

# Q&A with Joshua Gans

Author of “The Disruption Dilemma”

Your recent book “The Disruption Dilemma” examines how disruption can destroy even the best-managed corporations. The case studies in your book – the mobile phone industry disrupted by Apple, Blockbuster’s store-based video business disrupted by Netflix – show that disruption is not a single phenomenon, and that there’s no single strategy for dealing with it. The case studies involving Fujifilm and Canon show that not all firms need to end up like Blockbuster. The main challenge, however, is that a disruptive product may initially be of inferior quality to existing products, making it difficult for an established firm to offer the disruptive product to its customers. This leads to a dilemma for incumbent firms, and to opportunities for outsiders.

## Q: Are law firms threatened by disruption?

A: Law firms should recall the mobile phone industry. Incumbent cellphone-manufacturing firms were structured around the various components in the cell phone: antennas, screens, processors, compression technology, etc. They innovated, and excelled in each of the individual components. But Apple’s iPhone introduced a major change in architecture. Initially, the components in the iPhone weren’t as good as those of the incumbent phone makers. But the change in architecture led to a shift, a disruption from the demand side, which ultimately led to the demise of several major cellphone companies. Law firms should pay attention to this. A law firm’s “components” might be its various silos of legal specialties: IP law, M&A, competition law, litigation. Most law firms focus on excelling in their respective silos. The “architecture” may be how

the legal services are knitted together for clients. I haven’t studied the legal business in detail, but one conclusion I could make is that firms with the best “components” do not always win out when there is a shift in architecture.

## Q: How does disruption affect antitrust law?

A: In a recent Paris conference, I spoke about disruption’s effects on regulation and in particular on merger control. As an economist, I tend to believe that regulators would enhance welfare by setting out clearer rules as to how many competitors they think is the minimum number in a given market. This would send a signal that certain mergers are just not worth trying. Even if the number indicated by the regulator is not exactly right, the benefits of certainty would likely outweigh the harm resulting from the slightly erroneous number. I sympathize, of course, with antitrust authorities, who can have difficulty getting access to information on fast-moving digital markets. In some markets, it will be difficult to define the relevant market, let alone speculate on the minimum number of competitors required to maintain healthy competition.

I’d like to make another point that is sometimes forgotten by regulators: becoming dominant and generating monopoly rents is the “prize” sought by most innovators. It fuels competitive entry. Regulators need to take this into account when considering remedies, antitrust or otherwise, on dominant firms.

**Q: In the Paris conference, you spoke about autonomous vehicles...**

A: That's a great example of disruption. It's too early to know whether autonomous vehicles will in fact be enhancements to existing cars, or whether they will require a completely new way of thinking about individual transportation. If the former outcome occurs, incumbent car manufacturers will likely come out fine. If the latter outcome occurs, outsiders may initially have an advantage.



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**Q: What are the key ingredients to the success of Fujifilm and Canon in navigating disruption?**

A: In each case, they didn't forget their roots. Canon always kept teams integrated. That slowed them down but allowed them to absorb new architectures. For Fujifilm, they changed their identity from film to imaging decades before film went obsolete. That meant they were ready at that time.

Watch the video at:

<https://www.youtube.com/watch?v=OZYJ6l-kISY>

