IDEAS LLYC

EXPLORAR. INSPIRAR.

ARTICLE

DISRUPTION AND REPUTATION: TAILORING CHANGES TO CONSUMERS

Madrid, October 1, 2019

LLORENTE Y CUENCA

As Pablo Picasso, one of the original disruptors in the art world, once said, "If there were only one truth, you couldn't fill a hundred canvases with the same theme." When thinking about disruption in the business world, the reality is similar. It is helpful to recognize that there is not only one truth, one idea or one single way to innovate.

The term "disruption" appears frequently when discussing management and business administration. In fact, disruption is a major focus of our operations here at LLYC, where we encourage our business partners and clients to embrace the concept as an essential element of success.

The term is not a simple buzzword for fledgling brands and companies to use as a positioning tool. It evokes the idea of a new company in the public psyche, suggesting an organization that promises to completely reinvent an industry or business model.

According to the Royal Spanish Academy's dictionary, disruption is merely defined as an "abrupt break or interruption," but according to the Fundación del Español Urgente, in recent years its meaning has broadened to include a "process or manner of doing things which implies an abrupt break or interruption, imposes itself and ousts those previously in use."

The term is in its golden age, and the media clearly recognizes this. Use of the word "disruption" increased 440 percent between 2010 and 2015, according to the "The Advantages of Disruption. Megatrends for the Future" (EY, 2018) report.

Widespread use of the concept ballooned in tandem with the rapid appearance of many radical *startups* aiming to change how their sectors operated. This was when we witnessed the reinvention of sectors like transportation (Uber), hotels (AirBnB), media (Facebook, Twitter) and retail (Amazon, Alibaba), among others.

In the wake of these companies' appearances, we needed a word to define the great changes occurring, setting this new approach apart from traditional, contiguous innovation. The so-called "disruptive innovation" pioneered by these companies almost always began with a major technological development. They were born not only of a desire to better address user demands, but also to become relevant features of the communities in which they operate.

Overtime, repeated "disruptive successes" in various industries, combined with increasing public activism, have created a new environment, one in which it is no longer enough to bring about that "abrupt break" for financial gain. **Companies must now respond to much more complex demands to win consumers' hearts**—namely, they must utilize their capabilities to aid and innovate regarding the current challenges facing modern society and our planet.

We are currently in a continuous race for innovation on a scale vastly different from traditional business operations. There have been changes to how **products and services** are released, with continuous launches of new and improved versions (whose technical specifications, materials, components and other functional features have changed, sometimes significantly) becoming the new norm. There have been changes in **operations**, with frequent variations becoming commonplace not only in manufacturing, logistics and distribution, but also in management methodologies for both people and operations. Furthermore, there have been significant changes to **marketing**, where there is a constant contest of one-upmanship in an attempt to surprise users in terms of production, price and even through a recent trend of incredibly in-depth product presentations.

Intel's Andy Grove once asked marketing guru Clay Christensen what effect disruptive innovation might have on his company. Christensen did not have any particular opinion on Intel specifically, nor did he have an intimate understanding of the company's operations, so instead of telling Grove exactly what he wanted to know, Christensen responded with advice about new assessment methods, giving Grove the tools to reach his own conclusions. Grove was then able to examine the implications of disruptive innovation for Intel on his own, and he thanked Christensen for the assistance. According to Christensen, that same idea is central to his methodology for teaching classes, advising companies and relating to others in general. Often, the solution to any disruption lies within.

It is almost certain that new and exciting advances are still to come in many sectors, including new concepts such as integrating AI into products (such as self-driving cars) and services (from *chatbots* and virtual assistants to personalized medical diagnosis and treatment aides). Furthermore, today's industry increasingly incorporates the "Internet of Things," drones, 3D printing and augmented reality, even utilizing *blockchain* technology to increase digital security for users and contracts. Business frameworks are changing in ways never before imagined.

However, as we become accustomed to such innovation, new questions begin to crop up. How do these innovations positively impact our lives and the environment? How have they changed our ideas about brands or products? What innovations make us want to actively recommend those products? How can an innovation make us believe a brand is more valuable than the sum of its products?

"Companies must now respond to much more complex demands to win consumers' hearts"

It is on this track that the race to disrupt is run. We live in a time when the majority of people claim they would not care if almost all existing brands disappeared (Meaningful Brands, Havas Media Group, 2019). Thus, the challenge facing companies today is to disrupt through meaningful action within the communities in which they operate.

"Who says everything has already been invented and progress is no longer surprising? There are so many things we still don't know about the origin of the world, about the species that live on our planet, about how our brains work and about how to solve major problems like pollution, batteries or starvation in Africa." These are the words of Sandip Tiwari, professor of Engineering at Cornell University (USA), and we could not agree more. Our goal is to develop methods of disruption that will efficiently and dramatically appeal to as many consumers as possible.

