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Regulators vs Innovators

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A key feature of innovations is that they disrupt existing markets – the more innovative the idea, the more disruption that they will cause. However, those who are disrupted don't necessarily appreciate being disrupted. Furthermore, industries that are being disrupted also may have regulations that enforce the status quo and are not necessarily friendly to new entrants who want to do things differently.

In four recent high-profile cases, regulators have cracked down on innovative new entrants. All these cases provide interesting insights into the issues surrounding how new technologies and business models can feel like positives to consumers while at the same time garnering the wrath of the government and traditional competitors.

A popular new service in the U.S. recently has been services such as Lyft and Uber, part of the so-called "sharing economy." Through an app, drivers offer to take people places they need to go, in their own personal car. This works well at matching riders with transportation. However, it's in direct competition with taxicabs, and the cab companies and regulators are not happy about it. In Seattle, the City Council just decided to limit how many cars such services can have on the road at any given time, and further regulation elsewhere may be in the offing.

Another popular "sharing economy" startup that is drawing heat from regulators is Airbnb, which enables people to rent out a room or part of their homes, in competition with hotels. In New York, Airbnb is currently in a dispute with the New York attorney general, which claims that many people are using the service illegally and that it's costing the state money.

The decreasing cost of genomic testing is behind the startup 23andme, which gives consumers who submit a DNA sample information about their genetic tendencies, including disease risks, at the reasonable price of $99. Last fall the FDA shut down the company's service, concerned that patients would misunderstand the genetic information provided.

Finally, many people are interested in learning to code computer software, and several startups have sprung up offering "boot camps" that help people to learn that skill. They were surprised in January when a little-known California regulatory agency sent them cease-and-desist letters, requiring them that they be in compliance or face large fines and imminent closure.

Regulations exist partially to protect consumers and partially to protect the interests of established players by blocking out newcomers. The new wave of disruptive business models will test how flexibly government can respond to the new services made possible by advances in technology and creativity while respecting the desires of consumers. It will also force entrepreneurs to pay more attention to the "powers that be."

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