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Innovation through disruption: Changing consumer behavior in traditional categories

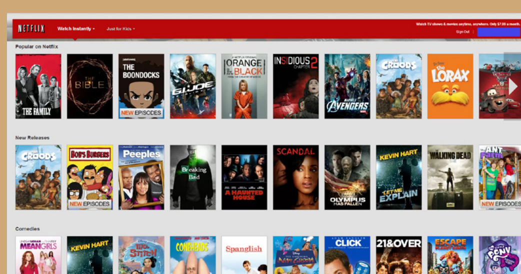
In previous papers, we've explored the idea of choice and the importance of using a seamless customer experience and powerful brand to stand out from the competition—but when that's not enough, what tack must a business take to gain an advantage? As recent industry and category changes have shown, sometimes it takes a massive disruption to change the way consumers look at, think about and interact with a product, service or brand. In this paper, we define what it means to disrupt a category and why it's becoming increasingly important for innovative businesses to take new and disruptive approaches in order to stand out. To do that, we'll look at one particularly salient example of disruption in the auto industry—Tesla Motors—and evaluate its strategy to reveal some of the patterns of successful disruptive strategies.

A disruptive business is one that has the potential to not only swim against the current of an industry, but has the ability to change a core way that the industry functions. It's one thing to make waves, get noticed and attract a following, however, this could describe a number of brands that stand out without doing anything revolutionary. Take a shoe craze like the Vibram "toe shoes," for example, or the initial spike in popularity of the Toyota Prius. While these innovative products may have given consumers an exciting new option that ate into the existing market, they didn't *really* change the way consumers interacted with the category. A true disruption, therefore, is one that does more than affect purchasing *patterns*—it changes purchasing *behavior* within the category or industry.

There are some clear commonalities that appear when we consider the better-known examples of the past few years, but it's the end result of industry-wide change that makes successful companies particularly disruptive. Innovative, revolutionary products and compelling, engaging marketing strategies and campaigns are an undeniable component, but they're only a part of disruption.

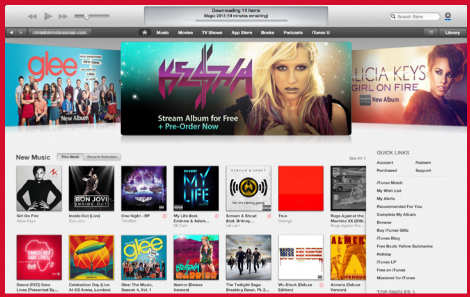
People changed their behavior, which changed industry practices—and it all started with a disruptive service.

Netflix



Take Netflix, for example, and the way it has revolutionized media consumption. The company began by offering a service to compete with traditional video rental purchasing behavior that adapted home delivery to the movie industry. This is a pretty traditional strategy: find a need and meet it by applying purchasing models consumers are familiar with in other categories to a new one. And it worked. But what's disruptive about Netflix is the way the evolution of that service has changed the way consumers interact with and consume media. With the expansion of its live streaming services and the instant availability of a complete TV series, Netflix has reconditioned consumers to expect instant access to whole seasons of shows—an otherwise unheard of demand for this category. The television industry is feeling the reverberations: serialized programming has to respond to the "binge watching" phenomenon by adapting the pacing of episodes and seasons, and networks and writers alike are finding new ways to hold viewers' attention while still providing new access channels to broadcast content. People changed their behavior, which changed industry practices—and it all started with a disruptive service that let consumers interact with media in a way they were familiar with from other on-demand categories.

Apple



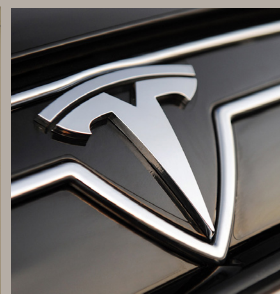
Perhaps the best and most recognizable example (and one that will be relevant to our case study later on) is the ubiquitous Apple. More than creating categories with its revolutionary products like iPhone and iPad (the exact details of which we'll avoid for the sake of brevity), one of Apple's greatest achievements is the impact of iTunes on the music industry.

