Porter's Laws and Disruptive Technologies

NBA 6120

January 24, 2018

Donald P. Greenberg

Lecture 1

NBA 6120 Course Website Spring 2018

- http://www.graphics.cornell.edu/academic/nba6120/

Required Reading

- Michael E. Porter. How Competitive Forces Shape Strategy, Harvard Business Review, March-April 1979, pp. 137-145.(Search http://erms.library.cornell.edu/
- Joseph L. Bower and Clayton M. Christensen. Disruptive Technologies: Catching the Wave, Harvard Business Review, January-February 1995, pp. 43-53. (Search http://erms.library.cornell.edu/)

Optional Reading

- Jill Lepore. “The Disruption Machine,” The New Yorker, June 23, 2014. http://www.newyorker.com/reporting/2014/06/23/140623fa_fact_lepore?currentPage=all

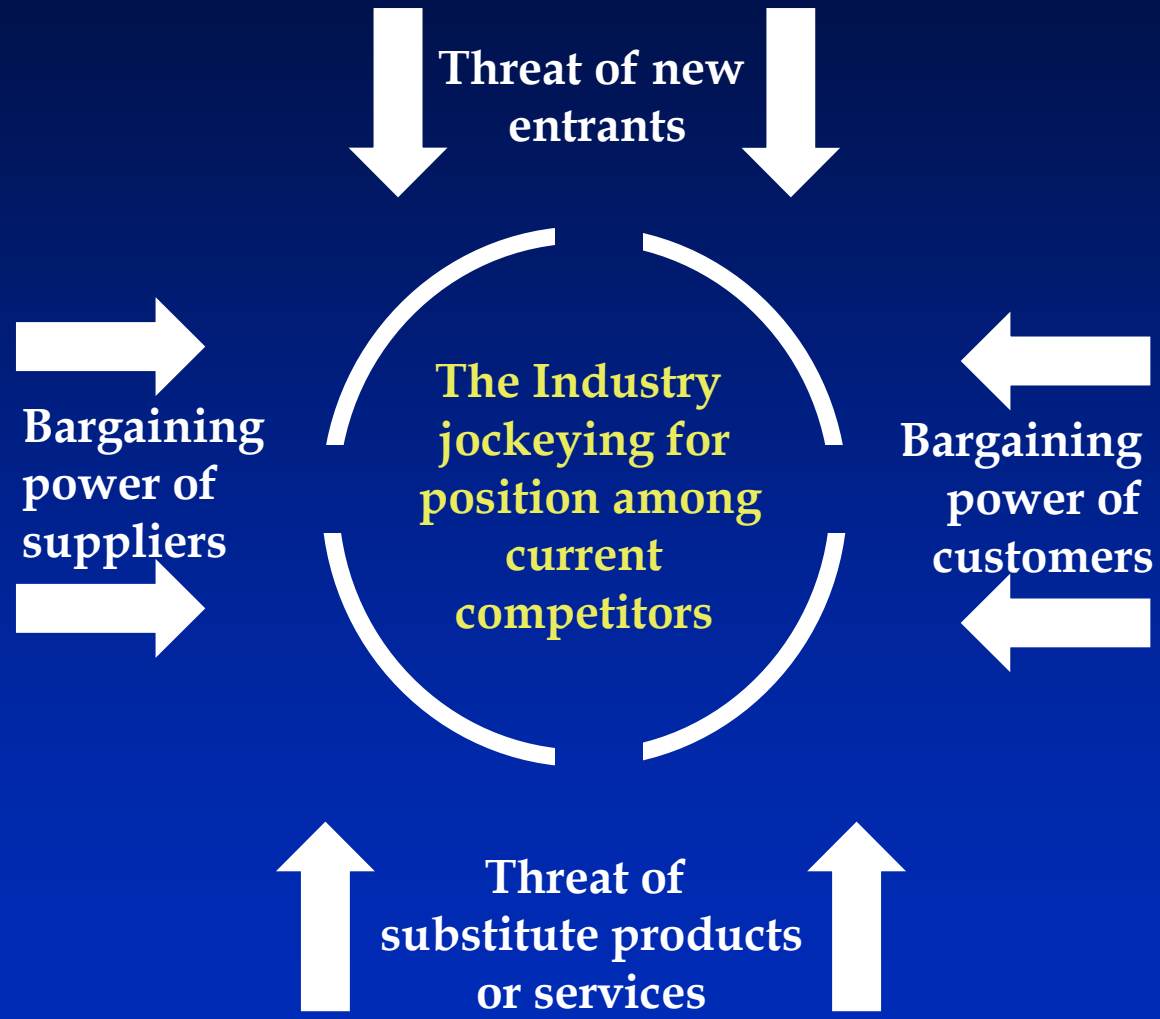
NBA 6120

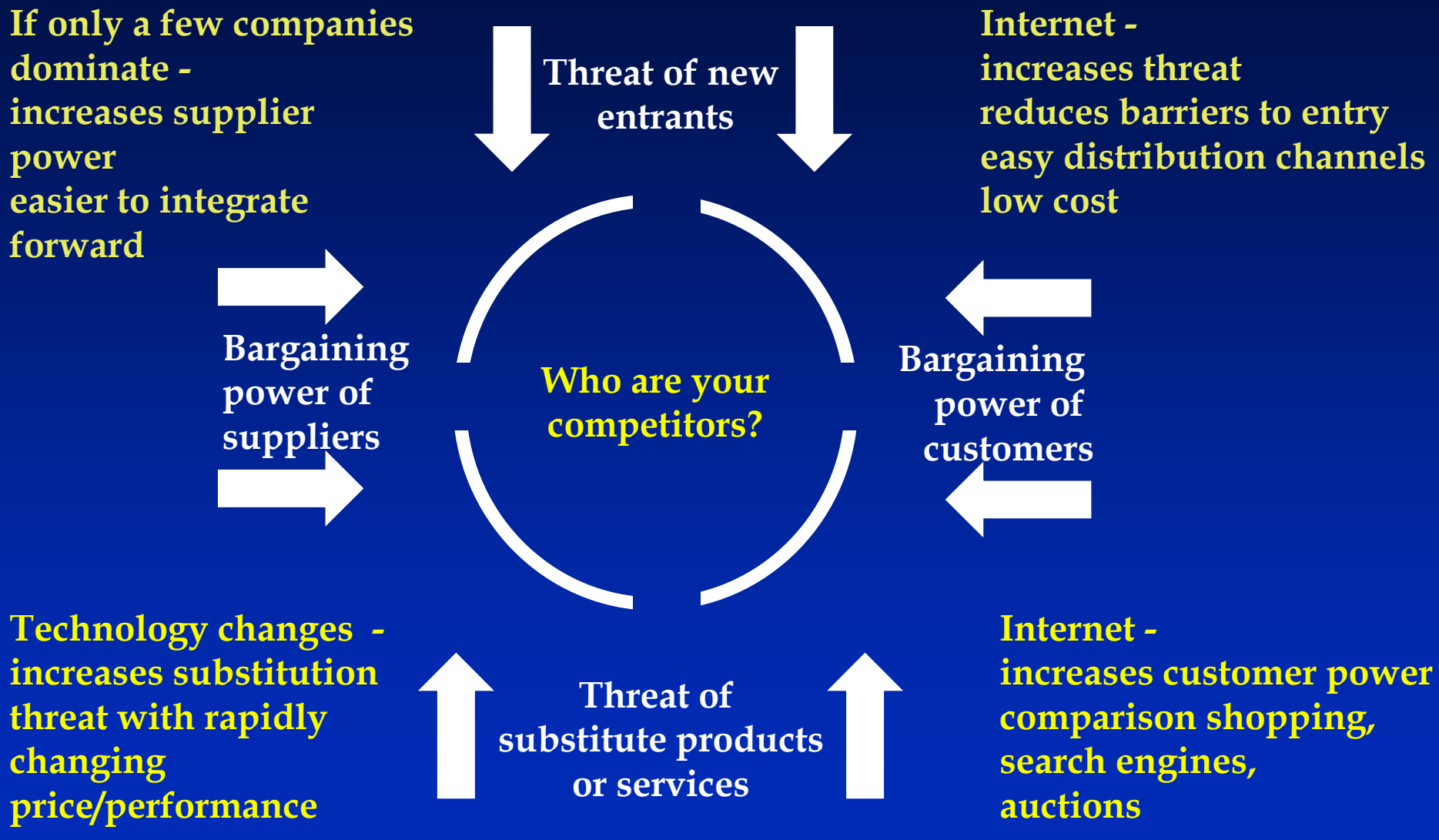
DISRUPTIVE TECHNOLOGIES

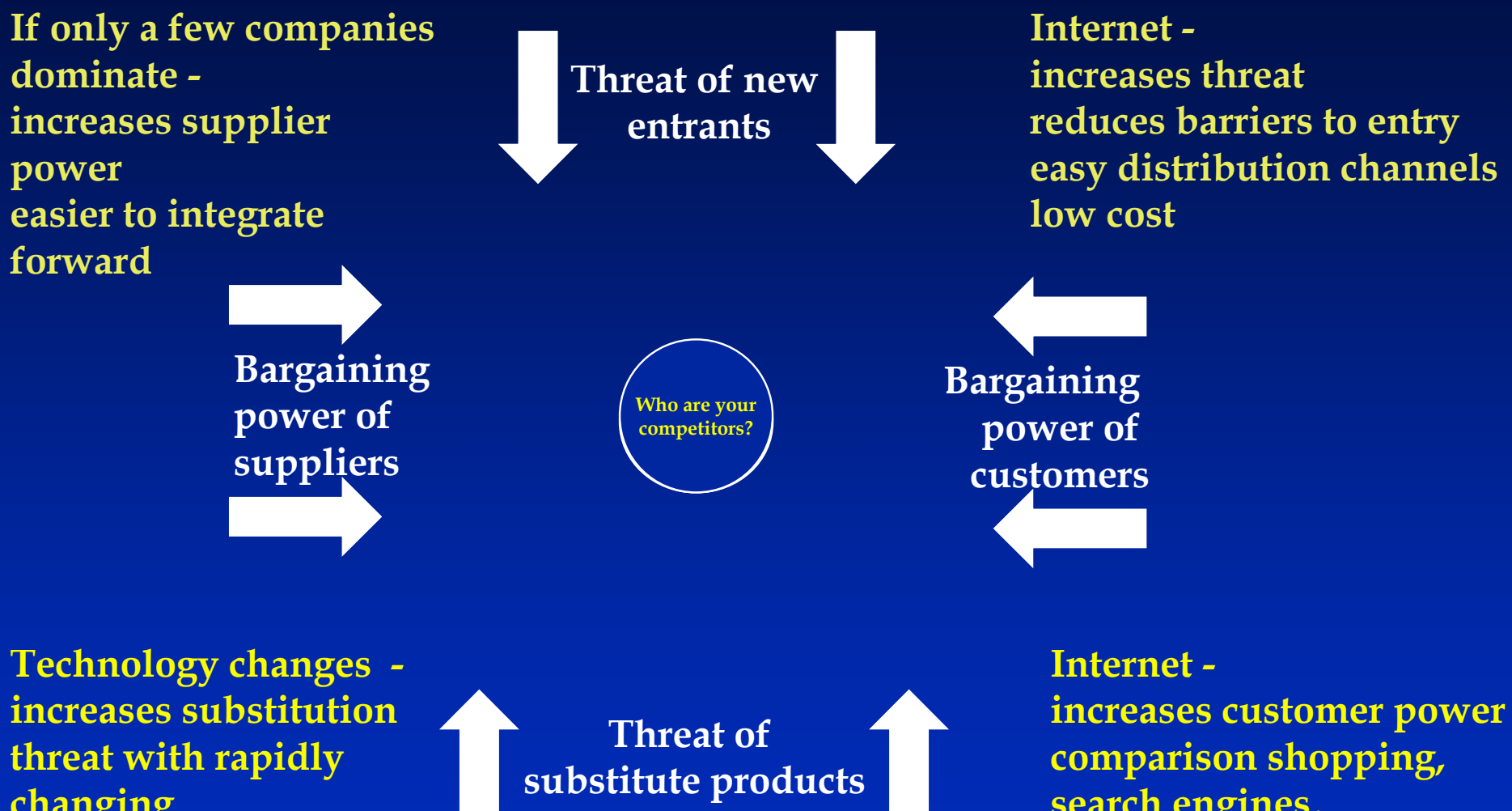
Porter's Rules

"The essence of strategy formulation is coping with competition"

Professor Michael Porter
Harvard Business Review
March/April 1979


Threat of new entrants
Bargaining power of suppliers
The Industry jockeying for position among current competitors
Bargaining power of customers
Threat of substitute products or services


If only a few companies dominate - increases supplier power easier to integrate forward
Threat of new entrants
Internet - increases threat reduces barriers to entry easy distribution channels low cost
Bargaining power of suppliers
Who are your competitors?
Bargaining power of customers
Technology changes - increases substitution threat with rapidly changing price/performance
Threat of substitute products or services
Internet - increases customer power comparison shopping, search engines, auctions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Malls Reel as Web Roars With Holiday Shopping

Autonomous Driving Vehicles vs. Uber

Amazon, in Threat to UPS, Tries Its Own Deliveries

An Alternative to Shippers Like FedEx and UPS, New Service Could Deliver Goods the Same Day as Purchased

Technology Threats (Opportunities?)

- New substitutes with different attributes
- New substitutes based on technology changes:
- Exponentially increasing price/performance ratio
- Relative rates of change
- Knowledge of where the system bottlenecks exist

Monopolies and Oligopolies

- Will this cause anti trust concerns?
- Does this benefit the consumer?
- ATT and Time Warner
- Disney and Murdoch, Fox News

Porter's Suggestions:

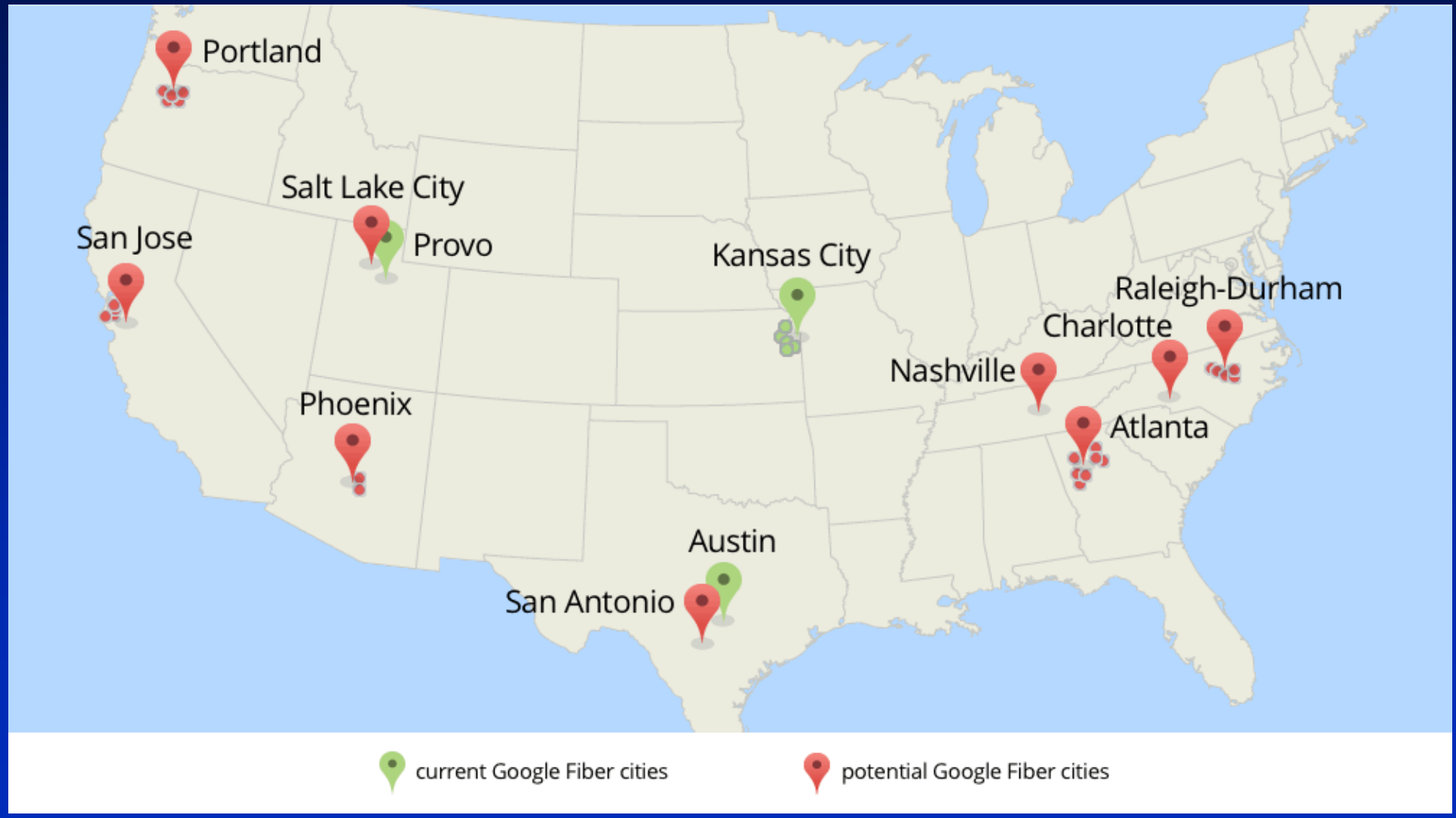
1. Position company to provide best defense
2. Influence balance of forces through strategic moves
3. Anticipating shifts in the underlying forces and responding

