

What and How To Deal with Destructive Innovation : **Strategic Issues in the Industries with Layer Structuring**

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Agenda

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2. WHAT IS Layer STRUCTURING?

3. CASE STUDY :
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Automobile Industry

4. Conclusion

Strategies in layer structure from case studies

The differences in strategic issues in VC structure and
layer structure

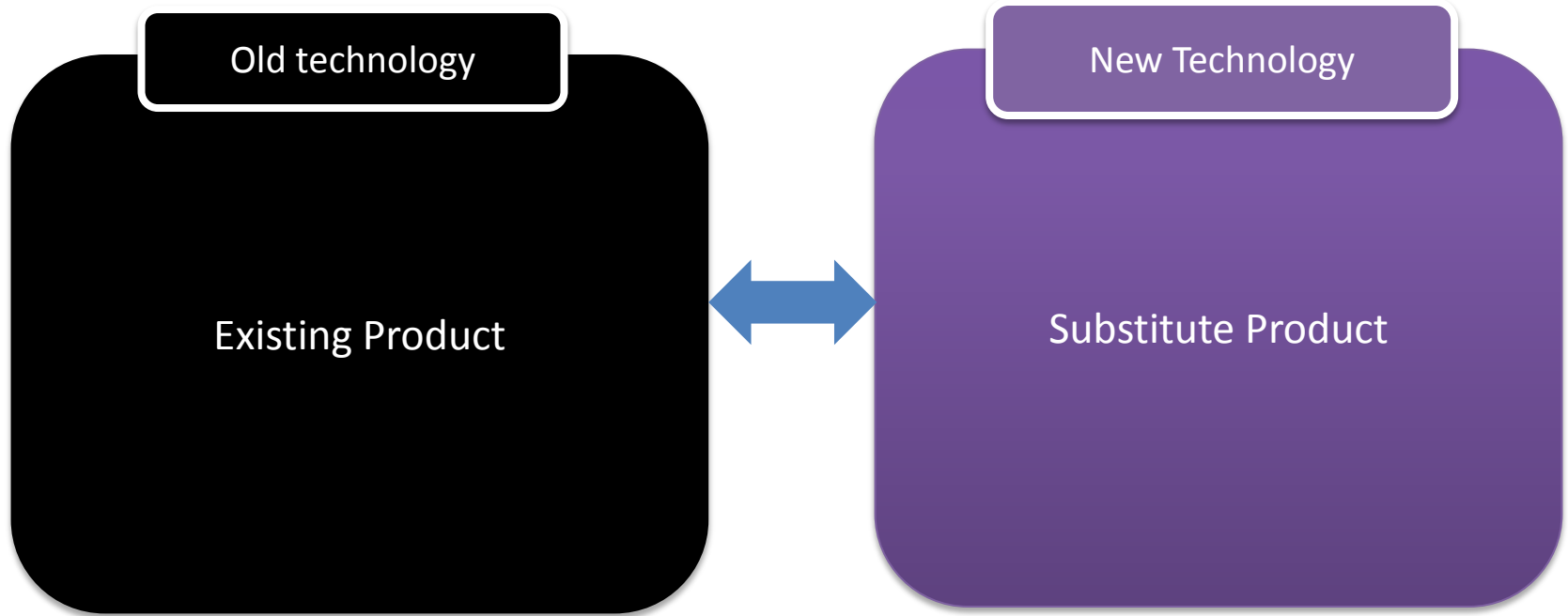
WHAT IS DESTRUCTIVE INNOVATION?

