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DISRUPTIVE INNOVATION: AN APPROACH FROM BUSINESS MODEL FOR THE LATIN AMERICAN CONTEXT

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Abstract

The importance of disruptive innovation in the business context, is essential to go deeper into the application of the concept in Latin America, based on the worldwide learned lessons. The purpose of this conference paper is to propose disruptive innovation as a driver to address the challenges in organizations of the region regarding the limited investment in Research and Development (R & D) activities, weakness in the identification of opportunities offered by existing technologies, the difficulty in opening up new markets and rigid business models. Disruptive innovation —understood as a type of innovation based on the impact on the market rather than on the technological trajectory— is addressed through an analytical-descriptive approach due that the secondary information obtained helps to establish the application and relevance of the concept in the emerging practices of the Latin American context. The review of the literature —from the first definition made by Christensen in 1997 to the recent authors— through a bibliometric study —in which the volume of academic production, its main exponents, fundamentals and characteristics were analyzed— is done to establish how disruptive innovation can help to meet the challenges previously described. The three stages of the documentary research process were adopted (Montemayor, 2002) and the methodological tools were qualitative in order to determine: 1. The attributes of disruptive innovation, 2. The particularities of Latin American countries and 3. The articulation of the two previous components to face the challenges of the region. Based on the findings, new designs of business models with disruptive potential are proposed, based on the identification of opportunities in marginal markets, that add value in product creation using technologies that are more economical, simpler and accessible as a mechanism to improve the innovative activity of organizations in the region.

Keywords: Disruptive Innovation, Disruptive Technology, Business Model, Innovation in Latin America, Disruptive Innovation in Emerging Countries.

JEL Classification: O32, O33, D00, N36.

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1. Introduction

Innovation is one of the pillars that affects the competitiveness of countries. According to Schumpeter, the immaterial factors of which innovation forms part, are economic development forces that have a decisive and dynamic impact, and that is how Montoya (2004) shape it in the production equation proposed by him. Consequently, innovation is a fundamental resource of economic growth, industrial change and competitive advantage of organizations. (Damanpour, Walker & Avellaneda, 2009). For the UK's science and innovation office, innovation is "the engine of modern economics, turning ideas and knowledge into products and services." In an economy where companies seek to generate growth and sustainability, it is imperative for companies to move towards innovation, because they run the risk of being left behind by others that lead to changes in their offerings, operational processes or business models (Joe & Bessant, 2009).

Disruptive innovation was a strategic mechanism used by Japan for its economic development after World War II. Companies such as Nippon, Steel, Toyota, Sony and Canon offered to the market products with lower initial performance, thus capturing a marginalized market. As these products were improving, these companies succeeded in establishing themselves within main markets and displacing dominant firms (Markides, 2012). In the 1950s, Honda started selling motorized bicycles to small distributors in war-torn cities (WWII) and they were being rebuilt, the company developed a business model in which it generated revenues by offering products to really low prices.

When Honda entered the American market with the Supercub, the simplicity of the product and the low cost led to low-income people who had not had access to the products —because of their costs— to have access to them, which consequently, allowed to obtain a competitive advantage since the established companies were not interested in that emerging market by the low profit margins. On the other hand, Toyota and Sony followed the same path that led to successes, focusing on markets neglected by companies established by the low appeal in terms of revenue and profitability. Christensen and Hart (2002) mention that companies that sustained this disruptive strategy were the engine of economic development in the decades of the 60's to 80's and that precisely changing in national policies has led to this type of innovations not occurring and lagging behind these economies (Christensen, 1997; Christensen & Hart, 2002; Christensen & Raynor, 2003; Markides, 2012).

On the other hand, there is a wide literature that has addressed disruptive innovation in the context of emerging markets, however, it has been focused mainly in countries as China and India (Hang et al., 2010; Johnson, Christensen, & Kagermann, 2008; Williamson, & Yin, 2015); for Latin American countries there is little literature as reaffirmed by Nogami & Veloso (2017) who took Brazil as the reference country and found that there is a gap in literature for the region.

