

Winds of Change: Disrupting the Incumbents



Harlem Capital

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Executive Summary



Executive Summary

This report explores the phenomenon of incumbent disruption, where agile software startups **challenge** and **reshape established markets**. We define incumbent disruption as a process where a new entrant achieves significant market share gain, a successful IPO amidst competition, meaningful revenue thresholds, or forces established players to react strategically.

Our research, grounded in *The Innovator's Dilemma* and various industry analyses, reveals that **successful disruptors often exploit incumbent vulnerabilities** like technological stagnation, operational inefficiencies, or overlooked market segments. They leverage strategies such as offering differentiated value propositions, adopting disruptive business models, and fostering an agile, customer-centric culture.

Case studies like Shopify, Snowflake, Canva, and Figma highlight the power of disruption to transform competitive landscapes, reshape customer expectations, and drive innovation.

Key recommendations

- **For Startups:** Focus on underserved markets, prioritize user experience, and leverage new technologies to create disruptive solutions
- **For Investors:** Recognize the potential of disruptive startups and support their growth to capitalize on the transformative power of their innovation

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Incumbent Disruption | The Imperative for Adaptability

In many industries, large incumbent software companies hold significant market share despite offering products that may not be the most innovative or customer-centric. These established players sometimes struggle to adapt and innovate quickly, leaving gaps in the market that nimble startups can exploit. This report delves into the phenomenon of incumbent disruption, analyzing the strategies and tactics employed by successful startups to challenge and displace these established giants.

We believe that by understanding the dynamics of disruption, startups can position themselves at the forefront of innovation and meaningful change. To fully grasp the potential of incumbent disruption, we consider these key benefits:

Catalyst for Innovation

Disruption forces companies to innovate and stay ahead of the curve, pushing them to develop new products, services, and business models

Market Expansion

Disruption can open up entirely new markets and customer segments that were previously overlooked or underserved

Elevated Customer Experience

Disruptors typically prioritize customer needs and experiences, setting new standards for quality



“ Disruptive technologies bring to a market a very different value proposition than had been available previously

Clayton M. Christensen
The Innovator's Dilemma

”

Defining Incumbent Disruption | Parameters

For the purpose of this research, we define incumbent disruption as a process where a new entrant software startup **significantly alters the competitive landscape** within an established market, achieving one or more of the following outcomes:

1 Significant Market Share Gain

The disruptor captures a substantial portion of the market from existing incumbents, exceeding 10% market share within a relatively short time frame (5-10 years)

2 Successful IPO in a Category with Incumbents

The disruptor goes public (IPO) while directly competing with established players in the same category, demonstrating its ability to attract investor confidence and scale its operations

3 Achieving a Meaningful Revenue Threshold

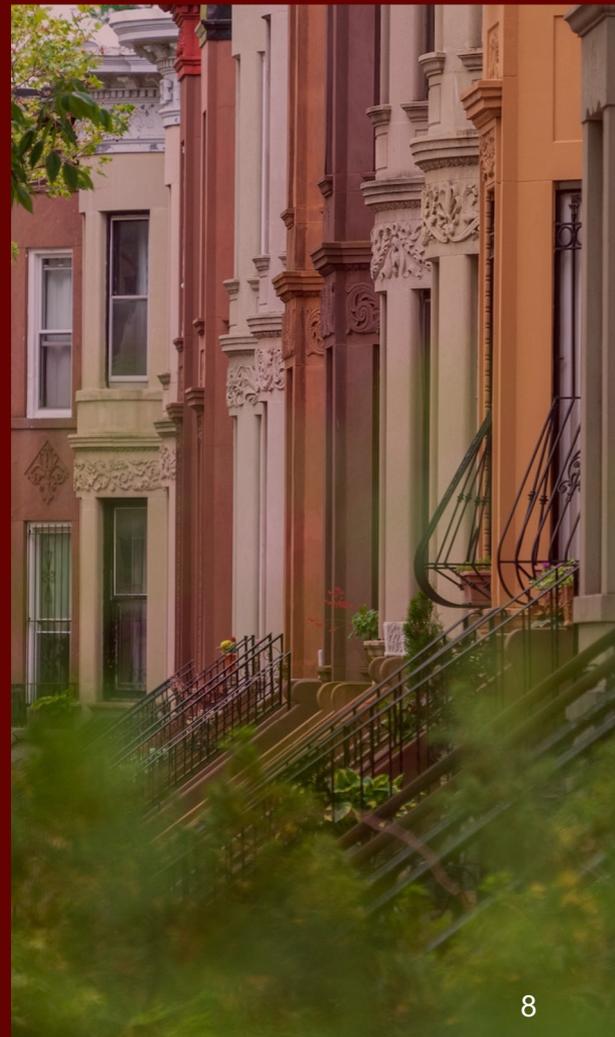
The disruptor reaches a substantial revenue level (ex: \$100 million+ ARR) within software industry, signaling its ability to generate sustainable growth and challenge incumbents' financial dominance