Destructive innovation

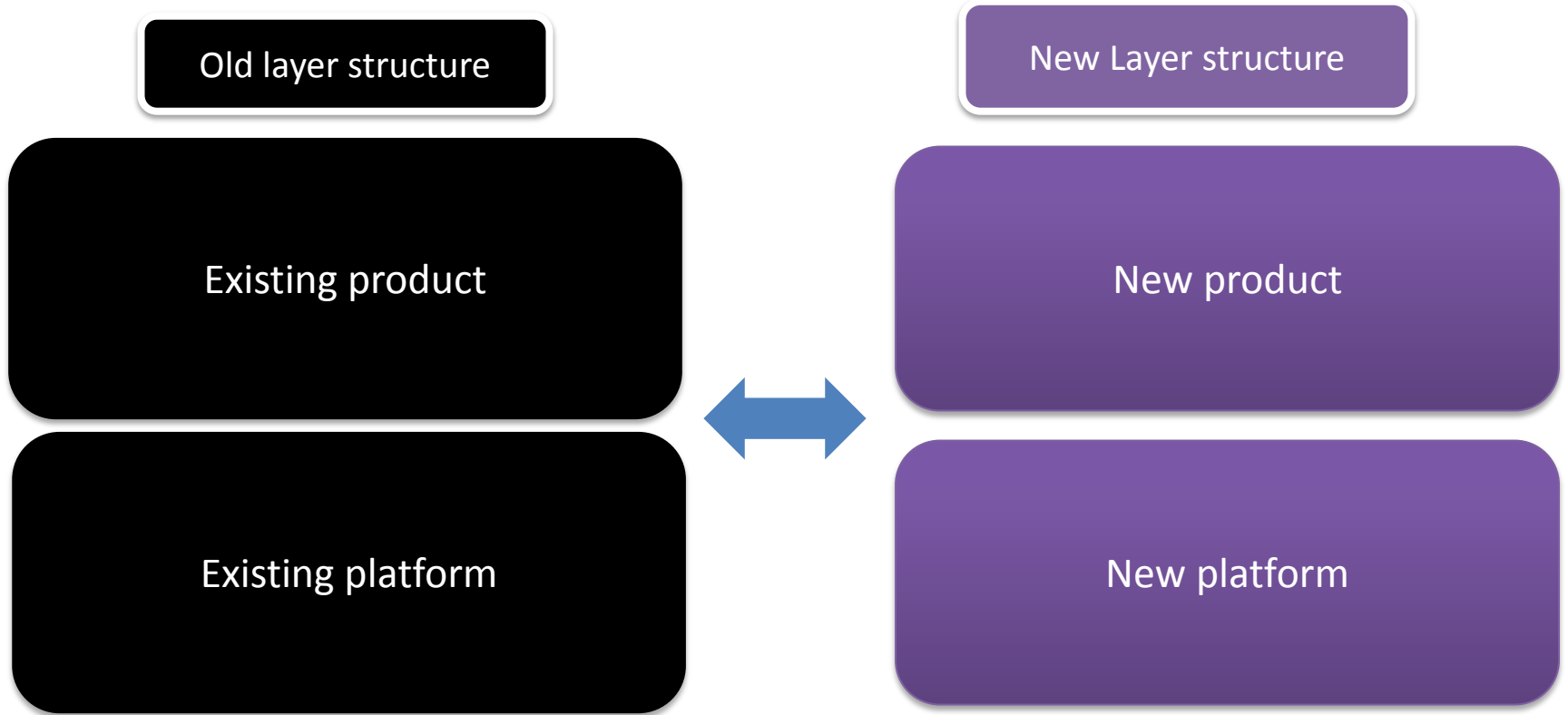
Destructive innovations are products and services are innovations **opposed to the profits of established companies of the existing industry.** Therefore, the established companies wants to **underestimate and/or suppress the power of the disruptive innovations.**

WHAT IS LAYER STRUCTURING?

