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Disruptive Value Creation in Business: A Case Based Analytical Study to Understand the Potential Impact of Disruptive Value on Competitive Forces

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A B S T R A C T

In the past two decades, the fundamental way of conceiving and executing business ideas has undergone radical transformation. Today, it is practically impossible to think about businesses without digitally empowered core and peripheral processes. The sustainability of any business primarily depends on the value created by the business for its customers. The uniqueness of the value achieved through differentiation, makes a product appealing to its customers in spite of availability of abundant choices. Nonetheless, there has been a tendency to associate innovation or uniqueness to only end products which are visible to the customers. But there is certainly no reason to restrict the concept of value creation to only end products and not attribute it to processes and methods which have created it. Thus, value creation for end customers is the function of an effective orchestration of various elements in a value chain. Sustainability is now an outcome of the capability to continuously create and build novel and compelling value propositions for customers through optimization of resources present in the value chain of the organization in a highly uncertain environment. The study explores the potential impact of disruptive value creation on competitive forces enlisted by Michael Porter. It has been conducted in two distinctive and sequential stages. The first stage includes identification of primary and supporting value chain elements, developed by Michael Porter, for the technologically disruptive businesses and incorporating them into the framework. The second stage critically examines the impact of these disruptive value chain elements on the five forces. The insight gained out of this research is expected to build clarity and preciseness for taking decisions pertaining to building a sustainable competitive advantage (SCA).

Introduction

On 8th of February, 2018, Reuters and several other digital news channels published a report titled *"Competition commission of India fines Google for abusing dominant position"*[1]. The report illustrates the colossal power of the most dominant online search engine of the world, Google, to create search biases. By doing so, Google is alleged to indulge into unfair and unethical business practices, detrimental for both, competitors and users. According to Bhattacharjee and Choudhury[2], *"The disruptive business ideas of this century are fundamentally conceived through continuous exposure to technological pollination and neuro- digital intercourse, and hence, they expand at a rate several times faster than governance and law"*. In the past two decades, the fundamental way of conceiving and executing business ideas has undergone radical transformation. Digital

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technology has become ubiquitous and critical to business creation in any industry across the globe. Today, it is practically impossible to think about any business without digitally empowered core and peripheral processes. From telecommunication to tourism, transportation to hospitality, manufacturing to services, entertainment to spirituality; each and every industry is an offspring of binary bits and bytes. Businesses are now defined and operated by algorithms which are able to learn and adapt on their own, without human intervention.

The sustainability of any business primarily depends on the value created by the business for its customers. The uniqueness of the value achieved through differentiation, makes a product appealing to its customers in spite of availability of abundant choices. However, there has been a tendency to associate innovation or uniqueness to only the end product which is visible to the customers. But, according to Joseph Schumpeter[3], *"Innovation is novelty in how value is created and distributed"*. It can be a new form of product or service, novel methods of production, or innovative ways of organizing industries and firms. Enlightened by the insight, Professor Nirmalya Kumar[4] emphasized that it would be a narrow approach to restrict the concept of value creation to only end product and not attribute it to processes and methods which have created it. Thus, value creation for end customers is the function of an effective orchestration of various elements in a value chain.

According to Richard D'Aveni [5], the dynamics of competition in 21st Century have undergone a radical shift. Businesses are now exposed to risk and vulnerabilities like never before. There is an unprecedented pace of change which is defining and shaping new industry standards in the context of innovative value creation. Sustainability is now an outcome of the capability to continuously create and build novel and compelling value propositions for customers through optimization of resources present in the value chain of the organization.

McKinsey Global Institute's report 2016[6] states that the inflection point of digitally disruptive businesses is the year 2007, when most of the successful digitally empowered disruptive businesses, that have fundamentally changed the way of conducting business, were created. The year 2007, which is also termed as the year of 'Digital globalization' by McKinsey, has witnessed the advent of a new technological era. The year has been the game-changer with respect to technological revolution.

