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THE DISCOVERY JOURNEY

If you're a big-box retailer, you want your stores jammed with customers. The busier your stores are, the more sales you'll log. Pretty obvious, right? Well, not always, as it turns out. At the height of the 2012 holiday shopping season, Best Buy, the world's largest electronics retailer with almost fifteen hundred U.S. locations, saw its stores packed with people. The customers marveled at the glowing displays of forty-two-inch Sharp flat-screen TV sets. They crowded around to test new Samsung laptops with Intel Pentium processors. They browsed through Blu-ray sets of *Mad Men* seasons. Yet there was one thing that customers weren't doing as much of as in the past: pulling out their wallets. Best Buy's sales *fell* that quarter by almost 4 percent.[1]

Instead of buying, many visitors played with their smartphones as they shopped. Tapping at their screens, they scanned barcodes from TV sets and laptops, or snapped pictures of DVD covers. Within seconds, price comparison apps on their phones searched the inventory of Amazon.com and other online competitors, often locating prices that were 5 to 10 percent lower. With a few clicks, users made purchases online and arranged to have items delivered directly to their doorsteps.[2] Again and again, Best Buy employees watched as would-be customers left the store empty-handed.

These customers were engaging in a practice called "showrooming." And in 2012, Best Buy was hardly the only victim. Apps such as Price Check by Amazon turned the brick-and-mortar stores of Walmart, Bed Bath & Beyond, and Toys "R" Us into showrooms for many shoppers. As Google reported, more than six in ten smartphone owners used their phones in-store to help in shopping.[3] In surveys, shoppers reported that their top three reasons for "showrooming" were better online prices, their desire to see products in person before ordering online, and the unavailability of items at retail stores (e.g., due to stocking shortages).[4] For the first time, technology presented what former Best Buy chief marketing officer Barry Judge called "an opportunity [for a competitor] to steal a sale right when someone is in the throes of making a decision."[5]

Showrooming, while seemingly a physical retailer problem on the surface, is a prime example of the digital disruption that has unsettled so many industries, from media to telecommunication, finance to transportation. In Best Buy's case, disruption exacted a steep toll. After the 2012 holiday shopping season, the company reported a $1.7 billion quarterly loss. Sales continued to decline for the next year and a half, and Best Buy's stock price plunged to a twelve-year low. "Are We Witnessing the Death of the Big-Box Store?" one newspaper headline wondered.[6] Inside the company, management floundered. The company's veteran CEO resigned,[7] and his successors differed on how to respond. Although the interim chief executive wanted to tackle showrooming head-on and put an end to the practice, the board's final appointee initially doubted whether the practice even posed a problem.[8] Academics, analysts, and journalists also articulated conflicting views. Some argued that Best Buy should follow Amazon's lead, expanding its differentiated offer and selling cheaper online.[9] Others believed Best Buy should model itself after Apple, stocking fewer products and focusing on high-end stores.[10] The outlook for Best Buy seemed so dire that the company's founder came out of retirement with a bid to buy out the company.[11]

Best Buy wound up deploying an array of tactics to prevent customers from showrooming and to entice them to buy at the store. It tailored its in-store barcodes to prevent customers from attempting to showroom using mobile apps. It refrained from placing barcodes on some products inside stores and used in-store exclusive barcodes to prevent shoppers from finding lower prices through price-comparison apps on their phones.[12] It renovated stores, retrained staff, relaunched its online store, and offered exclusive products only available at Best Buy, such as special editions of Blu-ray movies.[13] The company also went on the attack, creating its own shopping app. None of these tactics seemed to deter consumers from showrooming.

