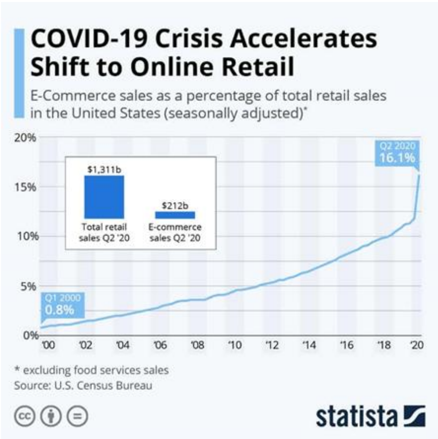
THE WINNERS TAKE IT ALL

"The winners take it all" is a market strategy that means that a product or service is better adapted to the competition, thus retaining the entire market share. It has an incidence on how the globalization of the economy and the last years of crisis have caused that the business profits end up in the pockets of a few people. As a volume business with low profitability per operation, there is no room for a multitude of competitors. It is clear that they are not monopolies because the market is very fragmented, but having a greater market share is an entry barrier for future competitors and increases the profit simply by being large.

This strategy is based on the social inequality that nowadays is increasing. This inequality depends on the ability of the population to live in a moneyed way, which today is complicated because the crisis has led to an increase in unemployment and a decrease in wages. The main problem is that public support for the sectors that provide employment and that we could make economic pillows (education, health, sport or social assistance) is low. According to the World Inequality report in 2018, the richest 1% of the world's population now has 33% of the world's wealth, compared to 28% in the 1980s. On the contrary, the middle class, which accounts for 40% of the population, has less than 30% of the world's wealth. This progressive disappearance of the middle class is also having its reflection in the business world.

CORONAVIRUS

This year, the global economy has been particularly affected by the coronavirus pandemic, which has had a domino effect. Because of this economic distortion, many industries have collapsed, although many others have actually benefited. In these times, the strategy "the winners take it all" is also visible. Digital platforms are the main winners during the time of the health crisis. One of the platforms that has won the most has been Zoom Communications, designed for videoconferences and webinars, which has experienced 50% growth while markets are falling by more than 30%. In addition, streaming platforms have achieved an average growth of 12.7% in March 2020 and food delivery and e-commerce platforms, such as Amazon, have also experienced a huge increase.



On the other hand, there are the industries that have suffered the most from COVID-19. First, the airline industry, which has asked for up to 185 billion euros in emergency assistance. The International Air Transport Association (IATA) has said that most carriers will go bankrupt within two months. Second, the luxury industry is feeling the immediate effects of the COVID-19 outbreak, as the largest luxury spending comes from China, where the outbreak originated, in Wuhan Province in December 2019. In addition, as is to be expected, the tourism sector has been particularly affected by travel restrictions and the closure of hotels and restaurants, which has dealt a severe blow to the global economy, as many countries such as, For example, Spain lives mostly thanks to this sector. Finally, there is the automotive sector, which according to some studies will not recover from this crisis until 2022, which has led to a great loss of jobs in many countries.

DIGITAL PLATFORMS

The "winner-takes-all" effect in the digital platforms sector is increasingly being felt. The dominant companies in the internet sector take the entire market share. Digital platforms create value by facilitating direct interaction between two or more groups. These platforms are characterised by economies of scale (because adding a user has little cost) and, especially, by what are called cross-network effects: the value to customers of one party to the platform increases with the number of customers participating in the other party. Both economies of scale and network effects can create high barriers to entry and lead to a market in which the winner takes everything, as there is almost no competition. The ability to dominate a market as a result of a company's success is a great incentive to innovation and one of the drivers of productivity growth in our economies. What should not be allowed is the abuse of a dominant position. Technology has allowed innovative business models to expand their markets. Local accountants have been displaced by tax software; "brick" businesses, by Internet retailers

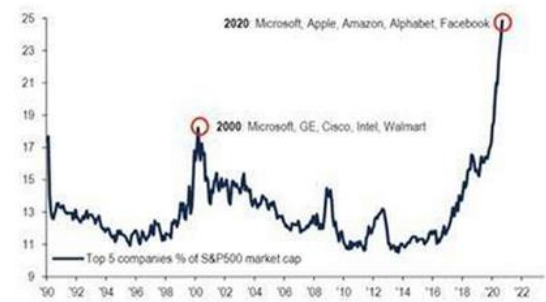
The fundamentals of the largest internet platforms are very solid, in fact, Facebook has generated 18 consecutive quarters with more than 50% growth in its profit. Google has reached 31 quarters with an organic growth in revenue of 20%, shares have risen and they are fundamentally supported by strong profits and a boost in revenue. Furthermore, Google has now eliminated any meaningful competition.