Apple didn't change music—it changed the way consumers shop for music with a disruptive service that revolutionized the industry. By giving consumers the ability to buy a single song rather than a whole album, iTunes reframed how people thought of the category. It's much easier to shell out ninety-nine cents (or, more often these days, a buck twenty-nine) for that one song you like, making music a more approachable consumer good requiring far less investment. And with the supplementary technological influences of MP3 and MP4 players (always-trendy Apple devices at the front of the pack, of course), the market has responded accordingly. Politics of the industry aside, music has changed forever because iTunes took a well-established consumer behavior—the desire to pick and choose—and applied it to a category where it was previously absent.

These are just two examples among many—we could write a whole other paper about the rise of "highbrow street food" and the food truck craze that's overhauling the restaurant and catering industries—but they illustrate a secondary yet important point: standing out is getting harder and harder. Innovation in product design and service delivery just isn't as special as it used to be, and new companies crop up every day. As multiple channels converge and blend messages and experiences together, things are changing faster than ever. The bar has been raised, and the new standard is revolution.

Tesla Motors is one of the more recent contenders to disrupt an industry—and its approach demonstrates the cross-pollinating effects of adapting consumer purchasing pipelines from one category to another. Helmed by CEO Elon Musk, the tech entrepreneur who cofounded PayPal and moonlights as CEO of the star-chasing Space X, Tesla Motors produces, in the simplest terms, luxury all-electric cars (the full extent of the business is, of course, far more complicated, as we'll detail later). In 2012, Tesla released the Model S at a price point hovering around $100K. The luxury sedan sports an impressive range of stats (it'll do 0 to 60 in 4.2 seconds) that have garnered critical praise as well as a number of awards, including 2013 World Green Car of the Year, 2013 Motor Trend Car of the Year and *Time* Magazine's Best 25 Inventions of the Year 2012 award.

Tesla Motors




With a range pushing over 200 miles, the Model S boasts the highest range of any electric car, an engineering feat that many say could give Tesla the edge it needs to make electric cars truly competitive with gas cars. Add to the mix its investment in Supercharger Station infrastructure for on-the-go charging and 90-second battery replacement, and Tesla's impact on the electric car market is undeniably significant.

But that alone does not make it disruptive. As we've noted, it's not just the product that disrupts an industry—it's the strategy that goes with it. By removing the constraints associated with the traditions of the auto industry, from design to engineering to materials to marketing, Tesla is able to take revolutionary risks. That attitude is what allows it to be truly disruptive.

Tesla has disrupted the auto industry by creating direct-to-consumer purchasing pipelines that break from the traditional dealership model and give consumers a way to interact with a car brand that's familiar to their experiences in other categories. The success of its Model S launch can be attributed, in part, to the ways in which it mimics successful tech models for marketing, positioning and pricing. Introduced at a high price point as a luxury brand with an emphasis on technological innovation and high-end design, the Model S looks a lot like that chic iPhone launch we all remember well. The exclusivity afforded by the initial price point skims off the early adopters and builds allure and influence (not to mention a host of brand advocates), and a trend has begun.

Why is that a good thing? Because it's a model that consumers are familiar with in other aspects of their lives when searching for and purchasing other products. In a way, it's proven to work and meet their needs. Tesla's ability to disrupt depends on its application of that model to cars.

As is the trend for most purchases, from toilet paper to smartphones to car insurance, consumers are doing their research these days. Car shopping is no different—in fact, we could probably agree that auto is one of the most researched categories prior to purchase. If you're looking to replace your everyday sedan, you'll probably check out some local listings while having your morning coffee, think back on the commercials you saw during the game, and visit the websites of the brands that catch your eye. Then comes the hard part: you're headed to the local dealership to contend with the salespeople.

Contrast this with another purchase: the iPhone. There are a few ways to go about buying one, be it a brick-and-mortar Apple Store, Apple's online store or through your wireless carrier. Let's say you're online. You quickly compare models, choose the version you like, the storage you need and the color and case that you want. With a few keystrokes, that phone's in your online cart and ready to ship in a couple of days. It's simple, seamless and devoid of pushy salespeople. Most of all, it's familiar.