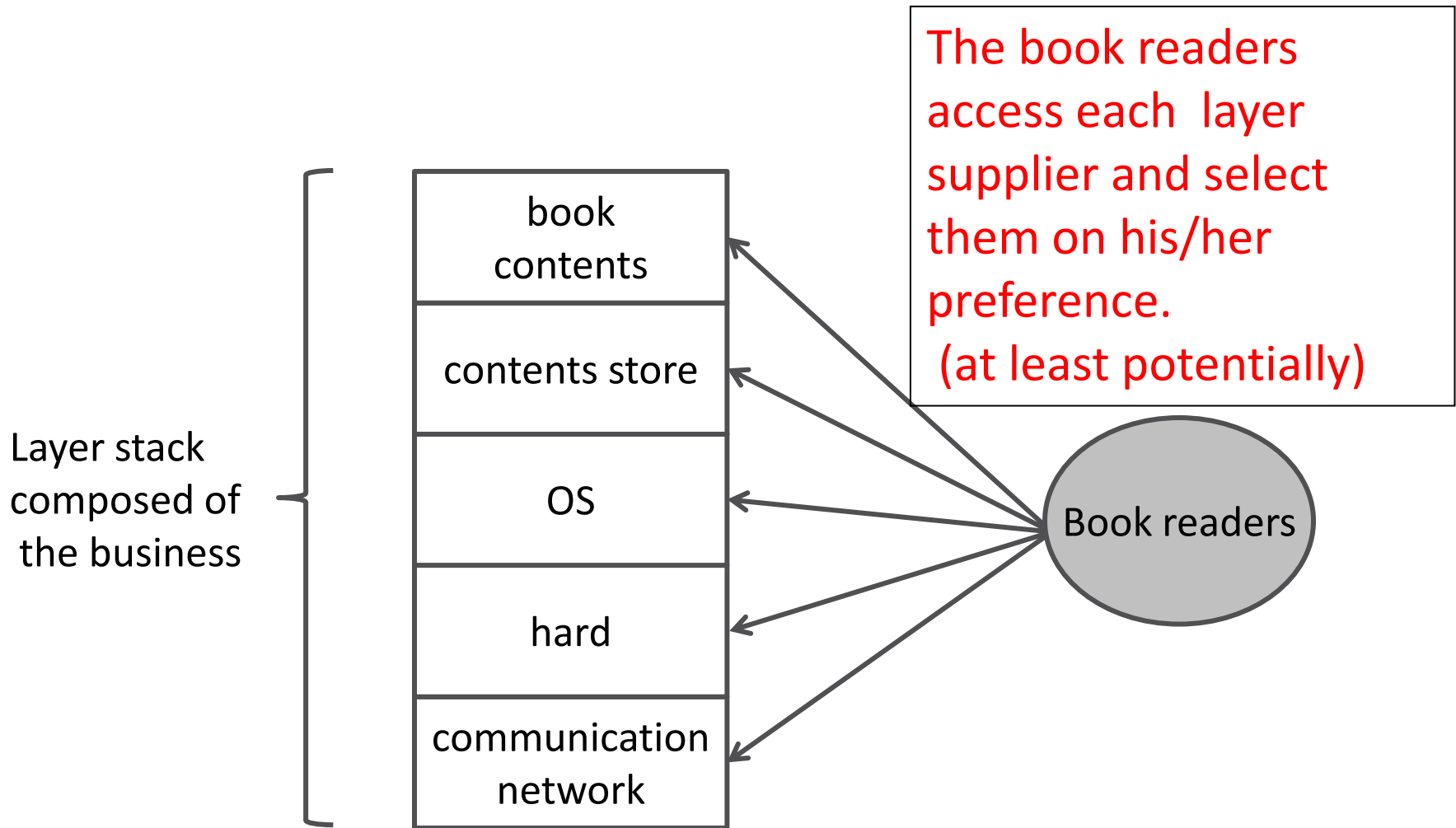
Traditional framework



New framework

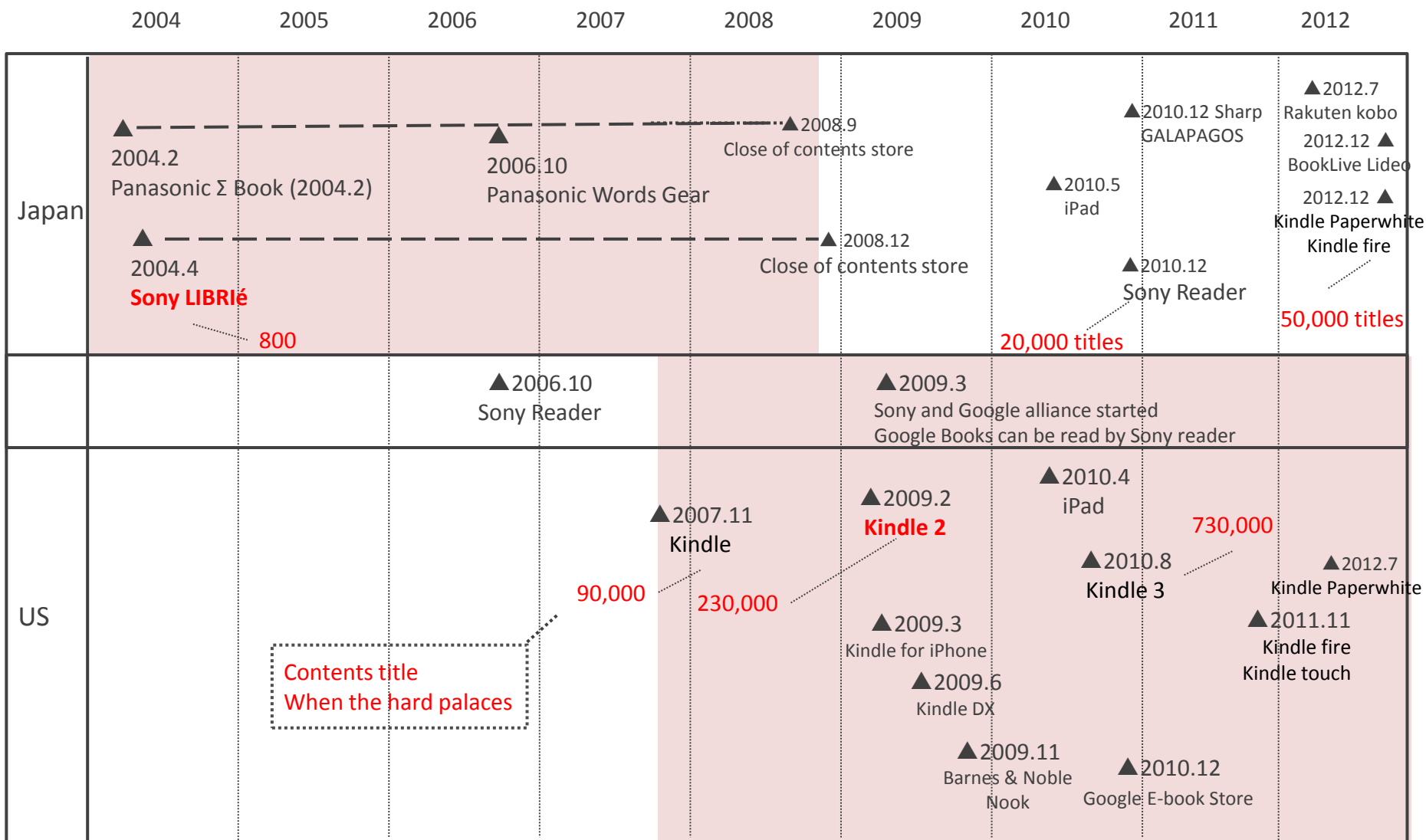


The layer structure of E-book industry



CASE STUDY : E-BOOK INDUSTRY

The history of electronic book device in Japan and U.S.



