

Capturing the Upside While Avoiding the Downside

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The Innovator's Solution

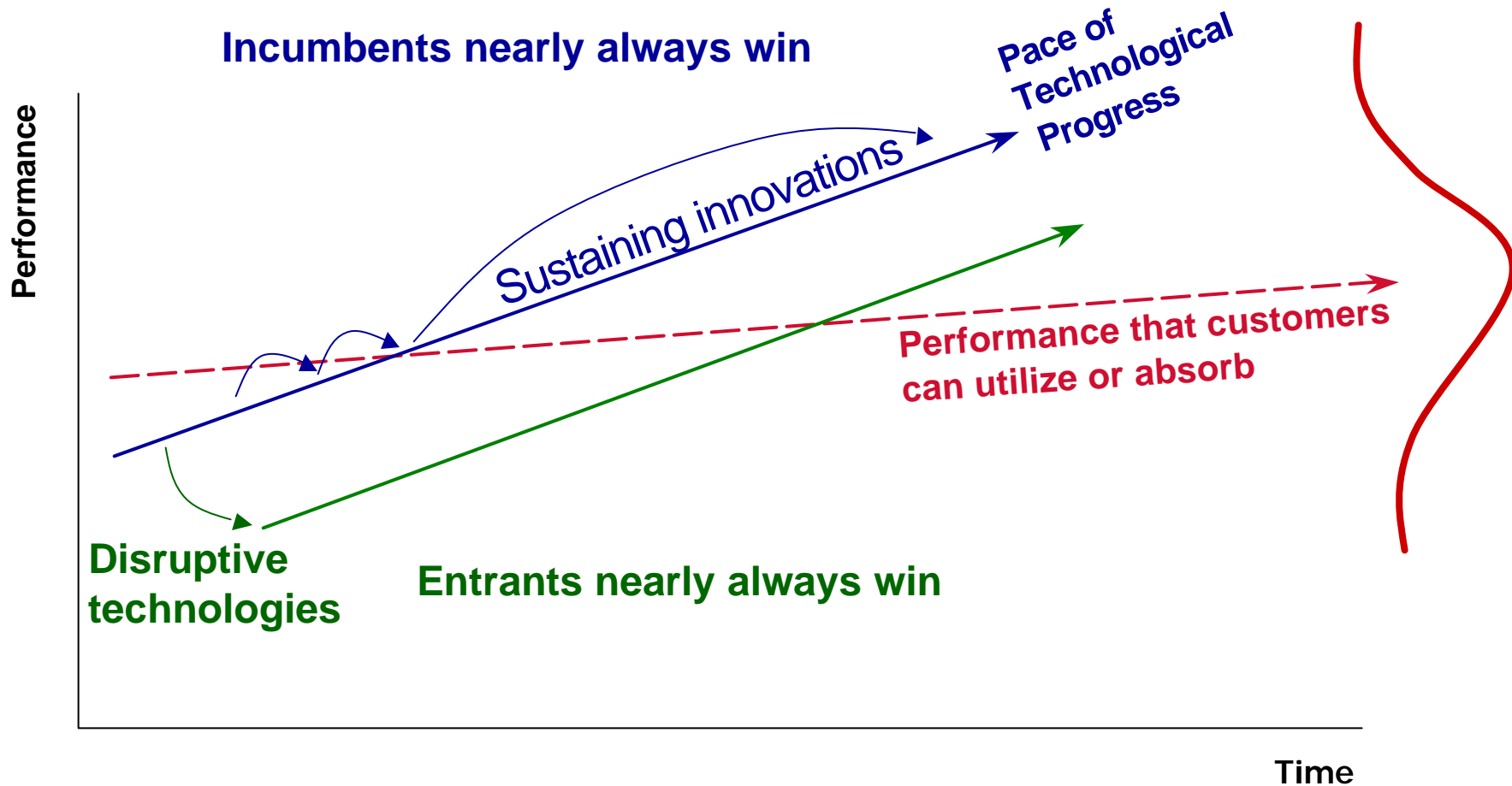
- **Historically, less than 10% of companies have been able to sustain for more than a few years the growth that creates above-average shareholder returns.**
- **Once a company's growth has stalled, the probability that it can successfully re-accelerate growth is only 6%.**
- **Historically, it has seemed impossible to predict which innovations will successfully create new waves of growth, and which will fail.**
 - ✓ **Only 20% of venture capital – funded start-ups succeed**
 - ✓ **Only 25% of new products launched by established companies succeed.**

This need not be the case. Managers can use sound theories to guide the key decisions required to build successful growth businesses.

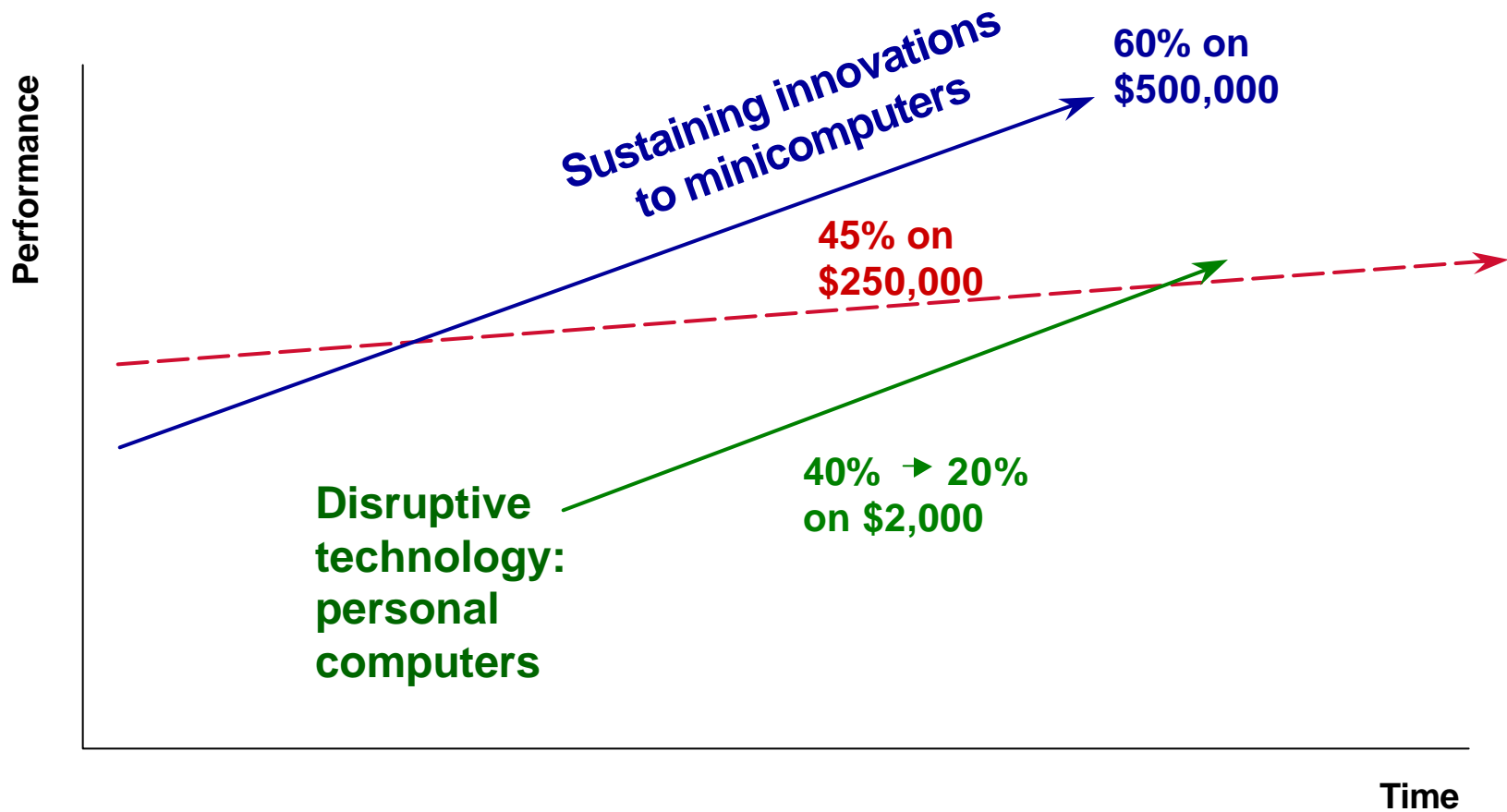
Ten questions in building new growth businesses

- 1. How can we beat the competition?**
- 2. Which customers should we target?**
- 3. What products will our customers want to buy?**
- 4. How should we distribute to and communicate with our customers?**
- 5. Which things should our company do, and which should our can partners and suppliers do?**
- 6. How can we avoid commoditization?**
- 7. Who should be on our management team?**
- 8. What is the best organizational structure for this business?**
- 9. How can we know when to change course?**
- 10. Whose investment capital will help, and whose might hurt?**