In the spring of 2013, after another lost holiday shopping season, Best Buy finally made a bold move: it promised to match prices with Amazon and other online retailers. The decline in sales flattened, and by the end of the year, CEO Hubert Joly announced: "Best Buy has killed showrooming."[14] But had it? Was the strategy sustainable in the long term? Unlike its online competitors, Best Buy still employed retail staff, maintained stores, and carried inventory across numerous locations. As a result, its costs were fundamentally higher than those of online retailers with centralized warehouses and no retail staff. Price matching stopped the leak of customers, but it ate into profit margins without addressing the root cause of the industry's disruption.[15]

You might think Best Buy had little choice but to experiment wildly with one-off tactics. After all, the threat it faced—showrooming—was unprecedented. As a result, Best Buy executives had little science to call upon, and no general frameworks or theories to deploy. They also had no cases in other industries to study for guidance, inspiration, or best practices. What did disruptive phenomena in other industries have to do with what they were facing? Feeling besieged by a threat that seemed to come out of nowhere, all they could do was retreat into their industries and take tentative stabs in the dark. Of course, the executives at Best Buy were hardly alone in their powerlessness: their peers at other large companies, including

Comcast (facing disruption from Netflix) or AT&T (under threat from Skype), also hunkered down, focused on what they knew, and waged a series of indiscriminate campaigns against their digital challengers.

Today, executives at incumbents fare little better. They remain stymied by disruption, uncertain of what to do. But what if disruption is actually the *same* across industries? What if the threat posed by Amazon to Best Buy bears a *structural similarity* to disruptive threats in a range of other industries? What if just a *single* dynamic has unsettled markets in recent years, a hidden pattern of attack by upstart competitors? That would change everything for leaders of incumbent firms. If you could understand this hidden pattern, then you wouldn't be blindly feeling your way any longer. Even if disruption is rearing its head in your industry for the first time, you'd be able to respond in a methodical way by deploying a generalized framework. Threats that seemed uniquely yours and existential in nature would become more comprehensible, predictable, and thus manageable. Disruptors would no longer be so, well, disruptive after all.

Puzzled by Disruption

It turns out that individual instances of disruption aren't nearly as unique as most executives assume. A pattern *does* exist—one that I uncovered almost by accident. In 2010, a year after I began teaching at Harvard Business School, I sat down to write my first case study. I had chosen to focus on how online streaming services such as Netflix had challenged Globo, Brazil's biggest media company. As a conglomerate of television and radio stations, newspapers, websites, and other media properties, Globo captured 70 percent of all TV advertising revenue at the time. But their most successful product—

telenovelas (soap operas), popular in Latin America since the 1960s—wasn't doing so well.

I visited Globo's headquarters and interviewed about a dozen of its executives, including the chairman of the board. Writing up the case study, I recounted how younger audiences weren't watching much TV anymore, especially *novelas*, which were traditionally shown during prime time, 6:00 to 10:00 p.m. Instead, younger consumers were going online to watch their favorite shows on YouTube or Netflix. Proud of my work, I sent the finished case study to Globo for approval (standard practice for our case studies). To my great shock, my request for approval was declined. And not just declined: the corporate communications people with whom I interfaced essentially told me that I could never publish the case.

I couldn't believe it. It was my first case, and I had spent quite some time researching and writing it. But I thought I understood the company's decision. Globo was frightened about the threats its *telenovelas* faced, and executives didn't want to "wash their dirty laundry" publicly. So I let it go.

I went on to write a series of cases on other topics in digital marketing, studying companies such as PepsiCo, Groupon, Dropbox, TripAdvisor, and YouTube. In 2013, I again tried to publish a case study about a firm in the throes of being disrupted. This time the company was Telefonica, Spain's largest telecom company. For decades, Telefonica had made a killing on international calls. Then, in 2003, Skype came along, and in less than a decade, Telefonica's and other European operators' revenues from international calls plummeted by more than two-thirds.[16] What consumer would pay 40 cents a minute to call New York City from Madrid when you could Skype another person anywhere in the world for free? Telecom executives lost billions of euros under their watch. Again, after I interviewed almost a dozen of Telefonica's executives and wrote up the case, someone at the top refused to sign off on its publication. I later discovered that the then CEO had refused permission, likely for a similar reason to that of the executives at Globo. The pain was real, and a cure was not yet available or well understood.*