Sony LIBRIé in Japan

- ❑ Timebook Town, the contents store of LIBRIé, was **the joint venture by several publishers and Sony** (15 companies)
- ❑ The book contents can be read with only LIBRIé
The store provides no app for other OSs

Start of Business	4/1/2004	
Digitalized contents	Own format	BBeB
Contents store	Timebook Town	Joint venture by 15 companies including Sony
OS	Own OS with Linux	
Device	Own hard	LIBRIé Price:¥42,000 (\$400)
Comm. Network	Internet for PC	Contents download by PC and transferred to the device

Contents store: Timebook Town

□ Rental shop scheme

- Monthly membership fee ¥210 (\$2)
- From ¥315 (\$3) per book, however the **reading right expired in 60 days**
- Additional fixed fee for each genre, ¥630 to ¥1050 for downloading 3-5 books with 60 days reading right (can not buy books)

□ Store close

Close of contents store for LIBRIé on 26th December, 2008

Sony's failure in Japanese market

❑ Inconvenient service

- Expire in 60 days
- Customers can not have books
- Limited books published by partner publishers of the store

❑ Sony could not control the book store service

- The book store was established with 14 major publishers and printing companies
- Most of publishers and printing companies don't want to spread E-books rapidly

Amazon Kindle in the U.S.

- ❑ Amazon has own contents store
- ❑ The book contents can be read
with other company devices

The store provides apps for other OSs than own OS

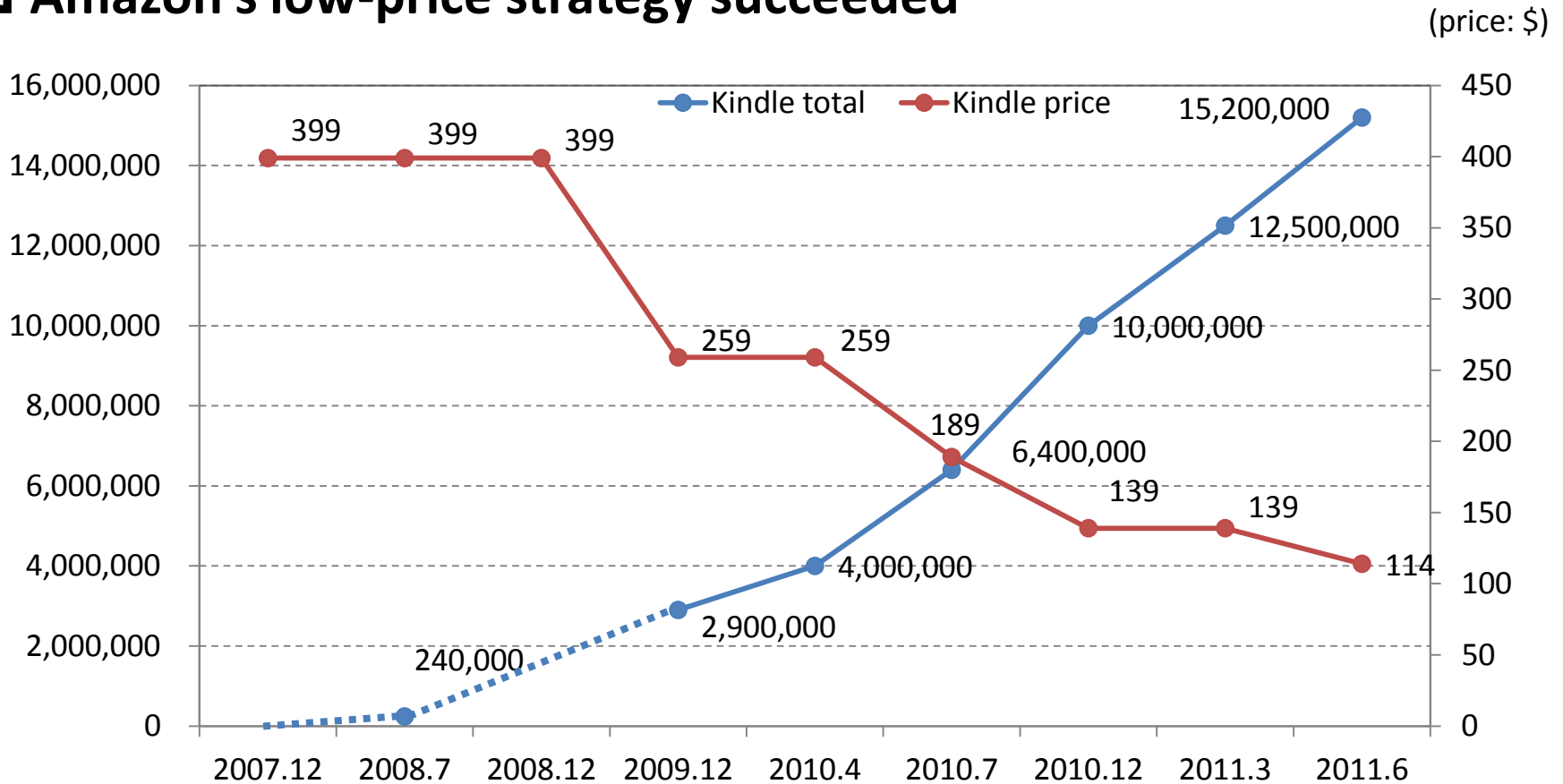
Start of Business	11/19/2007 2/23/2009 8/25/2010	Kindle 1 Kindle 2 Kindle 3
Digitalized contents	Own format Others	AZW TXT, PDF, MOBI, PRC etc.
Contents store	Kindle Store	Operated by Amazon
OS	Own OS Others	with Linux iOS, Android, Windows
Device	Own hard Others	Kindle (Prices depend on the version) Devices with iOS, Android, Windows
Comm. Network	3G Wi-Fi	MVNO (Mobile Virtual Network Operator)