Disruptive technologies are a driver of leadership failure and the source of new growth opportunities



The Innovator's Dilemma



Most value-creating growth businesses originated in disruption

Yesterday

- Japan
- Kodak
- ZCMI
- Ford
- Merrill Lynch
- AT&T
- Sears catalog
- Swift; Armour
- Black & Decker
- Xerox

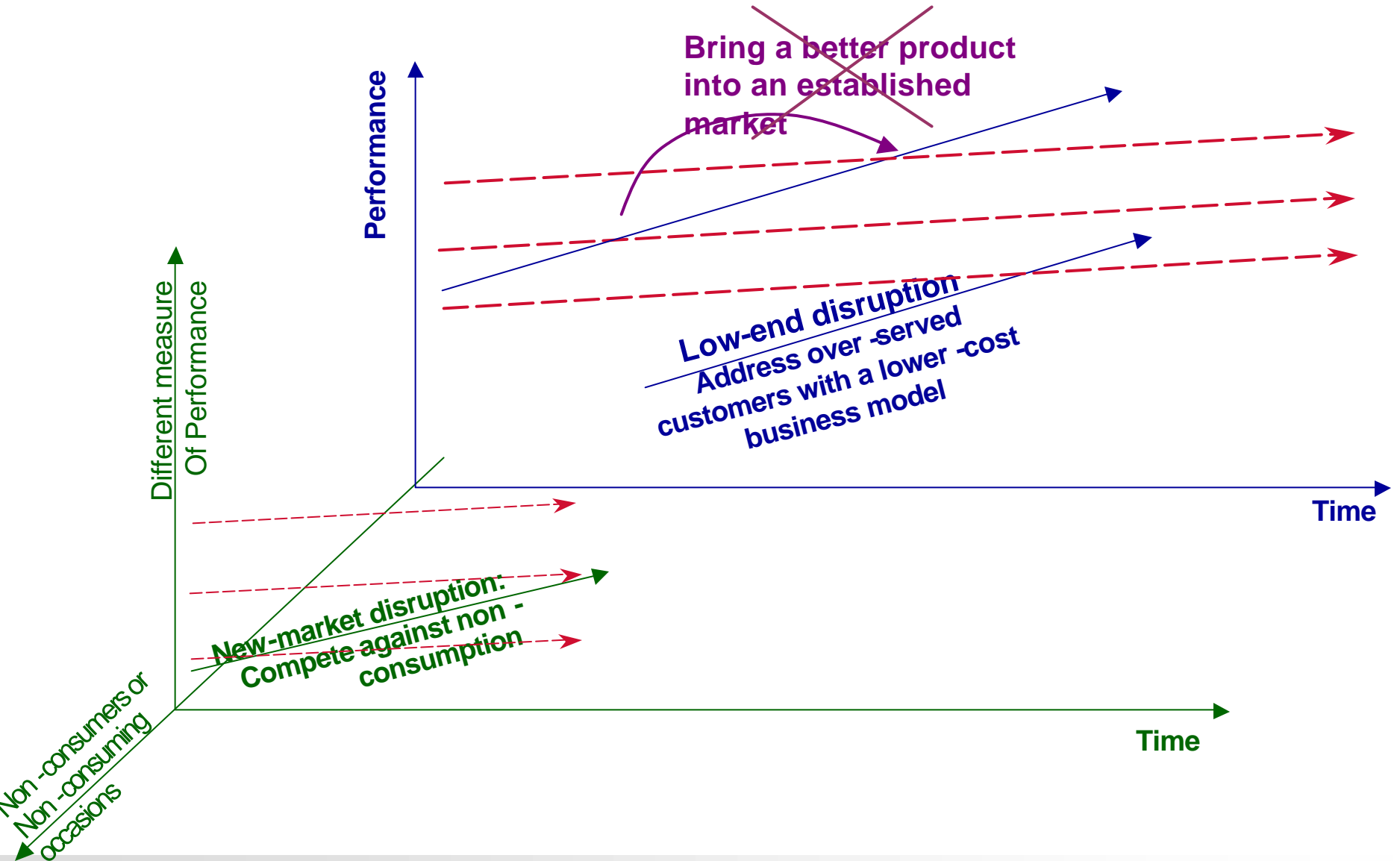
Today

- Toyota
- Wal-Mart
- Intel
- Southwest Air
- Microsoft
- Oracle
- Cisco
- Sony
- Bloomberg
- Best Buy

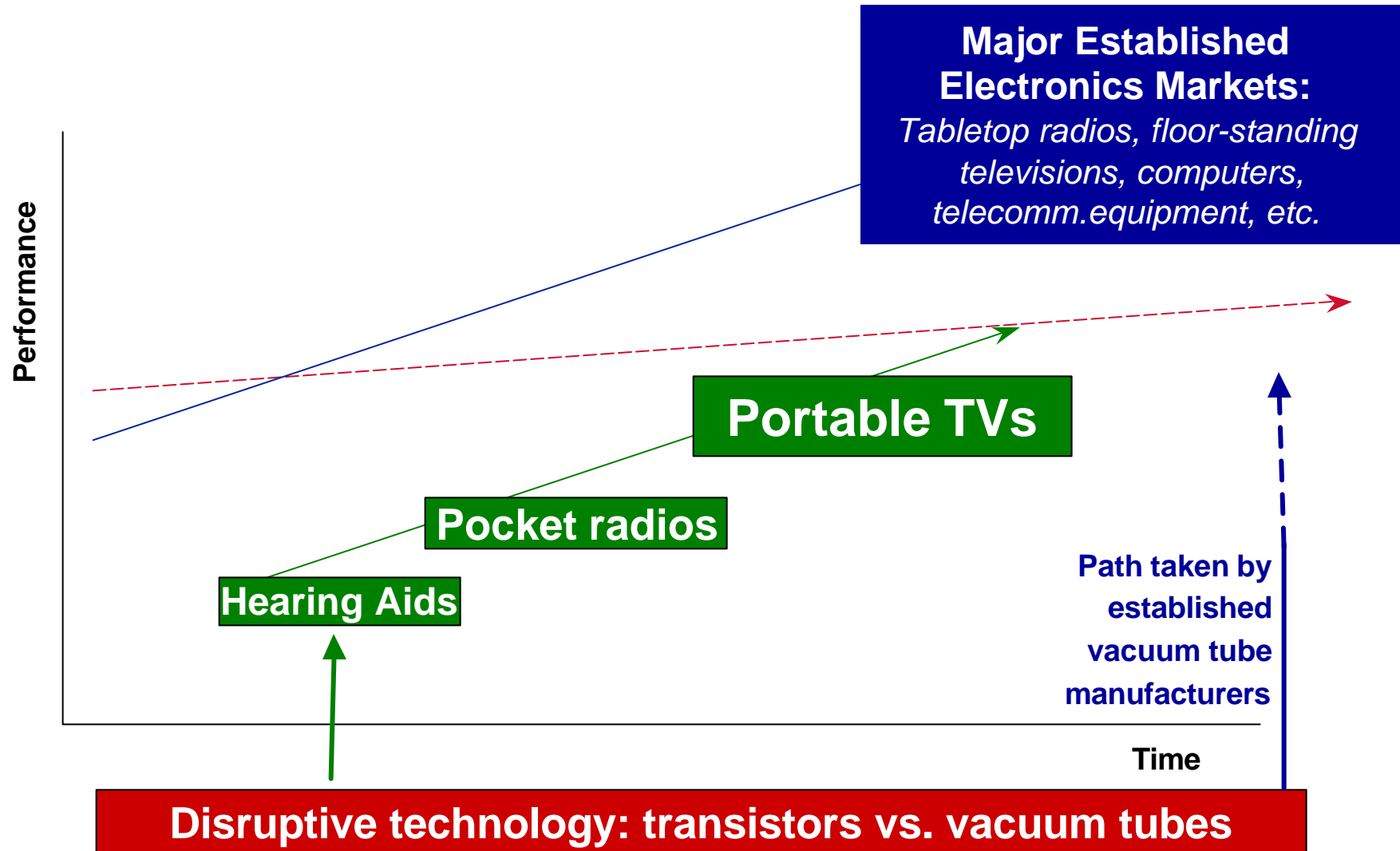
Tomorrow:

- Embraer
- Veritas
- U. of Phoenix
- RIM Blackberry
- Salesforce.com
- Linux
- E-Bay
- Sonosite
- Amazon.com
- Tensilica

