

H A R V A R D | B U S I N E S S | S C H O O L



THE THIRD WAVE OF DIGITAL DISRUPTION

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Waves of digital disruption

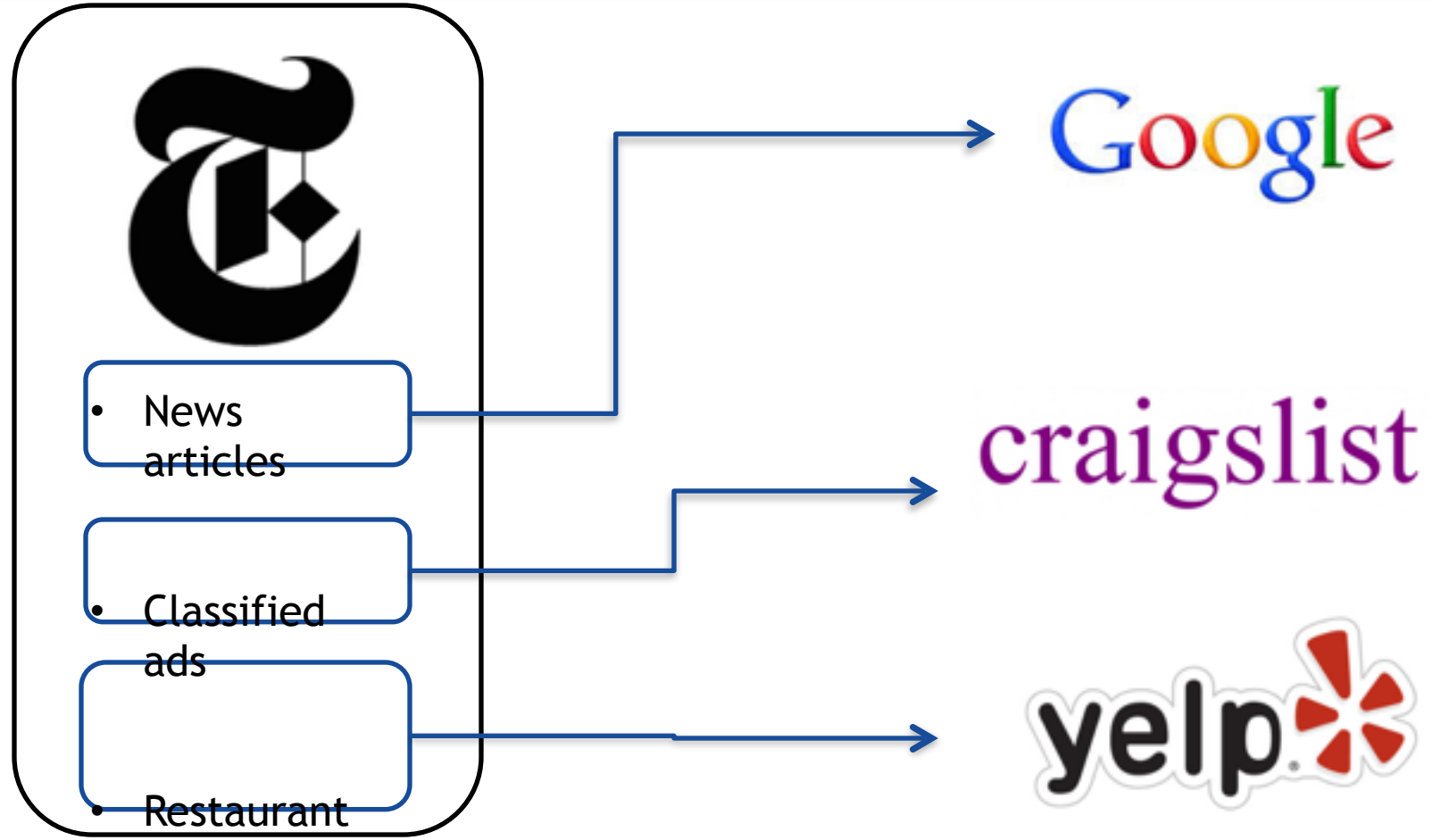
Waves of digital disruption

1st wave



⇒ Media, content, etc.

Unbundling: The 1st wave of digital disruption

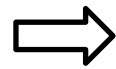


Unbundling Everything



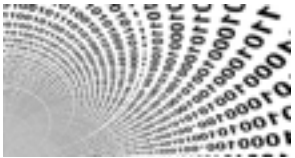
Waves of digital disruption

1st wave: Unbundling

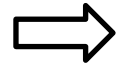
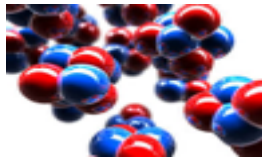


Media, content, etc.