Professor Clayton Christensen's [7] work on 'Disruptive innovation' in late 90s provides immensely valuable insights to the concept of disruption in business. According to him, disruptive innovation is not the one which makes good products better, but is the one which makes something accessible and affordable to large number of individuals in the population, thereby, democratizing the use of the product. He however, also suggested ways and means through which traditional and old firms can combat disruption and retain their respective competitive positions in the market. One of the ways suggested by him advocates creation of separate business entity focused on new growth trajectories with different value chain. But, Max Wessel[8] opines that it is much more challenging to prevent disruption in recent time than it was when Christensen coined the term. One of the primary reason for erosion in resiliency of the traditional firms, as illuminated by him, is because they are 'Asset heavy' in nature, whereas, the new digitally empowered and conceived businesses are 'Asset light' in nature. Traditional businesses are financed with debt, but asset light digital startups are financed with equity, which provides them time to burn cash for acquiring market share, as during initial period of business, equity investors are more concerned with expansion and market share, rather than pure profitability.

One of the recent illuminating study on the colossal power of digitally empowered businesses was conducted by Professor Vijay Govindrajan[9]. He classified products into three different categories, namely, pure information products or digital natives viz. Google, Amazon, Facebook etc. Once-analog-now-digital products like photography, books, music etc. and physical component products in which digital technology is becoming an integral part. These third types of products are the world of 'Internet of things' (IoT) and Industrial internet. The author, in his study, explores the possibilities of function and revenue cannibalization of heavy industrial products by the digital natives. The analytical study reveals that the sale of hardware and their expected revenue from service can both be affected by software, which has potential to increase the productivity as well as the reliability of the hardware.

A Capgemini's research report[10] on value chain has drawn attention and emphasized on migrating from linear value chain to network based value chain, as the businesses of present times have found out ways of serving customers through various modes, thereby providing an integrated and seamless experience to the customers. The report stressed on the need to rethink value chain in the light of radically diverse business models, most of which are based on collaborative and networked business efforts.

The above studies provide a foundation as well as scope to conduct further research in the area of disruptive value creation and its impact on micro environmental forces of an industry. The insight gained out of this research is expected to build clarity and preciseness for taking decisions pertaining to building a sustainable competitive advantage (SCA).