Companies and brands that succeed in this race see not only financial gains from speeding ahead of their competitors, but also find their innovations have a tangible effect on their reputations, social licenses to operate and emotional connections with users, consumers, regulators and employees alike.

Companies that maintain a keen understanding of sustainability (beyond the financial) know how to read and respond to consumer insights and demands, even acknowledging that this could have a short-term negative impact on their bottom line. We believe this is at the heart of disruption.

LEARNING FROM PRIME EXAMPLES

"Clear is the new clever." This slogan is closely associated with **Patagonia**, a brand founded in California in the 1970's to produce and selling outdoor clothing and sportswear. From the outset, the company's founder was known for his environmental concerns. The company ran its first environmental campaign in 1988, taking specific actions to reduce the brand's pollution, including using recycled paper in its catalogues, making jackets out of recycled polyester and later using 100 percent organic cotton in its garments.

The fashion industry has a positive impact on many countries' economies, employing over 300 million people and generating over $2.5 trillion in revenue, but it is also the industry responsible for the second highest level of pollution, resulting in 20 percent of all waste water and 10 percent of the planet's carbon emissions. From how clothes are manufactured using toxic chemicals and large amounts of water to the huge quantity of textile waste one person will produce in a lifetime, the fashion industry's negative impact on the planet has become a sticking point for many consumers—and they want to see tangible solutions to current problems.

It was in this context that Patagonia launched The footprint Chronicles initiative, enforcing total transparency regarding the origin, manufacturing process and environmental impact of each of its garments, including reasons consumers might not want to purchase them. Additionally,

Patagonia puts a hefty price tag on many of its products in an attempt to force potential buyers to reflect on the necessity of their purchases. The company even offers environmentally-friendly alternatives, such as a repair service and secondhand clothing marketplace.

But what effect did this initiative have on their business? Did consumers stop buying Patagonia products and opt for competitors offering lower prices but no transparency instead? Quite the contrary. After launching this initiative, Patagonia not only succeeded in cementing its brand image of environmental activism, but simultaneously positioned itself as offering the most expensive—and thus highest quality—outdoor garments. Patagonia's current estimated annual profits reach over $4 billion.

TAKING A STAND ON SOCIAL ISSUES

A more recent case is that of "**DICK'S Sporting Goods"**, a leading U.S. sporting goods vendor founded in 1948. The company currently employs over 30,000 staff across over 850 stores. In its lifetime, DICK'S has positioned itself as the country's leading seller of firearms, an area that accounts for a significant portion of the company's profits

Throughout its history, the United States has been known for citizens' constitutional right to bear arms. However, the last 37 years have seen 113 mass shootings in the country, sparking widespread opposition to that right. Many believe a significant part of the problem is the ease of purchasing a firearm in the country.

After the shooting at Stoneman Douglas High School in Florida, in which 17 people died, it became public knowledge that the shooter bought his gun at DICK'S. In the wake of this, and keeping societal pressures in mind, the company made the decision to stop selling assault-style rifles and high-capacity magazines, as well as raise its age requirement for purchasing a gun to 21. This policy went into effect in all DICK'S stores nationwide in February of last year.

By year's end, the company's sales had dropped by $150 million, a 1.7 percent decrease from their average annual sales. However, the brand stood firm in its decision, stating that this decision was not an economic one, reasserting its moral conviction and even calling on other companies to join the initiative.

This perseverance bore fruit. In 2019, the initial negative impact subsided and DICK'S sales began to rise significantly. The brand closed the first quarter with its highest profits in three years, outpacing its competitors by a considerable margin. DICK'S now enjoys its new position as one of the United States' major leaders in gun control responsibility.

"The challenge facing companies today is to disrupt through meaningful action within the communities in which they operate"

UNDERSTANDING SOCIETY AND CONSUMERS

Adidas provides another notable example. Founded in Germany in 1949, the **Adidas** brand is constantly reinventing itself, weaving disruptive innovation into its DNA. The company specializes in sports and fashion wear manufacturing, employing over 60,000 staff worldwide and reporting revenue of over $14 billion, making it the second most profitable brand in its sector.

Adidas uses large quantities of unrecycled "virgin" plastic in its garments and footwear. Virgin plastic is sturdy, low-cost and indestructible, making it very attractive to product manufacturers. However, it is also significantly harmful to the

[1] www.youtube.com/watch?v=JIC9DUkbic8

environment. Figures regarding plastic's effect on the planet are alarming. Eight million tons of plastic enter the world's oceans each year, destroying marine life and adversely affecting the maritime landscape and climate. Plastic pollution in the ocean is a major concern for conservationism.