2nd wave

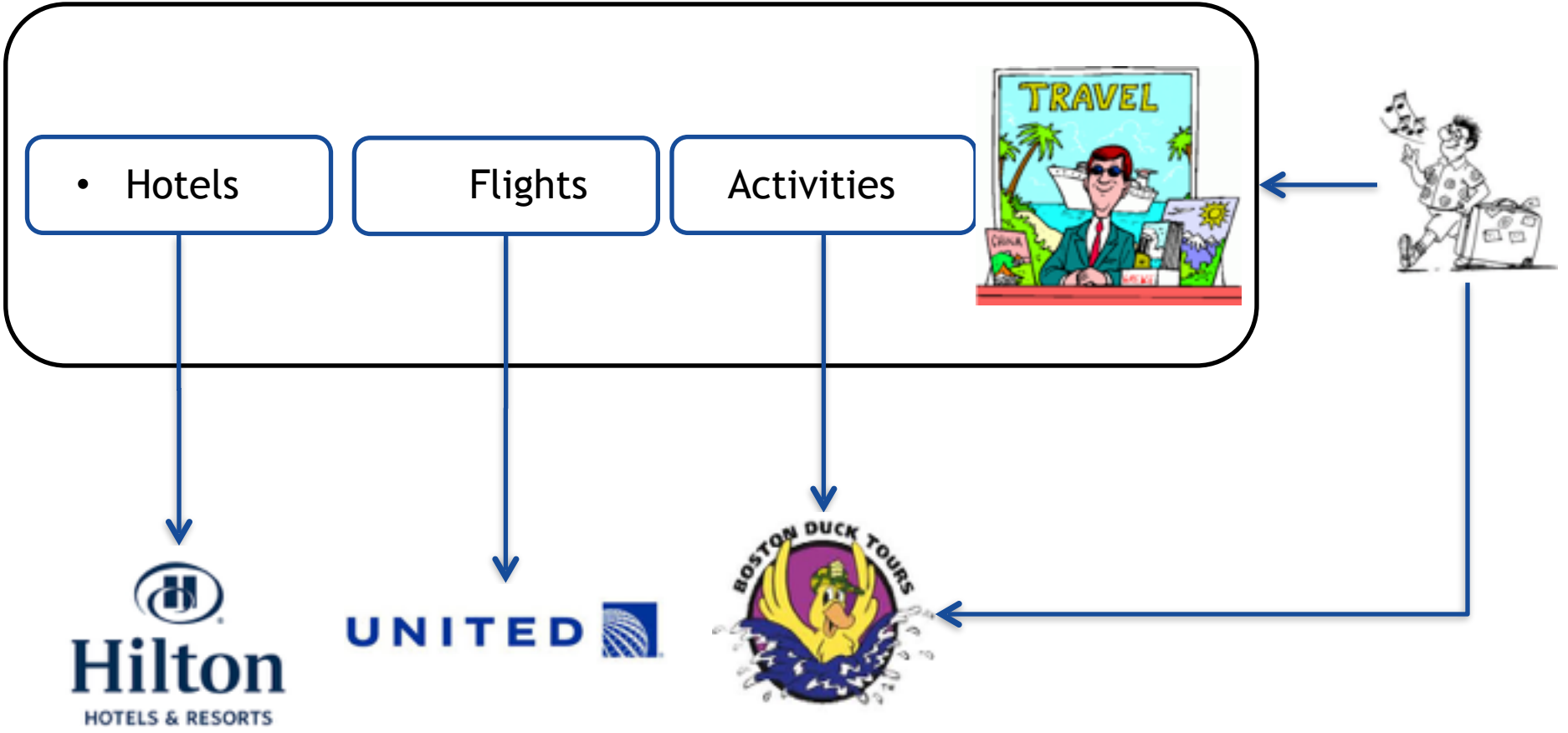


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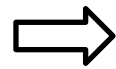
Travel, financial services, etc.

Disintermediation: The 2nd wave of disruption



Waves of digital disruption

1st wave: Unbundling



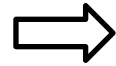
Media, content, etc.

2nd wave:

Disintermediation

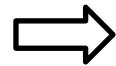
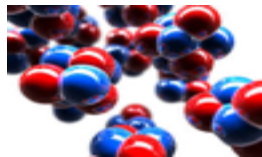


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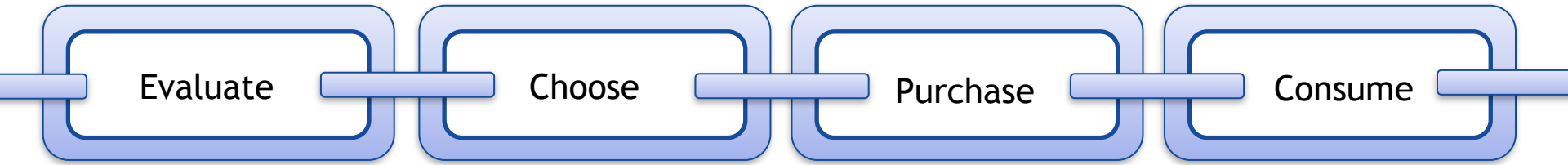
Travel, financial services, etc.

3rd wave



Electronics, consumer goods, transportation, etc.

The customer purchase process



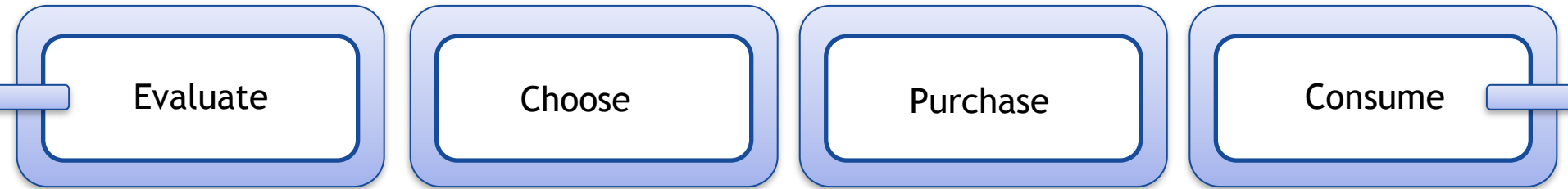
BestBuy 

SEPHORA



How Decoupling Works

The Decoupled customer purchase process



BIRCHBOX ♦

*Sampling, purchase
somewhere else*

amazon.com[®]