All these aspects led this research to propose disruptive innovation as a mechanism to address the challenges in organizations in the region regarding the limited investment in Research and Development (R & D) activities, weakness in the identification of opportunities offered by existing technologies, the difficulty in opening up new markets and rigid business models. The study is approached from an analytical-descriptive perspective due that through secondary information can be established the application and relevance of the concept in the nascent practices of the Latin American context. Initially with a conceptual review of the term and the process of disruptive innovation. Additionally, the characteristics are determined from the literature consulted and consequently the characteristics of the disruptive innovation are contrasted against the particularities and remains of innovation of the organizations in the Latin American context which leads to propose considerations its applicability from a business model approach.

To fulfill this, three stages of the documentary research process were adopted (Montemayor, 2002) and the methodological tools were qualitative to determine: 1. Theoretical review that approaches conceptual approaches to the definition of disruptive innovation, as well as its process and characteristics-attributes of disruptive innovation-, 2. The particularities of Latin American countries and 3. The articulation of the two previous components from a business model approach to face the challenges faced by organizations in the region.

In 1997 appears the theory of disruptive innovation¹, as a strategic practice and important way for the expansion and development of new markets, which has created a significant impact on management by opening up the debate within academia (Yu & Hang, 2010). It generates growth in industries where it penetrates or completely creates new industries through the introduction of products or services that, due to their simplicity, offer a basic, convenient, differentially

The term disruptive—which is related to the word disruption—is commonly used within the literature to express an abrupt change. According to the Royal Spanish Academic, the disruption comes from the english *disruption*, which in turn has roots of the Latin *disruptio*, and that means abrupt rupture or interruption. The term has been used to describe the impact of an innovation from a technological change perspective and has been related to the terms: discontinuous, radical and destructive of competences among others. Brenner and Christensen (1995) use the term to refer to disruptive technologies and subsequently Christensen and Raynor (2003) extend it to disruptive innovations, Christensen (2006) clarifies "The disruptive term has many connotations in the English language as "failure" and "radical", in addition to the phenomenon to which I applied it. I fear that is why we see post hoc definitions by the uninformed" (P.42); Christensen, Raynor and McDonald (2015) remarked, "There is another worrying concern: in our experience, too many people who speak of "disruption" have not read a serious book or article on the subject, often use the term loosely for many researchers, writers, and consultants use "disruptive innovation" to describe any situation in which an industry is shaken and successful established businesses stumble, which is why its use is too much broad."(P.46). so that, although the term disruption is synonymous with abrupt rupture or interruption, it depends on the perspective from which it is analyzed, and the disruption under the context of disruptive innovation refers to the change of the dynamics of a market; that is, how new companies can displace those established and how new technologies change the attributes most valued by customers.

economic performance, transforming the market dynamics (Gemici & Alphan, 2015; Kostoff, Boylan, & Simons, 2004).

Disruptive innovation has been defined from different perspectives. For Lettice & Thomond (2002) disruptive innovation is "a successfully exploited product, service or business model that significantly transforms the demand and needs of an existing market and excludes previous players" (p.4). Danneels (2004) addresses disruptive innovation from the market perspective by stating "it is a technology that changes the basis of competition by changing the performance metrics under which firms compete" (p.249). On the other hand, Nagy, Schuessler, & Dubinsky (2016) made an approach from the technological perspective, realizing a reconfiguration of characteristic aspects of the disruptive innovation and define it as: "An innovation that changes the metrics of performance, or the expectations of the consumers, of a market by providing radically new functionality, discontinuous technical standards or new forms of ownership" (p.122). In this context, Christensen (2006) emphasizes that disruptive innovation must be understood as a process and not as a product or service in a given point; therefore, it is difficult to determine at what point an innovation becomes disruptive.