With this in mind, Adidas aimed to become part of the solution. The company cofounded the environmental group **Parley for the Oceans**, then developed a new sneaker model constructed from plastic bottles salvaged from the ocean. Adidas even took its commitment one step further, banning plastic bags in all of its stores worldwide and declaring it would transition to utilizing only recycled plastic by 2024.

Once again, consumers responded positively to the initiative, and despite the high cost of Adidas products (a pair of sneakers costs up to $220), the company sold all 5 million sneakers it produced last year.

And the impact on the company's reputation speaks for itself. With its newfound commitment to the environment and new product releases, Adidas has significantly increased its brand value and connected with the large number of consumers willing to pay extra if it means helping decrease plastic pollution in the oceans. Adidas disrupted its operations and, as a result, gained immediate popularity.

WHAT CAN WE LEARN FROM THESE COMPANIES?

Some might say the word "disruption" has seen some overuse (and different people may have different opinions on its value), but it is irrefutable fact that successful, aspirational companies all share the understanding that they cannot make an impact in their fields without disruptive innovations. The major point we wish to illustrate is that attaining that "break" is no longer the sole purview of engineers. All professionals who wish to develop and manage their reputations must be prepared to make it happen themselves.

In order to design the kinds of disruptive innovations that have positive impacts on brand reputations, it is imperative to study and understand their fundamental workings. Business leaders aspiring to capture consumers' hearts must step up and ask the question: How can my company disrupt its field to contribute to solving society's problems and become valuable in the public consciousness?

At LLYC, we are thoroughly convinced that all companies should embrace disruption.

AUTHORS

Alejando Romero. Partner and CEO Americas at LLYC

He has been leading the firm's expansion in Latin America since 1997 and has launched operations in Peru, Argentina, Colombia, Panama and Ecuador.

Mr. Romero led three of the ten most significant corporate deals in the region, being involved in the communication strategy of the sale of operations by Bellsouth to the Telefónica Group, the acquisition of the Bavaria business group by SABMiller in Colombia, Peru, Ecuador and Panama, and the sale of the Financiero Uno Group to Citibank deals worth in excess of 14.9 billion dollars.

He has thus become one of the most significant M&A specialists in the region. Prior to joining the company, he was part of one of the Communication Departments of the Prisa Group.

Luis Miguel Peña. Partner and Regional Managing Director at LLYC in Perú.

Luis Miguel leads the company's operation in Peru and is responsible for the Andean Region. During his time in our office in Madrid, since 2002, Luis Miguel Peña managed the Corporate Communications, Ligitation, and Organizations and Persons areas.

He has more than 15 years of experience in communications consulting and has being head of several projects in areas such as corporate communications, talent engagement, competition, civil and criminal law, among others. These include clients in the financial, energy, distribution, pharmaceutical, consumer or construction sectors.

Luis Miguel has a major in Business Management and Administration from the Universidad Autónoma of Madrid and a Diploma in International Business Administration from the University of California-Berkeley.

MANAGEMENT TEAM

José Antonio Llorente
Founding Partner and Chairman
jallorente@llorenteycuenca.com

Alejandro Romero
Partner and CEO Americas
aromero@llorenteycuenca.com

Enrique González
Partner and CFO
egonzalez@llorenteycuenca.com

Adolfo Corujo
Partner and Chief Strategy and Innovation Officer
acorujo@llorenteycuenca.com

Nazaret Izquierdo
Chief Talent Officer
nizquierdo@llorenteycuenca.com

Juan Pablo Ocaña
Director, Legal & Compliance
jpocana@llorenteycuenca.com

Daniel Fernández Trejo
Director, Technology
dfernandez@llorenteycuenca.com

José Luis Di Girolamo
Partner and Global Controller
jldgirolamo@llorenteycuenca.com

Antonieta Mendoza de López
Vice President, Advocacy LatAm
amendozalopez@llorenteycuenca.com

SPAIN AND PORTUGAL

Arturo Pinedo
Partner and Managing Director
apinedo@llorenteycuenca.com

Luisa García
Partner and Managing Director
lgarcia@llorenteycuenca.com

Barcelona

María Cura
Partner and Managing Director
mcura@llorenteycuenca.com

Óscar Iniesta
Partner and Senior Director
oiniesta@llorenteycuenca.com

Muntaner, 240-242, 1º-1ª
08021 Barcelona
Tel. +34 93 217 22 17

Madrid

Joan Navarro
Partner and Vicepresident, Public Affairs
jnavarro@llorenteycuenca.com

Amalio Moratalla
Partner and Senior Director, Sport and Business Strategy
amoratalla@llorenteycuenca.com