*Choose somewhere,
buy here*

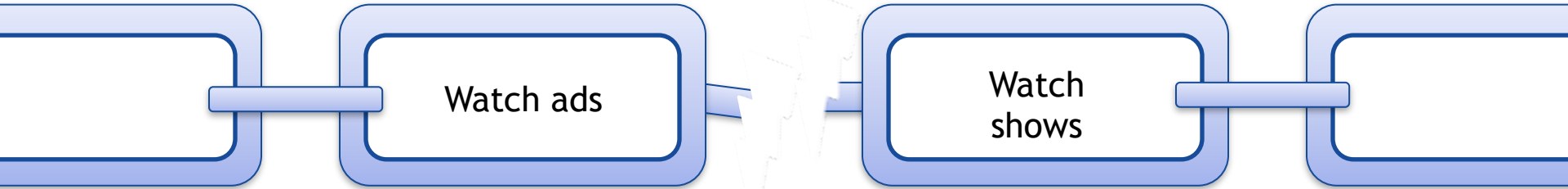
zynga

*Consume without
purchase*

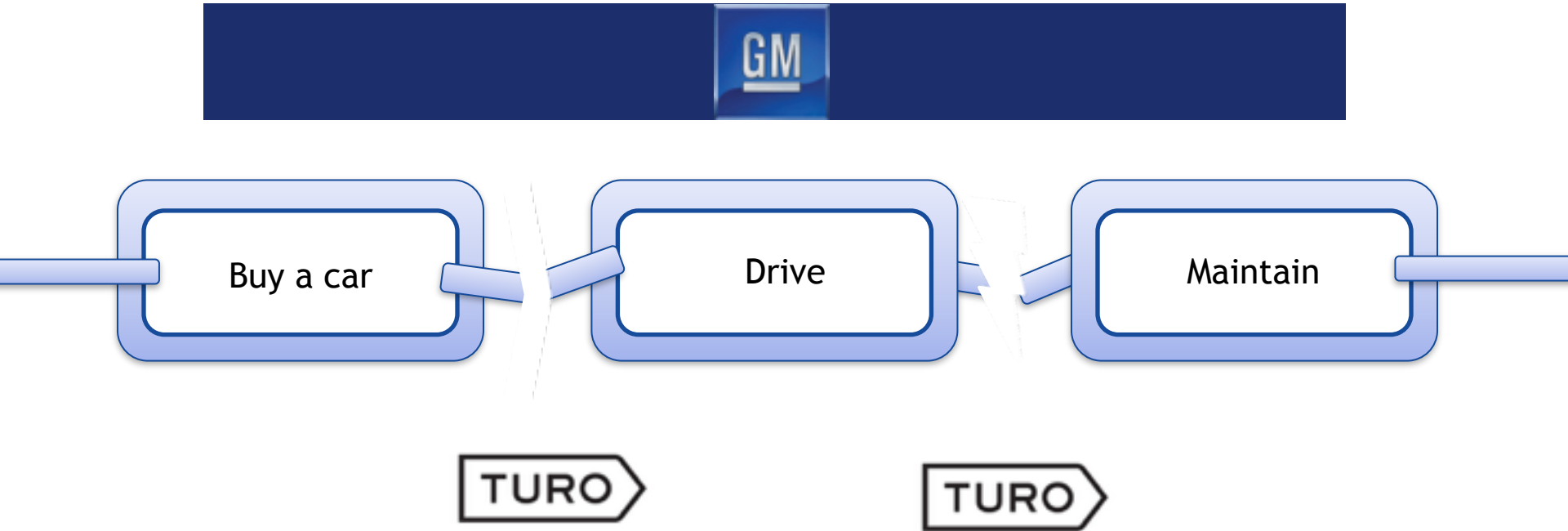
Decoupling is the breaking of the links between customer activities, by a digital player, that have traditionally been provided together.

Examples of decoupling

Decoupling in Practice: Broadcast TV



Decoupling in Practice: Automobiles



Specialization in Auto Disruption

Buy a car

Drive

Maintain

Compare

Drive

Be

Short



Long



Surge sucks.
Now there's urbanhail.

urbanhail

The Kayak of Ridesharing

The three types of decoupling

Case study: Radio



Creates Value

Listen to
favorite songs

Erodes Value

Listen to
disliked songs

Captures Value

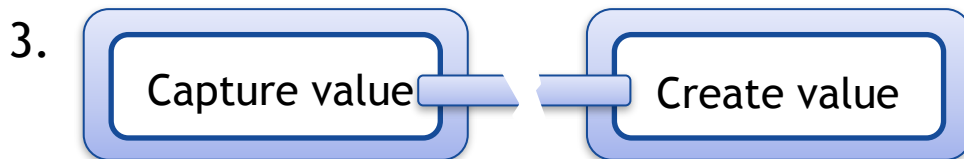
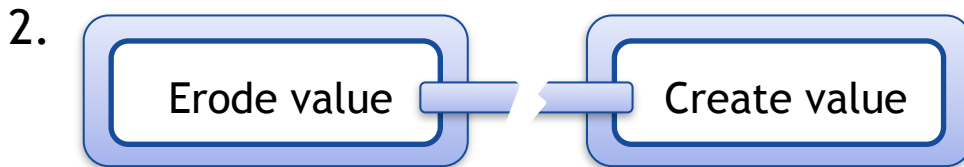
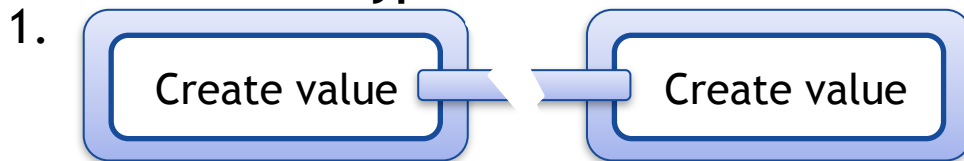
Listen to
promoted songs

Captures Value

Listen to ads

The Three Types of Decoupling

Activity Types



Example



45M

{Play game} + {View game}



125M

{Visit store} + {Play game}



{Buy game} + {Play game}

Decouplers of Value-creating activities



\$900M acquisition



\$900M acquisition



\$19B acquisition



\$8.5B acquisition

Decouplers of Value-eroding activities



DOLLAR SHAVE CLUB
SHAVE TIME. SHAVE MONEY.