Device sales figures

□ The device sales growing with the price going down

Sales growth is rapid after under \$200

□ Amazon's low-price strategy succeeded



*Kindle sales figures are its worldwide figures, and are cited from various news articles.

Change of income structure

- Hard price was going down all the time
- The source of income has shift from hard to contents

	Kindle	Kindle 2	Kindle 3	Kindle 4
Contents	mainly \$9.99 Fixed price	mainly \$9.99 Fixed price →	30% of sales Fixed rate by the publishers ↑	30% of sales Fixed rate by the publishers →
Hard	\$399	\$359 →\$299(Jul. 2009) ↓ →\$259(Oct. 2009) ↓ →\$189(Jun. 2010) ↓	\$189→\$139:3G+Wi-Fi ↓ \$139→\$114:Wi-Fi ↓ (Apr 2011)	\$79:ad-supported ↓ \$199: no ads ↓
Network	\$0: MVNO	\$0: MVNO, Wi-Fi →	\$0: MVNO, Wi-Fi →	\$0: Wi-Fi →

*MVNO: Mobile Virtual Network Operator

*New books brought a loss when contents price was fixed.

*Fixed rate started from Jan 2010.

*Arrow directions show the size of Amazon's income compared with previous Ver.

*Network cost for Amazon became "0" when Kindle 4 released, but it's income didn't increase.

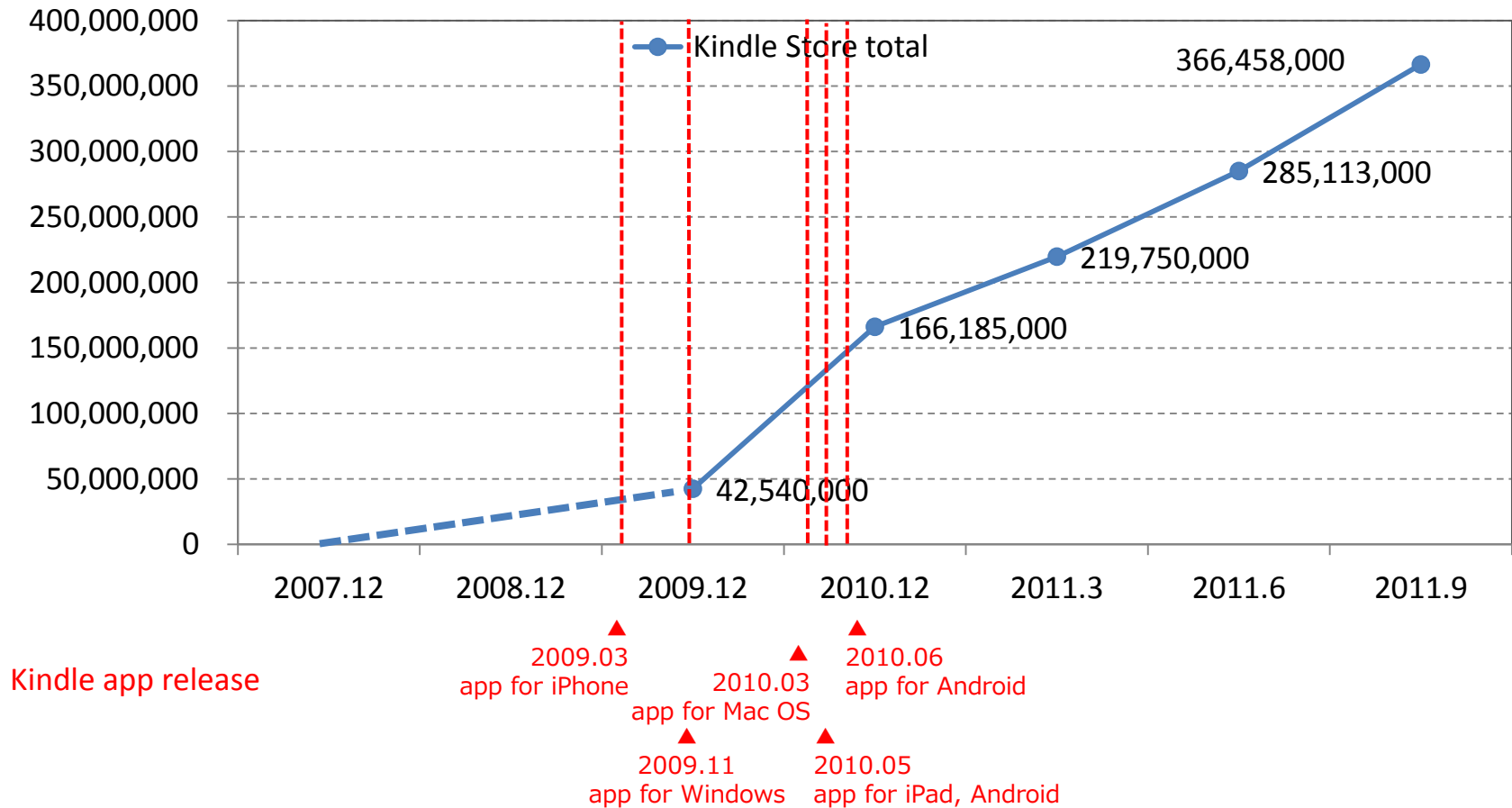
*Some products which released at period from Kindle2 to Kindle4 are omitted in the table above.

