The AI Innovator's Dilemma

What Do You Do With a Tool That Can Do Anything?

"The same forces that made incumbents powerful now prevent them from going AI-first."

Philip O'Donnell · Jax Tech · January 2026

Everything Old Is New Again

1913	2006	2024
Assembly Line	**Cloud Computing**	**AI / LLMs**
Manual Labor	*Infrastructure*	*Knowledge Work*

AI is a step change in automating information and communication.

But the economic patterns?

Same as they ever were.

The Usual Approach to Automation

80% → 100% is not 20%.

It's the difference between improvement and transformation.

That 20% is where the structural barriers live.

The Hero's Journey of Enterprise AI

And where it breaks down

Enterprises fail at 4 specific moments. Startups skip the journey entirely.

1 Choosing the Right Path

Why doesn't LinkedIn do recruiting?

LinkedIn's customers are recruiters.

If LinkedIn launched an AI recruiting service, they'd be competing directly with the people who pay them.

This isn't a strategic choice. It's a **structural constraint**.

Your existing customers define what you can't build.

1 Choosing the Right Path

Structural constraints on attack and defense

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Existing Customers

They vote loudly.
Future customers are silent.

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Current Revenue

Cannibalization hits this quarter.
New revenue is a spreadsheet.

⚙️

Channel Conflicts

Partners and resellers have contractual protection.

These aren't obstacles to overcome.
They're the boundaries of the playing field.

1 Choosing the Right Path

Recognizing the constraints

ENTERPRISE

Map your constraints explicitly.

Which customers would you compete with?

Which revenue would you cannibalize?

Build in the negative space — where constraints don't apply.

STARTUP

Map their constraints explicitly.

Who are their sacred customers?

What revenue can't they risk?

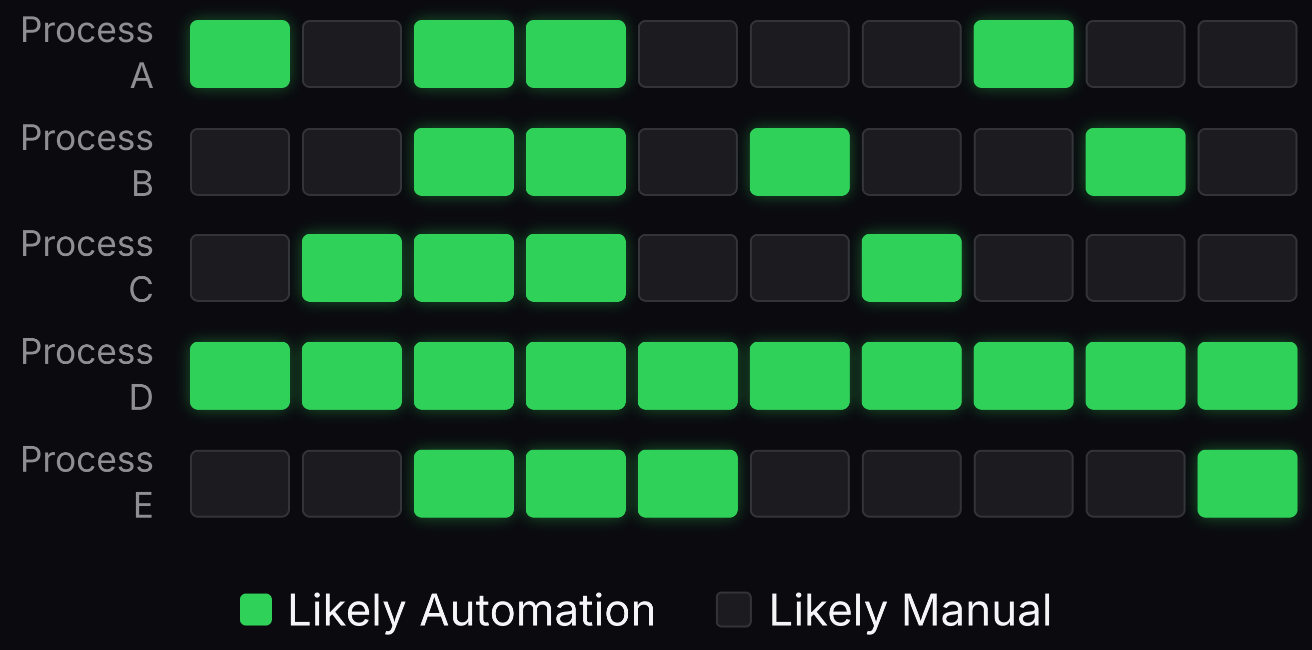
Build exactly there — they can't follow.

