

The alligators have been nipping at my bum for 28 years. The old established branch I trained at was a fixture for RBC for something like a century. It was huge, and occupied a strategic corner near city hall in Vancouver, and employed something like 50 full-time staff. Today it is a kiosk of bank machines, which is better than the fate of many of our branches which neighbored it back then. Most of them have been replaced with condo projects and sushi joints.

In 1990, the year I was hired, I attended a training session key-noted by a “futurist.” I thought he was a bit out there, but listened curiously. He said the day would soon come when we would all carry a little card in our pocket that could do all our banking, and make all our purchases, and keep track of all our addresses and maybe give us directions on how to go buy a snack. He was freakishly accurate.

Back then, the internet was an awkward black-screened file-sharing system my university used to exchange emails and academic journal drafts between eggheads at our sister school, MIT (and possibly Al Gore). Although I have joked that one day a soulless cyborg will serve our clientele out of some sort of Plexiglas box at the entryway in each unit, the truth is not quite as harsh. Relationships with living, breathing humans, is still proving integral to a business as intimate as managing money, while change is still undeniably afoot.

Disruptors, Part 2 of 2:

Uber is driving past traditional taxis, Airbnb blanketing the hotel industry, and smartphones ringing the collective bells of the market for PCs and cameras. Self-driving cars are a thing, and computers are now taking on diagnostic functions in hospitals. Is a new world order upon us?

Perhaps, but this impression is at least in part a product of the lack of change and disruption that has characterized the past 40 years in the opinion of Eric Lascelles, chief economist at RBC Global Asset Management. He points out that from as far back as the 1970s there has been a steady decline in the turnover of U.S. firms. Relatively few new companies have been created and fewer have closed down. Maybe this has poised us for some of the more dramatic changes we are facing now.

What Now?

In any event, once the possible threats have been identified, the next step is to identify which companies can adapt and survive, and which can't -- no easy task. The impact of a disruptive technology may not be visible immediately. The food industry was not directly revolutionized with the advent of the tin can in the early 1800s. That awaited the invention of the can opener half a century later (so... I guess they just sort of chewed their cans open before that -- awkward).

The focus needs to be on management's willingness to consider doing things completely differently, and to skillfully allow some sacred cows to die off. A management team which has led a company to an established position may not be best-placed to lead it through reinvention.

Companies which are too content to milk their old margins tend to ignore new trends, according to a recent study from the Harvard Business School. They see their own success as evidence their customers are happy. Costs of adopting new technologies may be judged unnecessary, but when a competitor brings innovative technology to the market, and encroaches on market share, the competitive gap may be already too wide to bridge. Agility is key.

The stark difference in the fates of Kodak and Canon in facing the competition of digital cameras and mobile phones is a case in point.

Kodak had a culture of “perfection,” which enabled it to enjoy an 85% share of camera sales in the late 1970s. But its response to the threat of digital photography and mobile phones was late, and none of its eventual responses were enough to turn the tide. The company was delisted from the NYSE in 2012, went through a painful bankruptcy re-emerging as a much smaller and dramatically less valuable company.

Opportunity

Disruption also can bring opportunity. However, picking from among the many firms striving to become the next big disruptor, of which only a handful will succeed, has much more of speculative feel about it than traditional cash-flow investing. Even successful new innovators can travel a bumpy road. Nvidia makes 3D graphics processors which transform PCs into gaming devices. The share price lost some 80% not once but twice between 2002 and 2008 before appreciating by more than 2,900% over the past eight years.

To the Future and Beyond

The pace of disruption looks poised to accelerate, with wide-ranging implications for any portfolio. The best defense for investors continues to be avoiding industries which face too many disruptive headwinds and reiterate the importance of investing in the highest-quality companies, with agile, responsive management, open to new ways of competing.

Boards and management teams may face very difficult and often painful decisions when confronted by disruptive competition in their industry. Investors can be much more dispassionate when determining whether to stay or go.

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