OS support

Date	OS support	Kindle Ver.
11/19/2007		Kindle 1 release
2/23/2009		Kindle 2 release
3/4/2009	Kindle app for iPhone	
11/10/2009	Kindle app for Microsoft Windows	
2/18/2010	Kindle app for BlackBerry	
3/18/2010	Kindle app for Mac OS X	
5/28/2010	Kindle app for iPad	
6/29/2010	Kindle app for Android	
8/25/2010		Kindle 3 release
1/4/2011	Kindle app for Windows Phone	

Book sales figures

- Kindle app for various OSs increase book sales
- As a result of book sales growth, Kindle store sales exceeded paper book sales in April 2011



*Kindle sales figures are its worldwide figures, and are cited from various news articles.

Amazon's success in the U.S. market

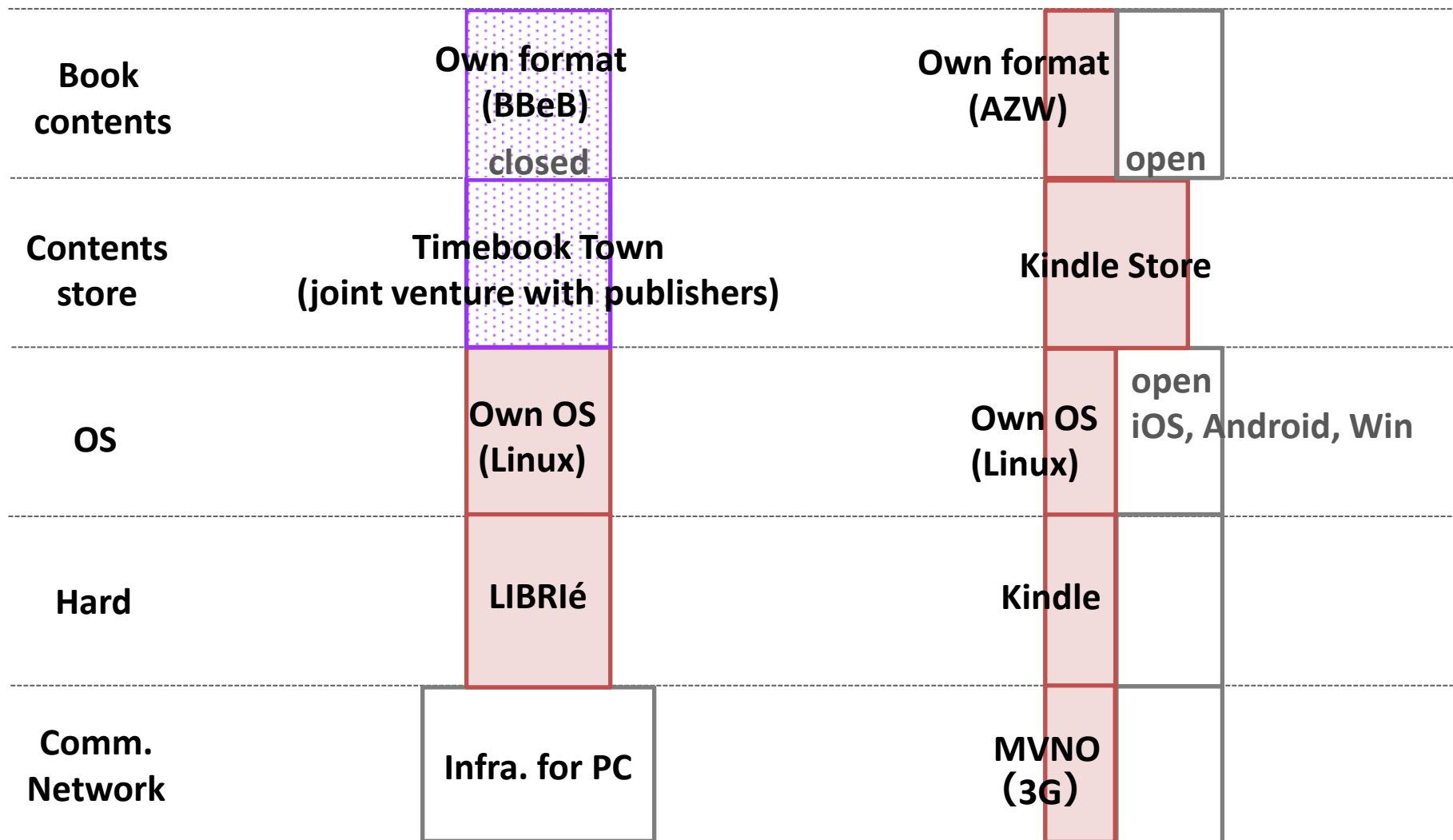
□ Spread of hardware caused by low-price