4 Forcing Incumbents to React

The disruptor's actions compel established players to significantly alter their strategies, product offerings, or business models to remain competitive



Case Study Analyses



Shopify



Snowflake



Canva



Figma



Founders

Tobias Lütke
Daniel Weinand
Scott Lake

Benoît Dageville
Thierry Cruanes
Marcin Żukowski

Melanie Perkins
Cliff Obrecht
Cameron Adams

Dylan Field
Evan Wallace

Founding Year

2004

2012

2012

2012

Disruption Illustration

Significant market share gain

Successful IPO
in a category with incumbents

Achievement of meaningful revenue threshold

Forcing incumbents to react

Significantly altered the competitive landscape within an established market



Shopify

E-commerce platform



Tobias

Daniel

Scott

Incumbents



Magento



WooCommerce

Founding & Growth Trajectory

Overview

Founding: 2004, Ottawa, Canada

Product: Cloud-based e-commerce platform

Target Market: SMBs, expanded to serve large enterprises

Growth: Multiple funding rounds, IPO in 2015, multi-billion dollar valuation

Event	Amount Raised	Valuation
2007 Seed Round	\$250,000	N/A
2009 Series A	\$7 million	N/A
2010 Series B	\$15 million	N/A
2011 Series C	\$100 million	\$900 million
2013 Series D	\$100 million	\$1 billion
2015 IPO <small>(NYSE: SHOP & TSX: SHOP)</small>	\$131 million	\$1.27 billion
2019 Secondary Offering	\$700 million	\$46 billion
2021 Equity Offering	\$1.55 billion	\$189.9 billion



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INSIGHT PARTNERS

Incumbent Landscape & Key Outcomes

Disruption Narrative

Shopify **democratized e-commerce** by offering a user-friendly, affordable, and cloud-based solution. They simplified the process of setting up an online store, requiring **minimal technical expertise**. Additionally, their subscription-based pricing model made it more accessible for SMBs.

E-commerce landscape before Shopify:

- Dominated by complex, expensive, and often on-premise solutions like Magento and IBM WebSphere Commerce
- These platforms were primarily accessible to large enterprises with significant IT resources
- SMBs often struggled with limited options, high costs, and technical barriers

Factors of Success

Key Lessons & Insights

Shopify faced challenges from established e-commerce platforms, requiring them to **continuously innovate** and **differentiate** their product. Additionally, the company had to **rapidly scale its infrastructure** to support its exponential growth while simultaneously maintaining a high level of platform innovation

Takeaways:

- Focus on user experience and simplicity
- Strong leadership and company culture
- Partner ecosystem (app store, developer community)
- Timing: the rise of e-commerce and the need for accessible solutions



Shopify

E-commerce platform



Shopify exhibited consistent growth, **capturing significant market share** from established e-commerce platforms and solidifying its position as a leading player in the industry