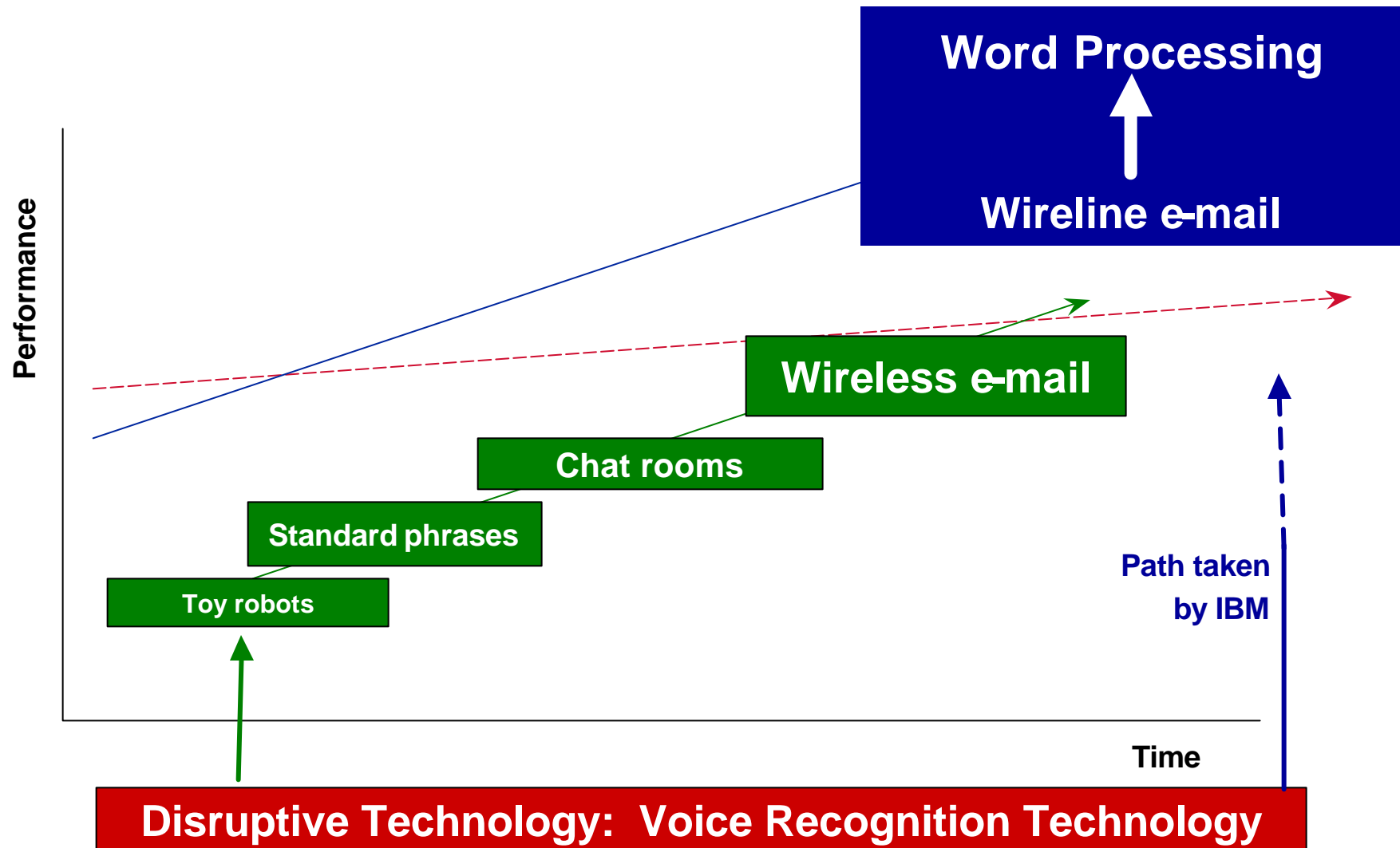
Two strategies for asymmetric competition



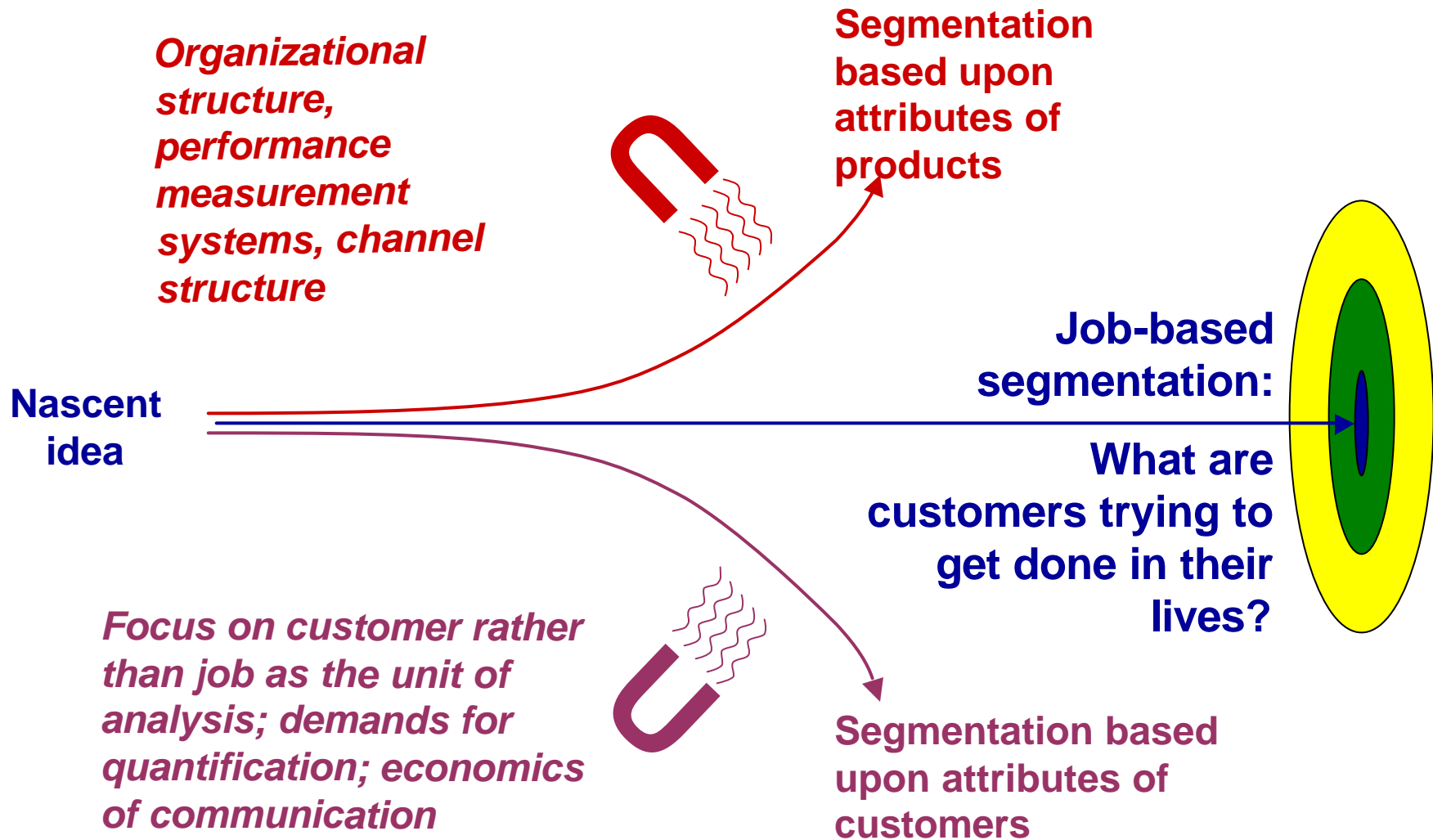
Non-consumers are the ideal initial target



Non-consumers are the ideal initial target



Powerful forces cause companies to target market segments that are irrelevant to the reasons why customers buy products



Facilitate priorities

**Never compete against customers' manifest priorities.
Facilitate them.**

Digital cameras

Electronic learning

Structuring the market in terms defined by data that are easily collected obfuscates the right targets for innovation.