Startups have nothing to sacrifice.

That's the moat.

2 Preparing for the Journey

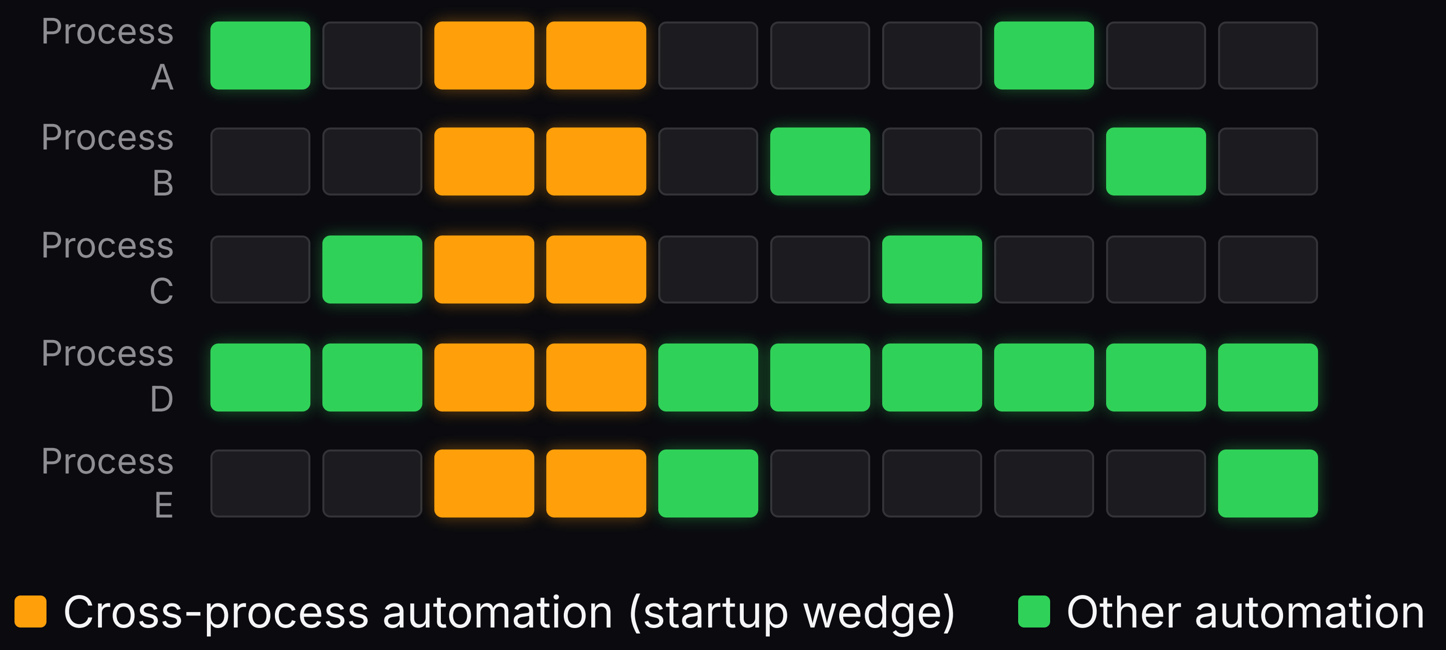
The default: lots of small pilots



AI is hard to extrapolate: demo → pilot → rollout

2 Preparing for the Journey