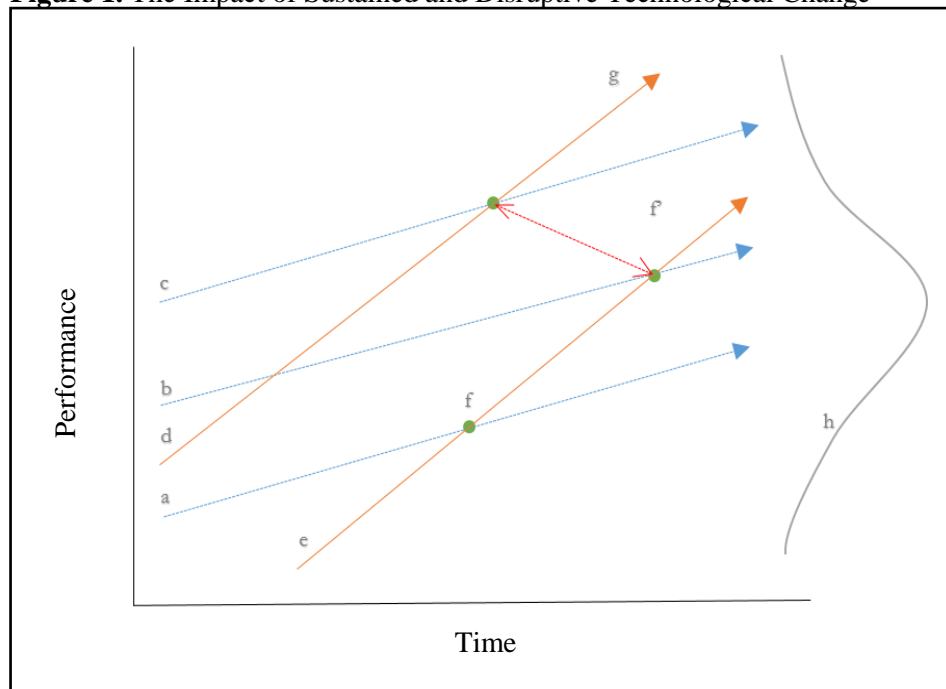
2. Disruptive Innovation Process

Christensen (1997) explains this process in Figure 1, which contrasts what he calls product performance trajectory (d and e) —as products improve over time— with customer demand trajectories (a, b and c); that is, willingness of customers to pay for performance. Initially disruptive innovations do not satisfy the performance of the main demand market, which is why consumers in this market consider them unnecessary. However, over time and as an iterative process, disruptive innovation improves performance attributes in such a way that it meets the demands of the established market (f and f'). —It satisfies the low market and the main market—. At the same time, the established innovation trajectory maintains *sustained innovations* in order to meet the needs of high-level (g) —most profitable customers— that exceed the absorption capacity of low-level customers and main customers, reducing their marginal utility, which is reflected in the provision of payment for the dominant innovation (Adner, 2002, Danneels, 2004). Because of this, customers are influenced to the performance offered by disruptive innovation (Adner, 2002, Danneels, 2004, Yu & Hang, 2010).

Disruptive innovation assumes that the performance levels demanded by customers within an existing market segment are normally distributed between the low-end and high-end (h) customer extremes. Customers in the main market represent the average level of performance demanded. Similarly, Rogers (1983) uses the normal distribution to differentiate between different categories of

adopters, which includes: *innovators, early adopters, early majority, late majority, and laggards.*

Figure 1. The Impact of Sustained and Disruptive Technological Change



Source: Authors' compilation, using information from Christensen (1997)

- a. Performance demanded by low-level markets
- b. Performance demanded by the established or traditional market
- c. Performance demanded by high-level markets
- d. Performance trajectory of existing (sustained) innovations
- e. Performance trajectory of disruptive innovation
- f. Point of invasion in low-level markets
- f. Point of invasion in established markets (disruptive innovation is established)
- g. Over-performance of existing innovations
- h. Normal distribution of customers by performance demanded

3. Characteristics of Disruptive Innovation

Christensen (1997) argues that disruptive innovations tend to be technologically simpler because the components are usually already available but are assembled differently. This leads to a product architecture that is often simpler than previous approaches and states that disruptive technologies bring a very different value proposition to the market than had previously been available. Usually, disruptive technologies offer lower performance than products established in the core market. But on the other hand, have other characteristics that some marginal customers —and generally new ones— value. Products based on disruptive

technologies are generally cheaper, simpler, smaller, and generally more convenient (p. xv).

