point, and profit point that was an advantage for them. We agreed to not sell the product to their direct competitors and they agreed to let us use capacity that got us to the low price point to the many, many, other restaurants, college, business & industry cafeterias, or hospitals that wanted the item for the same reasons. The price point got low enough that it could even be sold at good margins in grocery stores. To protect the classic product it was sold at very high margins in a different part of store marketed to small households that might not want to prepare a whole batch of the classic item either.

The success of this disruptive product provided money to complete development of another similar disruptive technology that I was working on. I won’t go into that story, but in a similar way it broke all the rules, or classic wisdom on how to make products like it. This fueled more innovation in the division and we became the darling of innovation in the company. The success of the new products even helped move more of our classic products in a bigger boxes, which improved their margins.

Part of the discussion guide is how did the organization meet the challenge of the disruptive force. On our part we took some unusual risks to start production operations which pushed organizational boundaries (Christensen & Overdorf, 2000). We also forged a new path by collaborating with a customer in ways that had never been done before to get a win for both. We didn’t exactly spin out an independent organization, but capitalized on two already independent groups that worked differently inside the bigger corporation. As for the competitors who made the partially prepared blend for the “homemade” product, they didn’t meet the challenge.

As for systems thinking we looked at this new technology and decided how to get it into a reinforcing loop. (Senge, Kleiner, Roberts, Ross & Smith, 1994) Then took a look at what would be balancing loops and figured out ways to knock them out of balance so that the reinforcing loop could get bigger. Ultimately it came to an equilibrium point when the market for this product became saturated. (Everyone likes a little variety in their diet.) While this product, production technology, and business development work was going on I certainly didn’t think of it as systems thinking. But looking back, the systems thinking of identifying and controlling balancing loops that could have limited growth, it’s easy to internalize the teaching of systems thinking.

Through formulation and process patents the technology and market are locked up for a while longer. I’m sure many of you have eaten the products I’ve worked on but you’d never know that they weren’t lovingly made at the restaurant because they are lovingly made at a little plant in the Midwest.
References:

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