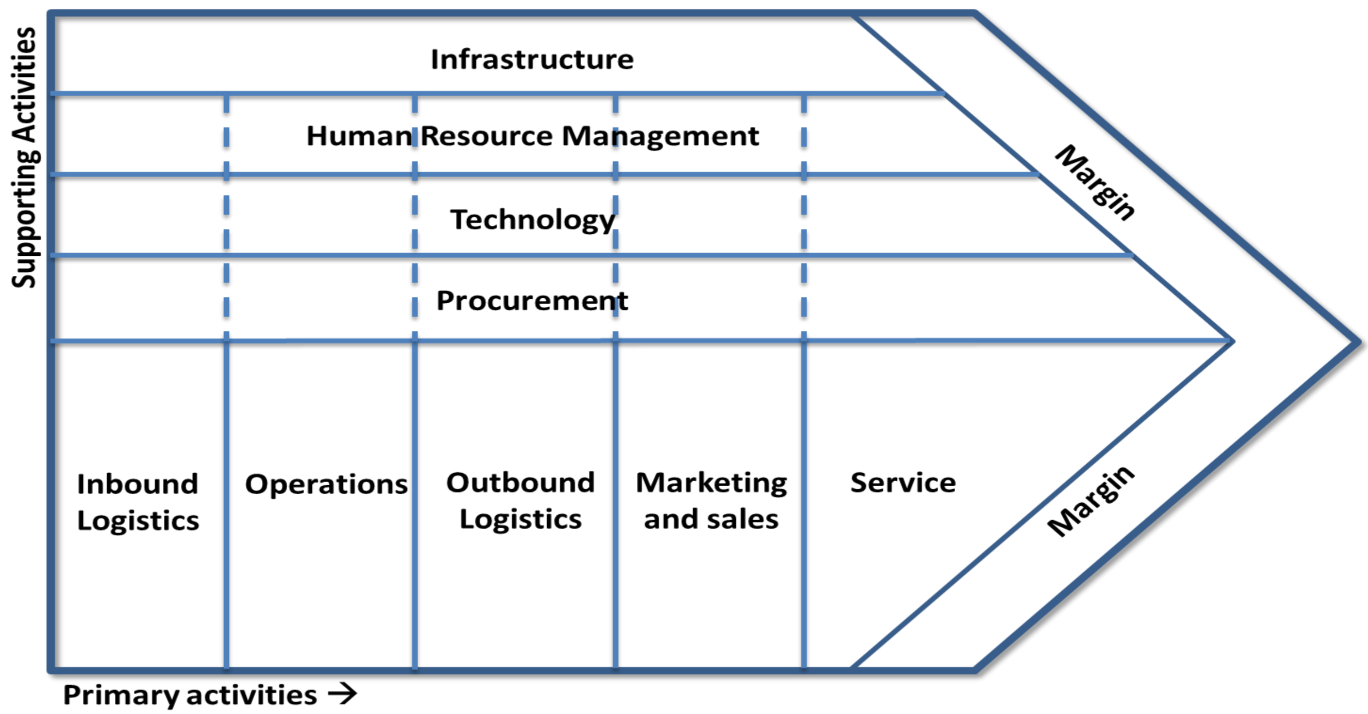
Methodology

The study is analytical and qualitative in nature and is conducted in two distinctive and sequential stages. The first stage includes identification of primary and supporting value chain elements, developed by Michael Porter, for the technologically disruptive businesses and incorporating them into the framework. The second stage critically examines the impact of these disruptive value chain elements on the five forces, also developed by Porter. Further, the study considers a major technology leader of India which have revolutionized and redefined the traditional business, for the purpose of demonstrating and validating the concept of disruptive value creation. The study is however restricted to industry analysis or micro factors.

The Value Chain and the Five Forces

The way of organizing activities and operations in an industry, by a firm, to create, communicate and disseminate products or services of value to the customers, is technically known as the 'Value chain'. The connotation of value chain is nothing but the value or the worth which is created by each activity in the form of a chain of tasks. The concept of value chain in business was pioneered by Professor Michael E. Porter [11], who elaborated the role of primary and support activities in creating value product or services in an industry. According to Porter, there are five primary activities which play a direct and vital role in value creation. He enlisted them as *inbound logistics, operations, outbound logistics, marketing & sales* and *services*. In any firm, these are the sequence of activities which leads to creation of value product or services. He however, also emphasized the roles of certain activities which support the primary activities in the process of value creation and are also instrumental for operational effectiveness, without which the real value creation would remain a distant dream. These activities are known as 'Support activities' and consist of four elements namely, *infrastructure, technology, human resource* and *procurement.* For primary activities to create value, it is necessary to streamline the support activities so that they function in an integrated form and not soloed. A diagrammatic representation of the value chain developed by Porter is given below:

Figure-1: Porter's Value Chain

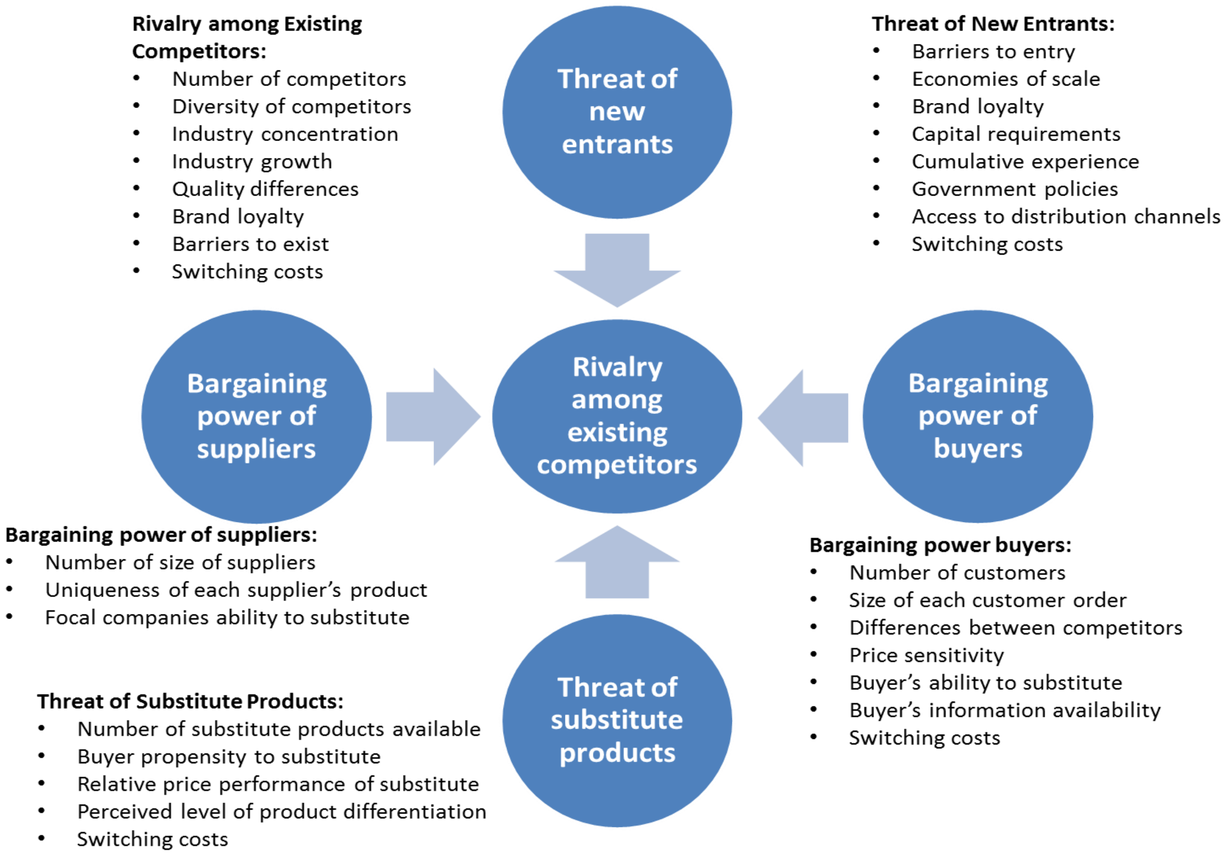


Source: Porter, 1998[12]

In a similar context, Michael Porter also developed and proposed a highly insightful framework or model known as *'The five forces'*. The framework is an extensive work on micro elements or environment of a firm in which it competes. According to Porter, these are the forces which dictate the competitive position of a firm in a particular industry. The forces, mentioned as the *bargaining power of the buyers, bargaining power of the suppliers, competitive rivalry, threat of new entrants* and *threat of substitute products* decides the margin, profitability and sustainability of a firm in the industry. For example, with increased bargaining power of buyers and suppliers the profitability gets reduced; accordingly low cost of entry can intensify the competition and make the industry unattractive because of shrinking profit margins; availability of substitute products and low switching cost for customers can also pose serious threat to a firm; low industry growth rate, competitors' concentration and exit barrier can also marginalize an organization.

The framework is highly relevant and can be applied across industries by firms to cognize and forecast their competitive positions. A diagrammatic representation of the same is given below:

Figure-2: Porter's Five Forces Framework



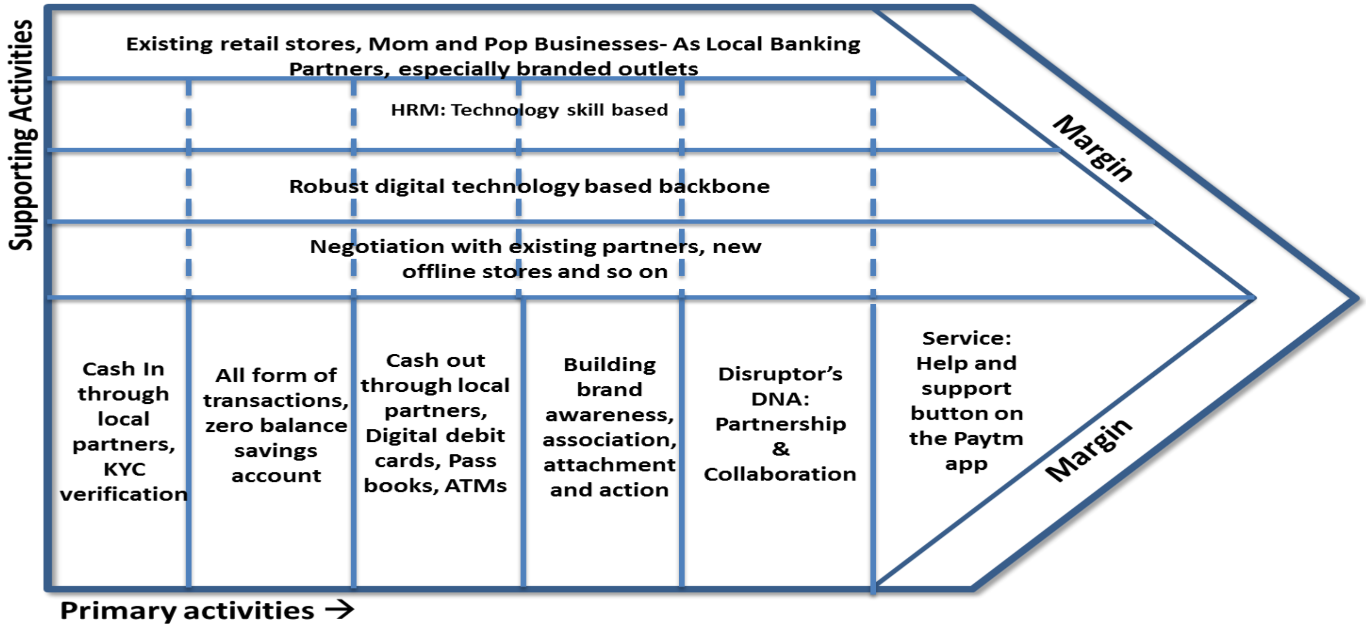
Source: Porter, 1998[13]

The Disruptive Value Creation and the Competitive Forces

As stated earlier in this paper that disruptive businesses are the one which make products or services affordable and accessible to large number of potential beneficiaries, thereby, translating *value* into *volume*. It is primarily the value democratization which leads to disruption, in the present time. In order to understand and develop insight further about the subject, it is considered to be pertinent to illustrate a case in detail, which has successfully revolutionized its industry through disruptive value creation. Most of these new age businesses across industries have a core commonality, which can be termed as *'Collaboration or partnership'*. The key success factor of these businesses is how well they leverage the power of partnership or collaboration through creation of significant and relevant value for their business partners and customers. These businesses also exploited the concept of the *long tail* by Chris Anderson[14], which states that *the products in low demand or that have low sales volume can collectively build a better market share than their rivals.*

Let us begin with the analytical enquiry of *Paytm Payments bank's* value chain structure. Payments banks are new format of banking in India, primarily conceived and subsequently rolled out to include large section of individuals in the country who are not served through traditional banking system. Despite there are 27 public sector and 19 private sector banks serving in India, only 46% of the market has been covered so far[15]. Hence, the premise behind creation of such banks are justified. However, the payments banks are challenged to create a sustainable business model because of restrictions imposed on them, not to extend any loan and not to accept deposits more than 1 lakh rupees in the savings account. Out of eleven applicants granted with the license to commence functioning as payments banks by Reserve Bank of India in the year 2015, Paytm founder, Vijay Shekhar Sharma, was one of them[16]. He envisioned a model that can create a profitable business in the constrained environment. A diagrammatic representation of the Paytm payments bank value chain is given below:

Figure-3: Extended Value Chain of Paytm Payments Bank



Source: Developed by the Authors based on Porter's Value Chain

As discussed earlier, a need to extend the Porter's value chain by adding a sixth component in the primary activities was felt and hence, the above representation includes a sixth element called *'Disruptor's DNA: Collaboration & partnership'*. In fact, collaboration and partnership is an imperative to build such disruptive business models, where the incumbents have deep pockets, empowering them to resist the attack for certain period of time. So, volume or scale could be only answer to the barrier that they have created, through effective cooperation or partnerships with local retail partners who have deep reach in their respective markets. The bank has relevantly used the concept of blue ocean strategy [17] by eliminating few cost related attributes that the industry takes for granted and reducing some. For example, the exorbitant cost of operating from a full-fledged branch is replaced by digital mobile application and physical customer contact points are designed in collaboration or partnership with local retail outlets, thereby optimizing the cost and passing it to customers in the form of benefits. Paytm payments bank has also leveraged the scope of utilizing the space shared by its business partners, creating a positive sum game.

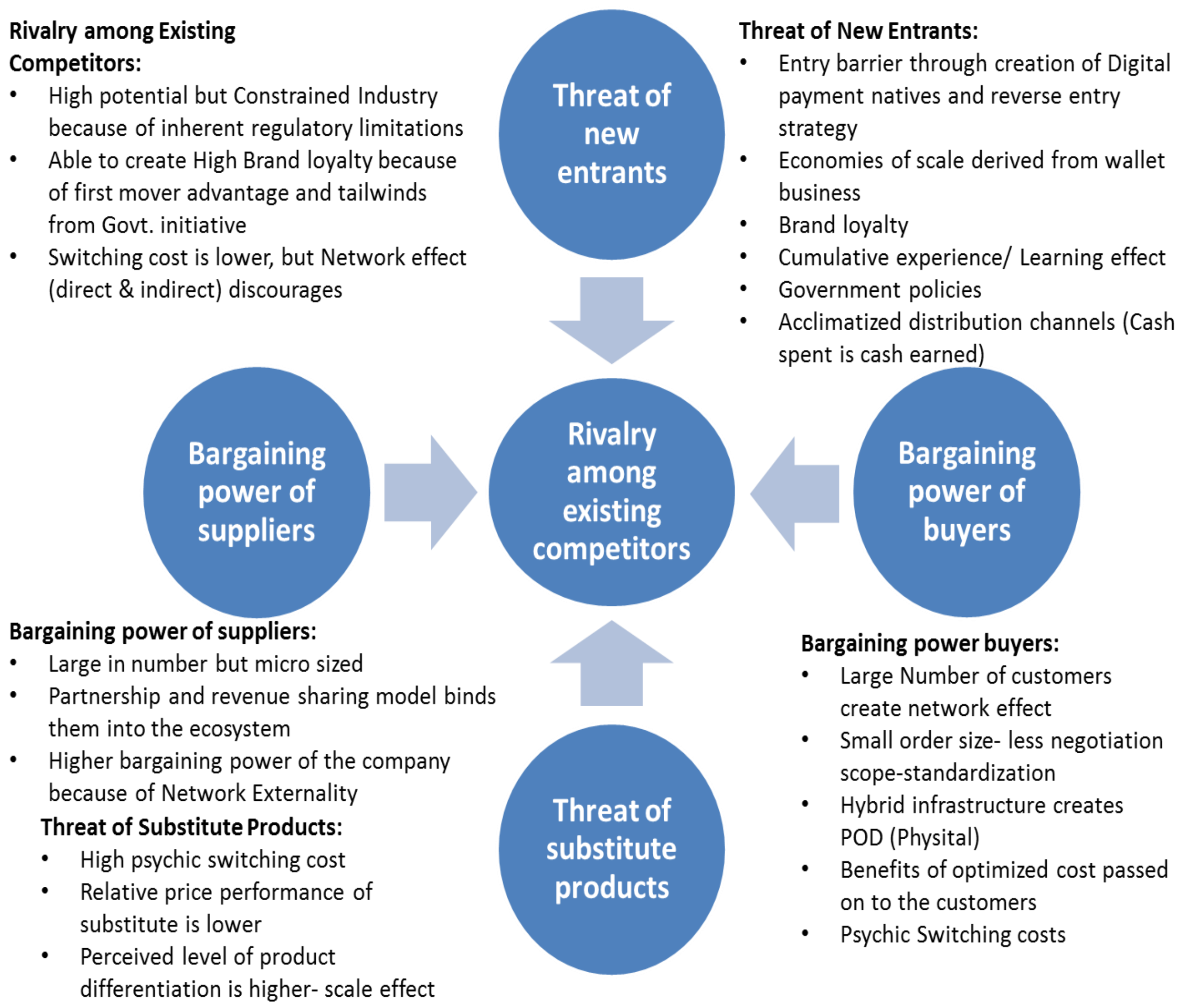
Though the bank is committed to establish large number of ATMs across the country and outnumber its immediate competitors, still its focus would be on religiously promoting cashless transactions, which would ensure its low cost strategy and help retain competitive advantage, as the initiative of the present Government would also provide tailwind. The inbound and outbound