A fundamental aspect of the disruptive innovation process is that products are valued in markets that were initially neglected or ignored by established firms (Adner, 2002; Christensen, 1997; Christensen & Raynor, 2003; Govindarajan & Kopalle, 2006). To these spaces, Christensen & Raynor (2003) call them marginal markets and are divided into low level and new market. a) *Low Market Level* refers to gaps that are generated due to the attention that the established companies lend to the demanding and more profitable customers offering products and services each time with better performance in the dimensions traditionally valued, and they stop paying attention to the less demanding customers. This creates a vacuum that is addressed by disruptors focused on providing "good enough" products and services to these ignored consumers and customers. b) *New Market*: Disruptors create new markets in a way that turns non-consumers into consumers. Christensen & Raynor (2003) claim that a disruption of the new market is: "an innovation that allows a larger population that previously lacked money or skill, now start buying and using a product and doing things themselves" (p.102).

Table 1 collects some characteristics found within the consulted literature, in which aspects that converge from the different positions arise and which are testable with the conditions in Latin American countries. Disruptive innovations initially serve marginal markets, have attributes lower than those valued in the main market, offer different attributes (simpler, cheaper, more convenient).

Table 1. Characteristics of Disruptive Innovation

Christensen (1997)	I. Disruptive technologies are generally simpler, cheaper and more convenient II. Disruptive technologies emerge in low-level segments of the market. In general, they are ignored by established companies. Disruptive technology improves performance to meet the needs of the main market.
Thomond & Lettice (2002)	I. Start its success by addressing the unmet needs of an emerging or niche market. II. Its set of performance attributes, highly rated by niche market customers, are not initially appreciated by major markets. Customers in the main market, as well as competitors, value different sets of performance attributes and, therefore, see innovation as deficient. III. The adoption of niche markets allows investment in the product, service or business model to increase its performance. Then you can create or enter new market niches and expand the number of clients. IV. Knowledge of the product, service or business model is increased, forcing and influencing the change in the perception of the main markets of what it values. V. The change in the perception of the dominant market of what it values is the catalyst that allows innovation to interrupt and replace existing products, services or business models.
Adner (2002)	I. The technologies of the established companies are displaced from the main market by technologies that have inferior performance in the dimensions that the main clients value II. The main clients are willing to acquire the disruptive technologies even though they offer inferior performance in main attributes III. Established companies do not react on time.
Christensen y Rayror (2003)	Disruptions " <i>low end</i> " directed to the low level of an existing value network, new market disruptions, which create a new value network.
Tellis (2006)	I. Disruptive technologies initially have inferior performance (with respect to established ones) II. It offers features that marginal customers value (cheaper, simpler, smaller or more convenient) III. Established companies reject disruptive technologies IV. They are initially marketed in emerging and insignificant markets (seen from the main market) V. Disruptive technologies improve continuously until reaching the main market VI. Disruptive technologies replace existing ones VII. The established companies are displaced from the main market.
Govindarajan & Kopalle (2006)	I. Innovation has a lower performance on the attributes that traditional customers value II. The new features or attributes offered by the innovation are not valued by the main clients III. Innovations are usually simpler, cheaper and are offered at a lower price than existing IV products. At the time of its introduction, innovation attracts low-level and price-sensitive customer segments, which limits the potential for profitability of established companies and V. Over time, development improves the performance of innovation in the attributes that the main customers value attracting these customers more and more.
King & Baatartogtok h (2014)	I. Established companies advance on a trajectory of sustained innovation II. These innovations generated by established companies exceed the needs of clients III. Established companies fail to face disruptive innovations.
Nagy, Schuessler, & Dubinsky (2016)	I. Technical standards II. Functionality III. Property