Examples

- Oracle buying Sun
- Intel buying McAfee (security) and SySDSoft (wireless software firm)
- Qualcomm buying chip manufacturer, Atheros
- Amazon and Whole Foods
- Google adding fiber around selected cities

Google Fiber Plans

Smart Cities



MAREA

Facebook & Microsoft

Big Bet on Streaming

Disney purchases 21st Century Fox for $52.4 Billion

Examples

- Facebook buying Instagram and Oculus
- Dish trying to acquire Sprint Networks
- Google buying Motorola Mobility
- Amazon buying The Washington Post
- Comcast buying NBC

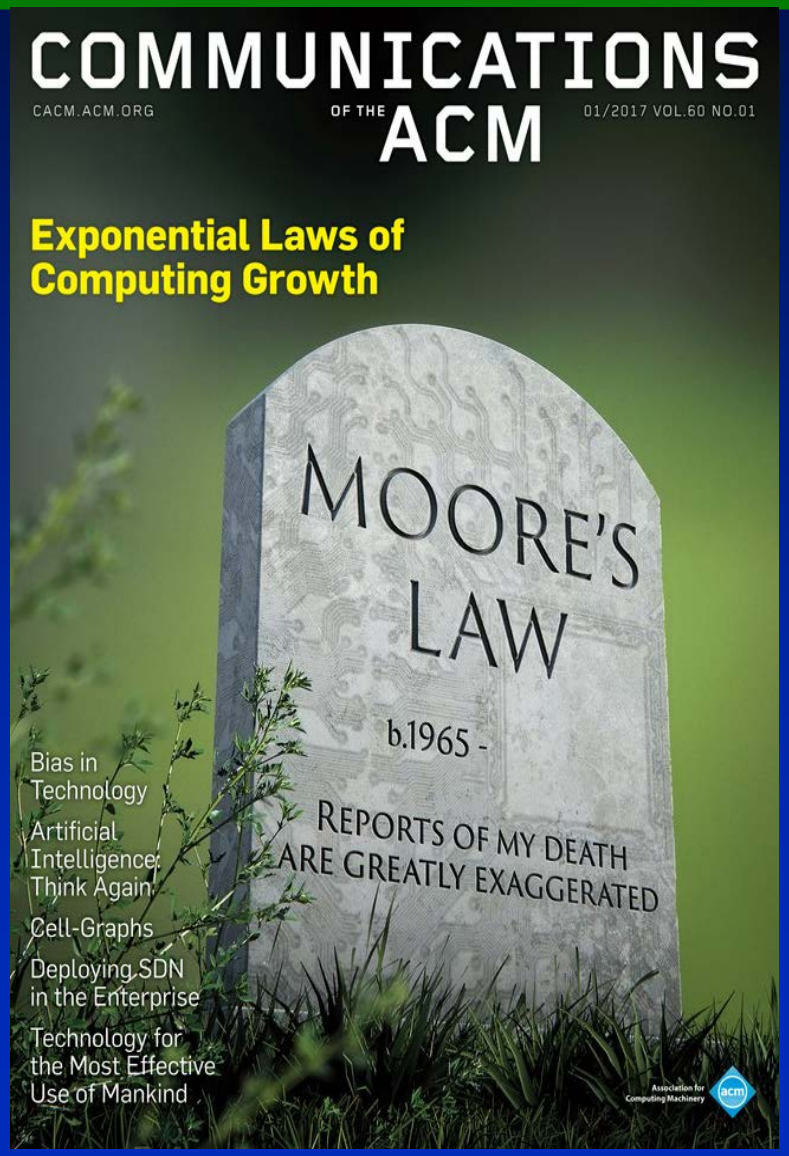
What Do You Do With The Unexpected?

- Unionization of Uber Drivers?
- Legislation Barring Uber
- Instantaneous Price Changes Based on Demand Which Create Unethical Cancellations
- Individual contractors vs. employees (new tax laws where individuals can form their own corporations)
- Net Neutrality and charges for internet costs (FCC, Trump vs. Amazon)

Exponential Growth

Moore’s Law

Exponential Laws of Computing Growth



Dennings and Lewis, Jan. 2016

Moore’s Law

The number of transistors that the industry would be able to place on a computer chip would double every year.

— Gordon Moore
1965

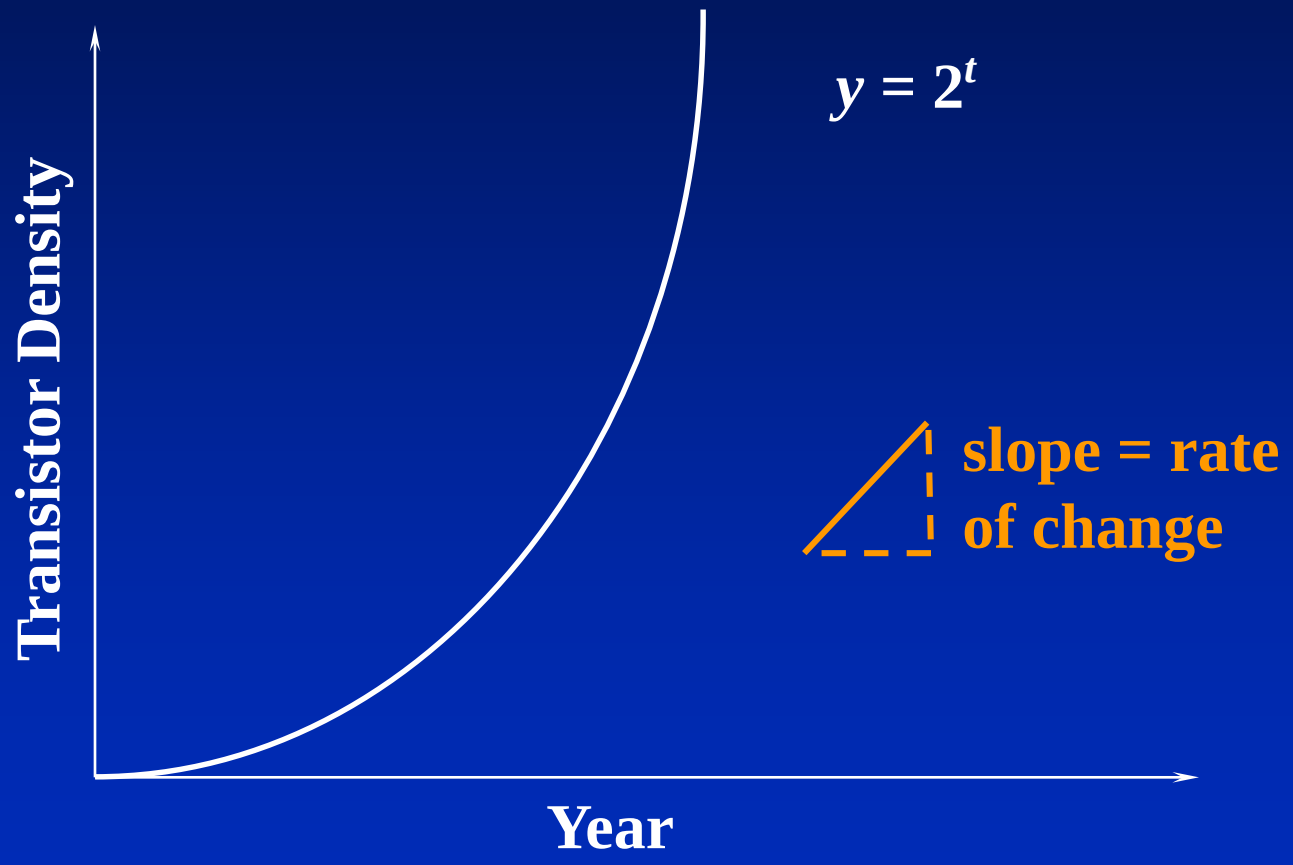
Moore's Law

"Chip density doubles every 18 months."

Processing Power (P) in 15 years:

$$P = P_{today}(2)^{\frac{15\ years}{18\ months}} = P_t(2)^{\frac{15}{1.5}}$$
$$= P_t(2)^{10} = 1000P_t$$

Understanding Exponential Growth



Understanding Exponential Growth

$$y = 2^t$$

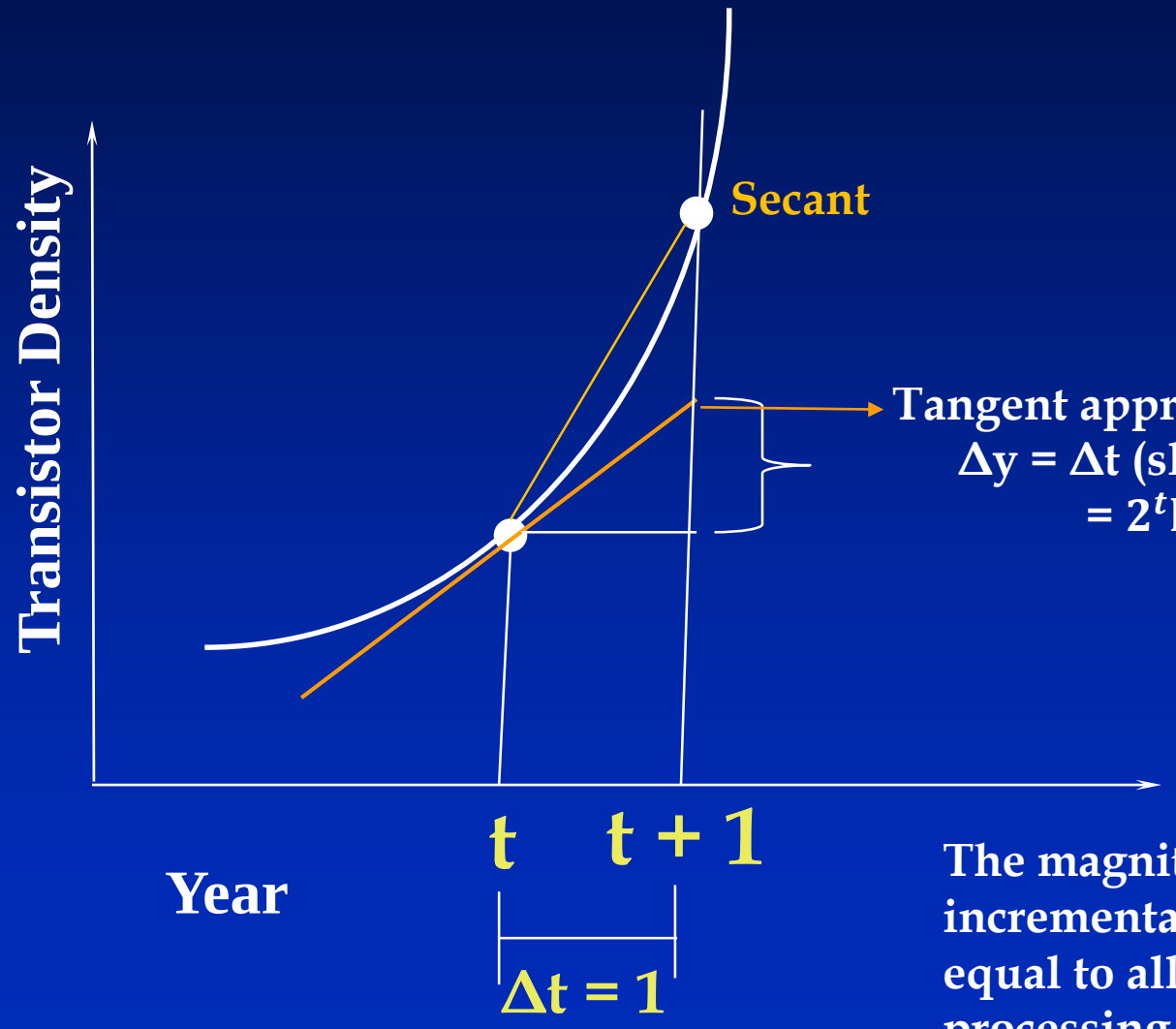
$$\frac{dy}{dt} = \frac{d}{dt}(2^t) = 2^t \log 2$$

y = Performance (transistor density, bandwidth, etc.)

t = in measured doubling time periods

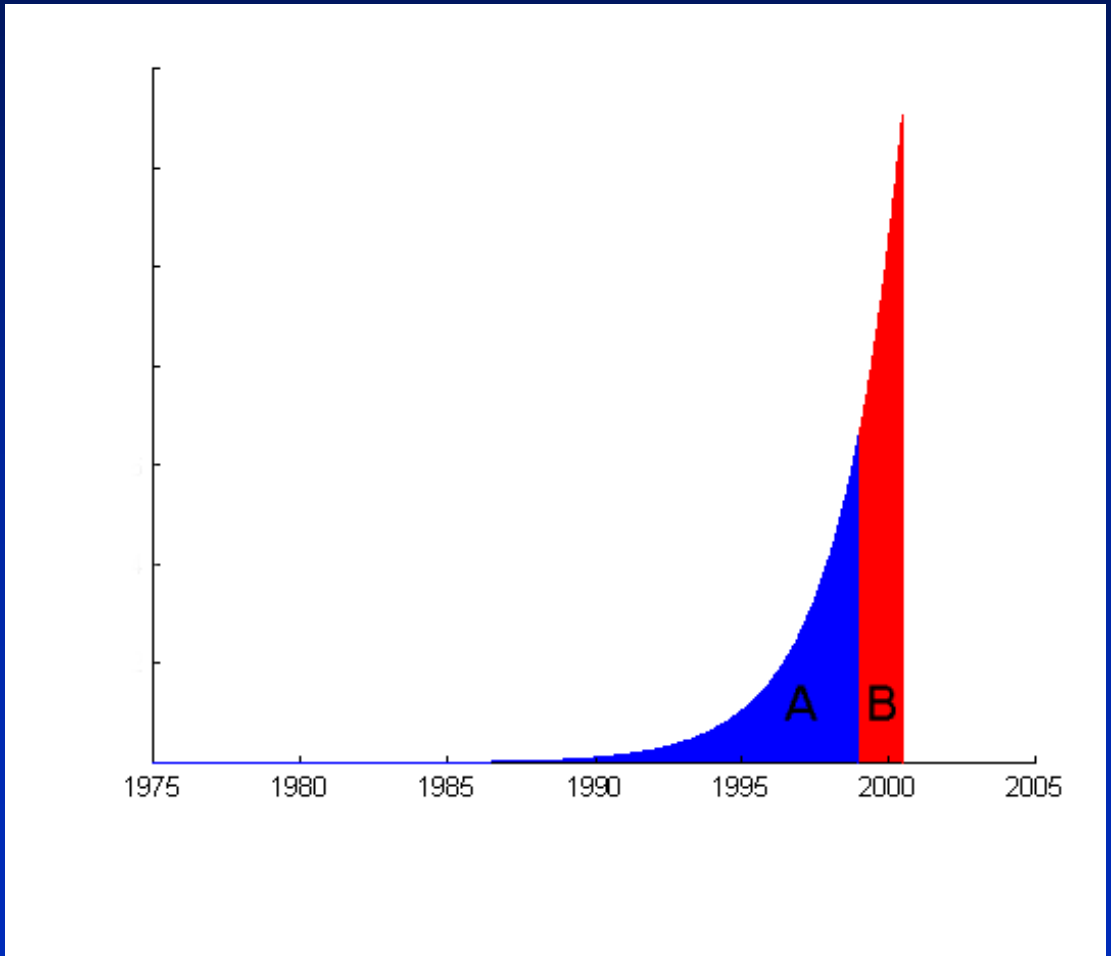
dy/dt = slope = rate of change

Understanding Exponential Growth



The magnitude of the incremental change is approximately equal to all of the available processing power that preceded it!