Define the market as a class of products (wireless hand-held)

Competition: Palm, Handspring, Sony, HP, Compaq, Nokia

- Digital camera
- Word
- Excel
- Handwriting recognition
- Wireless e-mail
- Phone

Define the market in demographic terms (the business traveler)

Competition: wireline telecom and notebook computers

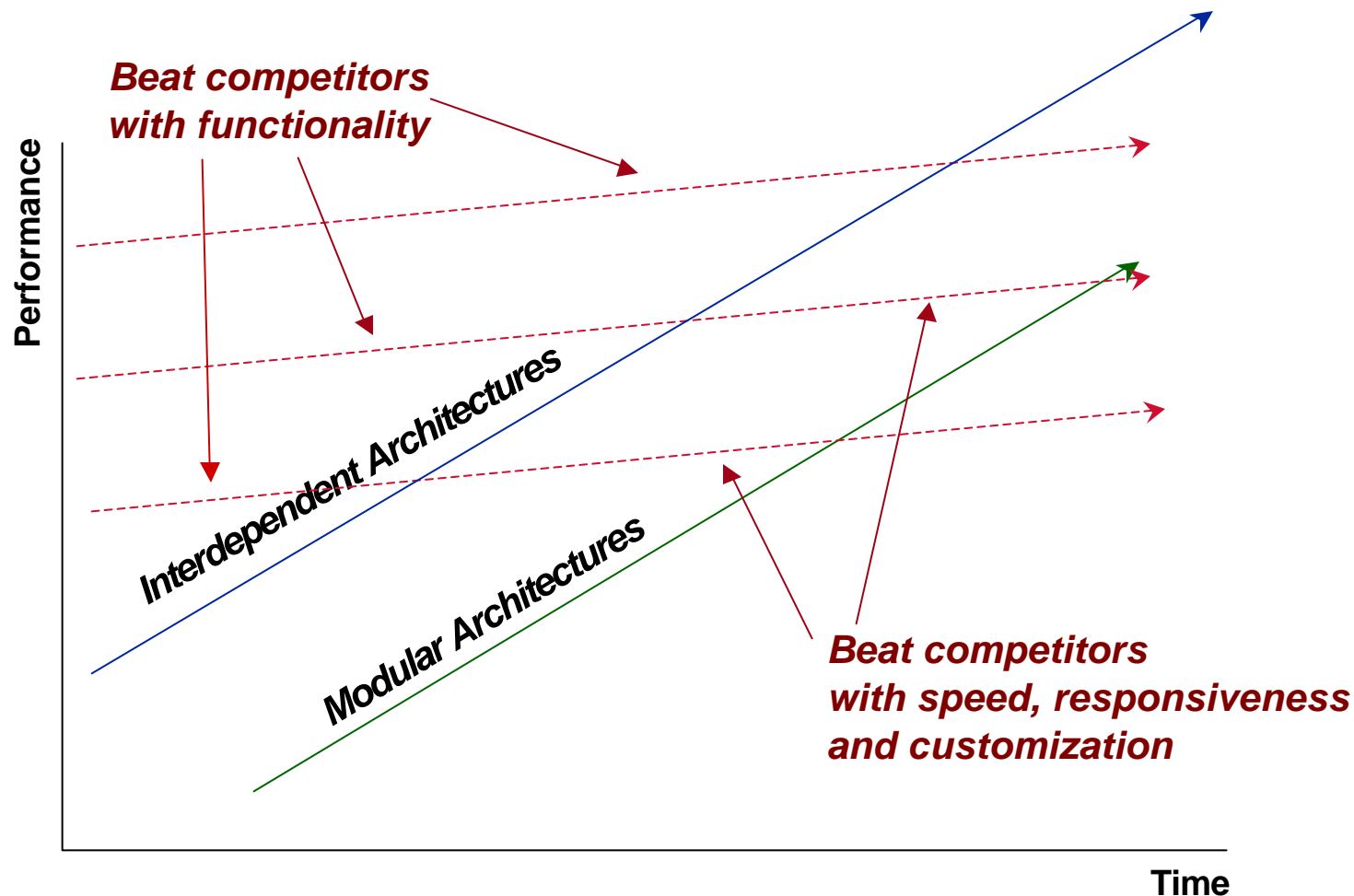
- CRM software
- E-books, e-magazines
- Stock trading
- Travelocity
- E-mail
- Voice

Define the market in terms of jobs that customers need to get done

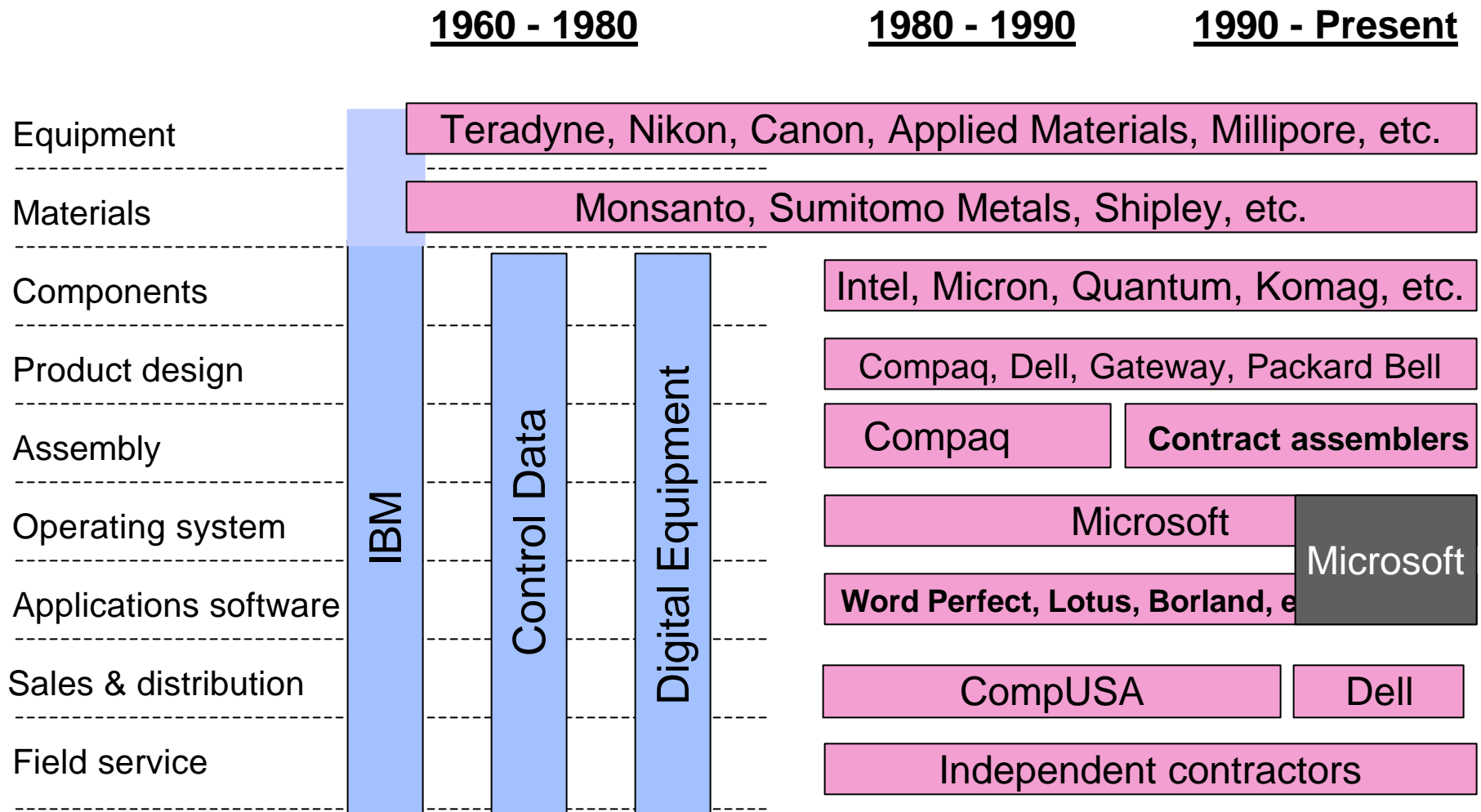
Competition: Nokia, Wall Street Journal, CNN Airport News, boredom