Tesla has applied this model to cars. Instead of dealerships, Tesla has showrooms (called "galleries" to add an extra touch of luxury appeal) in high foot-traffic areas like malls and high-end shopping destinations. Consumers can check out the Model S in person, but they can't drive it off the lot. That may seem like an inconvenience or disadvantage, but it means a lower-pressure buying environment unlike the car shopping experience the auto industry has conditioned consumers to expect. Consumers customize their Model S using the Tesla online store—not unlike our iPhone example—and have their new car delivered to their door. The direct-to-consumer model is antithetical to the industry in many ways, but it's familiar and appealing to customers—and that's what matters to Tesla.

Competitive advantage for a disruptor comes not from product innovation alone, but from the ability to alter consumer behavior.

But the company's disruptive behavior goes beyond the consumer experience. Musk announced in a blog post that the company would not enforce its patent rights, encouraging competitors to use Tesla's technology as a jumping off point for their own designs. The move is significant in a number of ways, not least of which that it could help grow the market for electric cars by increasing competition and advancing the technology by allowing more engineers to work with it. While the ownership model of home charging and increasingly efficient battery replacement stations makes it great to own a Tesla, the infrastructure has yet to reach a point that makes the electric car market significantly lucrative—for that, Tesla needs others to invest in growing the market. But the patent decision also demonstrates our earlier point: competitive advantage for a disruptor comes not from product innovation alone, but from the ability to alter consumer behavior. Tesla doesn't just need better batteries or cars—it needs a market for them.

Tesla is reaping the benefits of being a disruptor: it's a standout in the category, a critical success, and the brand has plenty of cachet. And if the open-patents strategy works out and new competitors follow its model, Tesla could also benefit from being the first to the new version of the electric car market and from having established itself as the luxury good in the category. But there are consequences for disruption, too.

Not surprisingly, changing consumer behavior and revolutionizing an industry will always meet resistance. Any industry with deeply rooted practices, like the dealer structure of the auto industry, will be particularly resistant to change (Tesla is currently engaged in legal battles over its ability to sell directly to consumers). Despite how well new behavior might fit for consumers, it's important to remember the other factors that come into play. That said, there's no guaranteeing consumers will know how to interact with a brand that's especially disruptive. Tesla and Apple are interesting examples because the early/late adopter pattern is so typical of tech products and markets.
But in another industry, say CPG or restaurants, consumer tastes may have more of an impact,

and change could happen quite differently. This may suggest that the best way to disrupt is by remodeling consumer behavior in one industry to fit an established pattern in another. That way, the familiarity makes it easier for consumers to interact with—and support—the business and brand.

Considering these examples gives us the means to recognize some patterns and suggest some strategies for disrupting an industry, but it's difficult to say exactly how the future will play out. It certainly seems that innovation has moved from product to market, and disrupting an industry by changing consumer behavior may quickly become the new standard of change. But as new disruptions create new markets, and new consumer demands and expectations along with them, the most important thing for brand owners will be to scrutinize the state of their category and others in order to identify opportunities to shake things up. We may see a pattern of successful companies disrupting industries by applying newly successful tactics from more advanced categories to more traditional ones. Or, we may cease to see such actions as disruptive at all. Only time will tell who shakes things up next.

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About this paper

We believe collaboration is the key to achieving successful results—and we put this into practice with both our clients and our internal teams on a regular basis. The paper you just read reflects that philosophy; it was a team effort, created from the observations and combined thinking of both our Client and Creative Services teams.

About the author

As founder and CEO of our firm, Chris Bailey is responsible for overall management and direction, including shaping and implementing our vision and mission. In addition, he authors articles and speaks at national conventions on subjects including brand identity, environmental branding and brand package design.

About Bailey Brand Consulting

Bailey Brand Consulting is a leading strategic marketing and branding firm that has been helping make brands matter for clients across the country and around the world since 1985. Our experienced teams of strategic thinkers, creative problem-solvers and world-class designers work in close partnership with our clients to uncover deep customer insights, develop powerful creative solutions, and build effective brand strategies that drive business growth.

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