Understanding Moore's Law



Understanding Moore's Law

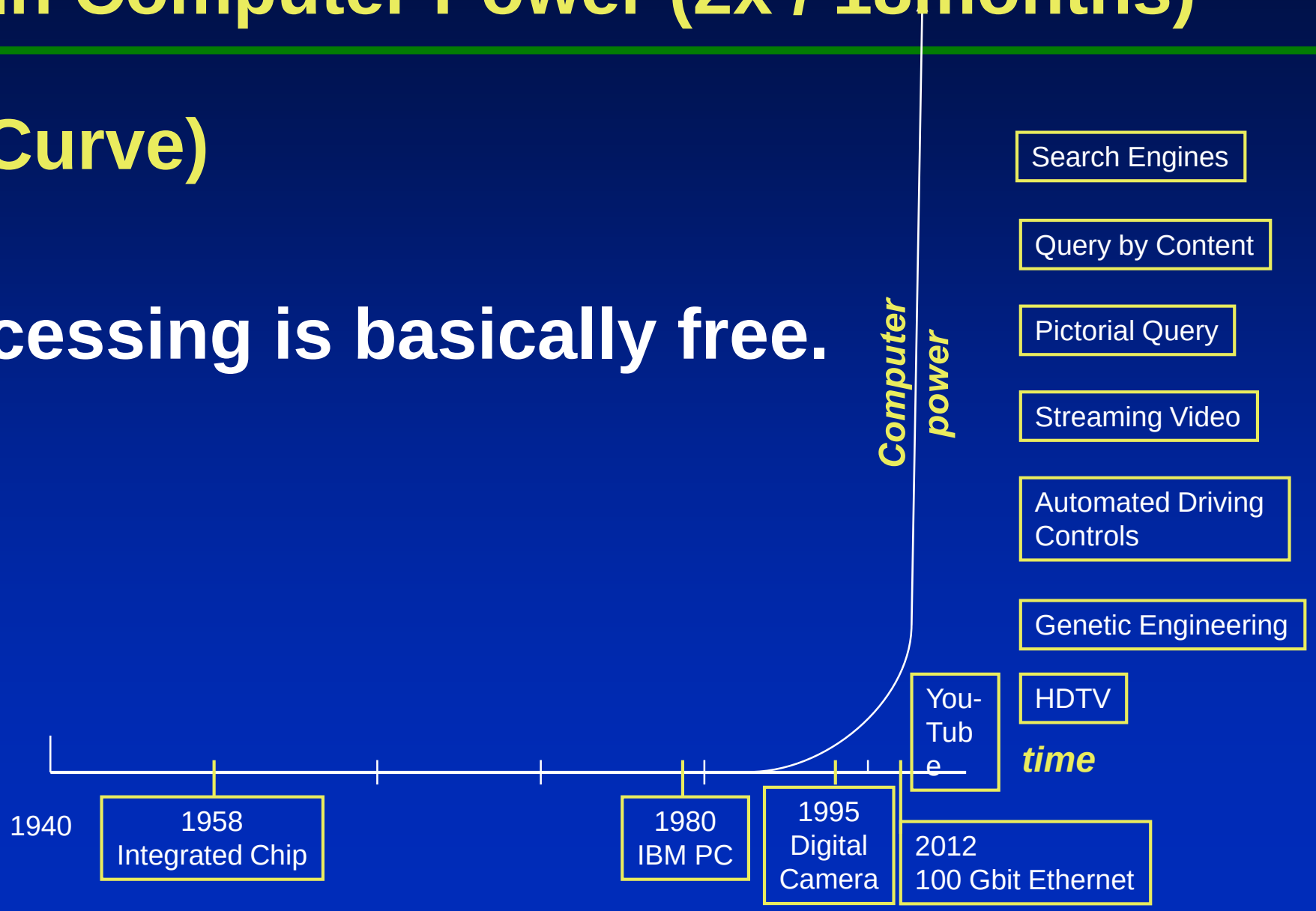
- In 2014 Semiconductor production facilities made approximately 250 billion billion (250×10^{18}) transistors.
- More transistors were made in 2014 than in all the years prior to 2011.

Transistors, by the Numbers – Dan Hutcheson
IEEE SPECTRUM, ISSN 0018-9235, 04/2015, Volume 52, Issue 4, p. 33

Growth In Computer Power (2x / 18months)

(Top of Curve)

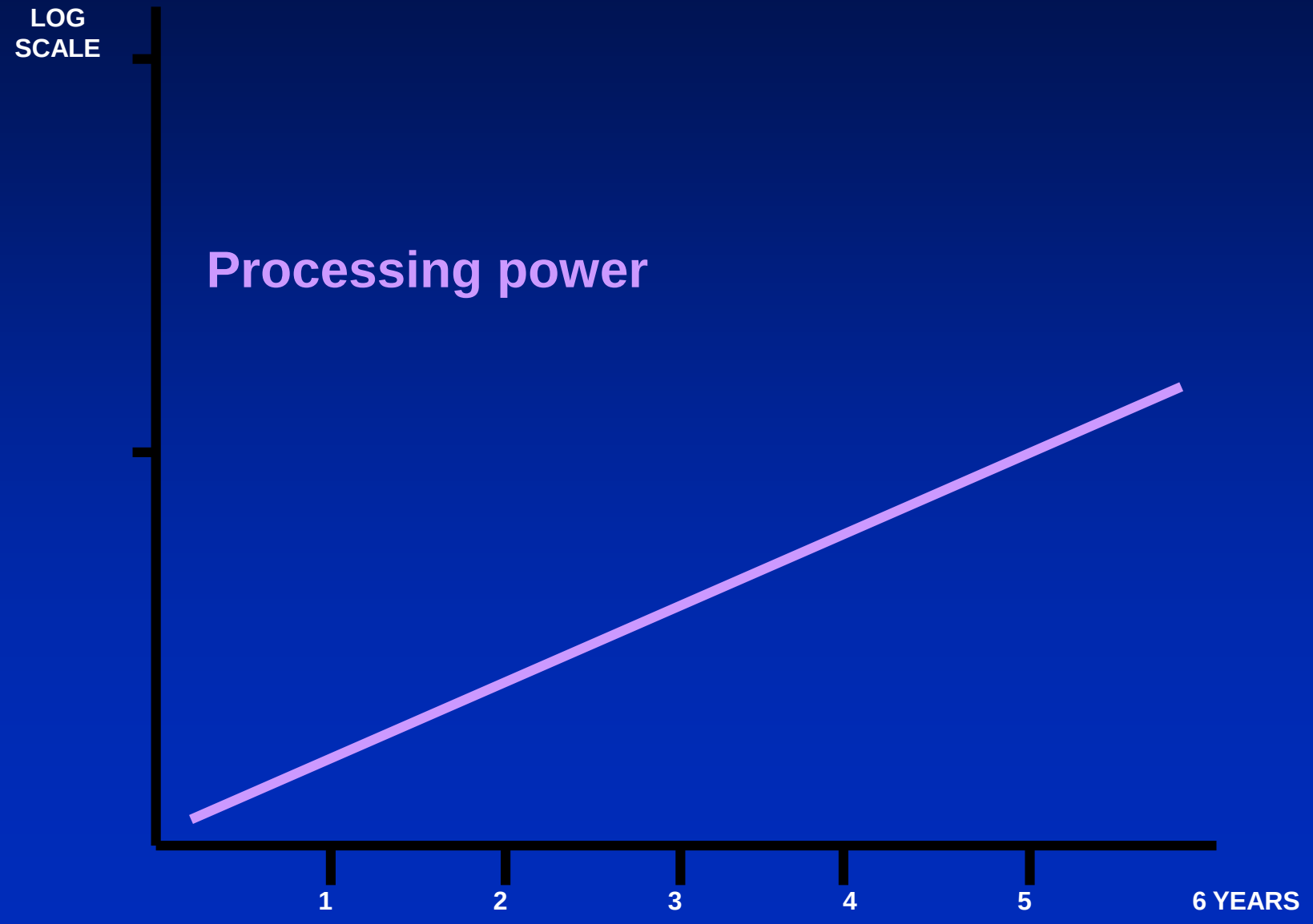
Processing is basically free.



Impact of Abundant Computer Power

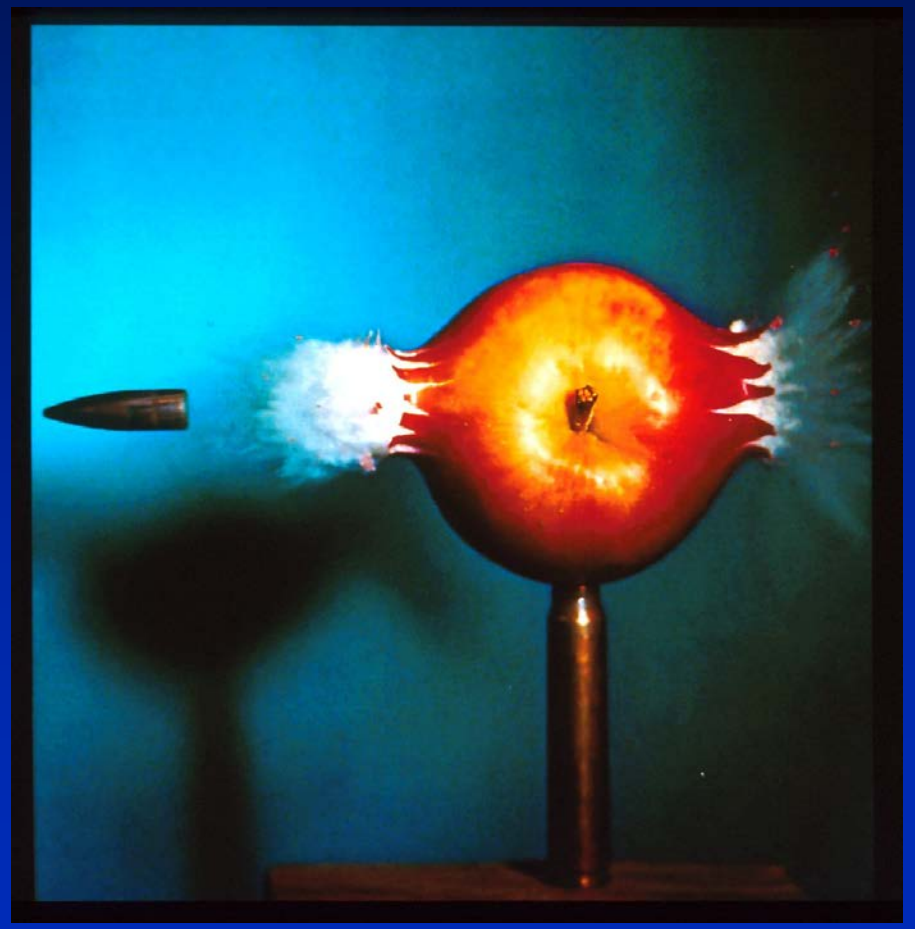
- Needles in a “Haystack” (security monitoring, focused advertising, etc)
- The internet of things (omnipresent sensors)
- Digital health care (remote medical diagnosis)
- MOOCs (Massive open online courses)
- Autonomous driving vehicles
- 3D data acquisition
- 3D printing

Understanding Moore's Law – Log Scale



How many instructions are completed in a 3.6 Ghz PC in the time it takes for the bullet to pierce the apple?

Apple diameter = 3.36”
Bullet velocity = 2800ft/sec
photograph by Harold Edgerton



International Technology Roadmap for Semiconductors

	2001	2004	2007	2010	2013	2016
Technology (nanometers)	**130nm**	**90nm**	**65nm**	**45nm**	**32nm**	**22nm**
Functions per Chip (millions)	97	193	386	1546	3092	6184
Clock Speed (Ghz)	2.5Ghz	4.1Ghz	9.3Ghz	15Ghz	23Ghz	40Ghz
Wafer Size (millimeters)	200mm	300mm	300mm	300mm	450mm	450mm
Chip Size (mm^2)	140 mm^2	14 0 mm^2	140 mm^2	140 mm^2	140 mm^2	140 mm^2

Roughly 0.5 shrink every 3 years 29% cost/reduction/function/yr.

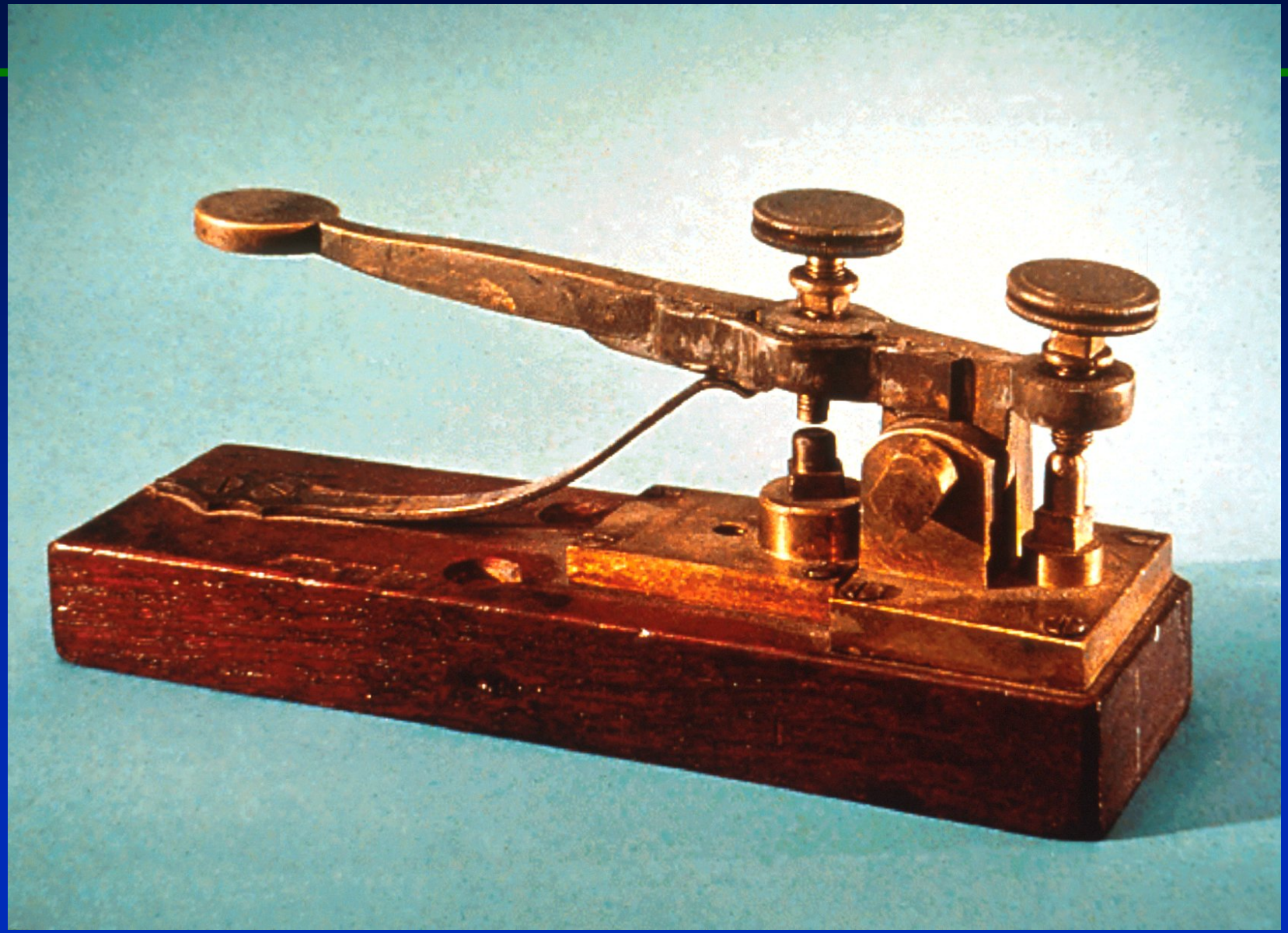
Technology Outlook

High Volume Manufacturing	2008	2010	2012	2014	2016	2018	2020	2022
Technology Node (nm)	45	32	22	16	11	8	6	4
Integration Capacity (BT)	8	16	32	64	128	256	512	1024
Delay Scaling	>0.7			~1?				
Energy Scaling	~0.5			>0.5				
Transistors	Planar			3G, FinFET				
Variability	High			Extreme				
ILD	~3			towards 2				
RC Delay	1	1	1	1	1	1	1	1
Metal Layers	8-9	0.5 to 1 Layer per generation						

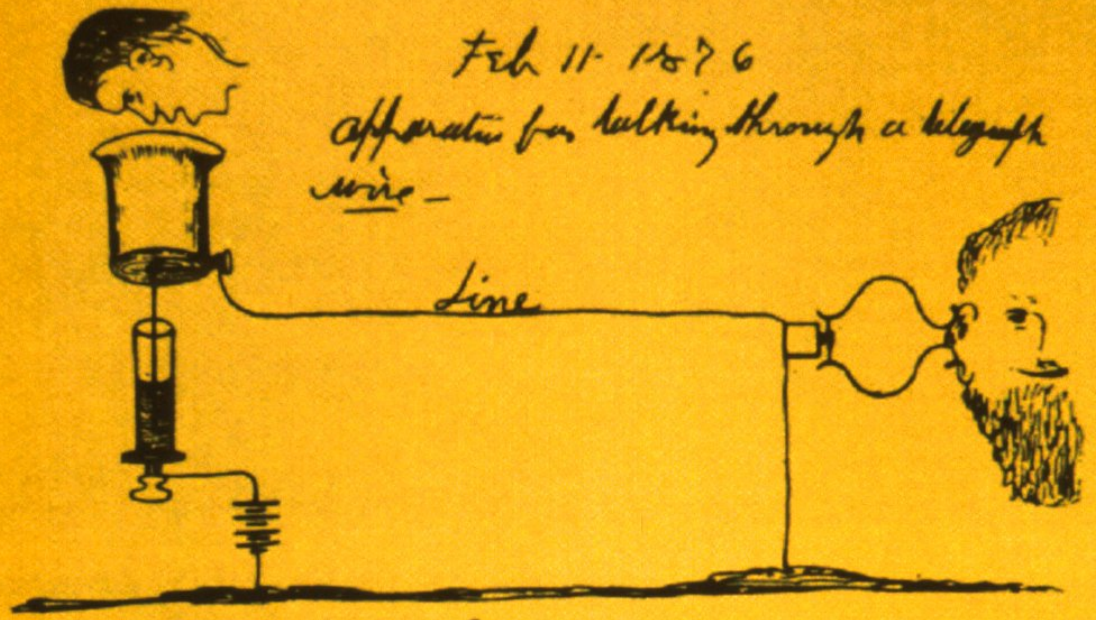
http://www.xbitlabs.com/news/cpu/display/20090822094141_Intel_Outlines_Process_Technology_Roadmap.html

Predicting the Future

Mistakes of the Past



Telegraph Key (Smithsonian)



Gray vs Bell et al
Speaking Telephone Interference
a - L
Exhibit Gray Speaking Telephone
Caveat original sketch

Edward B Beebe
Notary Public

May 7th 1880.