Source: Prepared by the authors

4. Latin American Context

Low-income countries or regions have been referred to as emerging economies, developing countries, BoP markets or the Pyramid Base. Data from the World Bank show that about 3 billion people lived in 2003 with incomes below \$ 2 dollars per day (World Economic Forum, 2009). Consequently, the Economic Commission for Latin America and the Caribbean (ECLAC, 2005) points out that in the context of Latin America - which has a population of approximately 597 million inhabitants-, and in the Caribbean only 3 of the 33 countries in the region have high income, while the rest, they are predominantly middle-income according to per capita income. Consequently, the Human Development Report (2015), which uses the Gini index to determine country inequality placed the countries as follows: Haiti (0.608), Colombia (0.535), Paraguay (0.517), Brazil (0.515), Panama (0.507), Honduras (0.506), Chile (0.505), Guatemala (0.487) and Costa Rica (0.485) among the 20 countries of the world.

This gap in income distribution limits the purchasing power of people, who sometimes do not meet their basic needs such as food, education and health with existing products or services (Silva, Parente, & Kato, 2009). Disruptive innovation is presented as an opportunity for organizations to meet these potential markets -population that has large unsatisfied basic needs because existing products offer an oversupply of performance or the price is hardly accessible for this population-.

On the other hand, Latin America's innovative activity in countries such as Mexico, Colombia, Brazil, Argentina and Chile lags behind other regions, including conditions such as low investment in R & D, product undifferentiation, limitation in the opening of new markets and lack of sophistication in business models. Placing Colombia as a reference, the problem is centered on the low innovative activity in the productive apparatus in which the percentage of companies in the manufacturing sector and services classified as non-innovative was 60% for the period 2009-2010, a percentage that increased to 73.6% in the period 2011-2012 for the manufacturing sector and 71% in the services sector for the period 2012-2013 (National Council of Economic and Social Policy of Colombia, 2016).

Therefore, organizations in Latin America to improve aspects of innovation - as a process and as a result - that are reflected in competitiveness have as challenges:

1. Identify technological and market opportunities - considering the low investment in R & D-
2. Develop products and services designed for people with low purchasing power and limited access to existing products;
3. Design business model architectures that generate greater customer value - taking into account the limitations of income, access and and
4. Create, configure, and reconfigure competencies and resources to adapt to changing environments.

According to the characterization of disruptive innovation, its relevance is established to organizations in Latin America from two perspectives: *market* and *organization*. From the *market perspective*: 1. Disruptive innovation addresses marginal markets; that is to say, it arises in contexts where low incomes predominate, existing products have an oversupply of performance or do not have access to these are limited-difficult in the access to the product or service by supply by centralized location or by logistics and infrastructure- 2 It offers features that marginal customers value; that is, they are usually simpler, cheaper and more convenient. From the *Organizational perspective*, the relevance of disruptive innovation is proposed as follows: 1. Products with disruptive potential are usually based on new combinations of existing technologies and 2. Disruptive business model design allow revenue generation at discount prices (Christensen, Johnson, & Rigby, 2008; Christensen, 1997; Christensen & Hart, 2002; Govindarajan & Kopalle, 2006; Hang et al., 2010 and Tellis, 2006). Forged business models in low-income markets can be applied in more places profitably than business models designed in and for high-income markets. On the other hand, developed country markets in different contexts are saturated while markets such as Latin America present an opportunity to compete against non-consumption; that is, offering a product or service to people who do not have access to existing products and are happy to be able to access simpler products and more modest versions of what the advanced markets offer (Christensen & Hart, 2002, Hang, Chen, & Subramian, 2010; Markides, 2012; Nogami & Veloso, 2017).

5. Business Models in Organizations Adapted to the Context of Latin America

Disruptive innovation does not constitute a rupture within the technological trajectory as it could be a radical innovation; in general, arises from existing technologies in new combinations or uses and are not inherently disruptive or sustained (Christensen, 1997). Although many technologies are developed in large R & D laboratories, companies do not always find the technologies they develop useful because they do not identify a clear market within the established business model (Chesbrough & Rosenbloom, 2002; Christensen, 1997). However, these technologies that are rejected because they do not fit into the business model are taken advantage of by companies entering alternative uses in a different value network. So the disruption does not come from the technology itself but in the way it comes, it generates value for the customer.

