

DISRUPTIVE INNOVATION

Separating the Winners from the Losers Using Truly Active Management

WHAT IS DISRUPTIVE INNOVATION?

Disruptive companies innovate in ways that alter existing business structures, force change, and eventually replace those structures with new ones. We believe companies generally fall into one of three categories.

1 **LOW-END DISRUPTIVE INNOVATION**
Focus on meeting the demand for a cheaper alternative to existing solutions, attempting to pull demand from an existing market.

2 **HIGH QUALITY INNOVATION**
Focus on meeting the demand for higher quality products, services, and experiences from customers willing to pay more for the improvements. These companies are also attempting to pull demand from an existing market.

3 **NEW MARKET CREATION**
Seek to meet untapped demand, selling to a new customer base. These innovators may ultimately disrupt incumbents, but initially they are not aiming to pull demand from an existing market.

WHO ARE DISRUPTIVE COMPANIES?

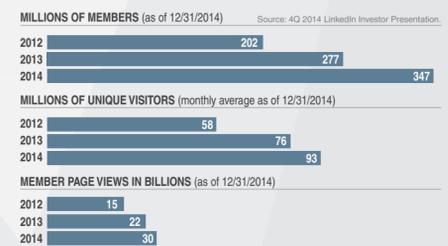
The following companies have embraced one or more categories of disruptive innovation and have successfully transformed their respective industries in some way.



LinkedIn

The world's largest professional social network that transformed the traditional recruiting process, allowing recruiters to target users based on their profiles, thus expanding the potential job candidate pool beyond active seekers.

DISRUPTION
NEW MARKET CREATION
HIGH QUALITY INNOVATION
By taking advantage of social media, they have changed the status quo in the recruiting process.



Amazon.com

The largest Internet-based company in the United States. Amazon.com started as an on-line bookstore, but soon diversified, selling a variety of consumer goods. They also produce proprietary consumer electronics and provide cloud computing services.

DISRUPTION
LOW END DISRUPTION
HIGH QUALITY INNOVATION
NEW MARKET CREATION
They revolutionized the book market using on-line sales and created a new market for on-line books. Amazon continues to change the way people purchase on-line.



DISRUPTIVE INNOVATION & TRULY ACTIVE MANAGEMENT

Truly active management provides the flexibility needed to pursue undervalued disruptive businesses.

Disruptive innovation is one of the many investment themes we use to help find opportunities for investors in the current growth-starved environment. Truly active management provides flexibility which is important as investors need to be able to distinguish between companies that have the potential to succeed and those that may not.



Learn more about Disruptive Innovation and other topics on our website.

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