Is your on-demand startup actually innovative?

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Most On-Demand Businesses Aren’t Actually Disruptive

Pull your phone out of your pocket, press a button, and almost any wish can be granted.

Call it what you want: an **iPhone**, a **Samsung** Galaxy, a Nexus… when you boil it down to its core, it’s a genie in a little aluminum and glass bottle. That phone can make anything you want appear “on-demand.”

The importance of this change is lost on *no one*. Last year’s WEF Summit on the Global Agenda saw multinational **CEO**s, academics, and consultants alike preaching the need for business to adapt to the on-demand economy. But for entrepreneurs, investors, and corporate innovators clamoring to build these businesses, it’s important to recognize that not all opportunities in this market are created equal. Namely, more and more of the on-demand businesses we see on a daily basis are being founded atop increasingly weaker value propositions; convenience without any sort of sustainable cost advantage.

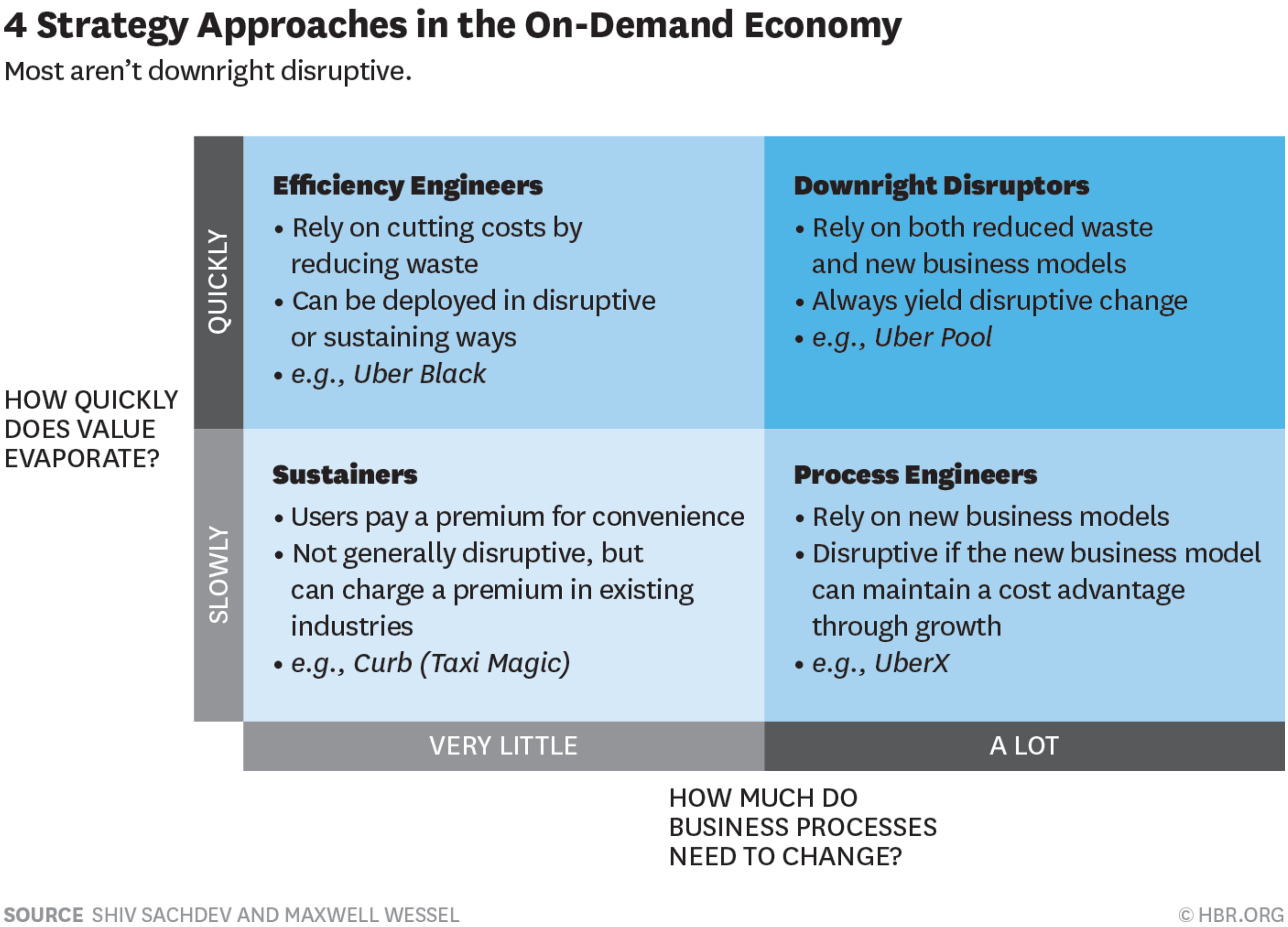
When **Uber** and **Airbnb** burst on the scene, they were tackling major inefficiencies in the markets for transportation and housing. **Uber** was not only giving you an excellent on-demand transportation experience, but it was also deploying drivers who would be otherwise sitting idle in their black cars waiting for pre-arranged pickups. An hour of extra drive time cost those chauffeurs nearly nothing and netted them a pretty penny. Given how bad public transit and taxi service both are in plenty of major cities, there was huge appetite for their offering.