\$615M valuation



Est. \$1B valuation

freshdirect

+\$480M valuation

RENTHERUNWAY
love. wear. return.

\$400M valuation

Decouplers of Value-capturing activities



\$2.7B market cap



\$485M valuation



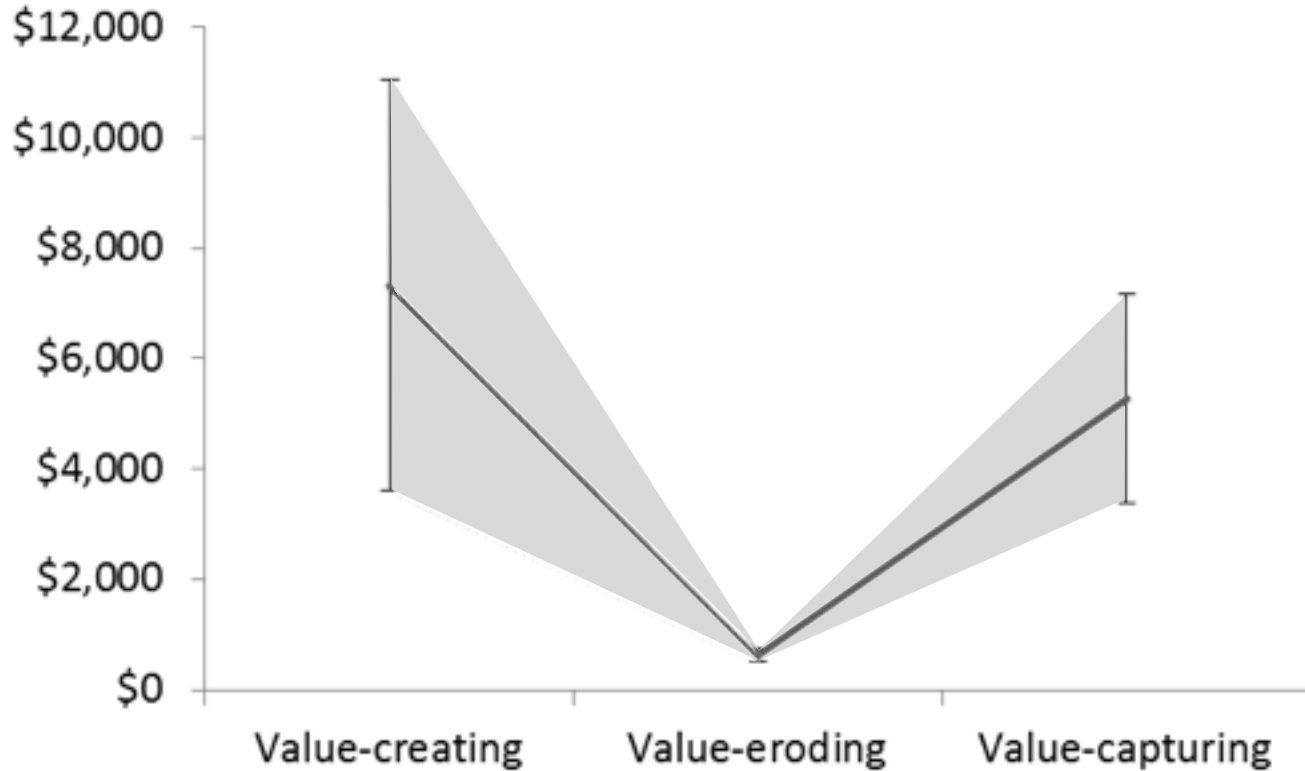
\$9.6B valuation in new round



Est. \$8.3B valuation

Market Value by Decoupling Type

(in Millions)



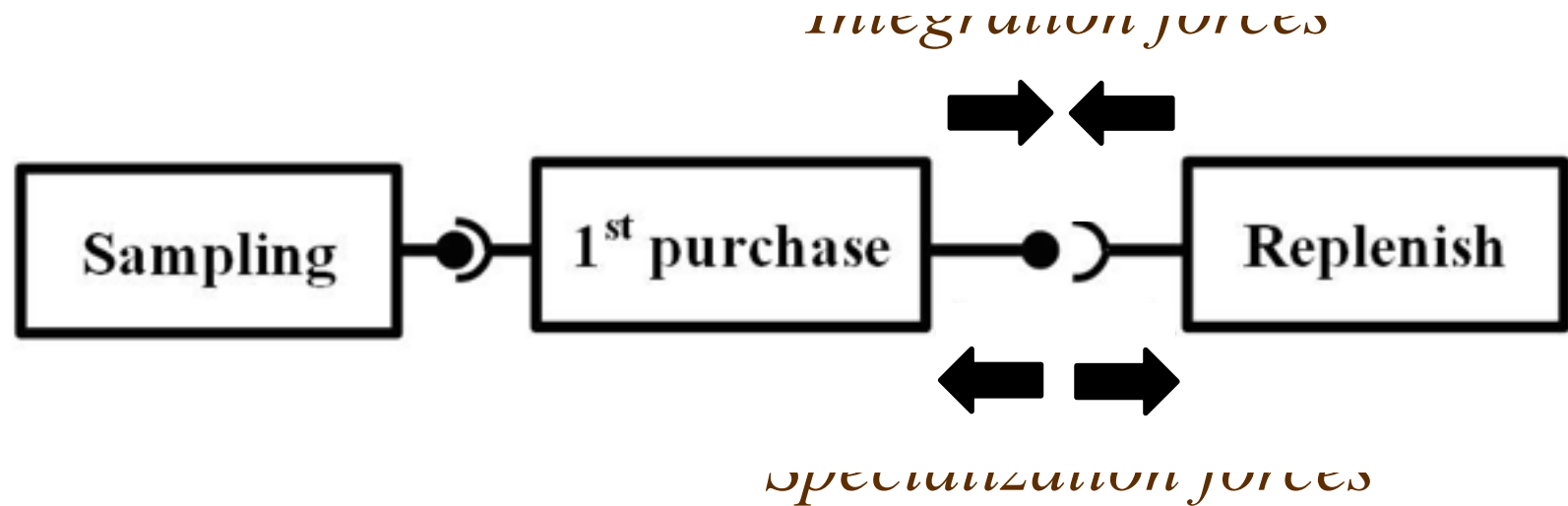
Decoupling type

Regardless of the industry,
there are only **three types**
of decoupling and the
market seems to **value**
them **differently**.