Alexander Graham Bell

Wasserman, Neil H. “From Inventions to Innovation: Long-Distance Telephone Transmission at the Turn of the Century,” The John Hopkins University Baltimore and London, 1985.

“This ‘telephone’ has too many shortcomings to be seriously considered as a means of communication. The device is inherently of no value to us.”

~ Western Union Internal Memo, 1876

“I think there is a world market for maybe five computers.”

~ Thomas Watson Senior,
Chairman of IBM, 1943

“Color - we will never need color.”

~ H-P vice president 1976

My achievements occurred,

not because of my skating skill,

but my innate ability to skate to where

“ the puck will be”!

~ Wayne Gretzky

Everything is a System

Large Scale:

Google → Internet → Mobile device

Desktop:

CPU → Memory/Hard drive → Display

Chip Level:

Memory → Data Movement →
Cache → Instruction Execution

Digital Photography

For digital photography to succeed, it needed:

- Camera
- Storage
- Battery Power
- Printers
- Transmission

Growth Rates of System Components of the Electronic Age

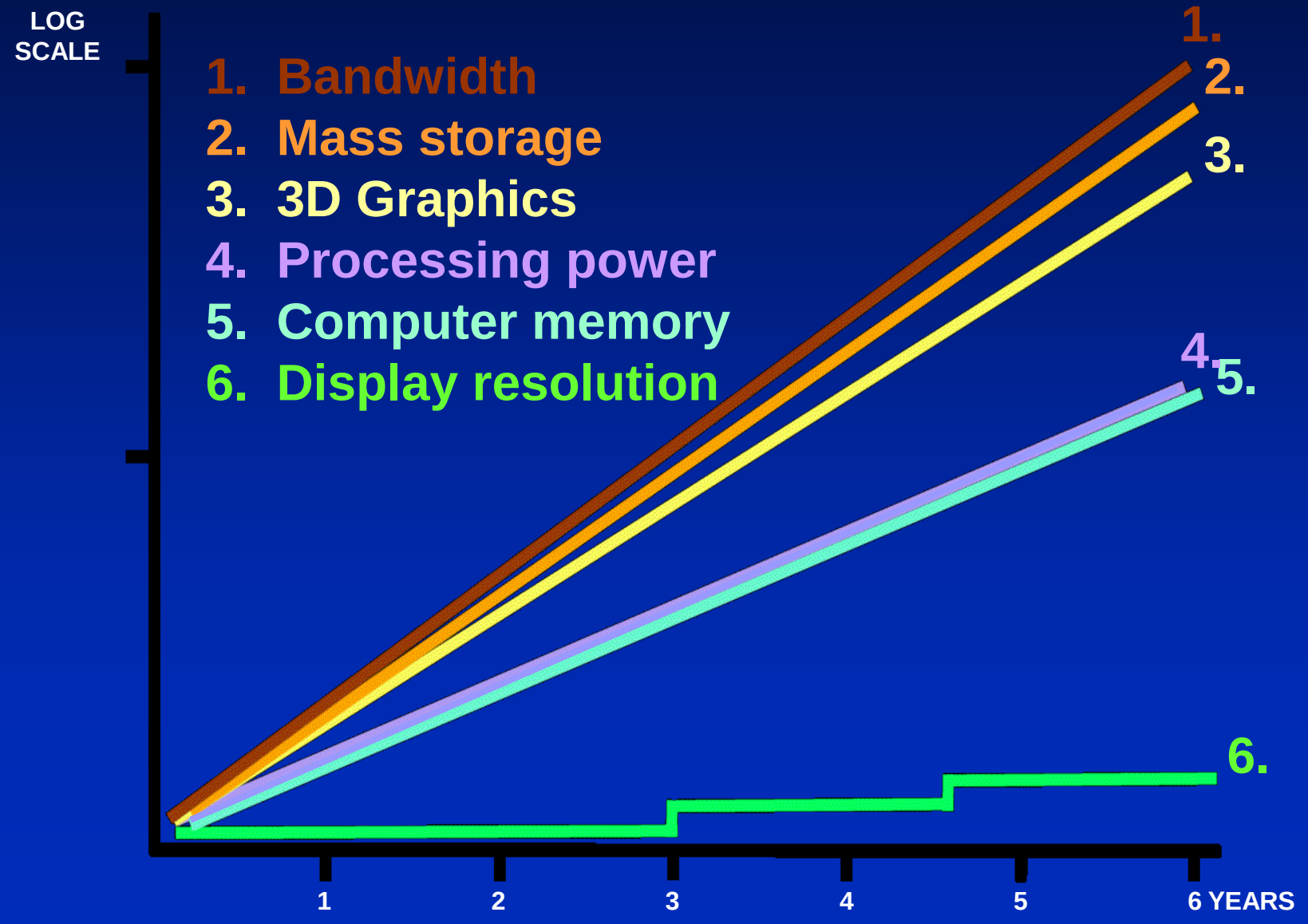
- Processing Power. . . . . 2x /18months
- Computer Memory. . . . . 2x /18months
- Mass Storage. . . . . 3x /18 months
- Bandwidth. . . . . 10x /3 years

Growth Rates of System Components of the Electronic Age

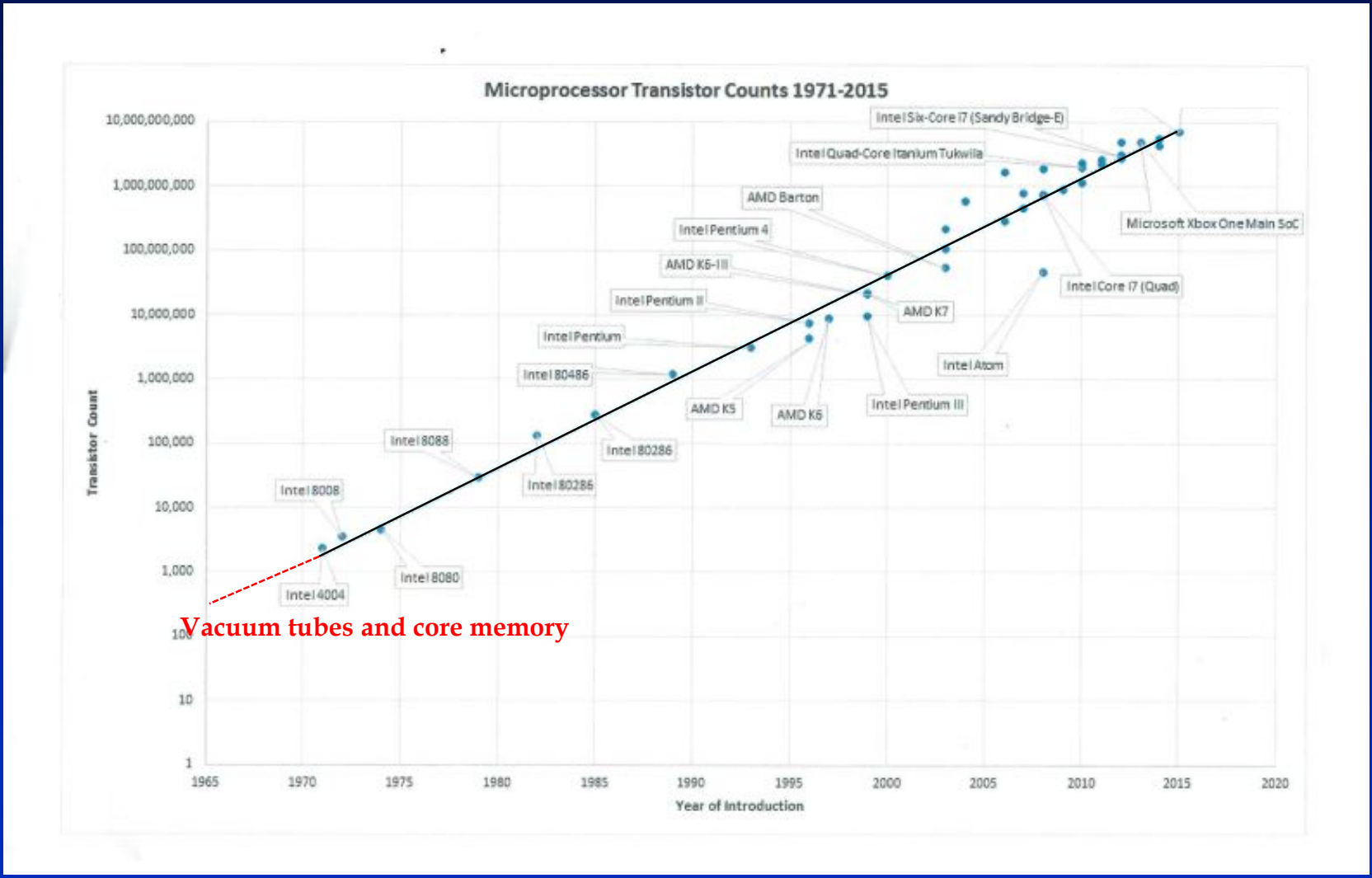
- 3D Graphics
  - Image Capture. . . . . 2x / 18 months
  - Image Display. . . . . 2x / year

    (Hardware, Software)
- Display Resolution. . . . . 2x/50 years
- User Interfaces

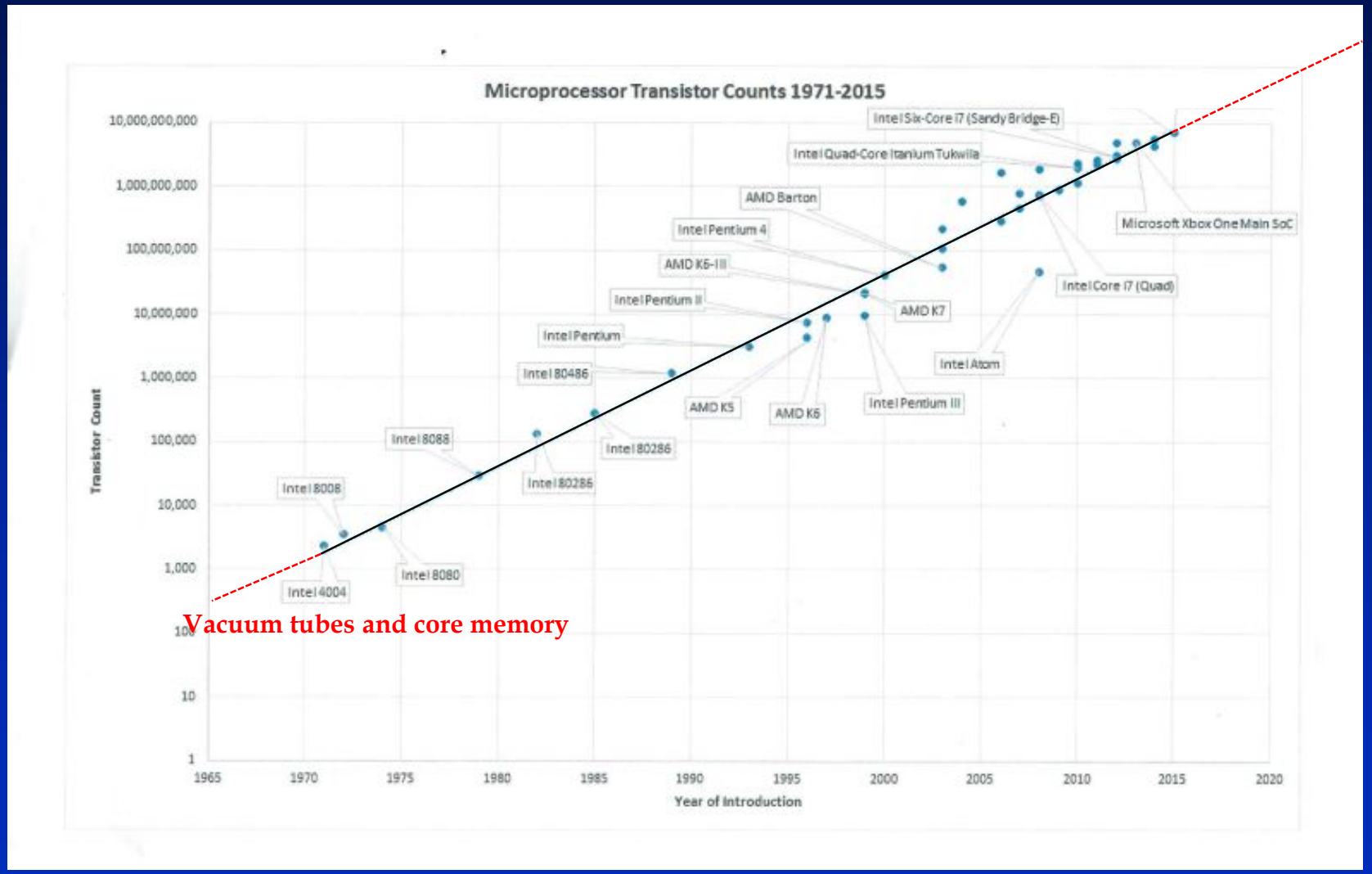
Relative Rates of Growth of Computer System Components



Transistor Density (Processing Power)