- Voice phone
- News summaries
- Always on
- Simple, mindless games

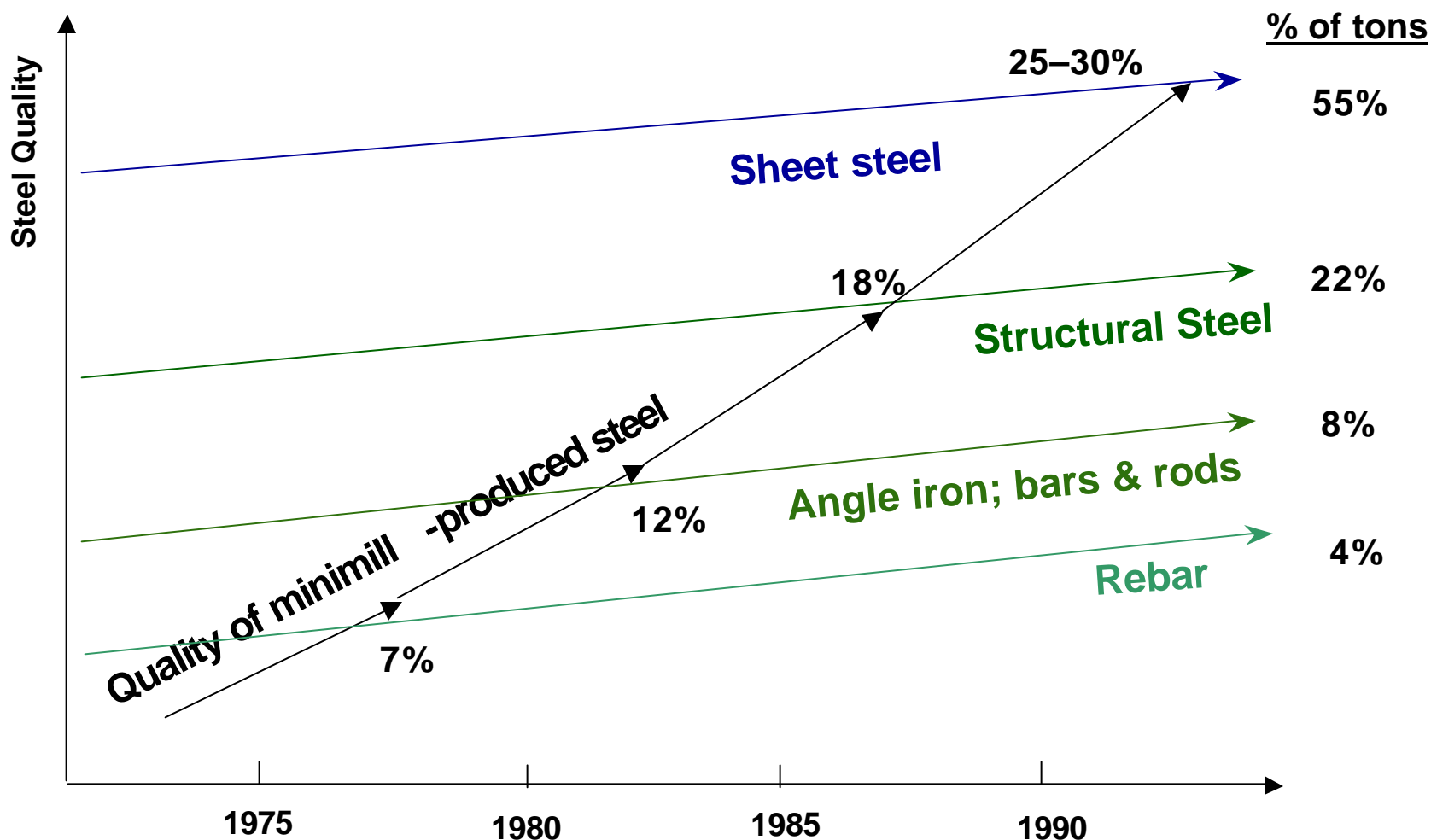
Integrated firms have the advantage when products aren't good enough. Focused firms overtake over-served markets.



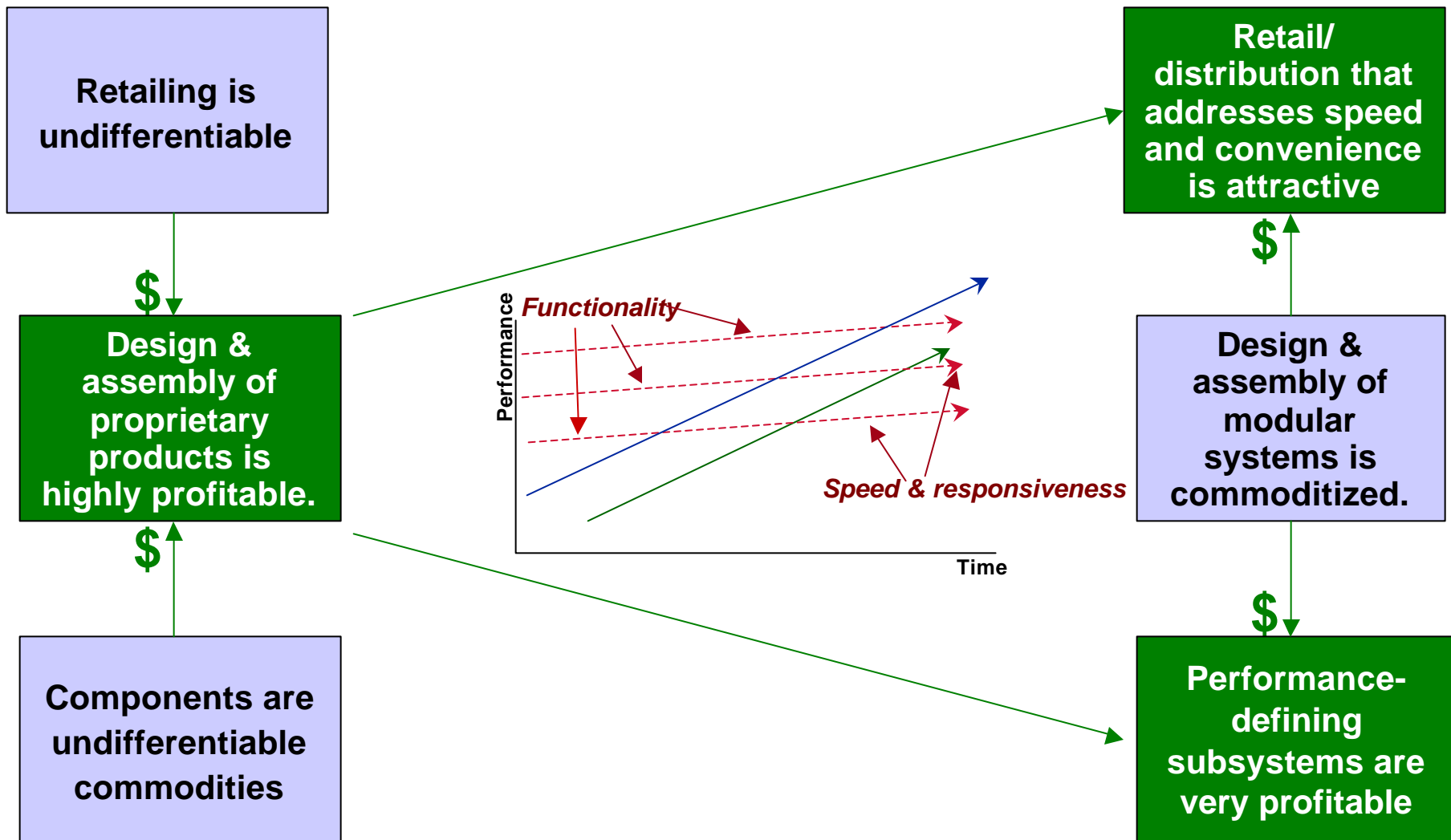
Changes in integrality/modularity have profoundly changed the structure of the computer industry



Beat competitors with asymmetry of motivation



Over-shooting precipitates reciprocal processes of commoditization and de-commoditization.