Drivers of decoupling

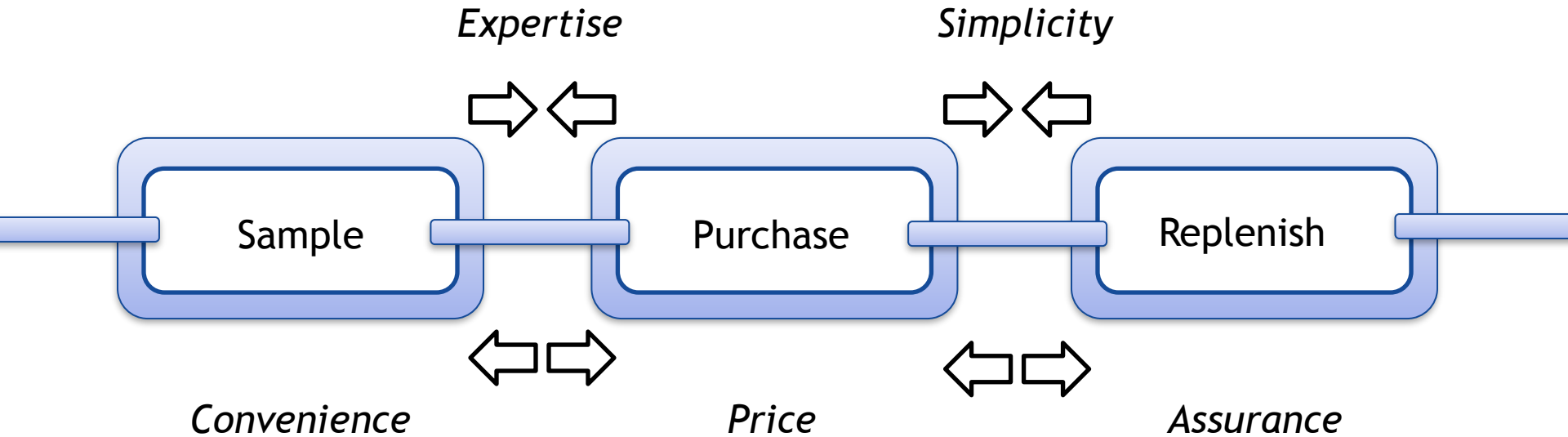
When Will Decoupling Succeed?

In the beauty products industry:



Integration vs. Specialization

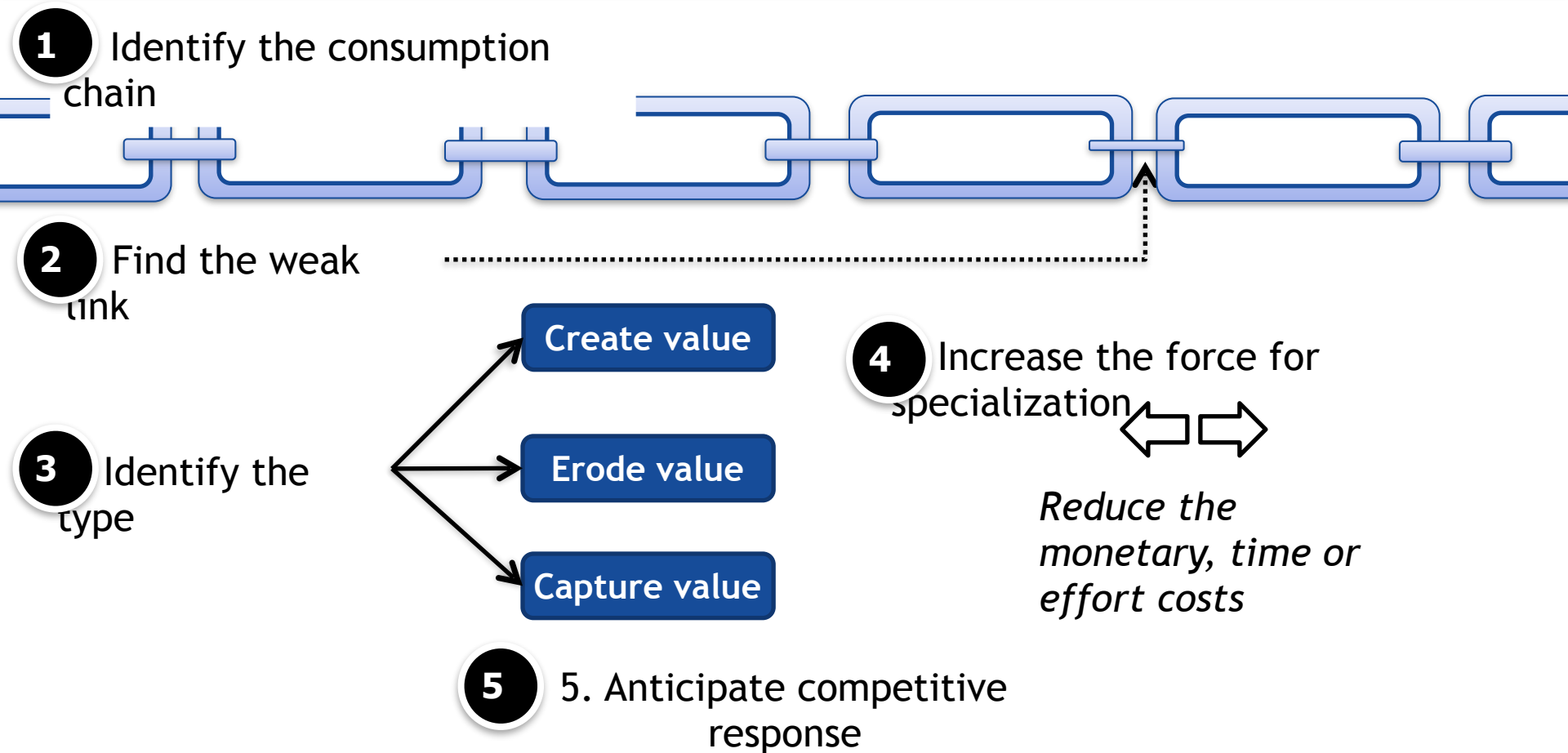
SEPHORA



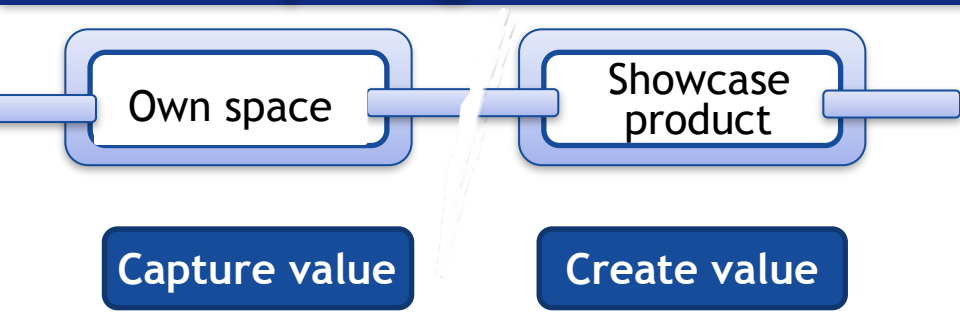
Cost reductions at each stage—monetary, time and effort— affect the **specialization forces** and dictate whether consumers will choose to decouple.

Disrupting with decoupling

How to Disrupt: A 5-step approach



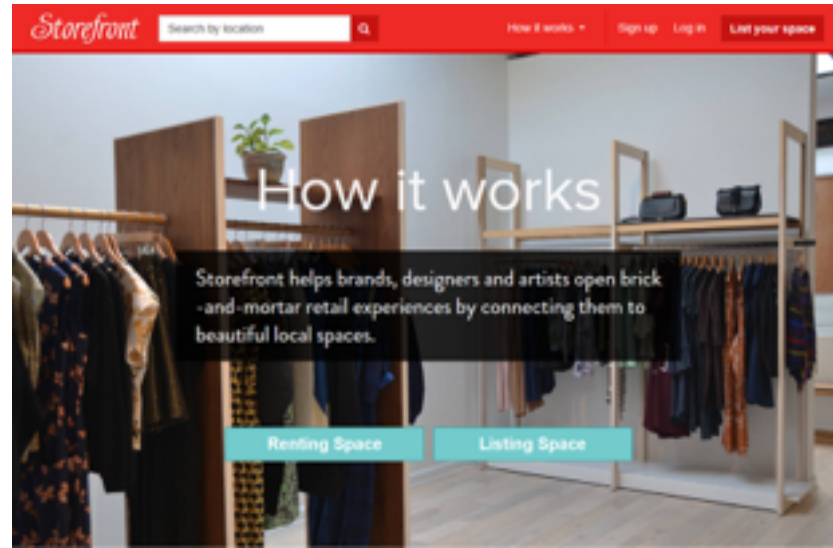
Decoupling in the Commercial Real Estate



*Lower cost to sell
(display) products*



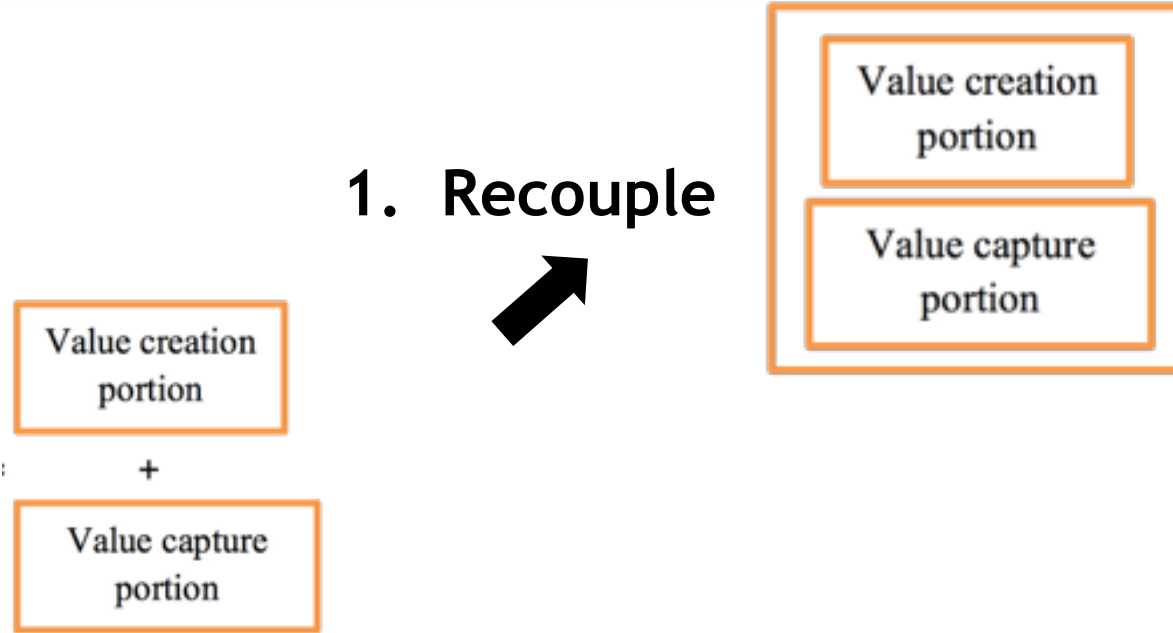
480 million sq. ft of
commercial real estate



Attempting to disrupt with decoupling requires a five-step approach that can be used in virtually any industry.