Processing Power One Trillion X



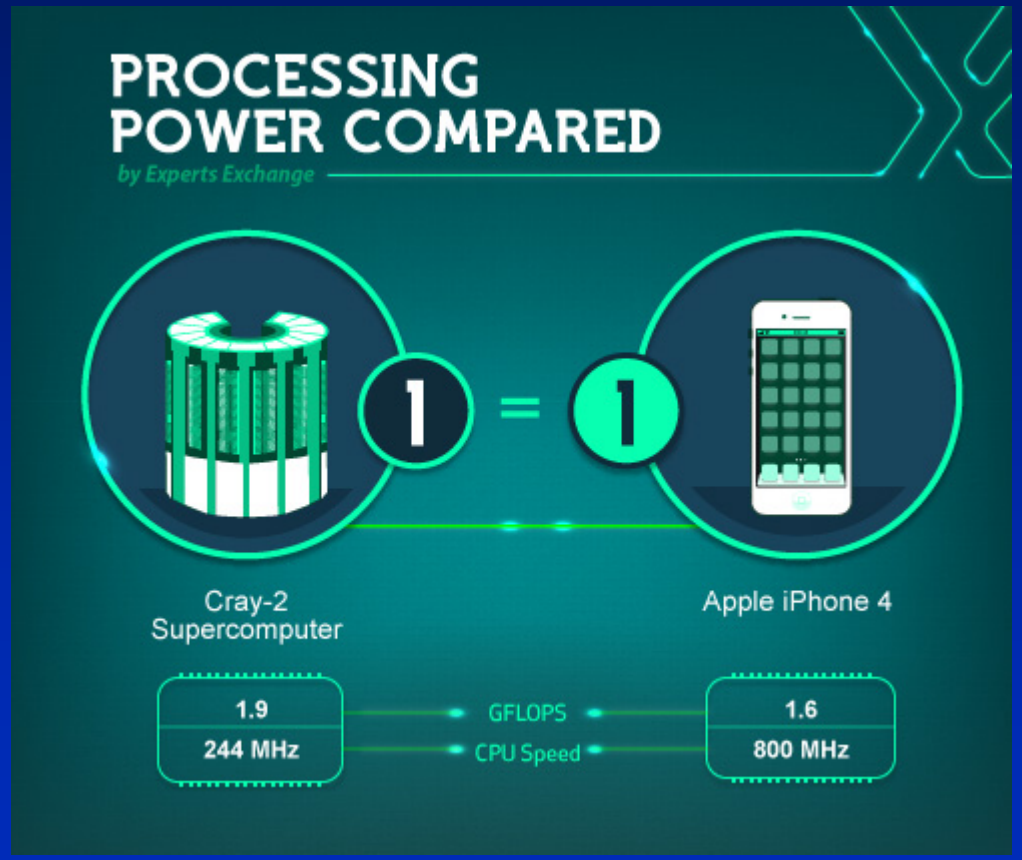
1,000,000,000,000

2025

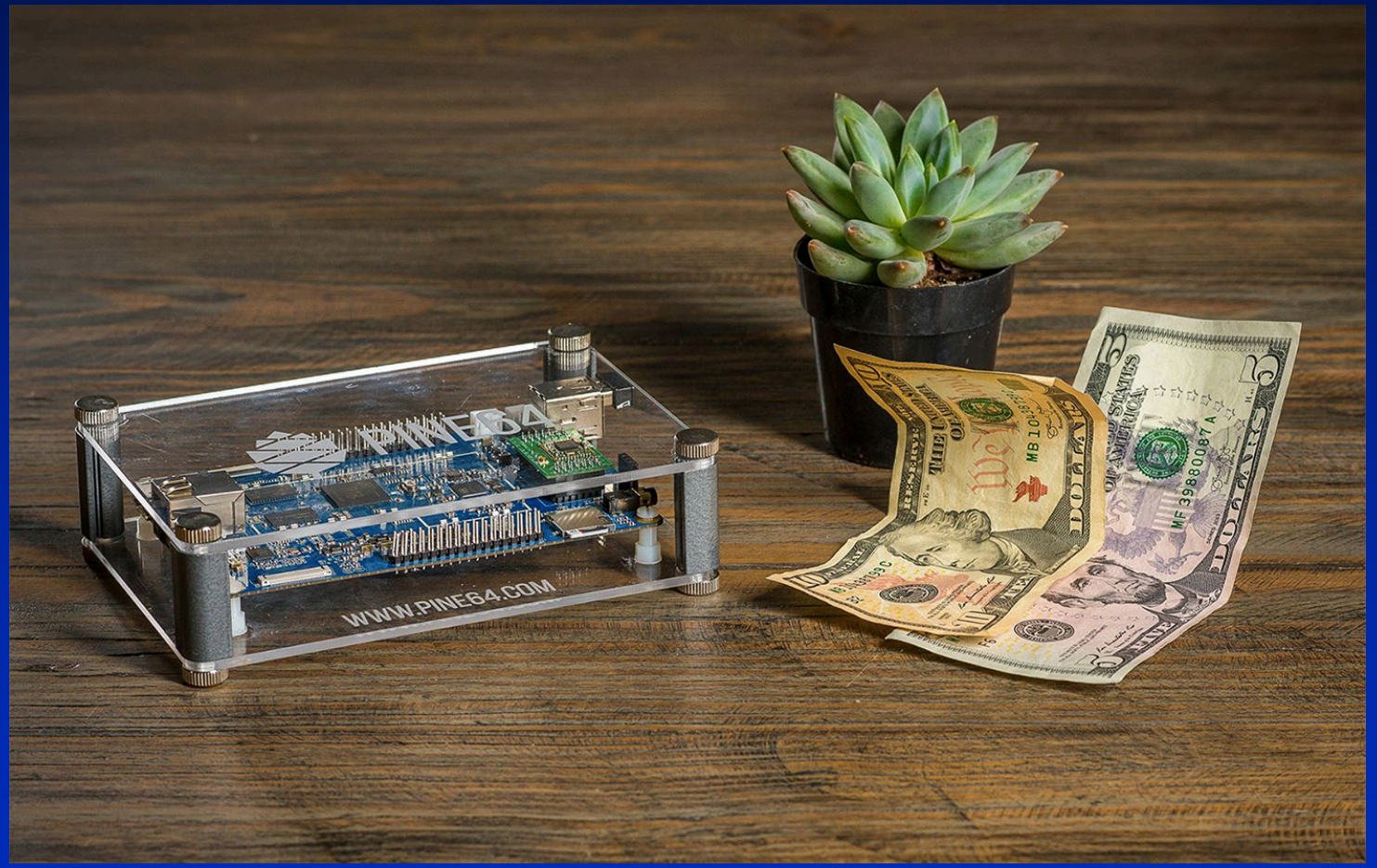
Processing Power Compared

- 2015: iPhone 5 > 1985 Cray-2

(2.7x)