logistics includes cash in and cash out through its local partners, who may also be its partner in Paytm Mall. This can create an immensely high value ecosystem where the *cash spent* becomes equal to the *cash earned*. Millions of Paytm wallet customers and merchants are easy to acquire potential customers for the payments bank, through KYC verification. Zero balance account with free fund transfer facility establishes its dominance over the competitors such as, Airtel payments bank and India post. The 'Point of Parity' (POP) is established to the potential customers by putting in place ATM service and shared branches. The bigger branches of the bank are going to be manned with three employees and smaller branches with only one, which indicates the intention of resource optimization, whether it is human resource or other physical resources. Electronic transactions, which consumes only a fraction of the cost compared to branch and ATM transactions, are the major value drivers of the bank, as *'cost saved'* also means *'value created'*, when cost of operations is critical to competitiveness and sustainability. The *network effect* or *externality (direct and indirect)*, which is created because of colossal customer base, generates high possibilities to place the bank in a relatively adventitious position while negotiating with the business partners and customers. More customers encourage merchants to adopt the platform and more merchants encourage customers to adopt it, customer adoption rate also is a significant influencer in further persuading more customers to join. As, customers desire a seamless transaction and merchants expect non-punitive transaction in terms of ease and unnecessary loss of money because of banking regulations in the form of transaction charges.