Iván Pino
Partner and Senior Director, Digital
ipino@llorenteycuenca.com

David G. Natal
Senior Director, Consumer Engagement
dgonzalezn@llorenteycuenca.com

Paco Hevia
Senior Director, Corporate Communication
phevia@llorenteycuenca.com

Jorge López Zafra
Senior Director, Financial Communication
jlopez@llorenteycuenca.com

Lagasca, 88 - planta 3
28001 Madrid
Tel. +34 91 563 77 22

Lisbon

Tiago Vidal
Partner and Managing Director
tvidal@llorenteycuenca.com

Avenida da Liberdade nº225, 5º Esq.
1250-142 Lisboa
Tel. + 351 21 923 97 00

UNITED STATES

Erich de la Fuente
Partner and Chairman
edelafuente@llorenteycuenca.com

Mike Fernandez
CEO
mikefernandez@llorenteycuenca.com

Miami

Claudia Gioia
SVP Americas, Business Development
cgioia@llorenteycuenca.com

600 Brickell Avenue
Suite 2020
Miami, FL 33131
Tel. +1 786 590 1000

New York City

Gerard Guiu
Director, International Business Development
gguiu@llorenteycuenca.com

3 Columbus Circle
9th Floor
New York, NY 10019
United States
Tel. +1 646 805 2000

NORTH REGION

Javier Rosado
Partner and Regional Managing Director
jrosado@llorenteycuenca.com

Mexico City

Juan Arteaga
Managing Director
jarteaga@llorenteycuenca.com

Rogelio Blanco
Managing Director
rblanco@llorenteycuenca.com

Av. Paseo de la Reforma 412
Piso 14. Colonia Juárez
Alcaldía Cuauhtémoc
CP 06600, Ciudad de México
Tel. +52 55 5257 1084

Panama City

Manuel Domínguez
Managing Director
mdominguez@llorenteycuenca.com

Sortis Business Tower
Piso 9, Calle 57
Obarrio - Panamá
Tel. +507 206 5200

Santo Domingo

Iban Campo
Managing Director
icampo@llorenteycuenca.com

Av. Abraham Lincoln 1069
Torre Ejecutiva Sonora, planta 7
Suite 702
Tel. +1 809 6161975

San Jose

Pablo Duncan - Linch
Partner and Director
CLC Comunicación | Afiliada LLYC
pduncan@clcglobal.cr

Del Banco General 350 metros oeste
Trejos Montealegre, Escazú
San José
Tel. +506 228 93240

ANDEAN REGION

Luis Miguel Peña
Partner and Regional Managing Director
lmpena@llorenteycuenca.com

Bogota

María Esteve
Partner and Managing Director
mesteve@llorenteycuenca.com

Av. Calle 82 # 9-65 Piso 4
Bogotá D.C. – Colombia
Tel. +57 1 7438000

Lima

Luis Miguel Peña
lmpena@llorenteycuenca.com

Av. Andrés Reyes 420, piso 7
San Isidro
Tel. +51 1 2229491

Quito

Carlos Llanos
Managing Director
cllanos@llorenteycuenca.com

Avda. 12 de Octubre N24-528 y Cordero – Edificio World Trade Center – Torre B - piso 11
Tel. +593 2 2565820

SOUTH REGION

Juan Carlos Gozzer
Partner and Regional Managing Director
jcgozzer@llorenteycuenca.com

Sao Paulo

Cleber Martins
Partner and Managing Director
clebermartins@llorenteycuenca.com

Rua Oscar Freire, 379, Cj 111
Cerqueira César SP - 01426-001
Tel. +55 11 3060 3390

Rio de Janeiro

Daniele Lua
Executive Director
dlua@llorenteycuenca.com

Ladeira da Glória, 26
Estúdios 244 e 246 - Glória
Rio de Janeiro - RJ
Tel. +55 21 3797 6400

Buenos Aires

Mariano Vila
Managing Director
mvila@llorenteycuenca.com

Av. Corrientes 222, piso 8
C1043AAP
Tel. +54 11 5556 0700

Santiago de Chile

Francisco Aylwin
Chairman
faylwin@llorenteycuenca.com

Magdalena 140, Oficina 1801
Las Condes
Tel. +56 22 207 32 00

IDEAS LLYC

EXPLORAR. INSPIRAR.

IDEAS by LLYC is a hub for ideas, analysis and trends. It is a product of the changing macroeconomic and social environment we live in, in which communication keeps moving forward at a fast pace.

IDEAS LLYC is a combination of global partnerships and knowledge exchange that identifies, defines and communicates new information paradigms from an independent perspective. Developing Ideas is a constant flow of ideas, foreseeing new times for information and management.

Because reality is neither black nor white, IDEAS LLYC exists.

llorenteycuenca.com
www.uno-magazine.com