Airbnb did the same. After realizing the sheer number of homeowners willing to rent a spare room or empty weekend cottage to a visitor, **Brian, Joe, and Nathan** built a business to put that unused capacity to work. And like transit, when it came to those extra rooms – renting an extra night created some meaningful revenue and cost the homeowners very little. By letting their valuable room-nights expire, willing homeowners were throwing dollars to the wind.

As **Harvard Business School** Professor **Ben Edelman** has long professed, “waste makes for opportunity.” When a company fights this same type of market inefficiency, it can create a sizable business.

But “on-demand” is not synonymous with waste arbitrage or business model **innovation**. Many of the services being invested in today simply deliver convenience at a premium price – delivering users a sustaining **innovation**, as opposed to one similar to **Uber** or **Airbnb**’s disruptive model. If customers aren’t willing to spend more for what they’re already buying, it’s unlikely that new entrants delivering convenience alone will be able to grow the market itself, making it harder to grow a big business. Markets grow when products become cheaper and more accessible, not more expensive.

So for executives and entrepreneurs looking to ride this trend and start delivering services that fully leverage the promise of on-demand, the question is “How do you tell the difference?” At Sapphire, we’ve developed a framework that helps us evaluate opportunities. Namely, we ask ourselves four questions that help us determine whether on-demand companies are downright disrupters, efficiency engineers, process engineers, or just plain old sustainers.



To find out where a business sits, we ask:

Are you delivering a product or service that would otherwise expire? It’s a simple question. With black cars and rooms for rent, you’ll never get back that unused hour. Once it passes, it’s gone forever. In many industries, there is fixed investment going to waste every day. If you'd determined a way to make use of an expiring asset, you're likely in a strong position.

If so, how much vanishing value can be saved? To fully determine how much expiring value is available to you, you have to go one step further and ask yourself how much it costs to put that asset to work. If **Airbnb** caused its affiliated homeowners meaningful property damage, they'd probably be unable to make the economics of the business work – the expiring value would be less than the incremental price required by owners to justify the emotional and physical damage.

Will the business fundamentally change the production process? Some companies in today's on-demand economy are playing a mindshare game, hoping that if they get enough app-installs or users they'll be able to figure out a better model at scale. But the key question to expose whether there is substance behind the business is whether the company has fundamentally changed its production process relative to legacy vendors in the market. If they're not actually *doing* anything differently, why would they be more profitable?

If so, will the production minimize costs to the business? Delivering products on-demand isn't cheap. For companies re-inventing the production process, they can often claw back that cost if they have a sustainable cost advantage intrinsic to the model. Maybe they've limited the options the customer can choose from, or found a cheaper spot for their warehouses.

Whatever it is, without such a cost saving change in the production process, the model skews towards the realm of sustaining **innovation**.

Whether you're **Whole Foods, Home Depot, or Amazon**, on-demand business models are going to impact the way you satisfy customers. But not every on-demand idea is positioned to upend your operations. Because not all on-demand businesses are created equal. Before you set out to create the next big business, it's importance to judge the difference.

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