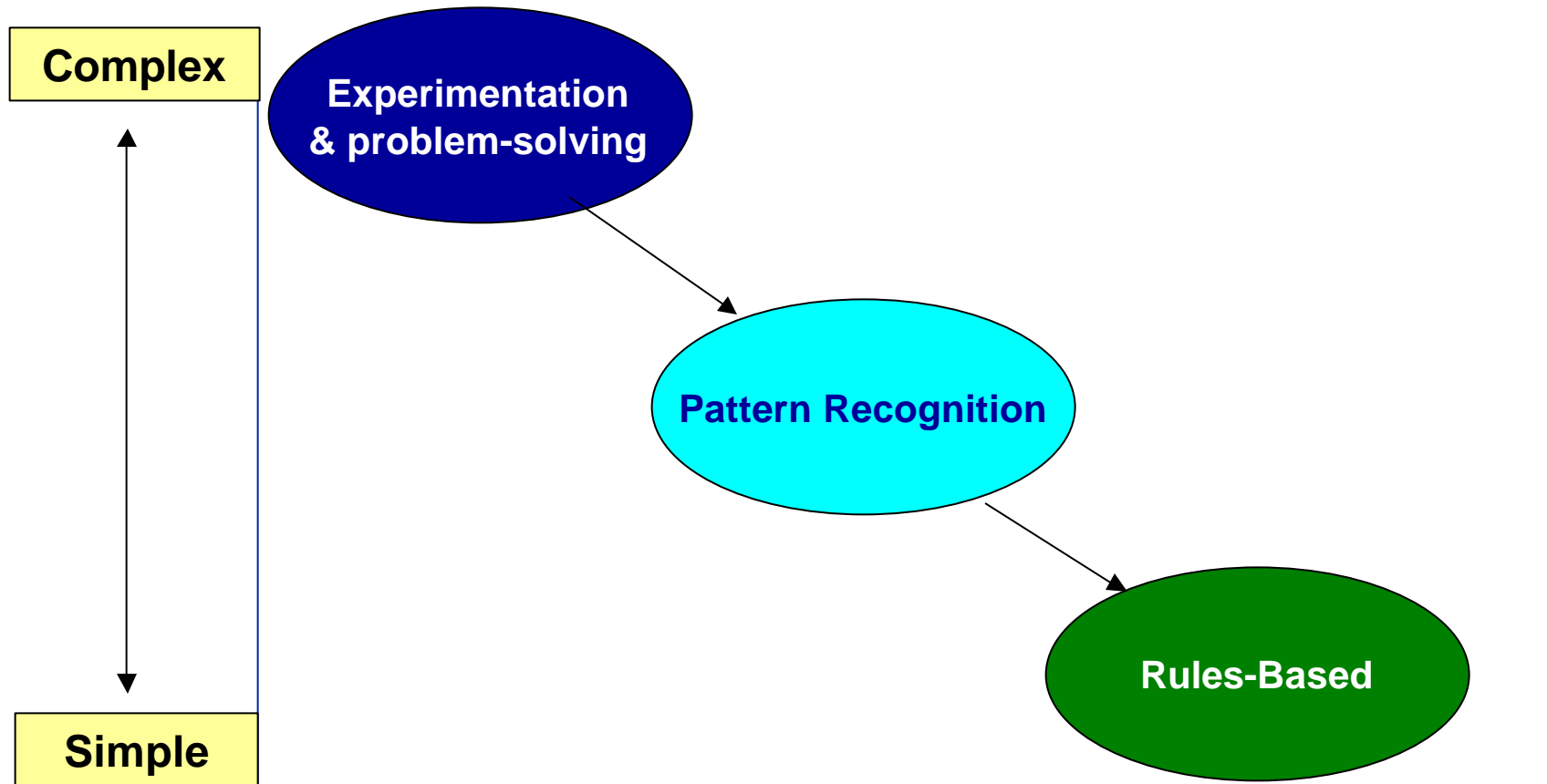
Disruption enables less-skilled people to do more sophisticated things

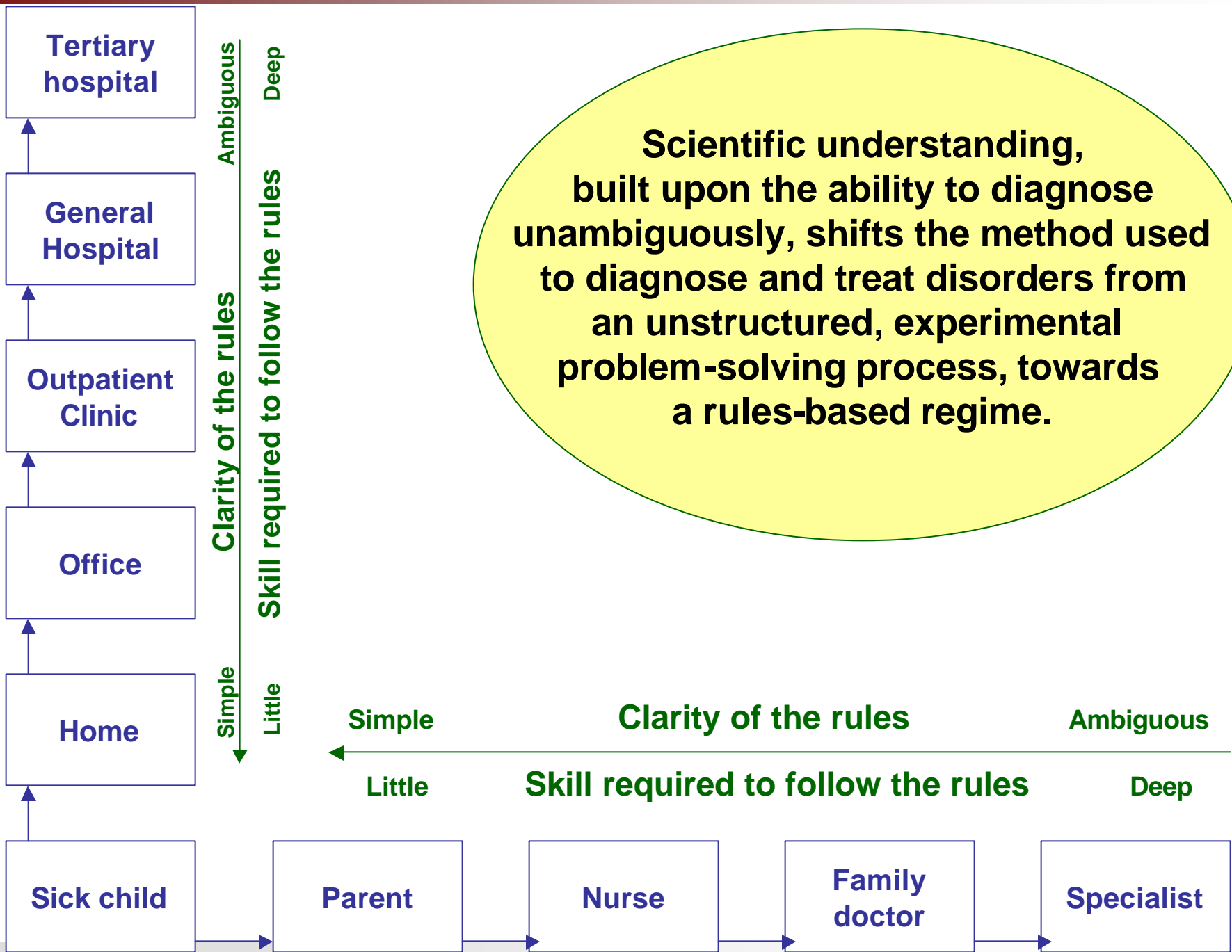
Disruptive innovations enable a larger population of less-skilled, less-wealthy people to do things in a more convenient, lower-cost setting, which historically could only be done by specialists in less convenient settings. Disruption has been one of the fundamental causal mechanisms through which our lives have improved.

- **Computers**
- **Xerography**
- **Angioplasty**

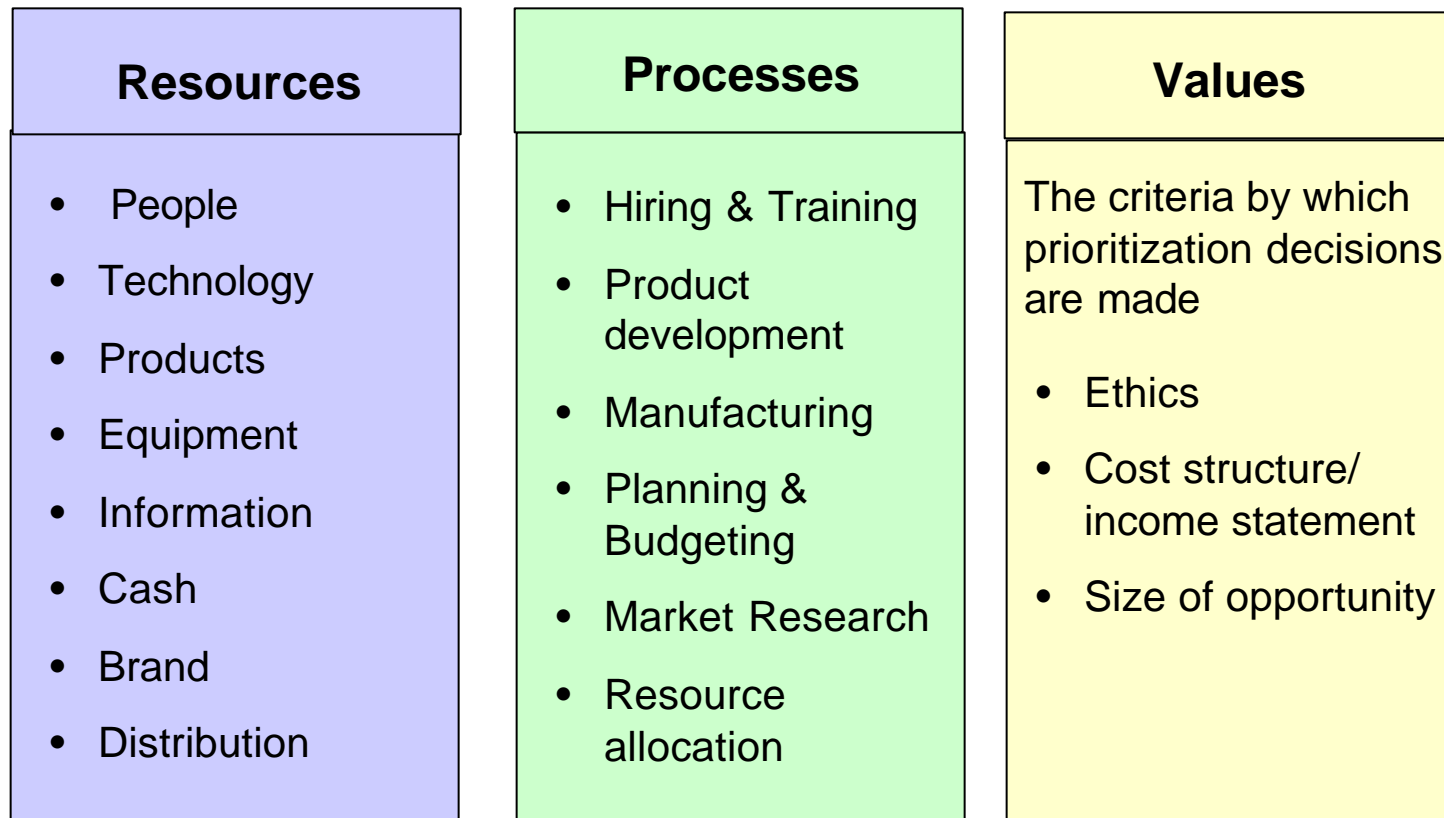
Almost always, disruptive innovations such as these have been ignored or opposed by the leading institutions in their industries for perfectly rational reasons.