Responding to decoupling

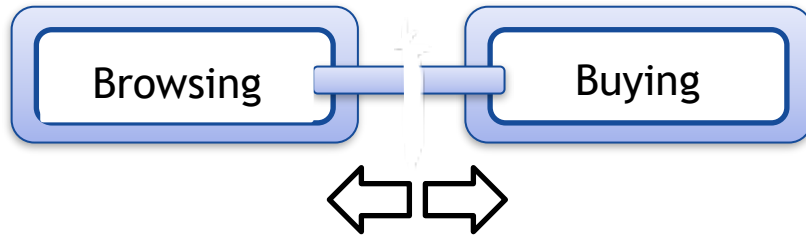
Responding to Recoupling



Recoupling: Specialty foods

Decoupled

glutino.

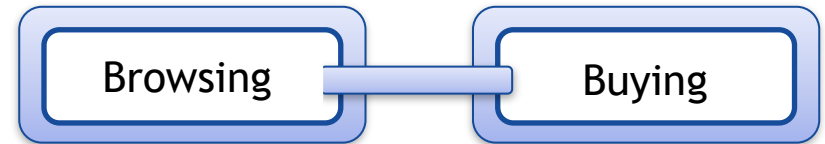


*Harvest demand
created elsewhere*



Recoupled

CS CELIAC SUPPLIES



Dear Customers,

As of the first of February, this store will be charging people a \$5 fee per person for "just looking."

The \$5 fee will be deducted when goods are purchased.

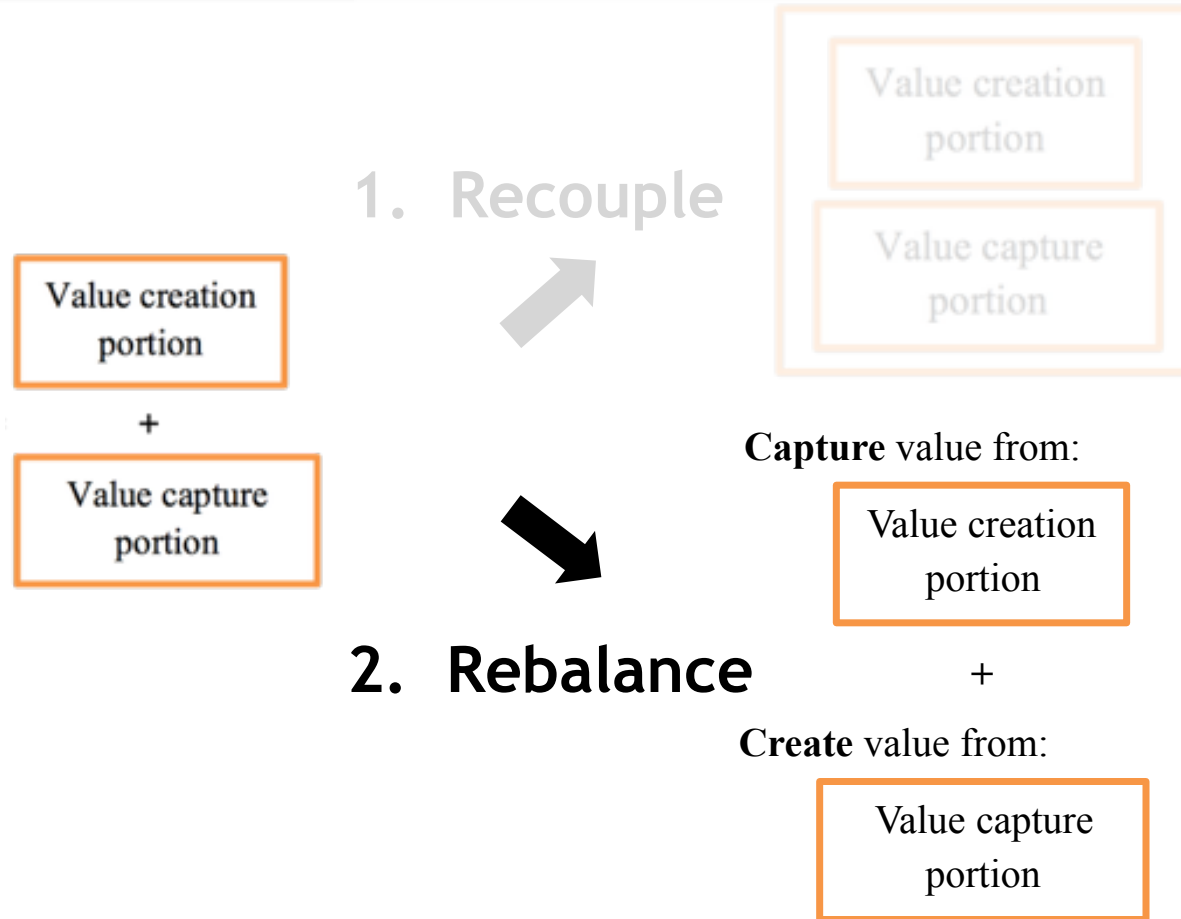
Why has this come about?

There has been high volume of people who use this store as a reference and then purchase goods elsewhere. These people are unaware our prices are almost the same as the other stores plus we have products simply not available anywhere else.