These two setbacks got me thinking: Why were executives struggling so much with disruption? Did they know how to respond but just needed more time? Or were they genuinely baffled, regarding disruption as utterly novel and unknown? I decided to approach a number of large companies facing disruption and talk to them off the record. My goal wasn't to publish cases but simply to understand what they were facing and how they were responding. Between 2013 and 2017, I spoke with executives at Sephora, a beauty retailer that at the time was fending off a challenge by upstart Birchbox; at Best Buy, which was grappling with Amazon; and at Electronic Arts, a videogame publisher that faced threats from developers including Zynga, Rovio, and Supercell. At each company, I found that executives were acutely aware of the threats that upstarts posed, yet unsure how to best respond. Mind you, they did react, but mostly with pointwise tactics akin to Best Buy's initial attempts at discouraging shoppers from practicing showrooming.

In the course of these conversations, I began to notice a recurring theme. As dangerous as disruptors were to incumbents, they weren't replacing or unsettling *everything* about an incumbent's business, just a small part of it. Amazon, as we've seen, wasn't dissuading customers from browsing the aisles at Best Buy to discover products, test them out, and compare features. Amazon's app came into play only once a customer had finished comparison shopping and was looking to make a purchase. In a sense, Amazon and Best Buy were sharing customers. This was a different type of competition, one that big-company executives were not used to seeing and responding to.

Or take Sephora and Birchbox. Consumers had been visiting

* Unlike TV Globo's case, at Telefonica, top executives did have a couple of options to combat the new disruptor.

Sephora's physical stores to test and evaluate Yves Saint Laurent lipsticks or Chanel perfumes and make purchases on the spot. Customers could later repurchase items from Sephora either on the company's website or in the store. In 2010, when Birchbox came along, it disrupted Sephora using a "subscription box" model. For a fee, Birchbox sent customers monthly boxes of beauty products to sample. Yet customers didn't get to decide what went into their boxes—Birchbox did that for them. In this way, Birchbox made it unnecessary for customers to visit Sephora to test makeup, lipstick, perfume, and skincare products—they could now do this in the convenience of their own homes. Consumers were delighted. As one Birchbox subscriber related, "I live in a small town and have very little access to high-end brands."[17] For a customer like this, Birchbox was a godsend.

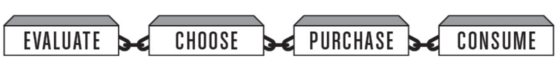
At first, Birchbox was solely in the business of facilitating sampling, offering sample-sized products in its subscription boxes. If customers liked a particular sample of a product, they could then purchase the full-sized version of the product at Sephora or elsewhere.[18] Over time, as more people subscribed to these boxes to trial and learn about new products, fewer people casually entered Sephora stores to learn about new products on the shelf. Birchbox had come to pose a major threat because it interfered with just one part of the consumer's activities: testing. As one industry executive stated, "You're going to have more and more young clients who . . . will buy their product without being in a store."[19]

Likewise, in the videogame industry, developers such as Zynga, Rovio, and Supercell didn't focus on replicating the entire business of traditional videogame developers. What they did in taking on incumbent Electronic Arts was simply change how consumers paid for them. Prior to internet-enabled gaming consoles, consumers had to pay a one-time up-front price of $40 to $80 to purchase a physical videogame before they could play it. Then new channels including social media and app stores came along, and upstart developers began making their games available for free. They made money by selling customers inexpensive add-ons (some cheaper than $1) that allowed gamers to better compete and advance. Around 98 percent of mobile gamers, the casual players, played for free. The other 2 percent, the loyal players, were more than willing to pay.[20] This strategy worked so well that by 2019, most mobile game developers had abandoned the pay-to-play model in favor of "freemium" pricing models.