Disruption is facilitated by sophisticated technology that makes things foolproof

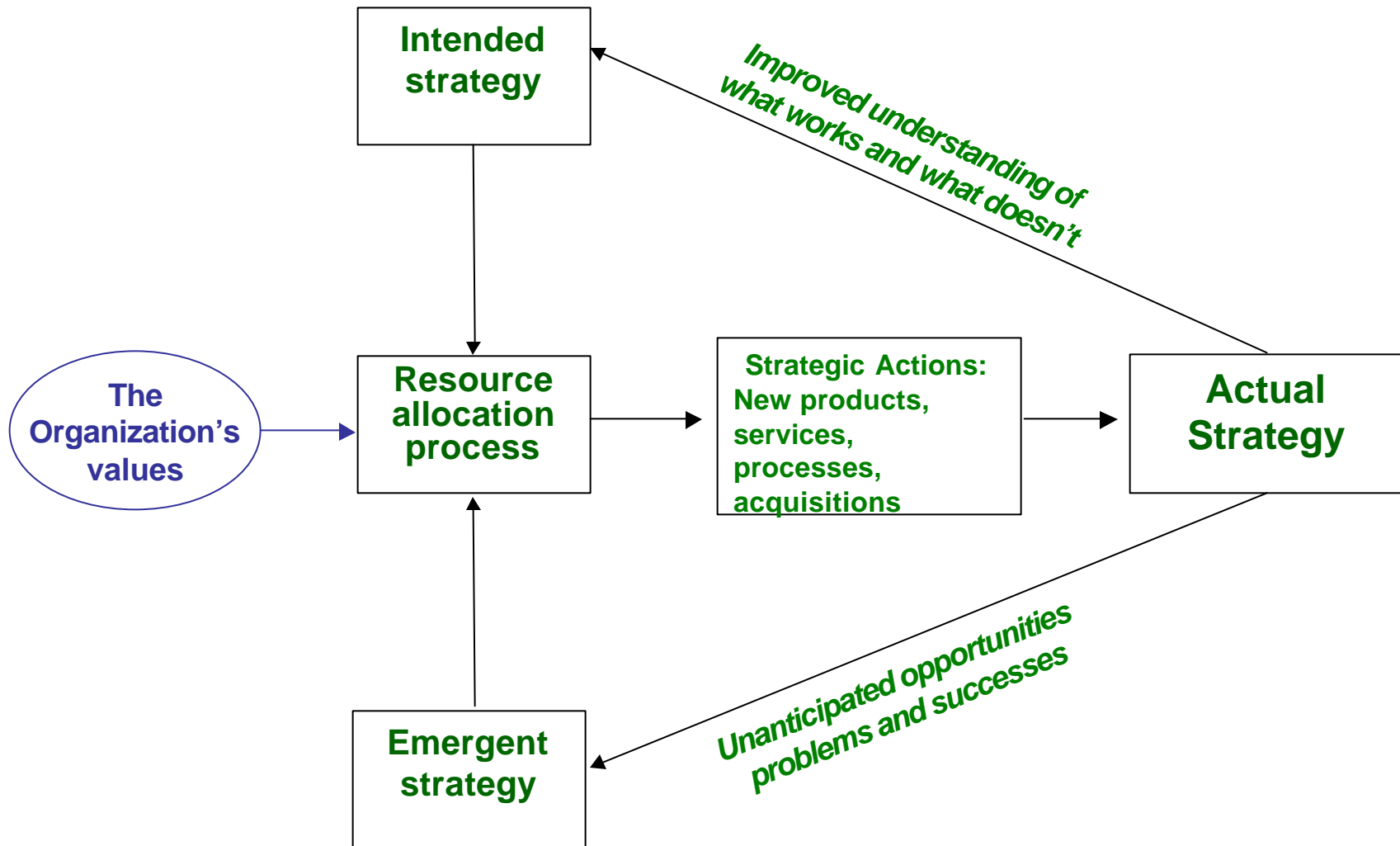




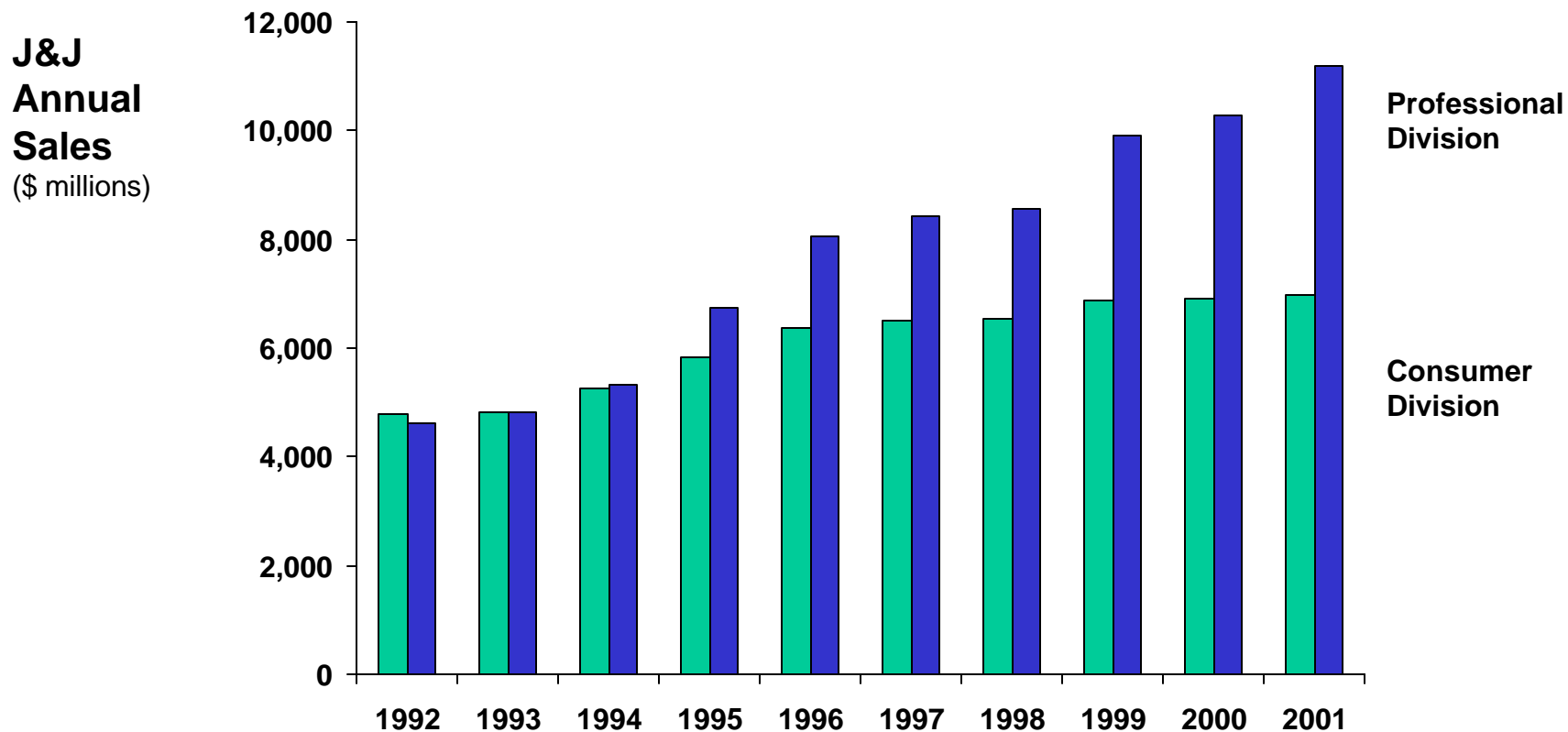
How can I know what my organization is capable and incapable of accomplishing?



