

Chapter 3

Disruptive Product Innovation Strategy: The Case of Portable Digital Music Player

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ABSTRACT

In today's business world, many companies are in search of an innovative strategy to move on to a market where there is as yet no competition. In view of that, many academics and managers are trying to find a systematic framework for a strategic innovative business model. One of the examples of a systematic framework is Blue Ocean Strategy (BOS), which provides various tools for managers to find a gap in an existing market or to create a new market where there is no competition. This chapter uses Apple's iPod product chain to illustrate how BOS tools can be used to create an innovative strategy for two reasons. Firstly, there are few practical examples that illustrate the BOS, as it is a recent business model and so this chapter can be a useful illustration for those audiences who are interested in strategic innovations focusing on disruption. Secondly, the iPod is a great example of an innovative product where the manufacturer benefits from low competition, high market share, and high profit return.

INTRODUCTION

Innovations resulting from disruptive technologies usually offer change either in products or in services that are typically simpler, more efficient, easy to use versions of existing products or services

already in the market. They more than often target new customers or low-end customers by lowering the price or designing products/services for a different set of consumers.

The general understanding of disruptive technologies, technology-based products, and business models has been shaped by the pioneer works

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of Clayton Christensen's book *The Innovator's Dilemma* published in 1997. Disruptive technologies generate new innovations that unexpectedly bring an established market to an end (Christensen 1997). In his book, an important distinction was made between sustaining and disruptive innovations. Sustaining innovation, pioneered by established companies, ensures their competitive status in a market by enhancing and improving existing products' performance in an expected way that customers value (Christensen and Overdorf 2000). However, disruptive innovation usually originates from newcomers, upsets the market status by fundamentally altering the way customers think about product performance because it exceeds their expectations in an unexpected way. In comparing both innovation types, it can be seen that sustaining innovations are the type of technological outcomes that can be outperformed outdone by large and established competitors within a short period of time, while disruptive innovations cannot be imitated or outdone by other companies due to the number of difficulties they face. Some of these difficulties that established companies face are their flexibility in political, operational and cultural positions (Kim and Mauborgne 2005).

With disruptive innovation, the vital concern is to make such a leap that the relevant offering provides a better product/service than anything that existed beforehand. It is almost impossible for established companies to cope with the change as they are focusing on their sustained innovation that helps to maximise profits and keep making their product(s) more desirable. However, established companies can be disruptive by attracting low end customers as in the case of the portable digital music player. Many companies are in search of an innovative strategy to move on to a market where there is as yet no competition. In view of that, many academics and managers are trying to find a systematic framework for a strategic innovative business model. One of the examples of a systematic framework can be found in Kim and Mauborgne's work on Blue Ocean Strategy

(BOS). BOS provides various tools for managers in their innovative strategic decisions to find a gap in an existing market or to create a new market where there is no competition.

This chapter attempts to explore the product evolution and disruption trends in the case of portable digital music players. The aim of this chapter is to clarify a debate on whether the iPod offers a disruptive product innovation or creates a new market space. BOS tools are adapted for the iPod case in considering the gaps in this area and a market forecast is made for the case of this portable music player.

TRENDS OF PORTABLE MUSIC PLAYER DISRUPTION

In 1979, Sony released the first portable music player called the Walkman, which was a cassette player that replaced the bulky music players known as the boom box (Sony 2011). When the first Walkman was introduced, many people claimed it would not sell as it did not have a recording function. However, consumers took to playing their music through a portable device in the 80's. The term Walkman even entered English usage as a portable cassette player. It was not long after that, five years later in 1984, the first portable CD player was introduced by Sony and the portable music player market was dominated by Sony for a long time (Sony 2011). However, the portable music player market started losing its influence over consumers after the mp3 music format became popular (Lasser et al 2006). Consumers started using various online sites and P2P programs illegally to download their favourite songs in mp3 format. Many manufacturers introduced mp3 players but people were still downloading mp3 songs in an illegal way (through P2P programs such as Napster) and the mp3 devices could not store a great number of songs.

In 2001, Apple introduced their first digital music player called iPod and in 2003 introduced

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