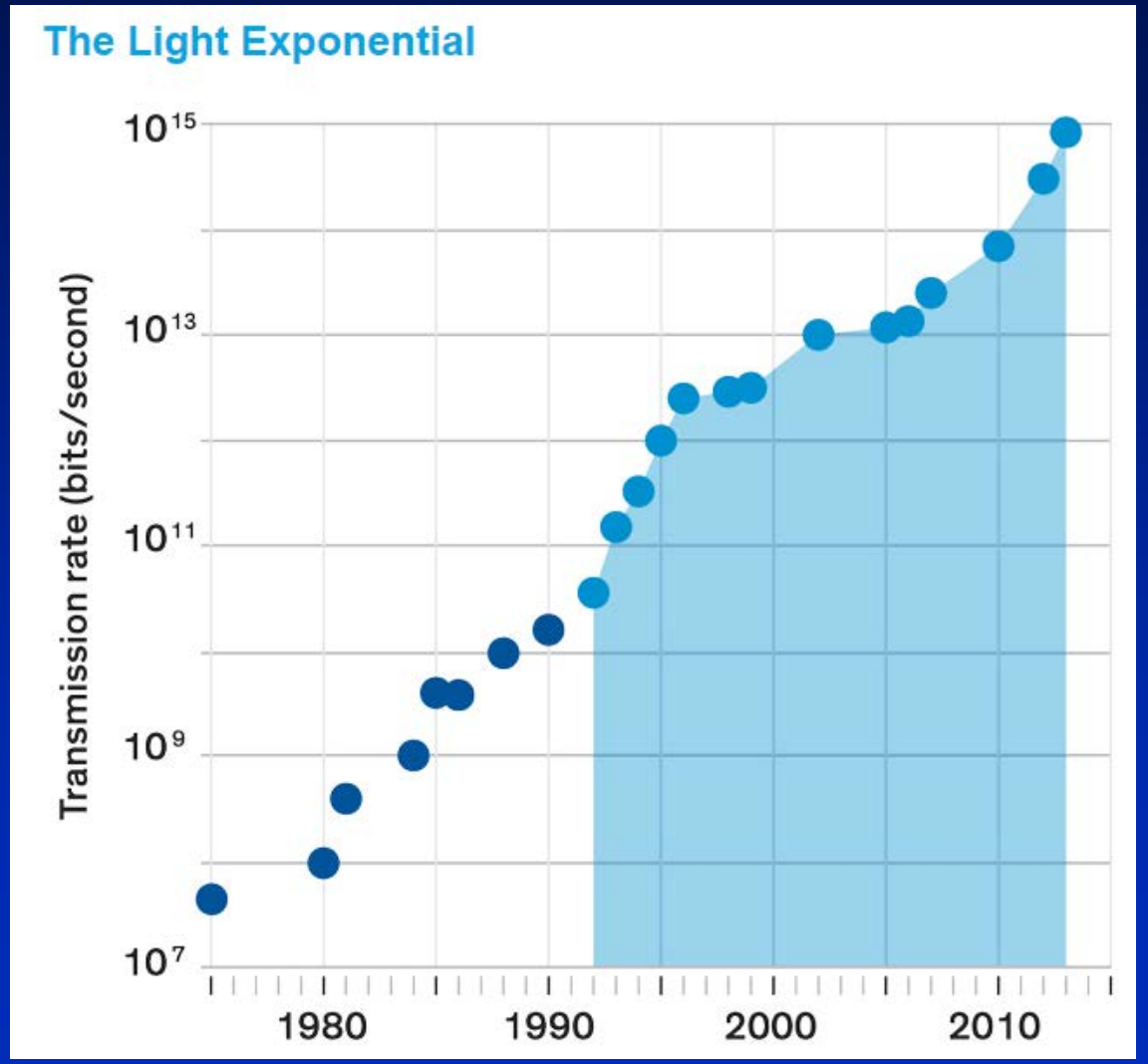
Pine A64



Engadget.com

Keck's Law

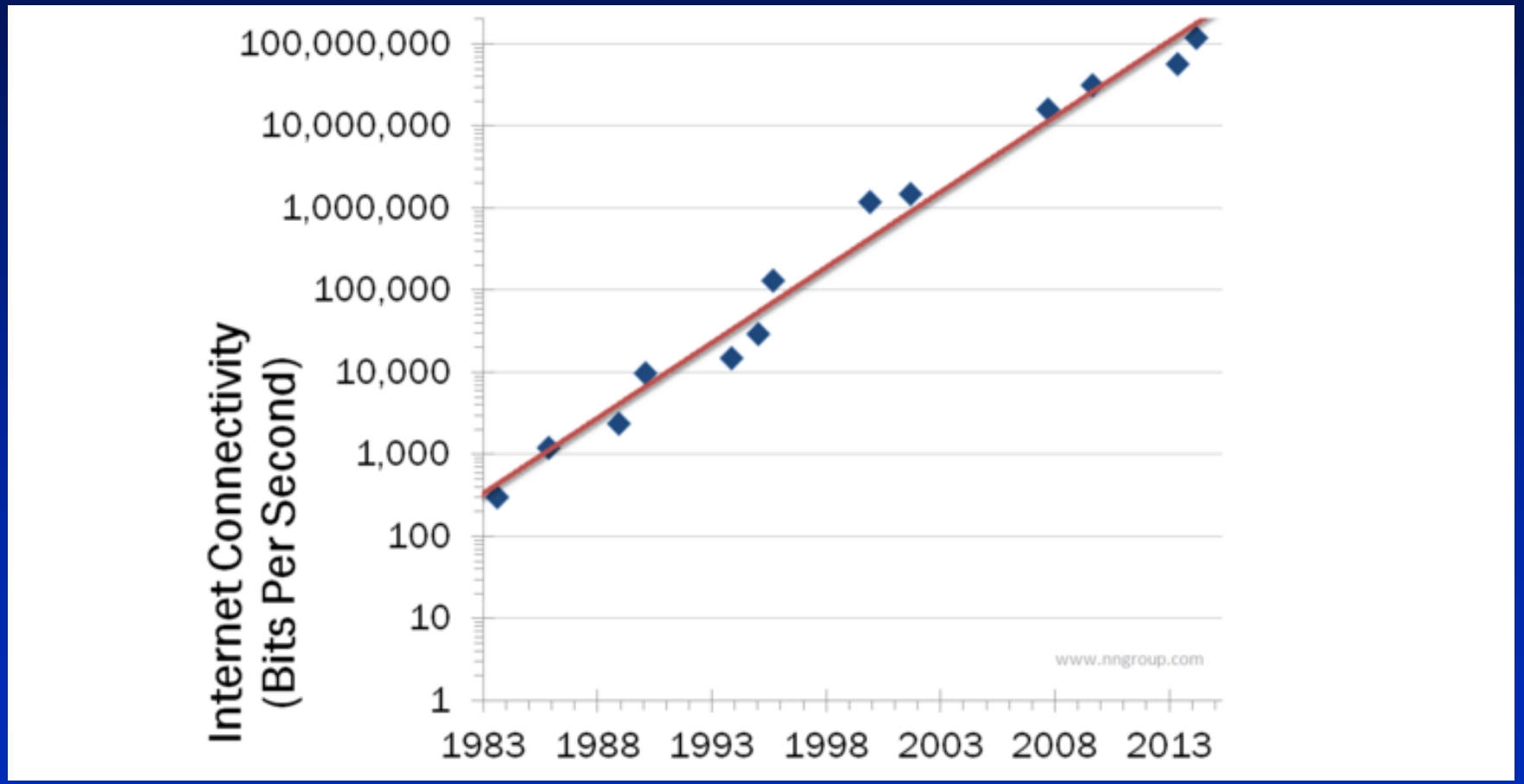
February 2016



Bandwidth of Optical Fiber

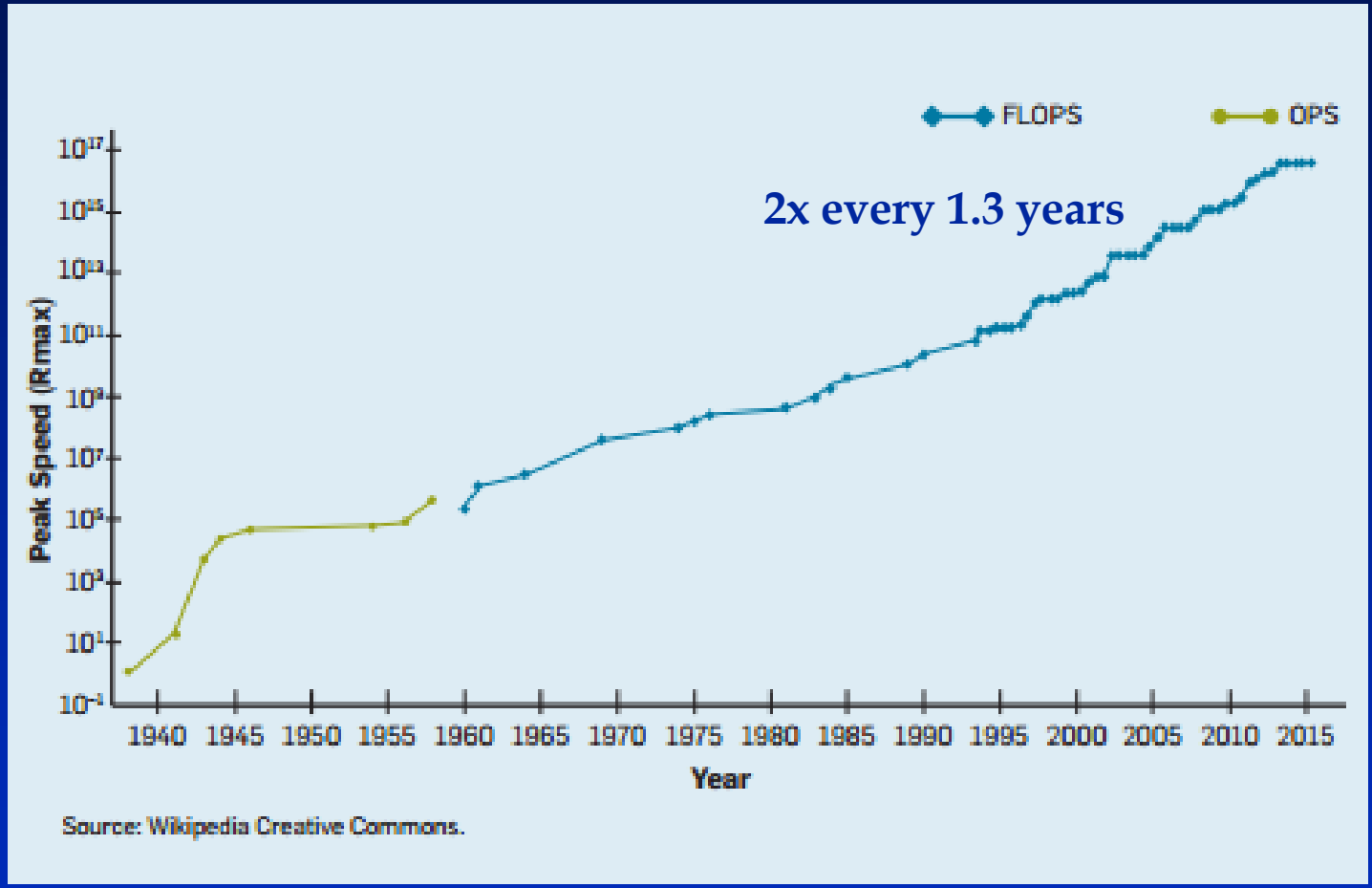
IEEE Spectrum

Nielsen's Law



Internet Bandwidth

Logarithmic Growth of Speed

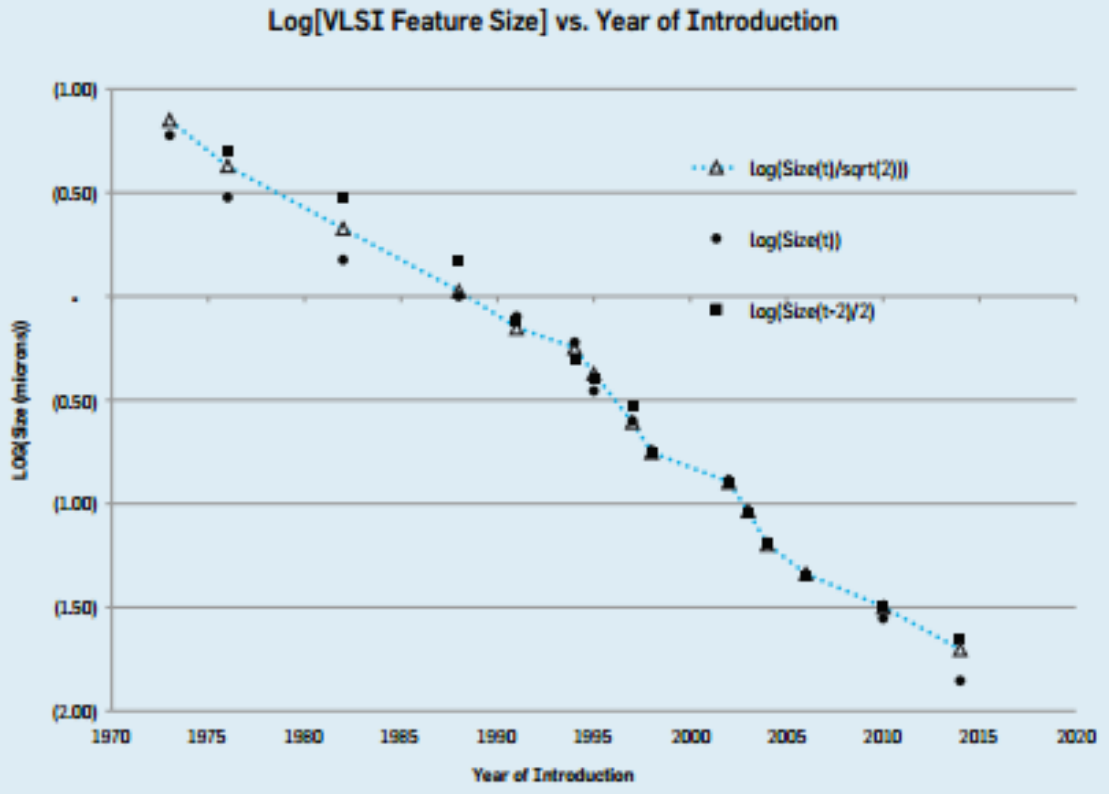


Dennings and Lewis, Jan. 2016

Decrease in Chip Feature Size

Figure 4. Logarithm of actual versus predicted feature size since 1970 matches a straight line with regression coefficient $R^2 = 0.97$. Future sizes are predicted by dividing the previous size by sqrt(2); see the open triangles and dotted line. Future sizes two generations into the future are close to half the current sizes; see the square dots.

Data from David Harris, Lecture 21: "Scaling and Economics," Harvey Mudd College, Claremont, CA, 2004 (http://pages.hmc.edu/harris/class/e158/04/lect21.pdf) and Zvi Or-Bach, "Is the Cost Reduction Associated with Scaling Over?" MonolithIC3D, San Jose, CA, 2004 (http://www.monolithic3d.com/blog/is-the-cost-reduction-associated-with-scaling-over).

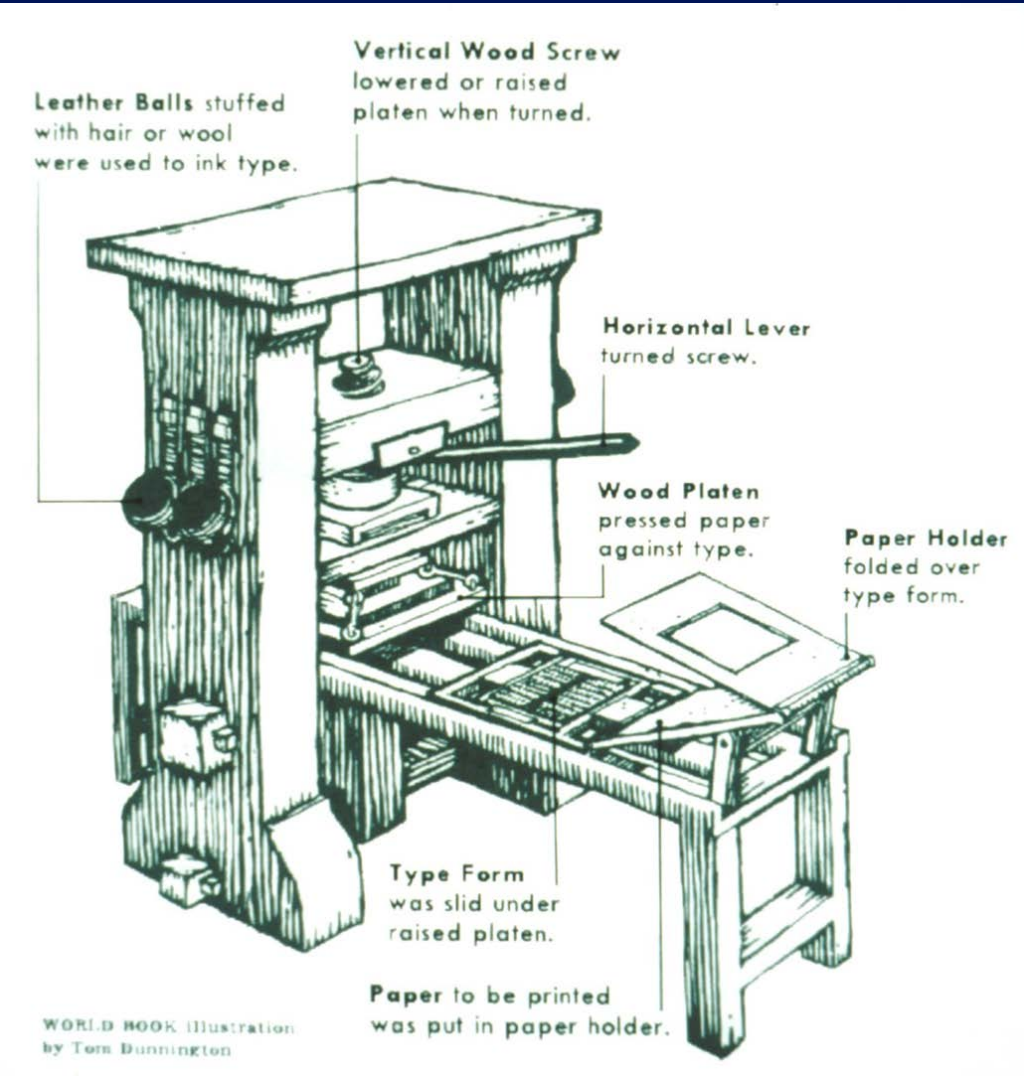


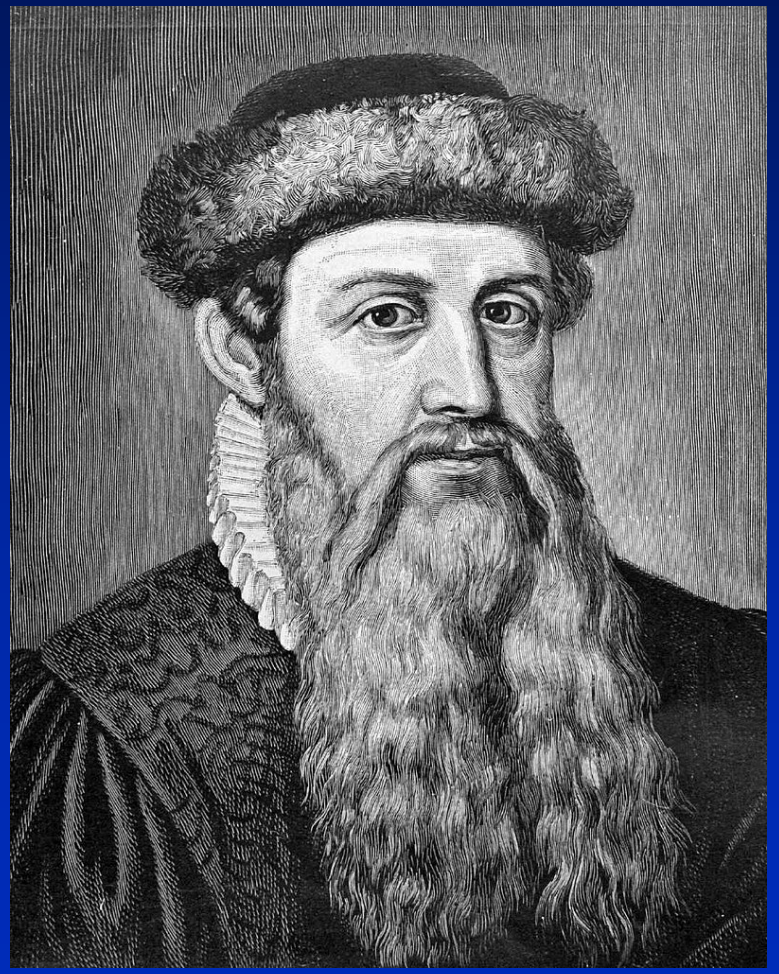
Dennings and Lewis, Jan. 2016

Powers of 10
Dykstra

Gutenberg Press

1439





iPad

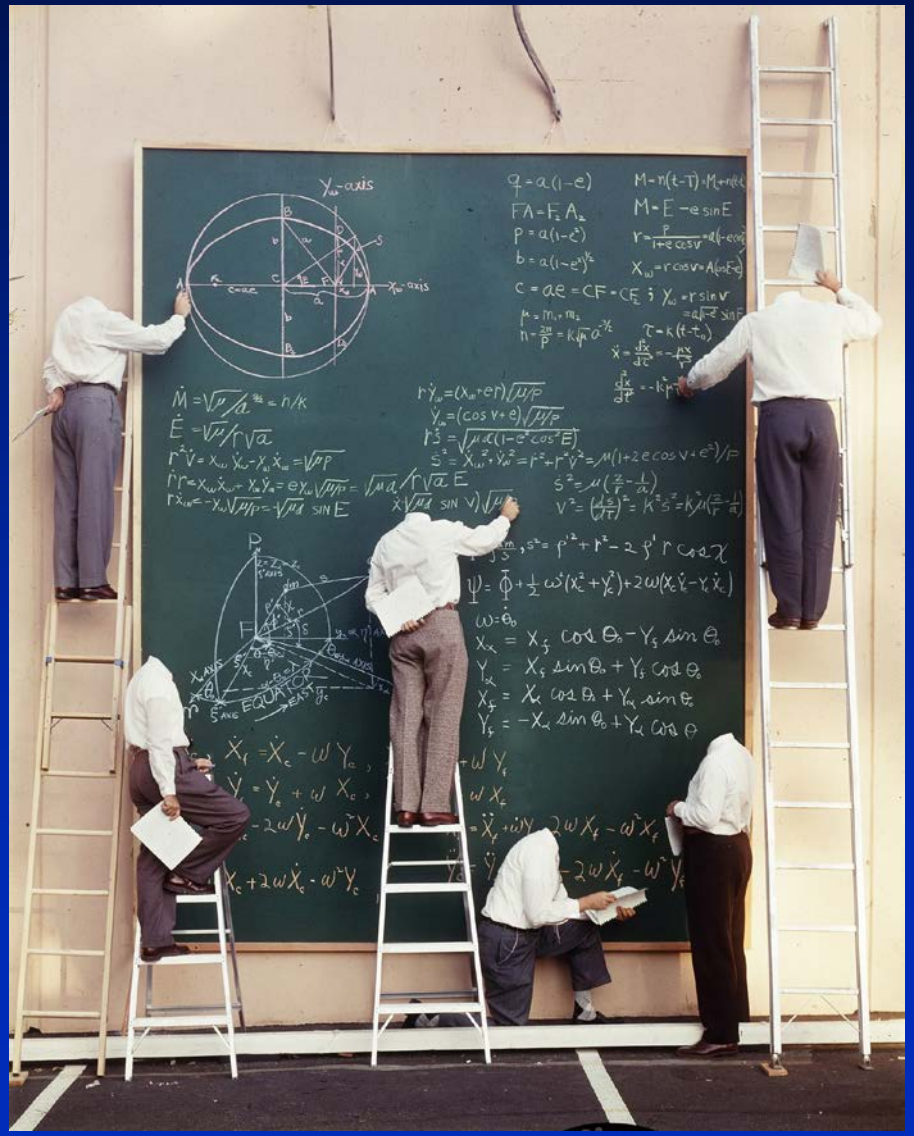
- Introduced: 2010 (February)
- Price: starting at $499

The Impact of the iPad

- PC Manufacturers
- Microsoft
- Intel & AMD
- Disk Drive Manufacturers
- Bookstores

Impact of Exponential Processing Power

Artificial Intelligence (AI) & Machine Learning



Artificial Intelligence Systems

Nvidia DGX

SYSTEM SPECIFICATIONS

GPUs	**4X Tesla V100**
TFLOPS (GPU FP16)	**500**
GPU Memory	**64 GB total system**
NVIDIA Tensor Cores	**2,560**
NVIDIA CUDA® Cores	**20,480**
CPU	**Intel Xeon E5-2698 v4 2.2 GHz (20-Core)**
System Memory	**256 GB LRDIMM DDR4**
Storage	**Data: 3X 1.92 TB SSD RAID 0** **OS: 1X 1.92 TB SSD**
Network	**Dual 10GBASE-T (RJ45)**
Display	**3X DisplayPort, 4K resolution**

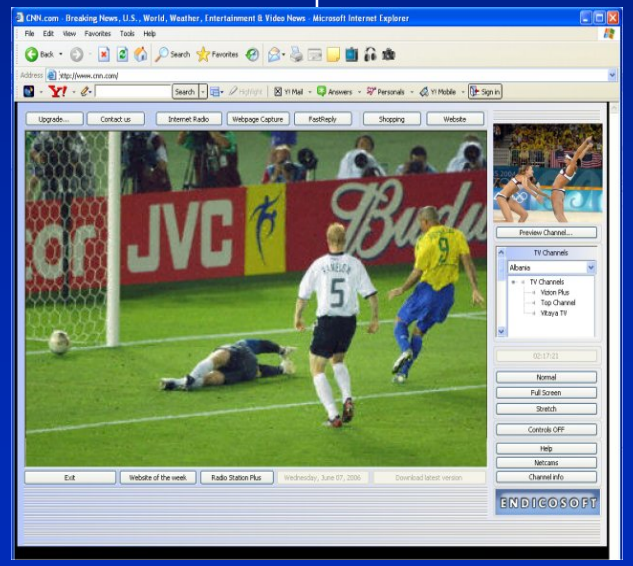
Disruptive Technologies Salient characteristics

- Different package of performance attributes not valued by existing customers
- Performance attributes that are valued can improve at very rapid rates - and invade those established markets