The strategy-making processes that are good at planning sustaining innovations, are bad at guiding disruptive ones.

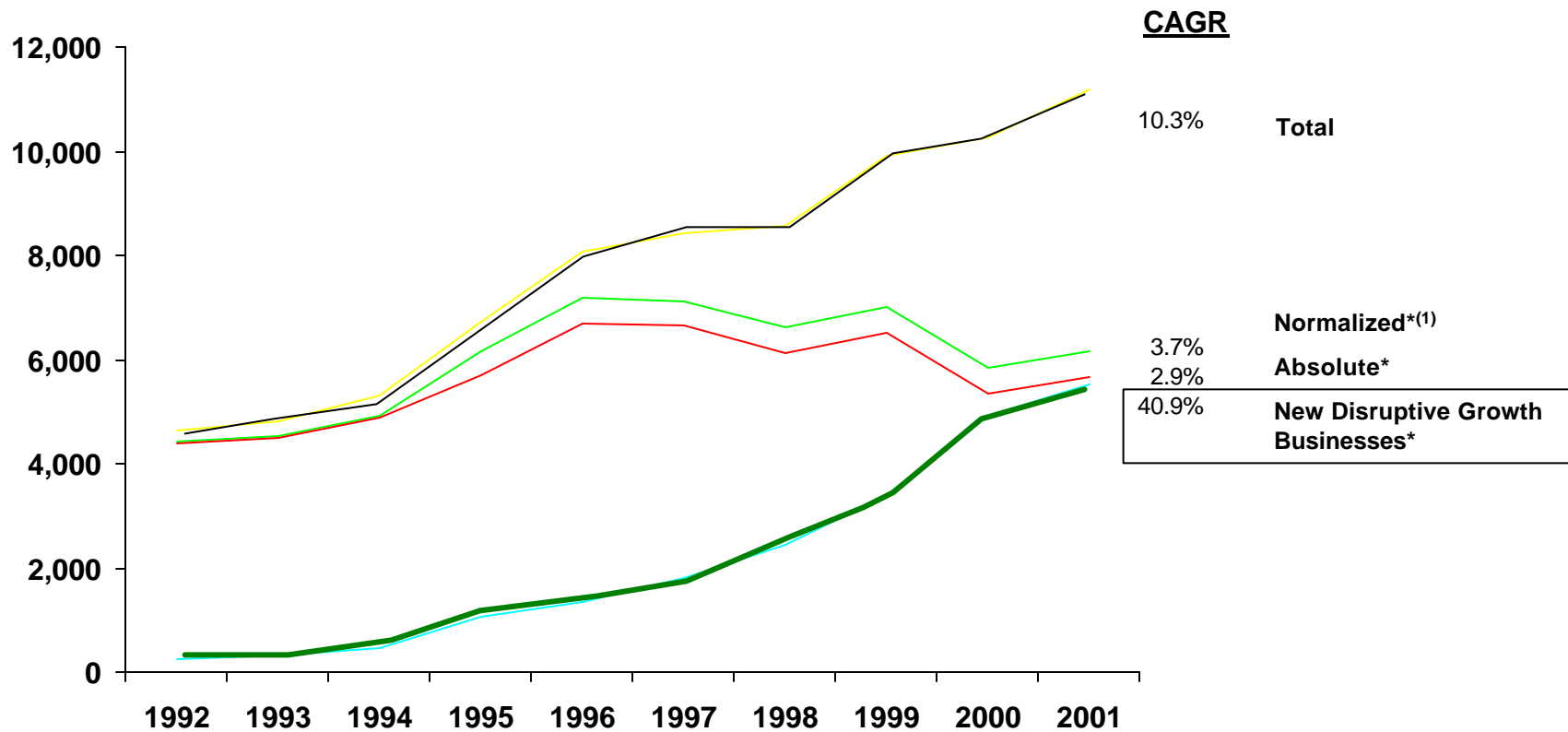


J&J's Professional Division has grown much faster than its Consumer Division over the last decade



New disruptive growth businesses account for nearly all of this growth

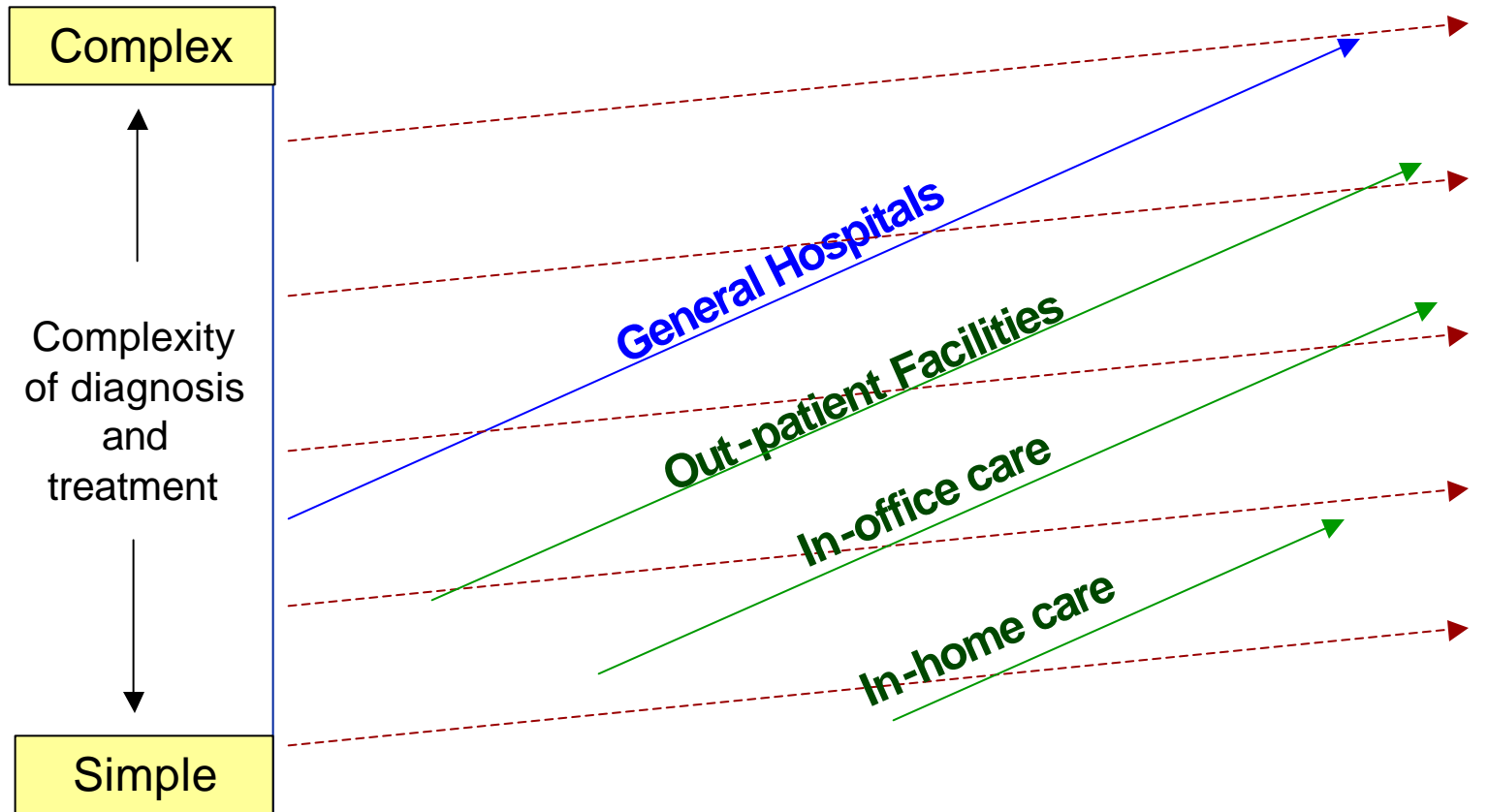
Annual Sales
(\$ millions)



*Adjusted for revenues from Cordis, Ethicon Endo Surgery, LifeScan and Vistakon

Source: Johnson and Johnson 10-K

Disruption amongst healthcare institutions is well underway



Disruptions amongst healthcare professionals