Year	% Estimated Global Market Share	% Estimated US Market Share
2015	2.7%	8%
2016	3.8%	11%
2017	5.2%	15%
2018	6.8%	19%
2019	8.6%	23%
2020	10.3%	26%
2021	11.1%	28%
2022	10.6%	29%
2023	10.3%	29%

Shopify

E-commerce platform



— why this? —

Simplicity & Scalability

An all-in-one e-commerce platform that was significantly easier to use and more affordable than existing solutions. This simplicity and affordability, coupled with the platform's scalability and comprehensive feature set, made it particularly attractive to small and medium-sized businesses, allowing them to establish and grow their online presence with ease



— why them? —

Domain Expertise & Customer Focus

CEO had firsthand experience building an e-commerce business. This gave him deep insights into the challenges faced by merchants and the features they needed in an e-commerce platform. The founders were obsessed with understanding their customers' needs and building a product that truly solved their problems. This customer-centric approach was a key driver of their success. The founders were also obsessed with understanding their customers' needs and building a product that truly solved their problems



— why then? —

Rise of E-commerce & SMB Growth

Shopify's launch coincided with the rapid growth of e-commerce and the increasing demand for online shopping. This created a favorable market environment for their solution. There was also a growing desire among small and medium-sized businesses to establish an online presence and compete with larger retailers



Snowflake

Cloud computing



Benoit

Thierry

Marcin

Incumbents



BigQuery



Founding & Growth Trajectory

Overview

Founding: 2012, San Mateo, California

Product: cloud-based data warehouse-as-a-service (DWaaS) platform

Target Market: Mid-market and large enterprises, expanded to orgs of all sizes/industries

Growth: One of the largest software IPOs in history

Year	Event	Amount Raised	Valuation
2012	Seed Round	\$900,000	N/A
2013	Series A	\$5 million	N/A
2014	Series B	\$26 million	N/A
2015	Series C	\$79 million	N/A
2017	Series D	\$105 million	\$395 million
2018	Series E	\$263 million	\$1.2 billion
2019	Series F	\$450 million	\$3.1 billion
2020	Series G	\$479 million	\$11.9 billion
2020	IPO (NYSE: SNOW)	\$3.4 billion	\$33 billion



Incumbent Landscape & Key Outcomes

Disruption Narrative

Snowflake challenged the status quo with its innovative **cloud-native architecture**, separating storage and compute. This architecture provided unprecedented scalability, elasticity, and ease of use, allowing customers to **easily manage** and **analyze large volumes of data** without the complexities of traditional data warehousing solutions

Data warehousing market before Snowflake:

- Dominated by on-premise solutions like Oracle and Teradata, as well as cloud offerings from major cloud providers like Amazon Redshift and Google BigQuery
- These solutions often lacked flexibility, scalability, and ease of use, leading to high costs and complex management for customers

Factors of Success

Key Lessons & Insights

Snowflake faced intense competition from major cloud providers like who offered their own data warehousing solutions. This required Snowflake to not only **differentiate its product** through superior technology and performance but also **educate the market** about the unique advantages of its cloud-native architecture

Takeaways:

- Focus on innovation that addresses and exploits the limitations of existing solutions
- Strong leadership and technical expertise from co-founders
- Effective marketing and sales strategies that highlight unique value prop
- Timing: the growing demand for cloud-based data solutions



Snowflake

Cloud computing



Snowflake's **record-breaking IPO** was a testament to **disruptive potential**

Date	September 16, 2020
Ticker symbol	SNOW
Exchange	New York Stock Exchange (NYSE)
Initial Offering Price	\$120 per share
Opening Price	\$245 per share (more than double the IPO price)
Funds Raised	\$3.4 billion
Market Cap at IPO	Over \$70 billion
Notable Investors	 



Snowflake's IPO

Key highlights:

- Largest software IPO in history at the time
- Demonstrated strong investor confidence in Snowflake's disruptive technology and growth potential
- Validated the cloud data warehousing market and Snowflake's leadership position
- Marked a significant milestone in the company's journey to challenge established players and reshape the data management landscape