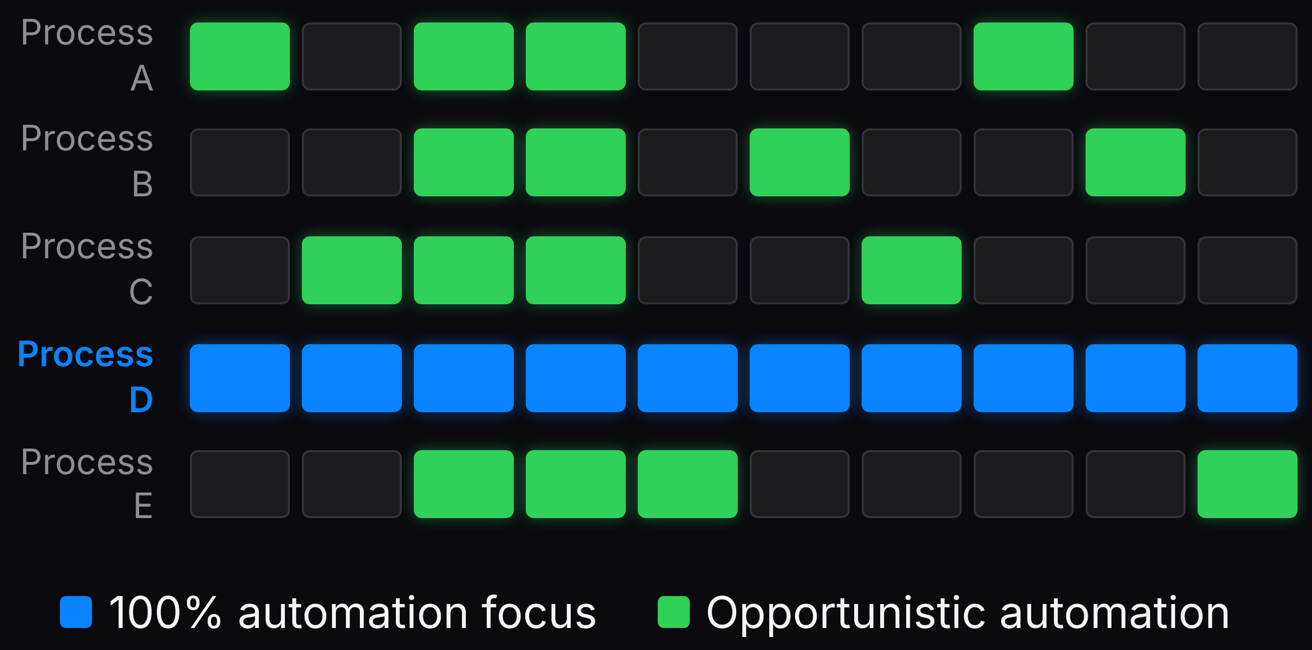
The startup opportunity



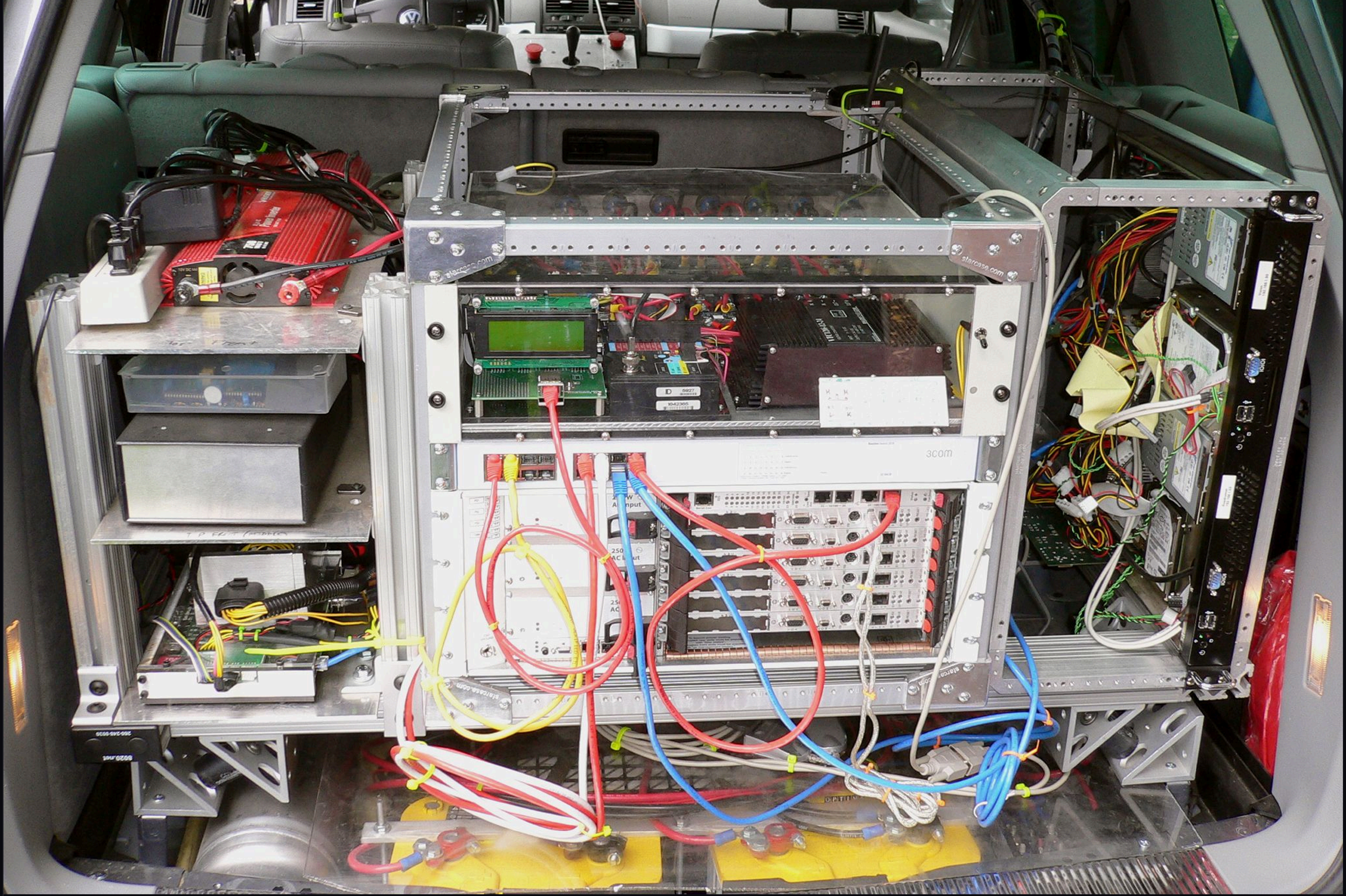
Startups find the cross-cutting slice AI can fully automate.
Offer it at 1/10th the price to customers who only need that.