Having a differentiated "strategic architecture" -difficult to imitate- and at the same time effective and efficient reflected in a company's business model is a basic aspect of an organization's competitiveness (Chesbrough & Rosenbloom, 2002, Johnson, Christensen & Kagermann, 2008, Teece, 2012, Teece, 2007). The business model does not discover new products or services, its importance lies in that it defines how to deliver value from these to customers. A product with high

disruptive potential will not necessarily succeed if it is not interrelated on how it delivers value to customers; as Chesbrough points out (2010) "a mediocre technology integrated into a large business model can be more valuable than a technology exploited through a mediocre business model" (p.354). For example, AirBnB was not a pioneer in offering commercial air transport service, but defined a new way of delivering the service and make it accessible to a group of people who previously had not been able to take advantage of this service, while Amazon did not discover the sale of books, but redefined how to deliver it to the customer through a different value proposition. Success requires that business models be shrewdly crafted; otherwise, technological innovation will not result in commercial success for the innovative company.

According to Johnson, Christensen & Kagermann (2008), the business model "consists of the gear of 4 elements that, taken together, create and deliver value" (p.60). Christensen & Raynor (2003) mention that the needs are identified through work that needs to be done. The 4 elements that cause disruption from a new business model which - initially - must establish what is called the value proposition of the client. This requires the definition of what product, technology, and service will be offered and how the consumer or customer will use it; that is, how the company helps to solve a problem or to meet a need by offering new and better solutions at a reduced cost - doing better work at a more appropriate price. This occurs when the consumer or customer feels that the satisfactors offered by the market do not fully meet the need or exist non-consumers. It is in this part where the architecture of the product or service is paramount since it defines the implicit characteristics to access such customers, in which it must be taken into account that the products or services offered, although they have a lower performance, are good enough to be valued by the consumer in the dimension that values, the main market. In addition, they offer value in another dimension that the main market has not usually valued.

Table 1. Elements of a Business Model Applied to a Nano Vehicle

Elements of a business model	Ratan Tata —Tata Group—
The context takes place in Mumbai, India. Large number of motorcycles cross dangerously with vehicles on the tracks that transport complete families -the two parents and several of their children-	
<i>Customer Value Proposición (CVP) - involves helping clients to do important work for them; that is, how precise is the solution offered to the client to get his job.</i>	This organization detected a critical job to be done: to provide a safer alternative for families that are transported through motorcycles - an affordable, safer, and weather-proof motorcycle. This value proposition to the client had the potential to reach 10 million people who were not part of the vehicle market.
<i>Developing a benefit formula - profit formula- means defining how the organization creates value for itself while creating value for the client</i>	They decide to break the barrier of wealth by lowering the price of the vehicle to bid at \$ 2,500 USD - less than half of what the cheapest vehicle on the market costs. The profit margin would also go down; however, it could be sustainable and increased sales volumes given that its target market was potentially large.
<i>Identify key resources are assets such as people, technologies, products, facilities, equipment marketing and distribution channels and brand.</i>	The organization hired young engineers that reduced the number of pieces that the vehicle needed -minimizing the costs-. Likewise, it reconfigured the strategy of its suppliers by outsourcing nearly 85% of the vehicle's components and employing 60% less of the vendors-reducing transaction costs to improve the economy at scale. Additionally, the company plans to ship modular components of its vehicles and deliver them to a network of assembly plants -whose owners are entrepreneurs-. Nano - the name of the vehicle - will be built, distributed and delivered to customers in a new way, radically improving traffic safety throughout the process.
<i>Identificar procesos clave</i>	

Source: Prepared by the authors using data from Johnson, Christensen & Kagermann (2008)

In addition, it must offer ease of use, the skills required for an optimal use, management or use of the same should be basic in order to reach a larger market, taking into account the characteristics of Latin American countries, price, is decisive within this composition. Products should be differentially more economical than those offered by the main market in such a way as to allow access to a population that previously could not enjoy such satisfactors and should finally be accessible, should not be centralized.