“Snowflake's blockbuster IPO highlights the growing appetite for cloud-based data platforms... The company's strong financial performance and innovative technology have resonated with investors, and its success could **pave the way for other disruptors in the data management space**”— Forbes



Snowflake

Cloud computing



— why this? —

Performance & Ease of Use

Cloud-native data warehouse offered a unique architecture separating storage and compute, delivering unparalleled scalability and flexibility. This allowed businesses to efficiently handle massive datasets, scale resources on demand, and only pay for what they used, addressing the cost and complexity challenges of traditional data warehousing solutions



— why them? —

Domain Expertise & Technical Capability

Snowflake's founders were experienced data warehousing experts from Oracle, possessing deep technical knowledge and a clear vision for a cloud-first solution. Their expertise enabled them to build a truly innovative platform that addressed the limitations of existing offerings and capitalized on the growing shift towards cloud computing



— why then? —

Rise of Cloud Computing & Data Explosion

The rise of cloud computing and the proliferation of data in companies created a pressing need for scalable, cost-effective data warehousing solutions. Additionally, advancements in cloud infrastructure and distributed computing technologies allowed Snowflake to build an elastic and performant platform



Canva

Graphic design



Melanie

Cliff

Cameron

Incumbents



Founding & Growth Trajectory

Overview

Founding: 2012, Perth, Australia

Product: web-based graphic design platform

Target Market: Individuals and small businesses, expanded to serve large enterprises

Growth: Achieved rapid user growth, reaching 150 million monthly active users in 2023

Year	Event	Amount Raised	Valuation
2013	Seed Round	\$6.6 million	N/A
2015	Series A	\$6 million	N/A
2016	Series B	\$15 million	\$330 million
2018	Series C	\$40 million	\$960 million
2019	Series D	\$70 million	\$2.4 billion
2019	Series E	\$85 million	\$3.1 billion
2021	Series F	\$200 million	\$39.8 billion
2024	Series F+	\$8 million	\$11.9 billion



Incumbent Landscape & Key Outcomes

Disruption Narrative

Canva challenged the status quo by making graphic design **accessible** to everyone. They simplified the design process with an **intuitive drag-and-drop interface**, provided a vast library of pre-made templates and design assets, and offered a **freemium pricing model**

Graphic design market before Canva:

- Dominated by complex, expensive professional tools
- These tools required specialized skills and were often inaccessible to non-designers
- There was a clear gap in the market for a user-friendly and affordable design solution

Factors of Success

Key Lessons & Insights

Canva faced competition from established design software providers, requiring differentiation through **simplicity** and **user-friendliness**. They balanced **attracting a wide user base** with a **freemium model** while generating revenue from premium features. As the platform grew, maintaining this simplicity while adding advanced capabilities was a key challenge

Takeaways:

- Strong community engagement and UGC
- User-centric design philosophy focused on simplicity and ease of use
- Extensive library of templates and design assets catering to various user needs
- Freemium pricing model that attracted users and encouraged upgrades
- Timely response to the growing demand for visual content in the digital age



Canva

Graphic design



Canva's journey to achieving a meaningful revenue threshold showed its ability to **rapidly scale its user base** and **monetize its platform effectively** in the face of incumbent competition

Year	Estimated Annual Revenue (USD Millions)
2017	60
2018	200
2019	360
2020	500
2021	1,000
2022	1,500
2023	2,000



Canva's Revenue Growth

Key highlights:

Freemium Model: Canva initially adopted a freemium model, offering a free basic version with limited features and a paid "Canva Pro" subscription with access to premium features like additional templates, stock photos, and collaboration tools.