USA

Today, wealth and power are based on the new technology sector more than any other: half of America's businesses that generate profits of 25 percent or more are technology companies.

The top five companies by market capitalization in the US markets (Apple, Microsoft, Amazon, Facebook and Alphabet) already account for more than 20% of the S&P 500 index. In 1980, the top five companies did not exceed 15%. Apple itself, for example, capitalizes more than the top 2,000 small- and mid-caps listed in the United States. These companies have in common their economic sector (technology) and their brilliant ability to grow profits sustainably over time. Furthermore, they are among the few companies that have made profits because of the COVID-19 pandemic, as many investors, seeing their high growth and foreseeing a possible confinement, have decided to buy shares of these companies thinking it is a safe investment. Thus, after the reopening of the economy, their contributions have continued to rise.

Top five companies as % of S&P 500 market cap



Source: BofA Global Markets, Bloomberg

It is curious to note that, in order to achieve these objectives, these companies did not need many years, since, in the short term, the market behaves irrationally, raising to unsustainable levels the valuations of the most popular companies and leaving forgotten the most unpopular ones without attending in most cases to the fundamentals of the companies. To succeed in the short term "just" you need to measure the "market temperature" and stick to the hottest value. If not, tell the Tesla shareholders. In the long run, it has been shown that the share price correlates positively very clearly with the growth of corporate profits.

CONSECUENCIAS DE ESTE FENÓMENO

This phenomenon of "the winners take it all" is something very normal in today's capitalist society, always based on social inequality. The rich are getting richer, the poor are getting poorer. Thus, the strongest companies end up being the market leaders, although it should be noted that at the beginning there is a high level of competition between the different companies. In the long run, this price struggle leads leading companies to take over much of the market, as small businesses cannot compete with large ones and end up shutting down. In the end, we will move from an oligopolistic market (few bidders and many claimants) to almost a monopolistic market, in which the leading companies will be able to implement their prices. This affects the entry and creation of new businesses, as they often have strong barriers to entry, and consumers, who have little choice as to the price of the product or service concerned. Personally, I think this is a big problem, as many local and craft businesses close because they cannot compete with large companies, which, based on an economy of scale, can offer more affordable prices. This also leads to a depersonalization of products and services, as these companies also rely on mass and egalitarian production, while SMEs have products or services more adapted to each consumer. Due to this market presence of large companies, there are several market segments to cover:

1. The market for local and sustainable products
2. The market with personalised services
3. Luxury markets

Then, and finally, I will give three possible solutions to this problem, although some of them do not solve things for which industries.

THREE SOLUTIONS TO SOLVE THIS PROBLEM

The first solution to solve this problem is that the government controls the prices, regulating product prices. This could work for a company such as Netflix, but does not work for Facebook or Google as their services are free

The second solution is that the government can divide a large company into small companies; to end the winners take it all strategy. The best-known example is the Standard Oil Company that was once owned by Rockefeller. At the beginning of the 20th century, it had 90 percent of the refining market in the United States, but the government decided to divide it into thirty different companies to end its monopoly, which helped the market improve.

Another solution given by two professors at the University of Chicago is based on more recent history. In the past, there were only a few telephone companies, which meant little competition, and if you went from one company to another, you had to change your phone number. For this reason, consumers almost never switched providers, as they did not want to have a different number. However, later, the government told companies that the numbers belonged only to customers. Thus, competition grew and prices fell rapidly. They go on to explain that the same principle can try to be applied to Facebook, Amazon, Netflix, and Google. If you want to switch from one provider to another, the government must force your current provider to hand over all the information he has about you to your new provider. This provision of data to competitors will put an end to the monopolies created by some companies, leaving new competitors to emerge and enable them to offer new products or products better adapted to the consumer.

Finally, in order to ensure that SMEs do not disappear, I propose that they occupy the market segment left by the above-mentioned large companies.