The Innovator's Dilemma

Although published over three years ago with little notice, this book is just now reaching bestseller status by being recommended on the front lines, manager-to-manager, friend-of-a-friend. It's scary radical. What it proposes is no less than a usable theory of innovation. My bet is that it takes its place next to Thomas Kuhn's The Structure of Scientific Revolutions.

According to Christensen, the dilemma of innovation is not that it is rare. Everybody is doing it. The dilemma is that by aggressively innovating to please your current customers you get stuck in success. Yet by chasing the totally new, you go bankrupt for lack of big-time customers. What to do?

Christensen's solution to the dilemma can be summed up in two sentences: Killer technologies start out making sense only in niche or outlying markets. Therefore match the size of the organization to the size of the market.

In my experience, all the buzz-buzz about innovation usually lacks substance. This book feels like a stainless steel carving knife, ready for action.

—KK

The research reported in this book…shows that in the cases of well-managed firms… *good* management was the most powerful reason they failed to stay atop their industries. Precisely *because* these firms listened to their customers, invested aggressively in new technologies that would provide their customers more and better products of the sort they wanted, and because they carefully studied market trends and systematically allocated investment capital to innovations that promised the best returns, they lost their positions of leadership.

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Occasionally, however, disruptive technologies emerge: technologies that result in worse product performance, at least in the near-term… Generally disruptive technologies underperform established products in mainstream markets. But they have other features that a few fringe (and generally new) customers value.

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By and large, a disruptive technology is initially embraced by the least profitable customers in a market.

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But while a $40 million company needs to find just $8 million in revenues to grow at 20 percent in the subsequent year, a $4 billion company needs to find $800 million in new sales. No new markets are that large. As a consequence, the larger and more successful an organization becomes, the weaker the argument that emerging markets can remain useful engines for growth.

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It was as if the leading firms were held captive by their customers, enabling attacking entrant firms to topple the incumbent industry leaders each time a disruptive technology emerged.

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The [non-hydraulic excavator manufacturers] did not fail because they lacked information about hydraulics or how to use it; indeed the best of them used it as soon as it could help their customers. They did not fail because management was sleepy or arrogant. They failed because hydraulics didn't make sense—until too late.

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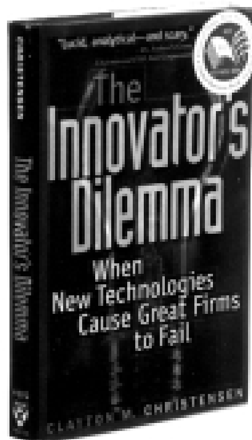
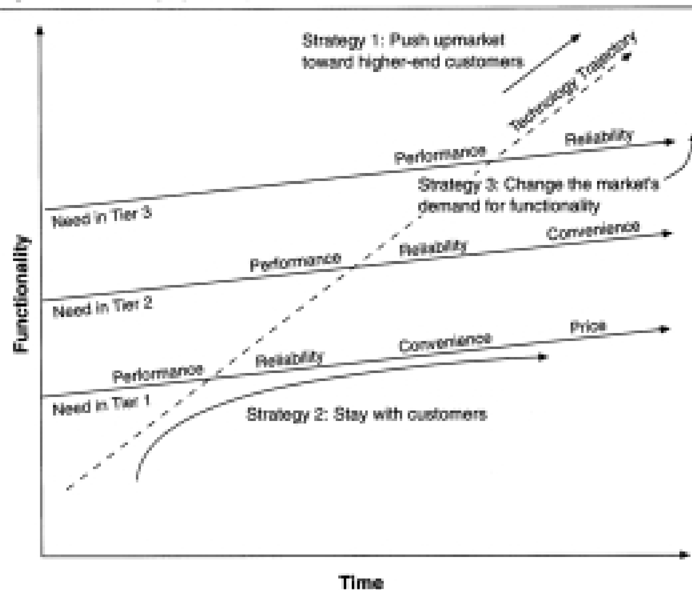
Not only are the market applications for disruptive technologies *unknown* at the time of their development, they are *unknowable*. The strategies and plans that managers formulate for confronting disruptive technological change, therefore, should be plans for learning and discovery rather than plans for execution.

The Innovator's Dilemma
When New Technologies Cause Great Firms to Fail
Clayton Christensen
1997, 225 pages
$27.50
Harvard Business School Press





The entrepreneur must realize that the process of raising venture capital never ends. From the first to the last of the fourteen stages of the venture capital formation process... the CEO is continuously occupied with problems of how to raise the needed capital. Experienced start-up staff members of both successful and unsuccessful companies said the same thing: "You never have enough money, things always take twice as long to do as you think, and there is never enough time to stop raising capital while you focus on running the company."

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Founder CEOs seldom last as employees for more than three years. This is universally lamented by all parties, including the VCs. We will discuss the reasons and cures later in this book. Silicon Valley psychologists report that few founders make it to the IPO without personal emotional trauma.

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Get in touch with yourself. That was repeated by many of the people we spoke with. Decide what motivates you: joy of work, love of wealth, the satisfaction of getting further than anyone expected, and so on. And decide what failure means to you, as a person, as a company leader.

High Tech Start Up
The Complete Handbook for Creating Successful New High Tech Companies
John L. Nesheim
2000, 342 pages
$50
The Free Press