This approach attracted a massive user base, allowing Canva to achieve widespread adoption and brand recognition quickly (135M MAU July 2024)



Canva

Graphic design



— why this? —

User-friendly & Democratized

Canva offered an intuitive, user-friendly platform that democratized graphic design, making it accessible to non-designers. It provided a library of design assets, eliminating the need for specialized skills and expensive software. This significantly lowered the barrier to entry for creating professional-looking visual content



— why them? —

Firsthand Founder Insight

The founders had a unique blend of experience. Melanie's background as a design tutor revealed the need for a simpler design tool. This, along with Cliff's business acumen and Cameron's technical expertise led them to success



— why then? —

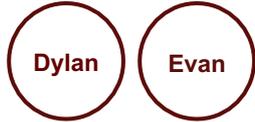
Rise of Social Media & Visual Content

Canva emerged during the rise of social media and the increasing demand for visual content. This created an opportunity, as businesses and individuals looked for accessible design solutions. The growth of cloud computing and broadband internet further enabled Canva's web-based, collaborative platform to thrive, and their freemium model led to rapid user adoption



Figma

Collaborative interface design tool



Incumbents



Founding & Growth Trajectory

Overview

Founding: 2012, San Francisco, California
Product: web-based collaborative interface design tool
Target Market: Individual designers and small teams, expanded to enterprises for user experience teams
Growth: Acquisition attempt in 2022 for ~\$20B, the largest acquisition of a private software company

Year	Event	Amount Raised	Valuation
2013	Seed Round	\$3.9 million	N/A
2015	Series A	\$14 million	N/A
2018	Series B	\$25 Million	N/A
2019	Series C	\$40 million	\$400 million
2020	Series D	\$50 million	\$2 billion
2021	Series E	\$200 million	\$9.8 billion
2024	Series F	\$415.7 million	N/A



Incumbent Landscape & Key Outcomes

Disruption Narrative

Figma offered a **browser-based**, accessible collaborative design tool. This **eliminated the need for complex installations** and enabled seamless **real-time collaboration**, streamlining the design process. Figma adopted a freemium pricing model, making it accessible to individuals and small teams while generating revenue from larger orgs

Design software market before Figma:

- Dominated by desktop-based tools like Adobe XD and Sketch
- These tools often lacked real-time collaboration capabilities, making it difficult for teams to work together efficiently
- Additionally, they were typically expensive and required specific hardware and software configurations

Factors of Success

Key Lessons & Insights

Figma became the preferred tool for designers, prompting established players to enhance their **collaborative capabilities**. They accelerated the shift to **web-based design tools**, challenging traditional desktop software. Figma had to address concerns about **data security + privacy** inherent in web-based tools, while building a sustainable business model

Takeaways:

- Emphasis on user feedback and community building
- Freemium pricing model that enabled rapid user adoption
- User-friendly interface and intuitive design experience
- Focus on real-time collaboration and cloud-based accessibility



Figma

Collaborative interface design tool



Figma's consistent innovation and user-centric approach **forced established players** like Adobe to **actively respond** and **evolve their products** to remain competitive

Year	Figma Feature/Advancement	Incumbent Response (primarily Adobe XD)
2016	Launch of Figma: Introduced as a browser-based, real-time collaborative design tool	<i>Initial market entry, not yet a major threat to incumbents</i>
2017	Team Libraries: Centralized design system management	Adobe XD: Introduced "Linked Assets" for shared components
2018	Prototyping: Built-in prototyping capabilities for interactive designs	Adobe XD: Enhanced its prototyping features with interactive components and animations
2019	Figma Plugins: Expanded ecosystem with third-party plugins	Adobe XD: Launched its own plugin marketplace
2020	FigJam: Online whiteboard for brainstorming and collaboration	Adobe XD: Integrated whiteboarding features within its platform
2021	Auto Layout: Automated layout adjustments for responsive design	Adobe XD: Added "Auto Layout" functionality to its toolkit
2022	Dev Mode: Improved collaboration between designers and developers	Adobe XD: Introduced "Developer Handoff" improvements