6. Identification of Marginal Markets

Identifying whether there is potential for disruption in new market or low-level market dimensions is the basis for progress in developing a disruptive strategy. The disruptive innovation of a new market competes with non-consumption because the products resulting from this innovation have characteristics such as: 1. Usually more affordable, 2. Easy to use, and 3. Lower price. These attributes can open the possibility to a whole new population to begin to appropriate and use the product within a more convenient environment - easy access to the product.

The challenge is to create a new value network in which the objective is not to overcome established companies but to return to non-consumers. To the extent that innovation improves sustained innovation performance-it acquires greater ability to move customers from the original value network to the new one, starting with the least demanding level. Disruptive innovation in a new market does not invade the dominant market. Instead, it displaces customers from the dominant value chain to the new one, starting with the low-level ones, since they are more comfortable using the new product. On the other hand, low level disruptive innovation is rooted within the network of original or dominant value; however, it does not create new markets, it offers low-cost business models (Assink et al., 2006; Christensen & Raynor, 2003; Johnson et al., 2008).

Within this decision-making process and to identify the disruptive potential, Christensen & Raynor (2003) propose a detection premises for both new market and low market. 1. Whether the technology can be developed in such a way that a large population with less skills or with less purchasing power can obtain it and use it in a more convenient context - something that historically was only available to people with more skills and high purchasing power in centralized locations - then there is potential to shape an idea towards new market disruption. 2. Innovations that allow low-level disruption are often improvements that reduce costs and overheads, allowing the company to obtain sufficient returns with lower gross margins supplemented with improvements in manufacturing or management processes that rotate the inventories quicker.

The focus on identifying customer groups that have similar characteristics that lead them to purchase a product or service - a process known as market segmentation - is a key component of marketing. However, predictable marketing requires an understanding of the circumstances in which customers buy or use products or services, "nobody wants a ¼-inch drill ... what everyone wants are holes in the wall of ¼ of inch "Theodore Levitt, quoted by Johnson et al. (2008, page 68). That is to say, "companies should focus their efforts on identifying the circumstances in which customers are to produce products rather than on customers themselves - the unit of analysis is the circumstance not the customer" (Christensen & Raynor , 2003 p.89). For this, observation becomes the most appropriate means to identify the true needs that customers have and are not deductible from the traditional delimitation of market segments - demographic and psychographic aspects. "Akio Morita, founder of Sony, was a master of the art of observing what consumers were trying to accomplish or satisfy, and of combining those reflections with solutions that would help them to do it better" (Christensen & Raynor, 2003: 93). In this aspect, the intuition of the entrepreneur manager plays a fundamental role, because not necessarily following a strict order of segmentation parameterized are able to identify needs and work to perform correctly and can cause what is called marketing myopia (Levitt, 1960).

7. Networks of Value

As mentioned, the products offer no value in isolation. Christensen & Rosenbloom (1995) and later Christensen (1997) affirm that innovations are integrated into networks of value. These networks created around a business determine the role of suppliers, customers and complementary in the capture of value for the marketing of an innovation. The value network increases the supply of complementary products or services from a supply perspective, and can increase the effects of the network among consumers from a demand perspective. The synergy between the value network can catalyze the value of a technology, likewise a weak link within the value network can lead to the failure of the technology to be commercialized.

A market approach is necessary to begin the process in order to know in what technological attributes development should be focused, how to define and configure supply, and how to solve the many trade-offs that may arise within development-attributes valued by the main market vs. new attributes. The management team should establish when a product or service has been oversupplied by a rigorous examination at each market level, to the extent that customers are willing to pay premium prices for improvements in functionality, reliability or convenience of a product or service. As soon as a company can maintain the price by improving one level of these, customers are not over-served and therefore there can be a disruption.