The 24/7 *help & support* button on Paytm payments bank app creates value attached to reliability and responsiveness. It is an implicit assurance of quick and appropriate redressal of issues pertaining to transactions, for customers, as well as business partners. This also, in a way, creates a 'Point of difference' (POD) from traditional banking and its stipulated hours of accessibility to customers and merchants. The bank is also in the process of leveraging the power of machine intelligence and deep machine learning to build in more predictive diagnosis of potential problems and issues, the ultimate objective of which is to enhance value through injecting intelligence in operational process and achieving excellence.

The *digital payment natives* or wallet users created by Paytm over past few years also act as a barrier to entry in this business. The company has been commendably successful in cashing the scope provided by the demonetization drive of Indian Government to migrate more number of individuals to digital transactions. Its *reverse entry strategy* from wallet to banking has acclimatized users to digital payment system, thereby, amplifying the chances of their easy migration and adoption of payments banking system.

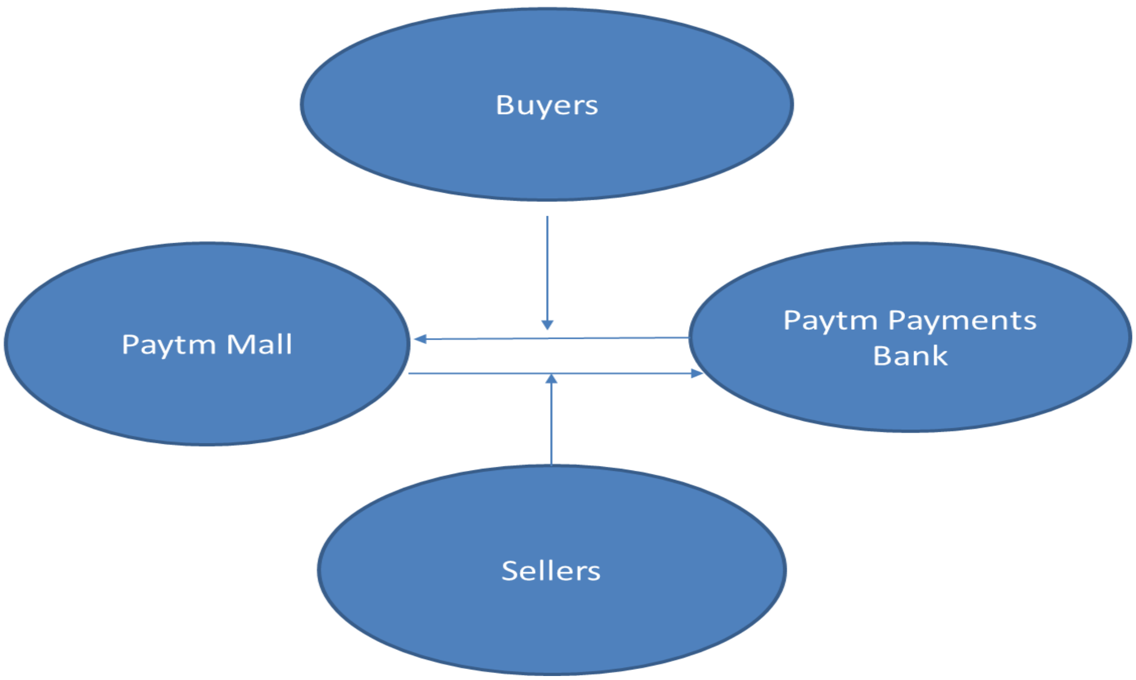
A detail pictorial representation of disruptive value creation by Paytm payments bank and its impact on competitive forces proposed by Porter, is done below:

Figure-4: Impact of Paytm Payments Bank's Disruptive Value Chain on Competitive Forces



Source: Developed by Authors based on Porter's Five Forces model

Figure-5: Envisaged Paytm Ecosystem



Source: Conceived by the Authors

Above represented is the envisaged Paytm ecosystem which is expected to transform customers' and merchants' experience through a seamless and integrated transaction platform. The ecosystem, however, is intended to do much beyond mere making the transactions smooth. It is designed to convert cash into merchandise and merchandise into cash. It is an infinity pool which would consume and produce cash simultaneously. The ecosystem is designed to create direct and indirect network effect, thereby, making the platform an obvious choice for customers and merchants. Ideally, if, both sellers and buyers are made to transact through payment bank gateway, then the cash would literally never go out of the system. A Paytm Mall kiosk inside the retail store would further enhance the profitability through optimization of revenue.

Concluding Remarks and Further Scope of Research

The case of Paytm payments bank illustrates the colossal scope of creativity and innovation in enriching the value chain developed by Michael Porter. It also illuminates the need and relevancy of paradigm shift in conceiving and executing business plans under constraint circumstances. It exemplifies the art of cost optimization and the power of aggregation or resource sharing, in the present era.

The traditional conglomerates with deep pockets can no longer create sustainable entry barriers if they ignore the power of partnership and collaboration. With the fading industry boundaries and increasing boundary spanning role of businesses, it is extremely hard to identify potential competitors and threats posed by them. Hence, it is necessary to reimagine businesses keeping collaboration and partnership at the core, constantly thrive for value creation by challenging and re-questioning the existing beliefs and perception about the industry and customers.

The present framework developed by the authors is just an initiation of much broader scope of study and re-conceptualization of value chain and its impact on competitive forces in an industry or rather, across industries.

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