Figma

Collaborative interface design tool



— why this? —

Collaboration & UX



Figma addressed the limitations of traditional design tools by offering a web-based, collaborative platform with real-time editing. This streamlined the design workflow, improved communication, and made design accessible to geographically dispersed teams. By eliminating the need for local installations and file syncing, Figma removed friction from the design process

— why them? —

Design & Technical Expertise



The co-founders' design background and technical expertise created a powerful synergy. They were deeply empathetic to the pain points of designers, having experienced firsthand the frustrations of collaboration and outdated tools. Recognizing that design was becoming increasingly collaborative, they built Figma to support real-time teamwork, a feature that was lacking in many incumbent tools

— why then? —

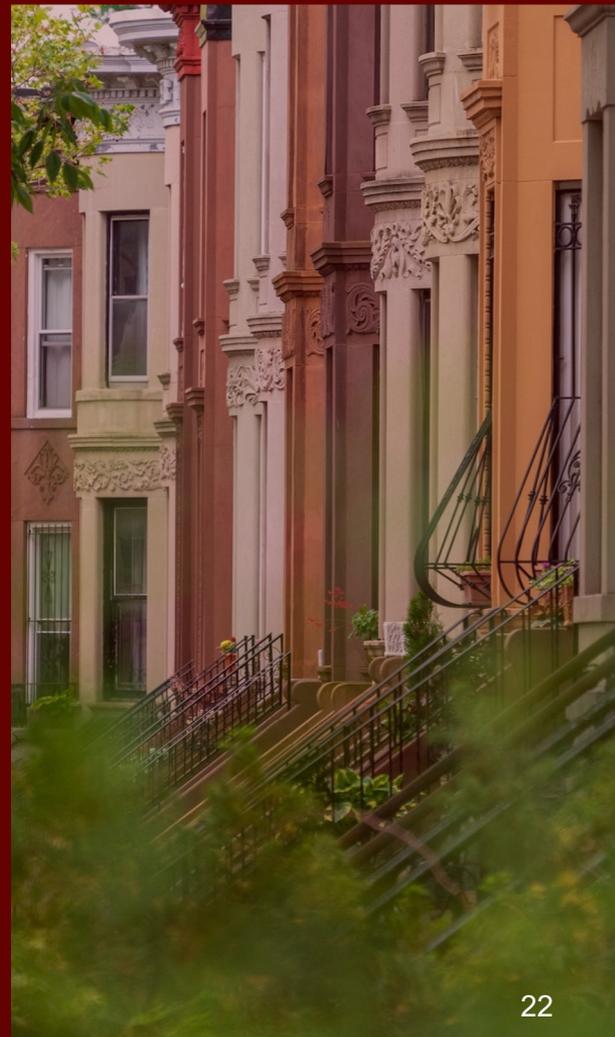
Rise of Cloud Computing & Remote Teams



The rise of cloud computing and remote work created a demand for collaborative design tools that could be accessed from anywhere. Figma's web-based platform perfectly aligned with this trend. Additionally, their freemium model allowed for easy adoption and viral growth within design teams, helping them quickly gain market traction



Frameworks for Disruption



Incumbent Vulnerability Assessment

Helps startups identify and exploit weaknesses in incumbents

Customer dissatisfaction

Are customers unhappy with current solutions?

Unmet Needs: Are there significant customer needs or pain points that are not being adequately addressed by the incumbent's products or services?

Price Sensitivity: Are customers dissatisfied with the incumbent's pricing model or are they seeking more affordable alternatives?

Service Quality: Are customers unhappy with the level of customer service or support provided by the incumbent?

User Experience: Is the incumbent's product or service difficult to use, outdated, or lacking in desired features?

Technological stagnation

Is the incumbent's technology outdated?

Innovation Pace: Is the incumbent keeping pace with technological advancements in the industry?

Legacy Systems: Is the incumbent reliant on outdated technology or infrastructure that hinders innovation or agility?

Technical Debt: Has the incumbent accumulated significant technical debt that makes it difficult to adapt to changing market conditions?

Adaptability: Is the incumbent able to quickly adopt new technologies or integrate them into their existing systems?