8. Structure of Income and Costs

The business model must establish a clear and accurate revenue and cost architecture; that is, how much the customer will pay for the product or service, and how the value created between the company and the suppliers will be distributed. To create economic value - profitability - the cost structure must be established according to the value promised to the client. In each component decisions must be made for optimization. Care must therefore be taken in structuring the revenues and costs that should be directed towards minimizing costs in order to offer competitive prices, as well as an optimal portfolio policy and high turnover of inventories and assets complements the financial structure of the business model, so one should keep in mind:

Income structure: sales (Price x Volume) are the neuralgic aspect due disruptive innovation is characterized by low prices, for there to be sustainability, volume plays a fundamental role. The volume of sales must be boosted, attracting more and more consumers and customers.

Cost structure: Direct and indirect costs can be reduced through negotiations and collaborations with suppliers.

Spending structure: one aspect that stands out within the business models that accompany the disruptive innovation is that they do not make up a significant percentage within the overall structure. Christensen (1997) points out that the established organizations and leaders analyzed should earn an average gross margin of 40% to leverage the administrative and sales costs associated with them. While incoming companies captured a margin of only 20%. However, established companies had an inventory turnover of 4 times a year, while incoming inventories rotated an average of 8 times a year, allowing them to compete in financial terms.

Profit margin: the profit margin must be carefully established, since it must directly affect the price offered to the buyer and must be competitive as offered in the final value proposal.

Rotation of assets: It is important to establish how quickly it is necessary to rotate inventories, fixed assets and other assets - how effective these resources are - to support sales volume and achieve expected profitability.

9. Resource Management and Key Processes

These resources include people, technology, infrastructure, equipment, as well as communication and distribution channels, as well as the brand. The resources are directly related to the financial structure, since it can facilitate or make disruptive innovations fail. In this context, reconfiguring the resources available to the organization can help catalyze disruption, while other resources must be created. A brand can easily be established by a dominant company to exploit a disruptive technology, usually these require new distribution channels, as in the case of Honda when introducing the motorcycle in the US market, who opted to open new channels for distribution, different from those traditionally used by Harley Davidson, the market leader. Within the business model of business must establish which are the fundamental processes that the company develops and which processes do not belong to the core of the business - referring especially to the operational processes. For example, in an organization that provides intensive services of knowledge, the key processes are focused on people and their skills and knowledge to deliver value (the key processes are related to the development of skills and knowledge) while in a manufacturing company can be given in the NPD.

It is important to clarify that the business model must be dynamic and flexible, precisely because of the changing conditions of the environment and the market, which in turn requires that processes and resources can be made more flexible. Teece (2007) argues that "the ability of a company to create, adjust, refine and, if necessary, replace the business model is essential for dynamic capabilities" (p.1330).

10. Conclusions

Organizations in Latin America to improve innovative activity face challenges such as: 1. Identify technological and market opportunities - taking into account the low investment in R & D- 2. Develop products and services designed for people with a low purchasing power and limited access to existing products, 3. Designing business model architectures that generate greater customer value - considering the limitations of income, access and knowledge.

It is proposed the disruptive innovation as a mechanism to face these challenges due that it is characterized by: 1. Attending marginal markets 2. Offers characteristics that marginal customers value - usually simpler, cheaper and more convenient - 3. They are based on new combinations of existing technologies, and 4. involves the design of business models that generate income at the discount prices required to capture the business of marginal customers. Disruption should be identified in New Market or Low Market Level and. take advantage of identified opportunities, designing products or services framed within a business model with disruptive potential.

Within the value proposition for the customer, products and services should be designed that are cheaper, simpler and more accessible with respect to the existing offer - making efforts to customers with low incomes, lack of knowledge and difficult access. On the other, they must establish the value networks of the organization and establish relationships with suppliers who develop new technologies, customers and complementary to increase the value capture.

Complementarily, the architecture of Income and costs must be determined; ie income generation from economies of scale and scope, low gross margins, minimization of administrative and selling expenses and high turnover in assets. Resource management and key processes: both operational and organizational processes that allow disruption must be designed and configured.

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