LP

CD or DVD

iPod or You Tube

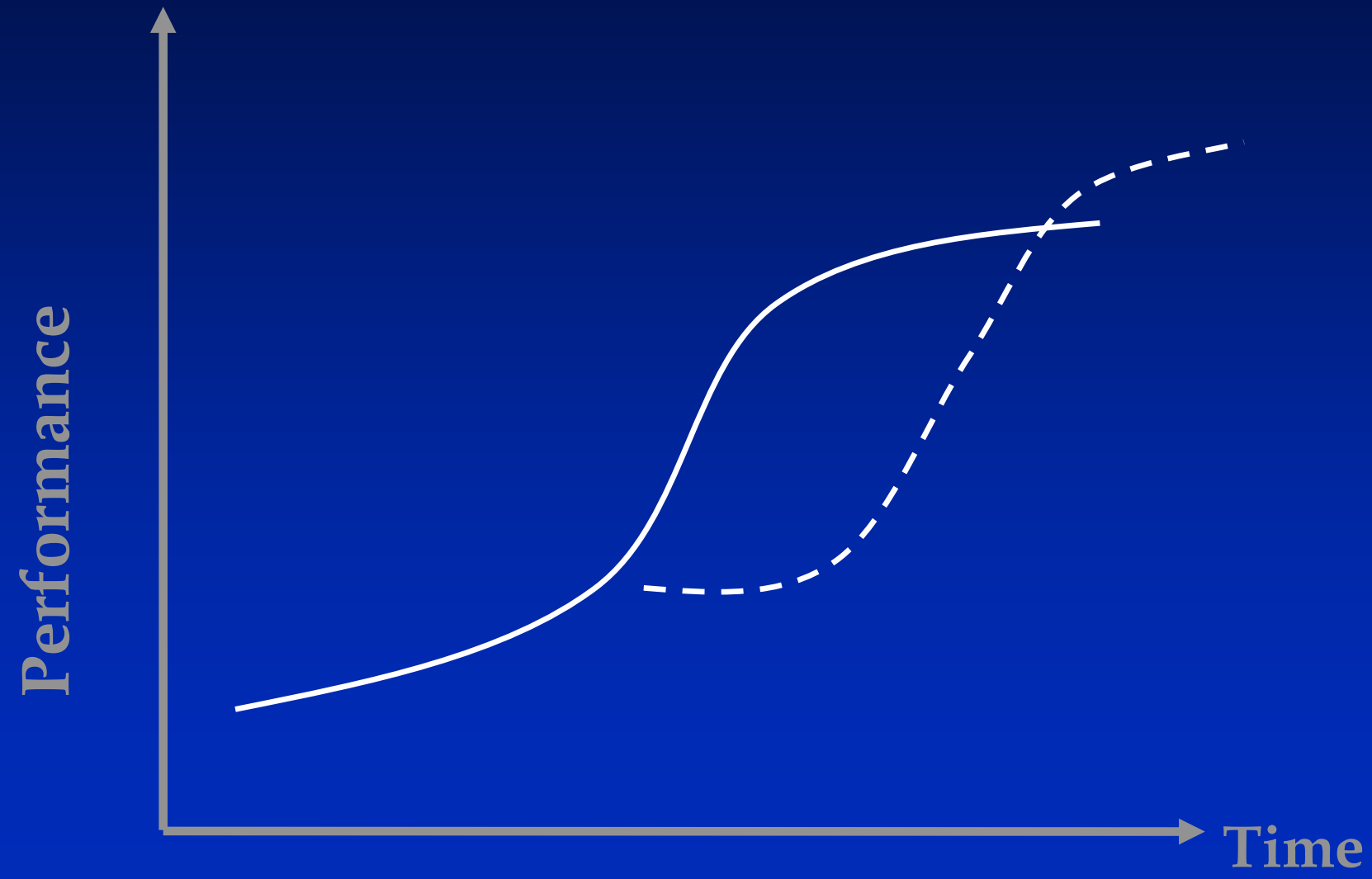


Internet TV

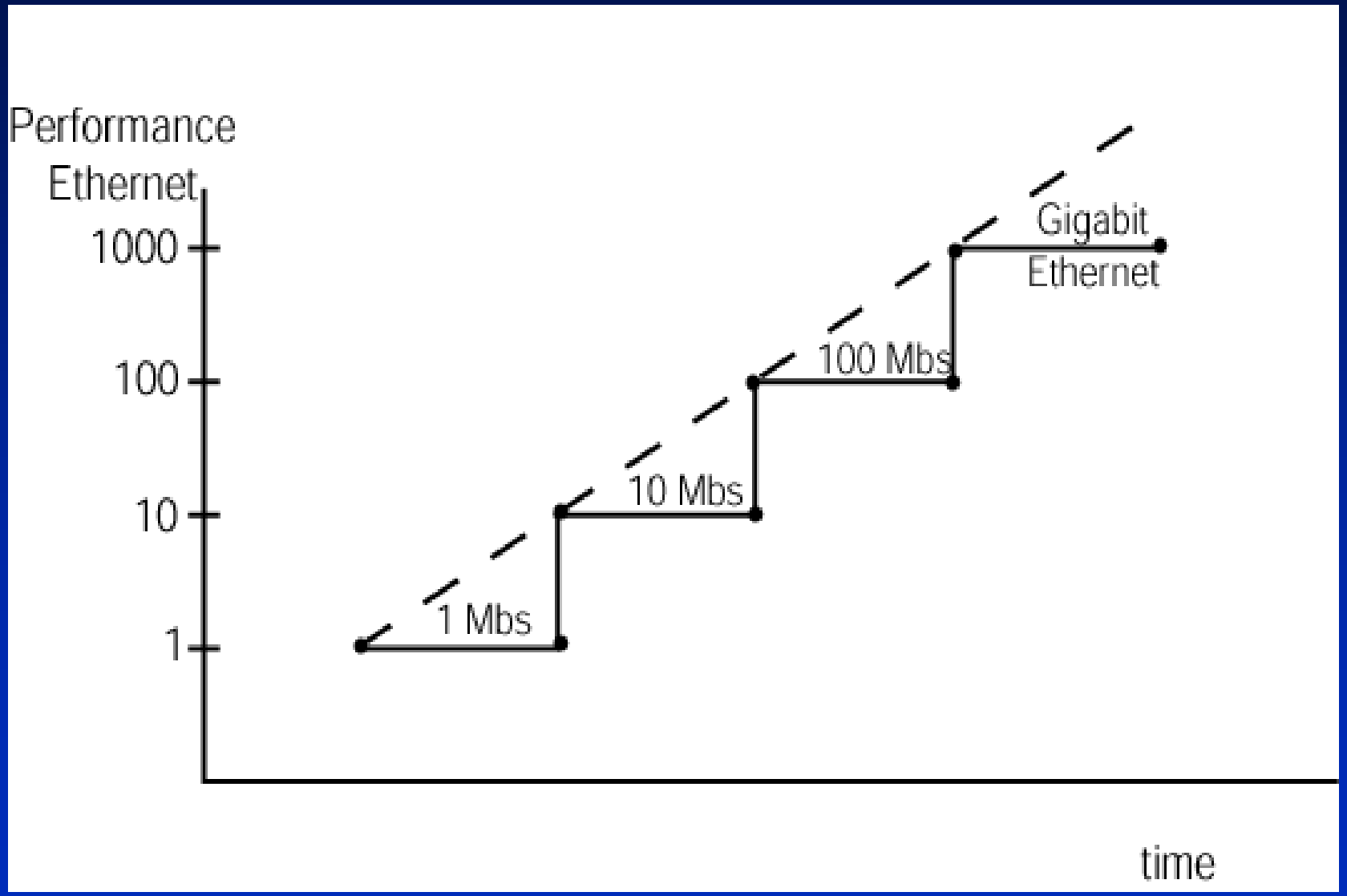
Concept of Performance Trajectories

- Rate at which performance is expected to improve (demand)
- Rate at which performance improves (supply)