2 Preparing for the Journey

The enterprise response



Don't scattershot. Find the 100% opportunity.
Use it as a leverage point to expand.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3 Navigating the Labyrinth

Why enterprises can't build throwaway code

THE FINANCE PROBLEM

CapEx rules: Must capitalize software > $X

OpEx pressure: "Temporary" has no budget line

Decommission fantasy: Finance assumes old systems turn off. They don't.

Dual-running costs hidden in different budgets

THE VIBE CODE OPPORTUNITY

Greenfield only: No legacy dependencies

New segments: Customers with no existing systems

Internal tools: Where ugly is acceptable

Fast, cheap, experimental — and disposable

Vibe coding is made for throwaway stuff.
Enterprise finance isn't.

3 Navigating the Labyrinth

Navigating the ugly transition

ENTERPRISE

Go microservices: smaller pieces depreciate faster, more can be reused

Budget the writeoff: bridges are infrastructure, not projects

Vibe code the greenfield: new segments, internal tools

Name the decommission owner with hard sunset dates

STARTUP

Easier: Markets where incumbents have deep legacy (banking, healthcare, logistics)

Easier: Industries with long sales cycles — you iterate faster

Harder: Markets where incumbents are already cloud-native

Harder: Industries with tight regulatory review of changes

The startup is born in the upside down.
The enterprise has to find a door.

Cost cutting is 10% growth.

Revenue	$63B
AI automation savings	$3.5B saved
Cut costs → profit	$3.5B (100%)
Grow @ 57%	need $6.1B revenue

$6.1B ÷ $63B = ~10%

The market agrees.

COMPANY	REVENUE	LAYOFFS	EST. SAVINGS	STOCK
Cisco	$54B	5,600 (7%)	~$840M	+6.5%
IBM	$63B	3,900	~$580M	+9.5%
Workday	$8.4B	1,750 (8.5%)	~$300M	+6.3%
Dropbox	$2.5B	528 (20%)	~$95M	+2.5%

Savings estimated at ~$150-180K fully-loaded cost per employee. All same-day stock reactions.

So what do you do?

ENTERPRISE

Direct AI to growing units

They reinvest → multiplier

STARTUP

Follow the layoffs

Build where they won't

1	CHOOSING THE PATH	Map their constraints → build exactly there
2	PREPARING	100% of a narrow slice → serve the "$50K floor"
3	NAVIGATING	AI-native from day one → no legacy to integrate
4	RESISTING	Follow the layoffs → build where they're cutting

1	**CHOOSING THE PATH**	Grow in ways that don't threaten structural constraints
2	**PREPARING**	Find ONE process that's 100% automatable → beachhead
3	**NAVIGATING**	Find projects that can be vibe coded → AI-native from start
4	**RESISTING**	Direct AI within growing units → they reinvest the gains

Sources

Clayton Christensen, *The Innovator's Dilemma*

Innosight, *Dual Transformation*

a16z, "AI Wedges"

Bain, "Defending Against Disruption"

Try it yourself: Claude skill to walk through the framework

"As a startup finding a market" or "As an enterprise defending against disruption"

Philip O'Donnell

Jax Tech · January 2026