This policy is in line with many other clothing, shoe and electronic stores who are also facing the same issue.

Management.

Responding to Recoupling

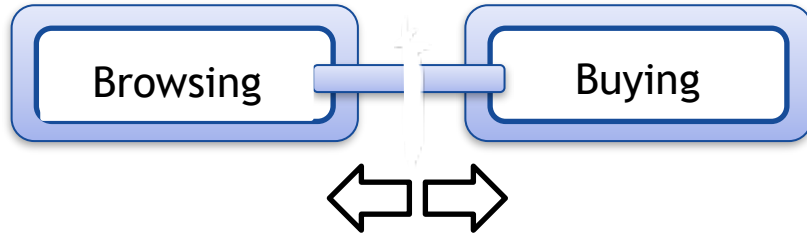


Rebalancing: Best Buy



Rebalancing: Retail

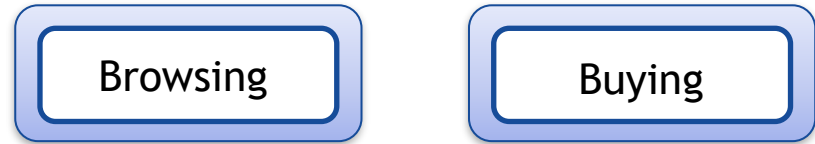
Decoupled



Encourage in-store shopping, online buying



Rebalanced



Charge manufacturers for retail display support

Incumbents can respond to threats of being decoupled in two ways: **recoupling** and **rebalancing**. The latter is more sustainable.

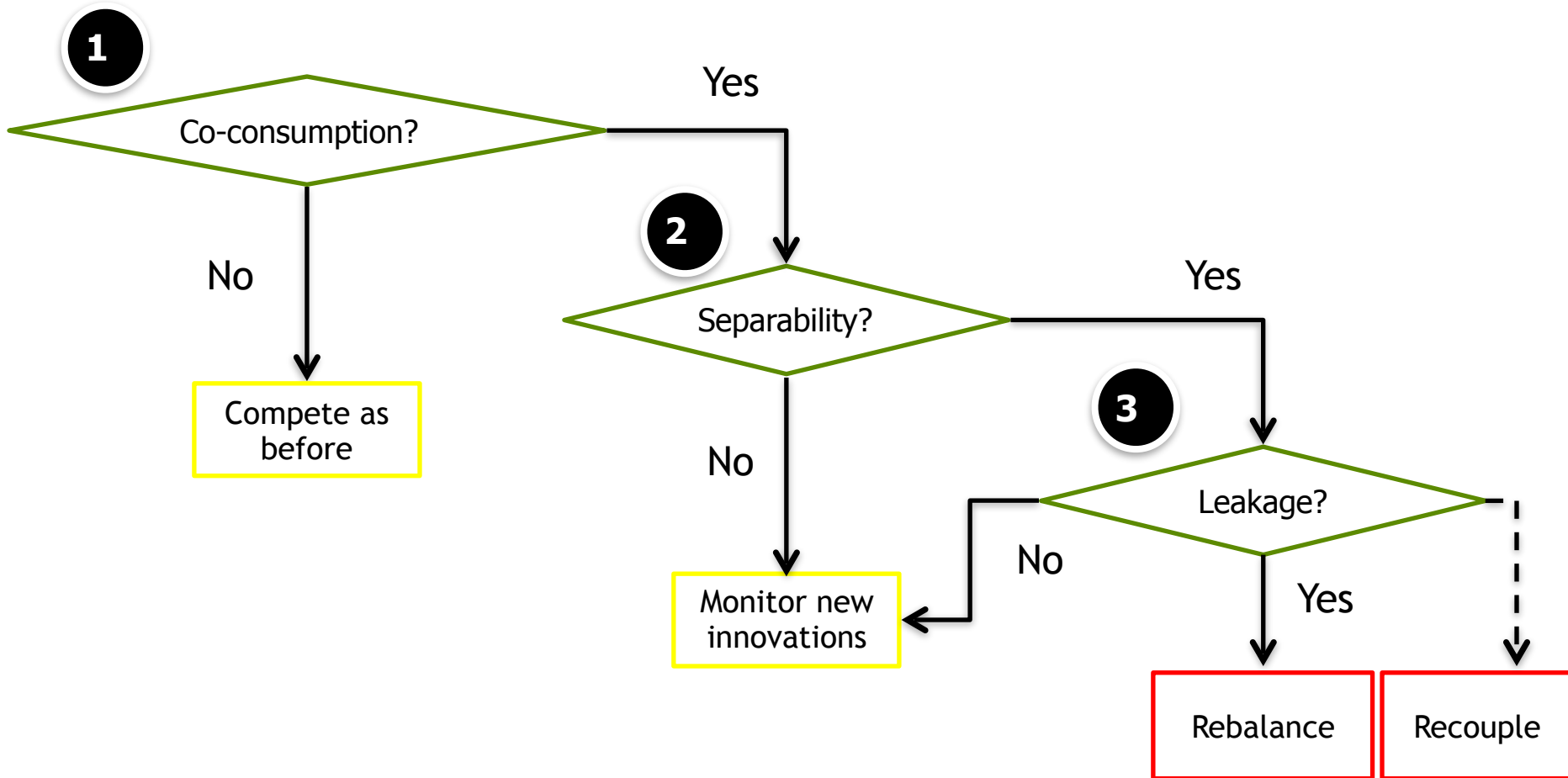
Rebalancing

“Capture value at every stage that you create it.”



Leakage = Value created - value captured

Should You Respond to Decoupling?



1

Customers disrupt
markets,
NOT startups.

2 The disruptive ingredient
is business model
innovation,
NOT technology.

3

There is a common
approach to digital
disruption.