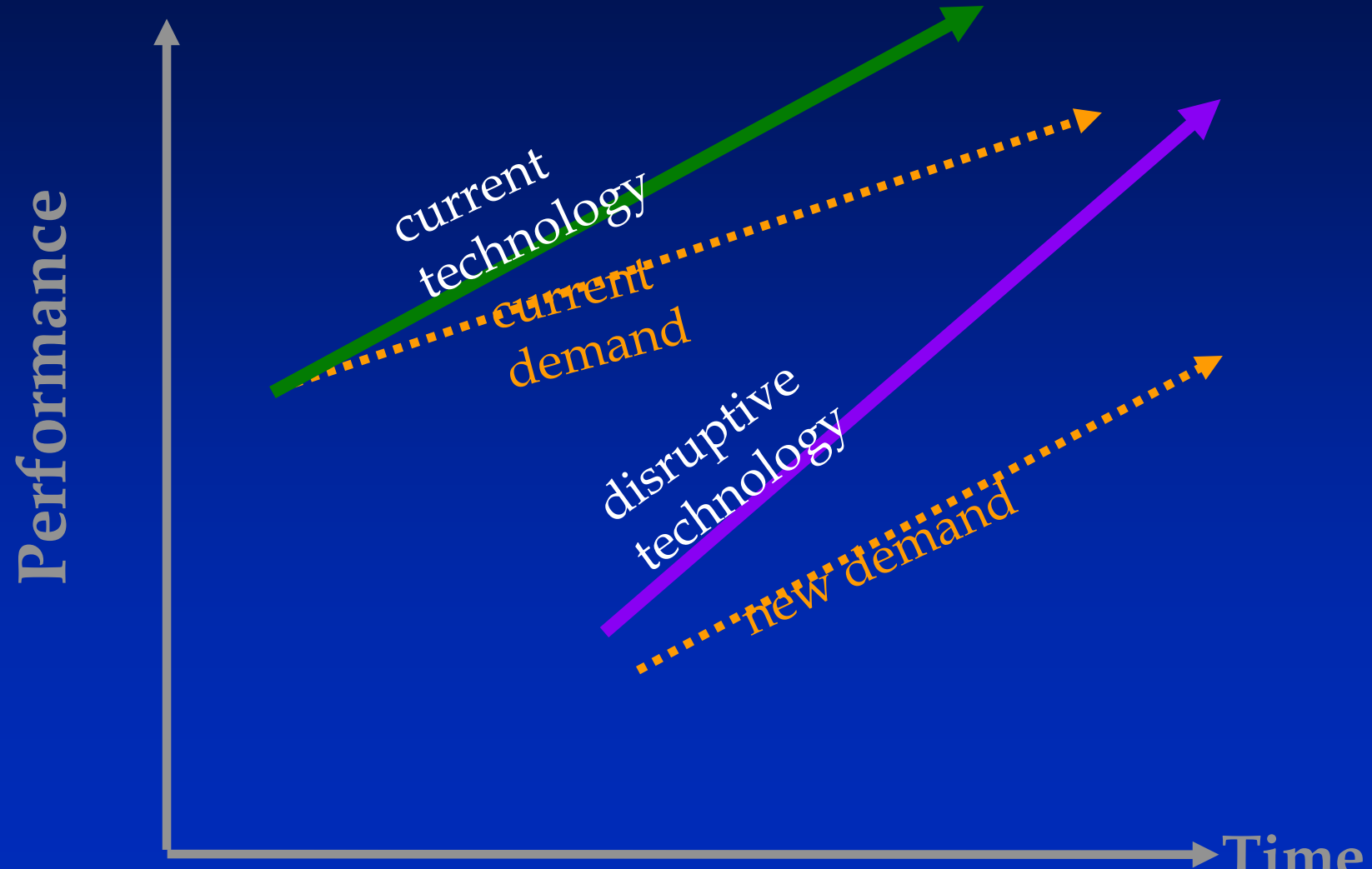
S Shaped Performance Trajectories



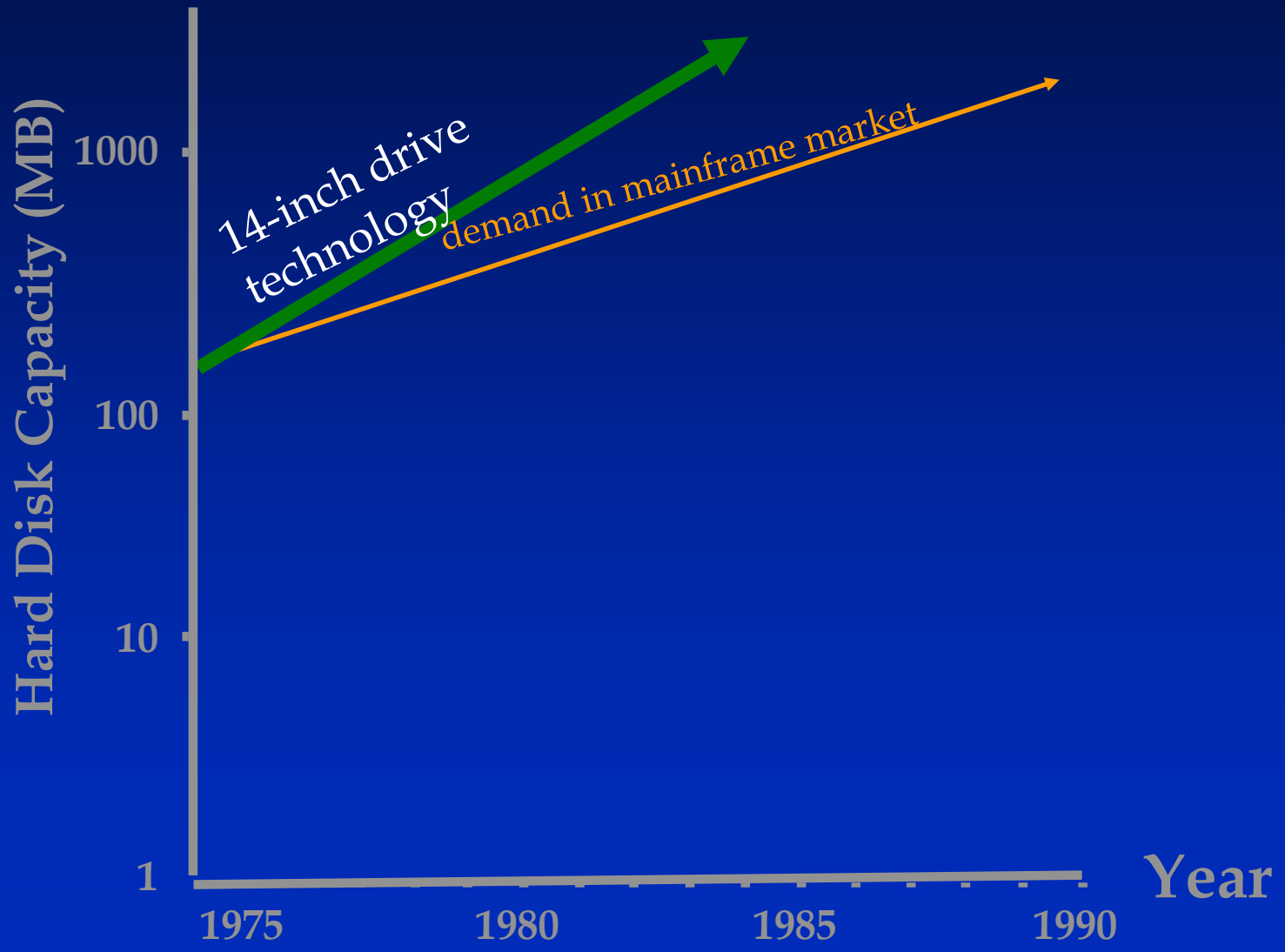
Discrete Performance Trajectories



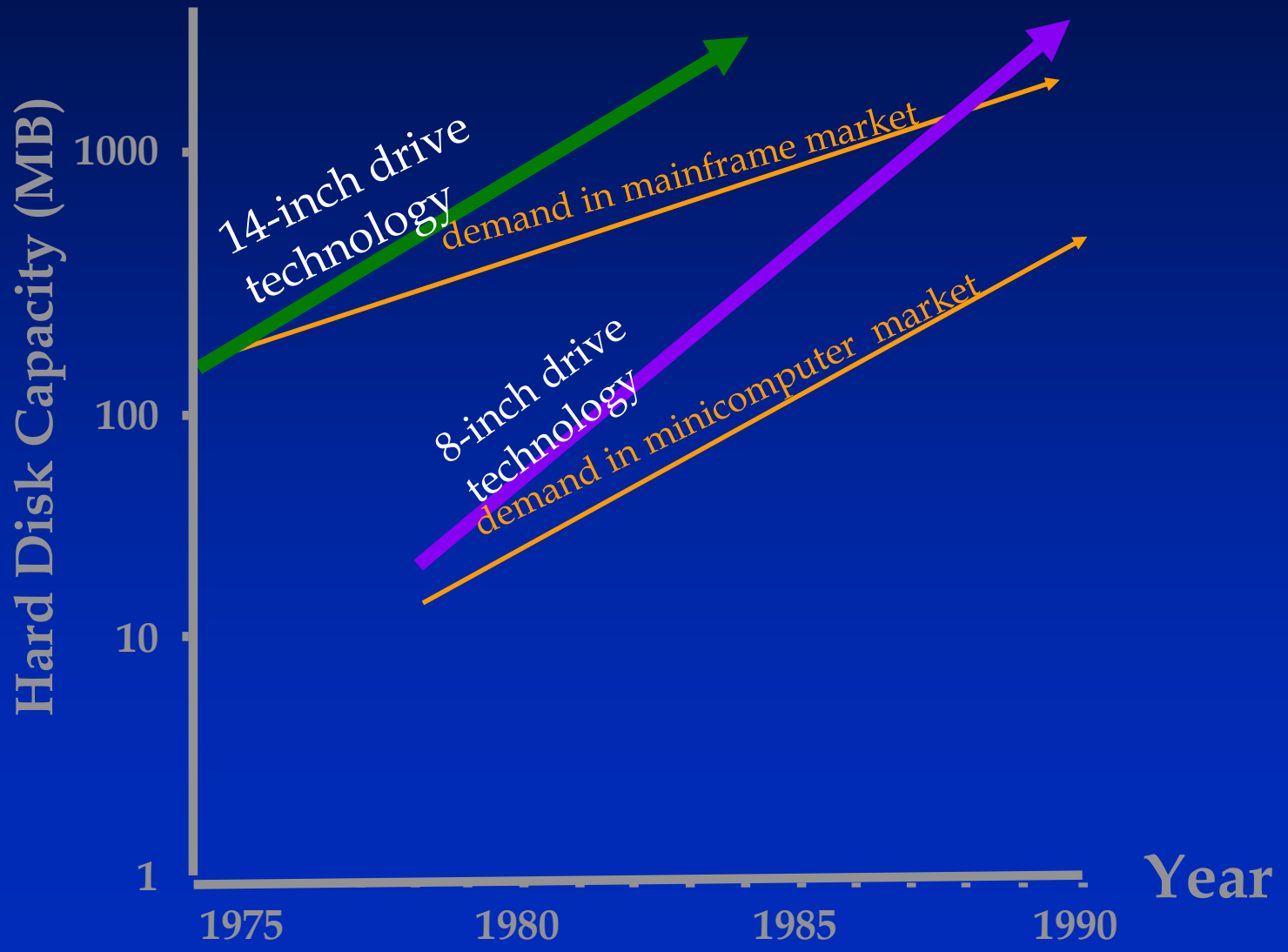
Typical Disruptive Technology



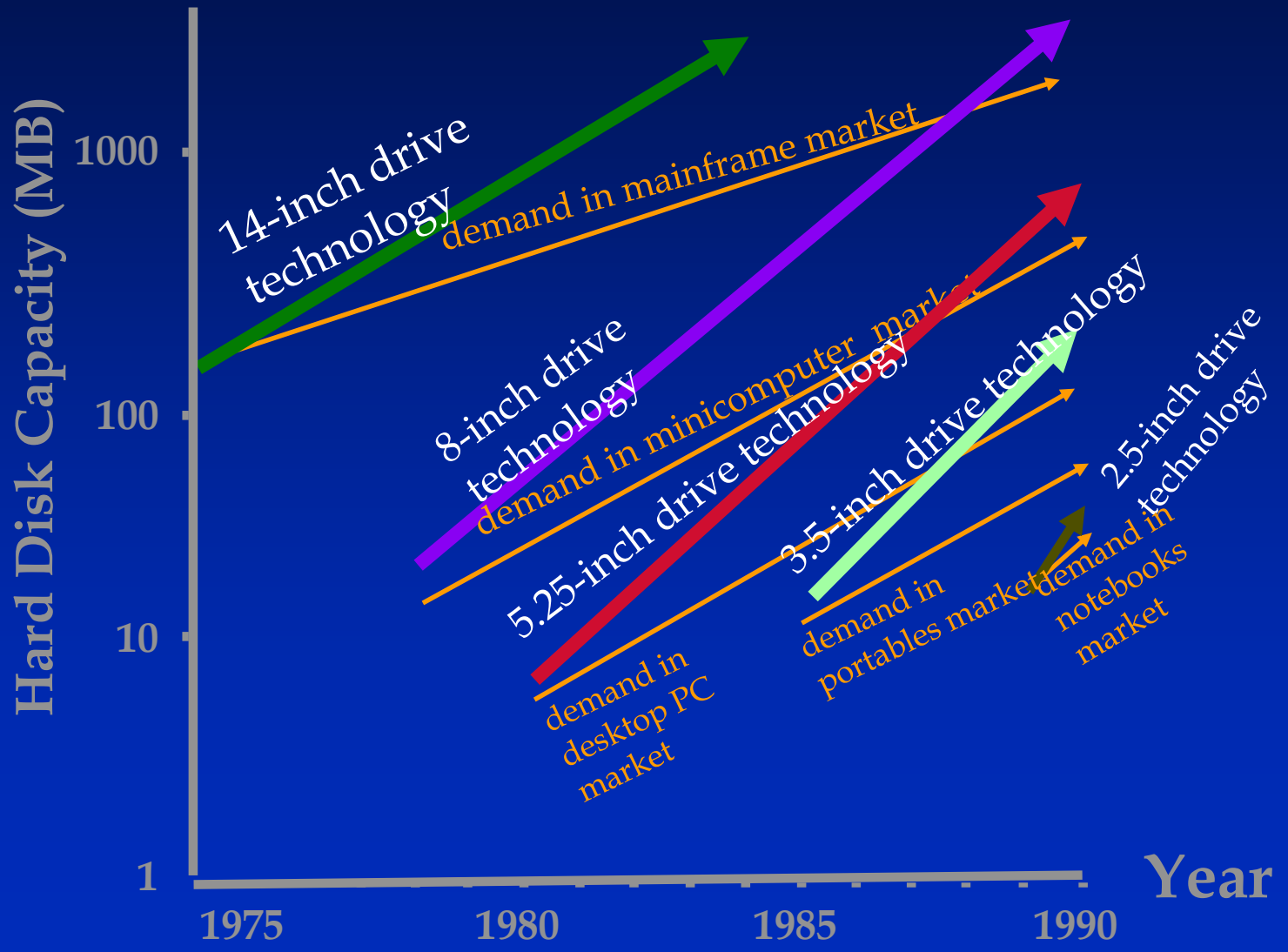
Rigid Disk Drive Industry



Rigid Disk Drive Industry



Rigid Disk Drive Industry



Disk Drives

1957 IBM	24” diameter
	50 platters
	5MB capacity
	12kbs sustained read
Fujitsu (~ 2000)	3.5” diameter
	1.1 GB capacity
	6.8 MBs sustained read
Today	1.8” drives for mobile platforms
	1.3” drives for laptops
	1.0” drives for digital cameras
	0.85” drives for digital cameras

Flash memory ?
Solid state memory?

Solid State Storage 2017

1 TB Hard drive ~ $40-50

1 TB SSD ~ $200 - $300

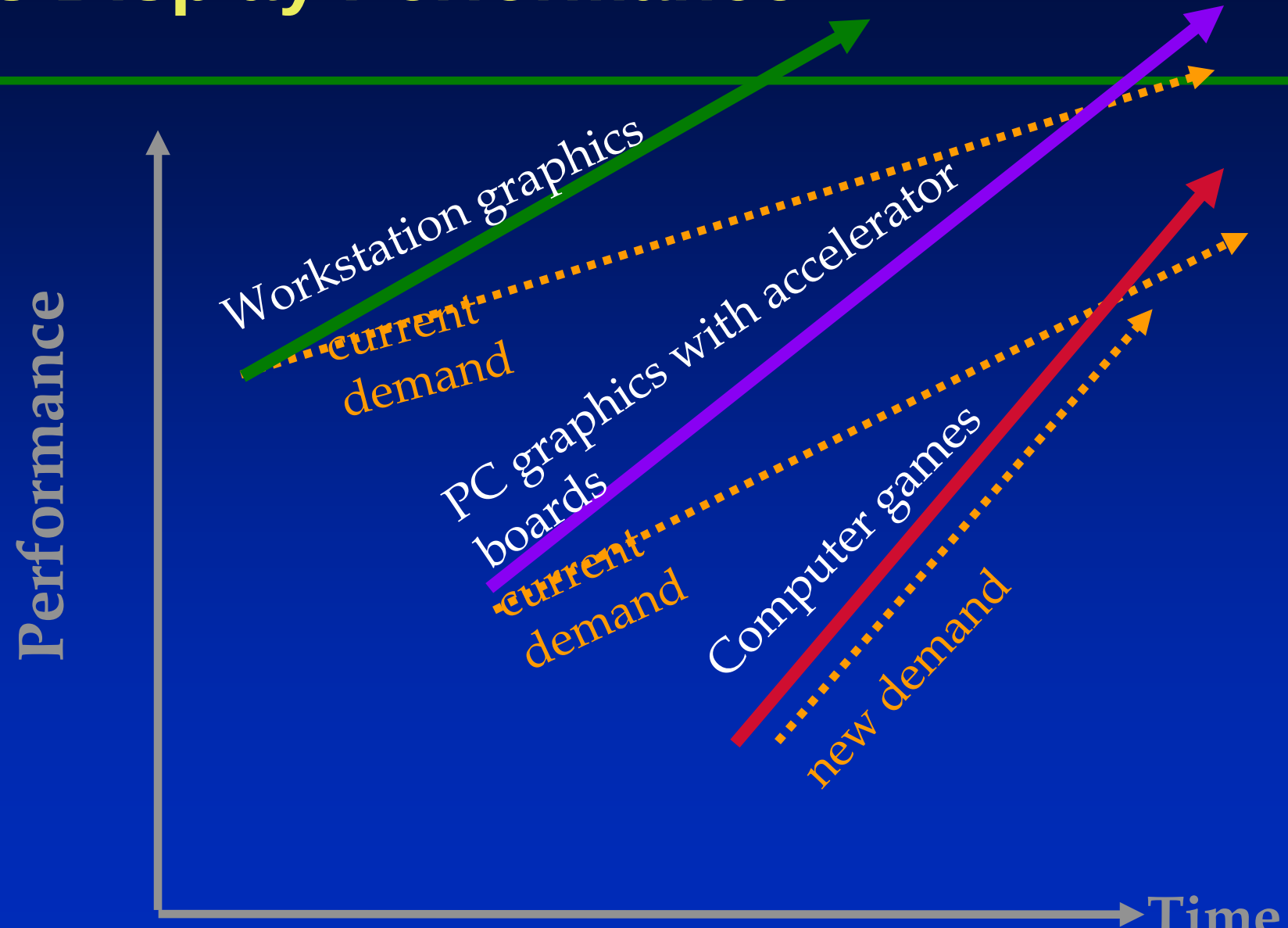
Disruptive Technologies

- What happens when your best customers reject a new technology?
- Xerox’s large photocopy centers had no use for small photocopiers
- IBM’s large customers had no use for minicomputers

Disruptive Technologies

- What happens when your best customers reject a new technology?
- DEC’s minicomputer customers (PDP 11/40-11/70 and VAX 11/780-11/730) had no use for PC’s
- SGI’s graphics customers had no use for PC graphic boards

Graphics Display Performance



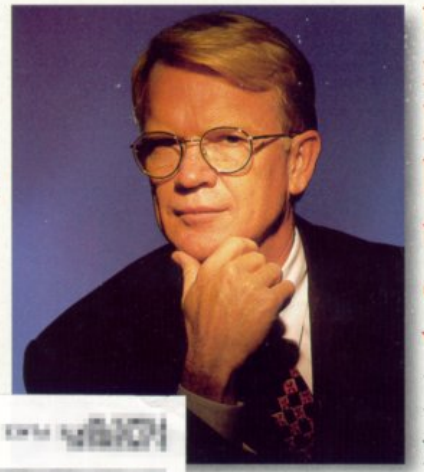
HOW DICK GRASSO IS TRANSFORMING THE NYSE

BusinessWeek

AUGUST 4, 1997 A PUBLICATION OF THE McGRAW-HILL COMPANIES $3.50

THE SAD SAGA OF SILICON GRAPHICS

Its gee-whiz computer graphics brought fame and fortune. But now, dogged by troubles, its market value has dropped by half. Here's the untold tale of what went wrong. Can CEO Ed McCracken fix things?



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Disruptive Technologies

- Research shows most well managed companies are ahead of their industries (both with incremental improvements or new approaches PROVIDED THESE TECHNOLOGIES ADDRESS THE NEXT GENERATION NEEDS OF THEIR CUSTOMERS
- These same companies make bad decisions when the technologies do not meet the needs of their main stream customers and appeal only to SMALL OR EMERGING MARKETS

Disruptive Technologies: What choices?

With established companies managers have 2 choices:

- **Go downmarket** -- accept lower profit margins, initially these emerging markets may be lower cost
- **Go upmarket** -- alluringly high profit margins, e.g., margins of IBM mainframes are higher than PCs

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BusinessWeek

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GLOBAL 1000 THE TOP COMPANIES **TOBACCO** HOW THE DEAL WILL CHANGE **U.S. ECONOMY** NEW NUMBERS, ROSIER VIEW

BusinessWeek

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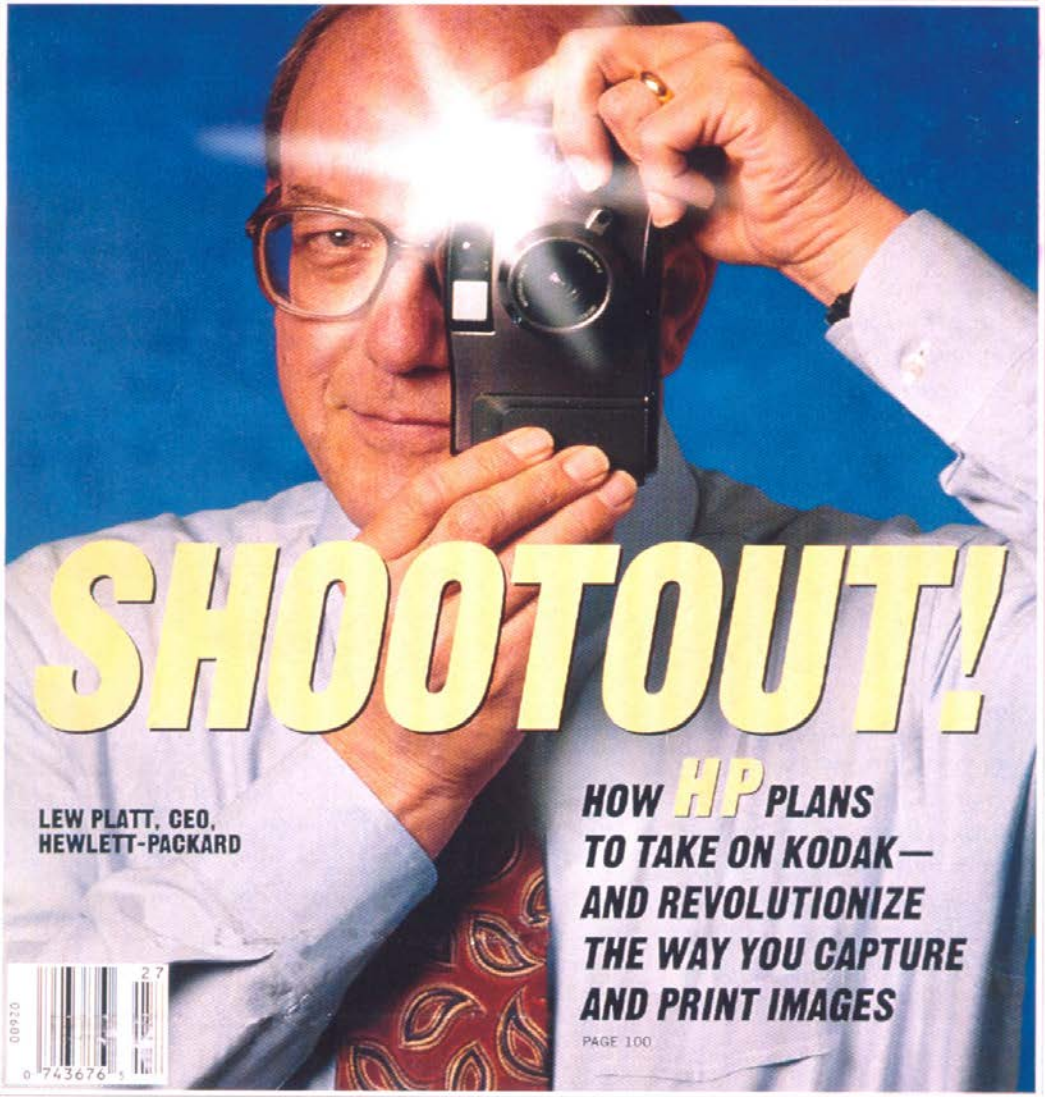

SHOOTOUT!

LEW PLATT, CEO, HEWLETT-PACKARD

HOW HP PLANS TO TAKE ON KODAK— AND REVOLUTIONIZE THE WAY YOU CAPTURE AND PRINT IMAGES

PAGE 100

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Disruptive Technologies

- How does a company allocate resources?

- Existing processes are designed to “weed out” proposed products/technologies that DO NOT ADDRESS CUSTOMERS NEEDS

Netflix

- First CDs, then DVDs
- Then envelope shapes
- Then partnership with Blockbuster refused
- Then streaming video
- Now Comcast

Blockbuster and Redbox

http://www.bloomberg.com/news/2010-07-19/redbox-plots-internet-movie-strategy-in-challenge-to-netflix-on-home-turf.html

Netflix 5-year stock chart

End. . .