- Change in book income system from fixed price to fixed rate realized low-price hardware
- Amazon can change the book price, because it operated own store

□ Large book sales through Kindle app optimized for various OSs

- Users can read Kindle books without Kindle
- Book sales growth accelerates after optimization for major OSs

Sony LIBRIé vs. Amazon Kindle2



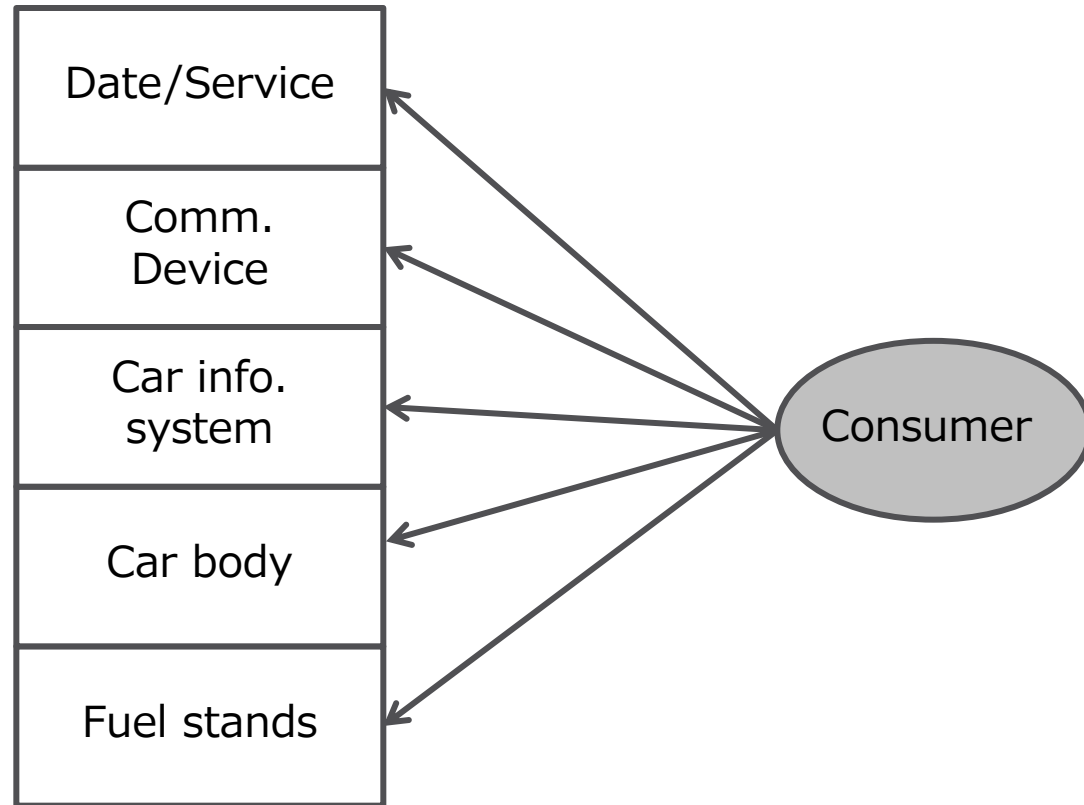
:having the leadership
 :not having the leadership

