

Christensen, Clayton M. – The Innovator's Dilemma*HarperBusiness, 1997, [Business] Grade* ★★★★★

I wish I had read this book a long time ago. It would have saved me a lot of problems, worries and money. I'm late to the game - I first heard of this book in Isaacson's marvellous biography on Steve Jobs, but it was written before some of the dot.coms exploded. It was one of few books that really fascinated the strong-willed Jobs. And it's easy to understand why...

Innovations drive markets forward. But innovations are not just about technology and biotech. One of my favourite cases in this book is about the mini-mills and how they outsmarted the huge integrated steel mills of America. In the end, innovations are either sustaining or disruptive. Sustaining innovations closely resembles making improvements to existing products and services. They are what we usually focus on, regardless of if it's in strategy books, management speeches or business school cases. It's about listening to customers, investing aggressively to give customers what they say they want, seeking higher margins and targeting larger markets.

Disruptive innovations are more uncommon, trickier to manage and much harder to analyse and forecast. They happen when product qualities exceed market needs. Professor Christensen has termed it "Performance Over-supply" which perfectly describes this situation.

These situations create opportunities for products that are simpler, smaller, cheaper and frequently more convenient to use. Therefore, they open new markets. "Further, because with experience and sufficient investment, the developers of disruptive technologies will always improve their products performance, they will eventually be able to deliver sufficient performance on the old attributes, and they add some new ones".

Why do well-managed companies fail with disruptive innovations? Professor Christensen answers this crucial question with facts that first surprise you. "Doing the right thing is the wrong thing." For sure, it's not because management is stupid or lazy. It's rather the opposite - the same goals, practices and value networks that made them successful are now to

their disadvantage with disruptive innovations.

"Perhaps the most powerful protection that a small entrant enjoy as they build the emerging markets for disruptive technologies is that they are doing something that simply does not make sense for the established leaders to do. Despite their endowments in technology, brand names, manufacturing prowess, management experience, distribution muscle, and just plain cash, successful companies populated by good managers have a genuinely hard time doing what does not fit their model for how to make money. Because disruptive technologies rarely make sense during the years when investing in them is important, conventional managerial wisdom at established firms constitutes an entry and mobility barrier that entrepreneurs and investors can bank on. It is powerful and pervasive."

But there are ways for an established market leader to handle disruptive innovations successfully. It's easy to be a believer in Christensen's recommendations. His thoughts were e.g. behind the decision by Intel to launch a new label with simpler products (Celeron) along the established Pentium, in order to avoid being attacked from "below" and keeping market shares. But this is one of rather few successful examples. It is easy to list companies that lost their market position and hence their profitability and most of their market capital.

As an investor, this new understanding gave me significant clues regarding guesstimating the period of competitive advantage - years of excess return - although Christensen never explicitly mentions this in his book.

There is lot of additional wisdom in this book, e.g. on assumptions in NPV calculations, corporate culture, the RVP (resources, values, processes) framework and much more. Harvard Business School Professor Christensen is a brilliant man - named the world's most influential business thinker in 2011 - and not only because of his strategy research. I truly recommend his speeches on Youtube on various issues. His new book - How do you measure your life? - will be my next buy.

Michael Persson, August 10, 2012