

Economic complexity – Essay

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Nowadays, the economy looks like how it was at the end of the 19th century when the market was led by a few companies that can be called “superstars”. Of course, the economy has evolved and even though it is much easier to create a company than at that time, there are still some companies that have the oligopoly, that is to say, the market is controlled by a small number of powerful firms and they prevent the smaller to take a significant market share. These enterprises illustrate the concept of winner takes all, which is the fact that only one competitor succeeds in getting the whole prize, or at least a big part of it. Thus, it is relevant to analyze whether we live in a winner takes all economy or not. The first part of this essay will describe how the digital leaders, the GAFA, illustrate this concept, then the second part will analyze the exceptions to this rule and finally, the last part will study the possible solutions to become a winner takes all.

First of all, it is important to understand how these companies succeed in standing out and getting an enormous market share. In fact, in the digital sector, the snowball effect is particularly important because new users will prefer to go on a platform that already has a lot of users. After all, it will be easier for them to be connected. This illustrates the concept of systemic effects that shows that the more users you have, the more your company will grow. In addition to that, digital firms have a lot to gain from algorithms. Indeed, they have a strong interest in developing high-quality algorithm because it will bring them many users. But this has a cost and not every company can afford it. That is why it is often the firms that attract the most users that are able to develop their algorithms. Another characteristic of digital companies is the fact that their market size is not limited as in traditional industries that have to consider transportation costs for example. Thus, they can expand without limitation. All this participates in setting a winner takes all economy where only the best can control their sector.

Let's take the example of the GAFA to illustrate this idea. GAFA is an acronym for the four giants of the digital economy: Google, Amazon, Facebook, and Apple. Only these four control almost all the digital market and they prevent start-ups in this area to grow because they have so many users that nobody will change to go on another platform. For example, almost everyone uses Google today because it is the search engine that has the more data and even if we try to move to another one, we will not be as satisfied as we were with Google because the others are not as complete as Google. The systemic effect is one characteristic of Google, indeed, as it generates more data, it has a better algorithm and therefore more users, and so on. This effect is really beneficial for Google as it has a 90-per-cent market share but also participates in the oligopoly of these giant companies and creates a winner takes all economy.

After seeing that the digital sector is particularly receptive to the lead of a few top companies, another sector of the economy will be analyzed to show that winners take all are not present everywhere.

In fact, the economy is not entirely based on a winner takes all system, some sectors are particularly characterized by that like the digital one, as we saw. But in others, competition exists and there is no one leader that controls almost all the market. This is the case for airlines, where the

competition is striking due to the diversity of airlines that exists and they have more or less the same market share. In fact, in contrast to Google, which controls almost all its sector, different airlines coexist in the aviation sector and they are able to compete between them. Therefore, travelers can choose, among a large number of airlines, which one they prefer and their choice will be based on real criteria like price or services on board.

Moreover, strong competition within the aviation sector has emerged with the creation of low-cost airlines like Ryanair or EasyJet. They have led the traditional airlines to choose between a premium offer or a low-cost one. For instance, Air France launched new brands like Hop or Transavia in order to complete its range. Low-cost airlines rose even more competition in this sector. Thus, their market share went from 3% at the beginning of the 21st century to about 30% nowadays. That shows that competition exists in some sectors of the economy and therefore that it is not entirely led by winner takes all.

In the aviation sector, there are no winners take all, therefore, it allows competition between the different airlines. But now, let's study how new firms can eventually become winners take all.

Finally, after analyzing that winners take all are particularly present in some areas of the economy and less in others, the question that can be wondered is if small companies can succeed in becoming winner takes all. Well, all the firms that are winners take all today, started from nothing so, technically, any enterprises can become superstars. But many factors contribute to the emergence of some companies rather than others. There is, of course, the importance of investing in research and development to create the best version of the company. So, a lot of funds will be required in order to raise the firm at the top. Then, it is important to improve the brand image to attract more customers and therefore to enter into the virtuous circle of the algorithm that brings new users, as has been seen with Google.

The other option to survive in this system as a new company is to find a sector in which there is no winner takes all yet and maybe to become it. In fact, it will be very difficult for a new enterprise to try to find its place in the digital sector because of the superstars like the GAFA that already own almost all the market. With the small part of the market remaining, many companies will fight for standing out. Thus, the solution can be to put the target on sectors like services to people or the building industry where the market is not led by a few top companies and where it will be easier to become a winner takes all.

To conclude, the economy is not entirely based on a winner takes all system, although this trend has been developing over the past few years. Some sectors of the economy are more likely to be controlled by a few leaders, like the digital one and others welcome more easily competition like airlines where different companies share their market and have quite equal parts of it. But still, is not impossible for a firm to become a winner takes all, it just requires investment and innovation. Besides the economy, the system of winner takes all can also be found in the political scene. In the United States, for instance, the rule of the winner takes all consists in giving all the electoral votes of a state to the candidate who obtains the majority. This prevents the representation of minority votes because of the leaders that win everything, exactly like some companies in the economy.