Operational inefficiencies

Are there inefficiencies in the incumbent's processes?

Cost Structure: Does the incumbent have a high cost structure due to legacy processes, inefficient operations, or excessive overhead?

Distribution Channels: Are the incumbent's distribution channels inefficient or outdated, limiting their reach to customers?

Decision-Making: Is the incumbent's decision-making process slow or bureaucratic, hindering their ability to respond to market changes?

Organizational Structure: Is the incumbent's organizational structure rigid and hierarchical, stifling innovation and agility?

Market overlooked segments

Is the incumbent ignoring a potential market segment?

Underserved Customers: Are there customer segments that are not being adequately served by the incumbent due to their focus on larger, more profitable customers?

Emerging Needs: Are there new or emerging customer needs that the incumbent has not yet addressed?

Niche Markets: Are there niche markets that the incumbent has overlooked or dismissed as insignificant?

Geographic Expansion: Are there untapped geographic markets where the incumbent has limited presence?

Disruptor's Toolkit

Outlines key elements a disruptor needs to succeed

Differentiated value prop	Disruptive business model	Agile and innovative culture	Customer-centric approach	Strategic partnerships
<p>Unique offering that addresses unmet needs</p> <p>Unique Solution: Offers a product or service that is significantly different from existing solutions in the market, providing a novel approach to solving customer problems or fulfilling unmet needs</p> <p>Clear Advantage: Demonstrates a clear and compelling advantage over incumbent offerings. Examples: price, performance, convenience, or user experience</p> <p>Targeted Value: Focuses on delivering value to a specific customer segment or niche market, rather than trying to be everything to everyone</p>	<p>New way of delivering value or generating revenue</p> <p>Innovative Pricing: Utilizes a pricing model that challenges industry norms (freemium, usage based)</p> <p>Distribution Channels: Leverages new or unconventional distribution channels to reach customers, such as online platforms, social media, or partnerships with non-traditional partners</p>	<p>Rapid iteration and experimentation</p> <p>Experimentation: Embraces a culture of experimentation, rapidly testing new ideas and learning from failures</p> <p>Continuous Improvement: Constantly seeks to improve products, services, and processes, fostering a mindset of continuous innovation and adaptation. Empowered Teams: Empowers employees to take initiative, make decisions, and contribute to the innovation process</p>	<p>Deep understanding of customer needs and pain points</p> <p>Deep Customer Understanding: Goes beyond surface-level demographics and delve into the underlying needs, motivations, and pain points of target customers. Conducts thorough market research</p> <p>Personalized Solutions: Strives to offer solutions that are tailored to the specific needs and preferences of customers (customization options, personalized recommendations)</p> <p>Exceptional Customer Service: Provides outstanding customer service and support to build strong relationships and foster loyalty</p>	<p>Collaborations that provide access to resources or markets</p> <p>Complementary Resources: Partners with companies or organizations that possess complementary resources, such as distribution networks, technology expertise, or marketing capabilities</p> <p>Market Access: Forms strategic alliances to gain access to new markets or customer segments that would otherwise be difficult or costly to reach</p> <p>Credibility: Partners with established players to gain credibility and legitimacy in the eyes of customers and investors. Co-Innovation: Collaborates with partners to develop new products or services that leverage the strengths of both parties</p>