The Concept of Decoupling

Wondering precisely how disruptors were unsettling small parts of incumbents' businesses, I turned to a basic framework that my colleagues and I teach our students: the customer's value chain, or CVC.* A CVC is composed of the discrete steps a typical customer follows in order to select, buy, and consume a product or service. CVCs vary according to the specifics of a business, industry, or product. For example, the key stages in a CVC for purchasing a flat-screen TV involve going to a retailer, evaluating the options available, choosing one, purchasing it, and then using the TV at home. For a beauty product such as skin cream or for a videogame, the value chain is basically the same. In the case of videogames, players evaluate the available game titles, choose one or more, purchase it, and then play it.

FIGURE 1.1 **A TYPICAL CONSUMER'S VALUE CHAIN (CVC)**



Traditionally, consumers completed all these activities with the same company in a joint or coupled manner. To buy a TV, consumers

* Also referred to as the decision-making process.

found it most convenient to go to physical stores such as those operated by Best Buy, choose one of the available options after evaluating them all, and buy the TV right then and there. While people could browse in one store and buy at another, Best Buy knew that most of the time, consumers who had arrived in the store to buy a TV would purchase it there if the price seemed reasonable. Similarly, a shopper for beauty products would go to a Sephora store, evaluate perfume options, choose one, buy it, and consume it. And a gamer would do the same for games produced and sold by Electronic Arts.

What I realized, as I thought about these examples, was that disruptors had posed a threat by *breaking the links between some of the stages of the CVC* and then "stealing" one or a few stages for themselves to fulfill. To facilitate comparison shopping, Amazon created a mobile application (app) that allowed shoppers in brick-and-mortar stores to search, scan the barcode, or snap a picture of any product to easily discover Amazon's price. This enabled Amazon's customers to easily break the connection between *choosing* a product and *purchasing* it. Best Buy did the former, Amazon the latter. Similarly, Birchbox enabled its customers to easily separate the *testing* of beauty products (fulfilled by Birchbox) from the *choosing* and *purchasing* stages (fulfilled by other retailers). Upstart game developers allowed customers to separate out the *purchasing* of games from the act of *playing* them.

In effect, upstarts were culling just a portion of the CVC that had traditionally been provided by an incumbent, and they were building entire businesses around it. Disruptors were *decoupling* discrete activities that customers performed. Upstarts weren't trying to replace incumbents entirely, as traditional competition was based upon. Why do that if they could steal a customer just by offering a narrow slice of the value pie? Plus, the cost of completely replacing an incumbent could prove prohibitive for a startup—billions of dollars of investment in stores, salespeople, production facilities, and other assets. Upstarts let Best Buy, Sephora, and Electronic Arts still offer some parts of the CVC, often those that are expensive to replicate. Of course, to incumbents, this was no consolation. Even the loss of one core stage in the CVC wreaked havoc in an incumbent's business, particularly if that portion was where the incumbent made most of its money.

Decoupling, Decoupling, Everywhere

As the concept of decoupling came into focus, I found myself taken aback by it. Best Buy, Sephora, and Electronic Arts were in different consumer retail industries, and the upstarts that challenged them seemed to be doing so using different weapons (Amazon used an app, Birchbox a subscription box, and game developers such as Supercell a different pricing strategy). I could see why executives at these incumbent companies were considering disruptors only in their own industry when crafting their responses. Yet disruption in each of these industries ultimately amounted to the same process: decoupling. Upstarts were peeling away a portion of the customer's value chain that used to be the sole province of incumbent companies. And on this count, they were dangerous. Disruptions thus weren't all unique events, disconnected from one another. Rather, they were, possibly, a general phenomenon.

By 2014, I was eager to tell others about the common approach I was seeing. Was I genuinely on to something? I was invited to present some of my early work on decoupling at the National Retail Federation Week in New York City. Executives in the audience were as intrigued as I was about the possibility of commonalities between disruptors across retail industries. Later that year, I presented decoupling at a prominent San Francisco venture capital firm. This firm invested in disruptive companies in a number of industries, not just retail. As investors there suggested, the decoupling pattern might ex-