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UE LAEC503V – Economic complexity

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2020 -2021

Winner-takes-all Market



Top Performer Takes Giant Share of Rewards

Are we entering in a winner-takes-all economy? Why and what can we do about it?

A winner-takes-all market refers to an economy where the top performers are able to capture a very large share of the available rewards, while the remaining competitors end up with very little. This type of market can just as well concern people, products or services. In a winner-takes all market, people are paid not based on their absolute performance, but rather on their performance against their competitors. The end result of a winner-takes-all market is an oligopoly, where only a few large, powerful companies control the majority of the market share. These large companies buy small companies (Apple, Amazon, Facebook and others acquire hundreds of companies each year) or bankrupt them by outperforming them in the market.

So we can notice that there is a huge performance gap in global stock markets. In every industry, a small group of companies creates almost all of the new shareholder value. These are the names we all know, the logos we see every day and even those which are not household names have a great influence on our lives. Operating behind the scenes, they quietly grow more powerful each year. Indeed, with the advancement of globalization and technology, companies that have the products with the least advantage over the competition can quickly exploit this advantage. In these markets, if a company has a product or a service that is only 1% better than the competitors, that same company can get over 90% of all revenue for that category of good or service.

Then, we have the investors who look at companies one by one, to invest most of their money with only the best company(ies), thus making no investment for companies whose performance is simply average and which will tend not to survive long. This phenomenon has created a winner-takes-all dynamic in which 5 to 10 percent of companies in a particular sector create all of the shareholder value. In consequence, the value of their less performing competitors is actually declining, and to an unprecedented degree. Indeed, the polarization of winners and underachievers is intensifying.

In many industries, the new winners are called "atomizers": they focus on narrow segments of the industry where they can achieve dominance. There are two types of atomizers:

- Newcomers, who are capitalizing on entirely new markets.
- The attackers, who extract value at the expense of the incumbents.

These two types of atomizers launch and develop targeted activities that capture results that are very disproportionate to their size.

There are lots of benefits to be the best in any particular area. Once someone (or a company) is seen as the best, they tend to retain that status. It takes a huge effort for a newcomer to rise to such a position. Indeed, it is a lot easier to stay the best than to become the best.

I think we are indeed in a winner-takes-all economy. An example that can demonstrate it to us is that of the acronym FANGs. This acronym brings together four of the most successful and invested companies in the market: Facebook, Amazon, Netflix and Google which made the most gains between 2012 and 2017. One of the reasons for their success is called "network externalities". This recursive circular phenomenon produces companies that are so far ahead of everyone else that in no time they become oligopolies and the winner -takes-all economy is realized.

Other examples of winner-takes-all markets can be found in areas such as sports, music, entertainment and movies ... etc. Clearly, we can apply the concept to all situations which involve unequal distributions. Effectively, resources are never distributed evenly among people. In almost every situation, a small number of people or organizations are the winners.

- In the field of cinema, we can see for example, that the ten highest paid Hollywood stars earn hundreds of times more than the rest of the actors and actresses around the world. In addition, there is a remarkable wage gap between these ten stars as well: the highest paid Hollywood actor or actress earns much more than the second highest, who earns much more than the third and so on.

- In the field of sport too, for example, the best paid football (soccer) players of the most successful clubs in Europe earn much more money than the players of the second, third or even fourth divisions in the leagues of their country.

Also, most of the books sold each year are written by a handful of authors.

Most internet traffic is to a few websites.

Most citations in any field refer to the same few papers and researchers.

Most clicks on Google searches are on the first result.

Each of these is also an instance of a winner-takes-all market.

As explained a little above, in fact, the more the world economy becomes globalized, the more the winner-takes-all market grows: *"Globalization has expanded the market for skills, increasing the opportunities for the rich to become even richer," says The Economist's glossary of terms.*

Thereby, today's growing industries are more likely to exist in a winner-takes-all market thanks to the Internet, argues Noah Smith, a Bloomberg Opinion columnist. Indeed, companies such as Snapchat or Facebook have very strong network effects. As the number of their users increases, even more people want to join. The Internet, by its very nature, breeds natural monopolies that stifle start-ups, and unfortunately, it is not possible to successfully break technological monopolies today. Indeed, if Facebook were to split into two social networks, people would gradually leave one and switch to the other and thereafter, the monopoly would return soon.

Actually, there are some serious downsides to winner-takes-all markets. The result of a winner-takes-all economy will not only be a less dynamic economy, but also a less efficient economy, as monopolies drive prices above their efficient levels. It is therefore important to fight against these inequalities, the excess of privileges and disadvantages will continue over the generations and we will soon be living in a world where equal opportunities will be just a dream. Luckily for us, winners tend to sow the seeds of their own destruction—but we'll save that for another article.

So what can we do to solve this increasingly emerging problem? Concerning companies, for example, in order to reduce the influence of a winning business like Netflix, a first solution is for the government to regulate the prices of a product. A second solution may be for the government to divide a company with too much control into several smaller ones. This is what happened for Standard Oil (one of the biggest oil companies of the time) which at the beginning of the 20th century held 90% of the refining market in the United States and which saw its monopoly diminish thanks to a division into thirty different companies. Unfortunately, this will not really work as far as technology is concerned because even if we divide Google for example, one of the new search providers will outdo the competition thanks to the recursive circular phenomenon, and we will find ourselves, once again, facing the same problem. Actually, a solution applicable to all the companies of the acronym FANG would be to try to change suppliers. When moving from one service provider to another, the provider we are already using is required to cede all information about us to the new provider. This transmission of data to competitors will remove the "giants" so that other competitors will come forward and offer something different. This would create competition in certain sectors and provide opportunities for companies stuck in sectors where opportunities are dwindling. This competition will create more jobs, more innovation and will prevent the reign of only a few companies. Finally, it is necessary to remain imaginative regarding approaches to an ever-growing problem.

Resources :

I'm sorry, I might have missed some of them, but these are the ones I remembered.

- [Winner-Takes-All Market Definition \(investopedia.com\)](#)
- <https://www.maize.io/magazine/the-dangers-of-the-winner-takes-it-all-economy/>
- <https://marketbusinessnews.com/financial-glossary/winner-takes-market-definition-meaning/>
- <https://fs.blog/2018/09/mental-model-winner-take-all/>