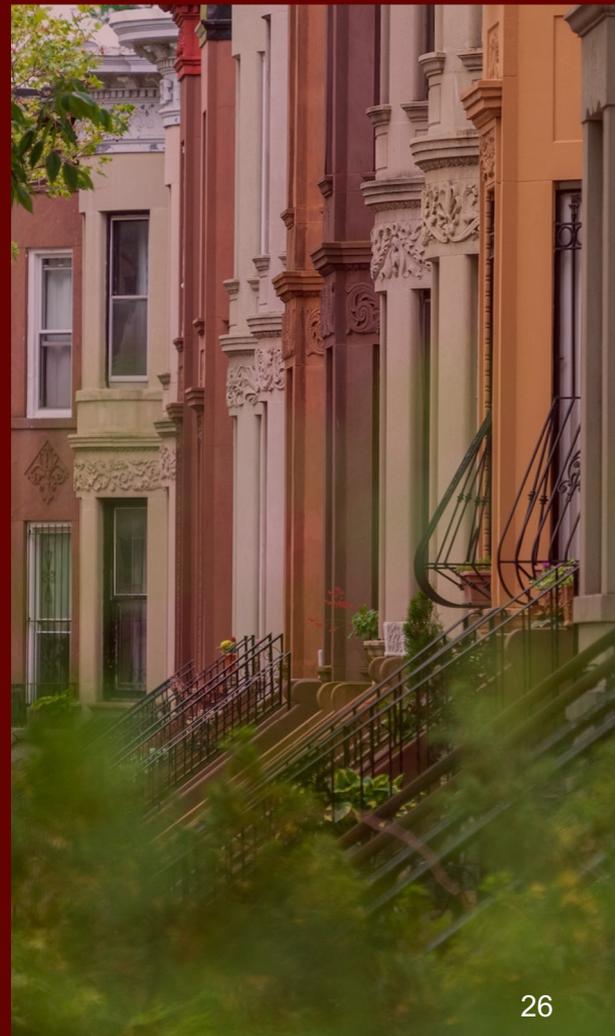
“ The innovator's dilemma is that the logical, competent decisions of management that are critical to the success of their companies are also the reasons why they lose their positions of leadership

Clayton M. Christensen
The Innovator's Dilemma

”



Recommendations



Startups can redefine the game by **embracing key strategies** to arrive at **disruptive innovation**

Recommendations for **startups**

1 Identify & Target Underserved Markets:

- Don't try to compete head-on with incumbents in their core markets
- Look for niche segments or emerging needs that are being overlooked or poorly served
- Tailor solution specifically to the pain points and preferences of this underserved audience

2 Prioritize User Experience (UX):

- Make product easy to use and intuitive, esp for non-technical users
- Streamline onboarding, simplify workflows, and remove friction from the user journey
- Strive for a delightful and memorable user experience that sets the company apart from clunky legacy solutions

3 Adopt a Customer-Centric Approach

- Listen closely to customer feedback and incorporate insights into product development
- Build a strong community around the product to foster engagement and loyalty
- Continuously iterate and improve offering based on real-world user data and feedback

4 Build Strategic Partnerships

- Identify partners whose strengths complement your own, helping you access new markets, technologies, or resources
- Collaborate with other startups or established players to expand your reach and accelerate your growth
- Leverage partnerships to gain credibility and legitimacy in the eyes of customers and investors



Investors can increase their chances of **identifying** and **supporting** the **next generation of disruptive companies** by tailoring their focus

Recommendations for **investors**

1

Embrace the Disruption Mindset:

- Actively seek out startups that are challenging established markets and traditional business models
- Look beyond incremental improvements and focus on companies with the potential to create new markets or fundamentally change existing ones

2

Identify Underserved Markets:

- Look for startups targeting niche segments or emerging needs that are overlooked or poorly served by incumbents
- These markets may be small initially, but they can offer significant growth potential for disruptive solutions

3

Evaluate Team and Culture

- Seek out companies that foster an agile and innovative culture, encouraging experimentation and learning from failure
- Assess the team's ability to adapt to changing market conditions/customer needs. Look for evidence of flexibility, resilience, and ability to pivot

4

Consider Market Timing & Support Long-Term Vision:

- Assess the timing of the startup's entry into the market. Is the market ready for disruption? Are there regulatory or technological tailwinds that could accelerate adoption?
- Recognize that disruptive innovation often takes time and may involve initial setbacks
- Be prepared to provide patient capital and strategic guidance to help portfolio startups navigate the challenges of disrupting established markets



Let's change the face
of entrepreneurship, together.