Sony LIBRIé
2004.4-

Kindle2
2009.2-

CASE STUDY : AUTOMOBILE INDUSTRY

Layer structure in Automobile Industry



CONCLUSION

Strategies in layer structure from case studies

□ Entry into the “highly platform” layer

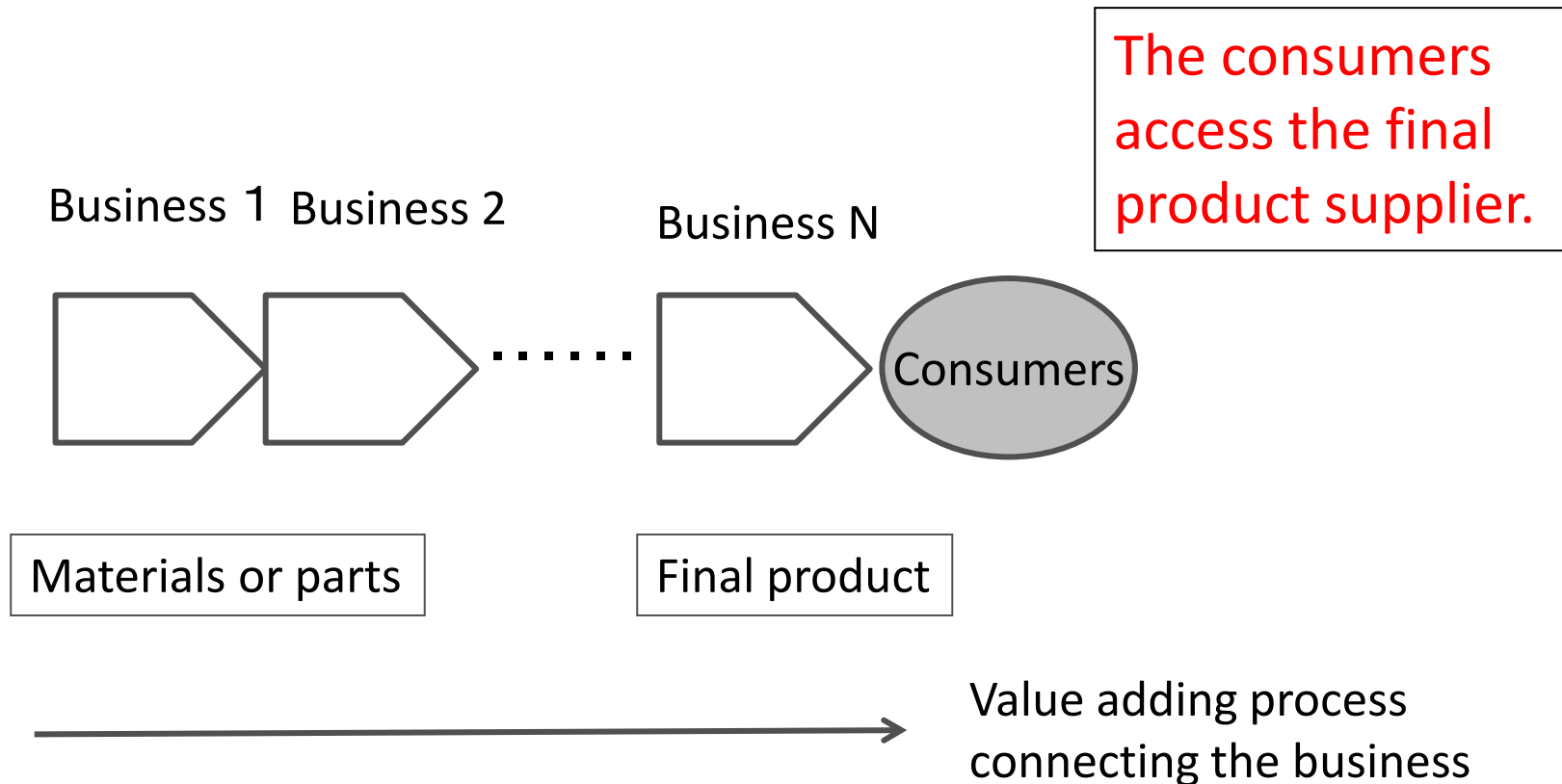
- Highly platform layer is the middle layer in the layer structure
- The product variety in the upper layer of the highly platform layer has a significant influence to consumer value
- The highly platform layer player may control the value of its total ecosystem

□ Open policy to the lower layer

- Opening to the lower layer enables the upper layer product spread
- Opening to other layers may expand the scale of its total ecosystem

The viewpoint of value chain structure

- Every industry has a value chain structure



The differences in structures

□ The strategic issue differences in between VC structure and layer structure

Strategy issues		Structure	
		Value chain	Layer
Entry	Which process/layer should be within the scope of own business?	Any processes (e.g. UNIQLO and SHIMAMURA)	Highly platform layer (e.g. Amazon)
	How much integrate the VC/layer?	Integration increases own profit, but decreases the variety of products/services (e.g. UNIQLO)	Integration is not necessarily an obstacle to the variety of products/services (e.g. Apple)
Open policy	How much open to other processes/layers?	Openness increases the variety of products/services (e.g. SHIMAMURA)	Openness may spread the products/services (if the adjacent layer product/service is popular) (e.g. Amazon)



Thank you

