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Are we entering in a winner-takes-all economy?

Why and what can we do about it?

There was a time before globalisation, where people would go out of their way to purchase the most affordable products locally. Indeed, why bother stepping out of your comfort zone to buy items already available around you? If you wanted to buy a toy, you would simply go to the nearest toymaker because of the proximity. But with the beginning of globalisation came a change that would disrupt markets all around the world. Now, everyone can access anything at the click of a finger: why buy the best locally when you can buy the best in the world? This new dynamic highlights a shift in traditional markets. The goal is now to appeal to people that wish to purchase the highest-quality products possible by producing and manufacturing the highest-quality products possible from all around the world. But as time passes and new markets are formed, something huge is noticeable: there is a striking performance gap throughout global markets. In almost any market, crowds of competitors fight for business within their niche, this is not new. However, with the introduction of the internet, with few exceptions, a small number of companies come to dominate the industry. There is also the mass distribution market that has killed the retail trade in its catchment area, resulting in a real struggle for small business owners and craftsmen alike. The physical location constraint no longer exists. The leading brands are worldwide and connected everywhere: Google, Facebook, Amazon, Youtube, etc. It is pretty difficult to make champions out of small stores, and it is even more difficult to give your small stores reach outside niche markets. This economic dynamic more and more resembles a winner-takes-all economy. In industry after industry, spanning both the new and the old economies, a small set of companies is creating almost all of the new shareholder value. Simultaneously, the value of their less successful competitors is actually declining, and to an unprecedented degree. In short, when we say a winner takes all, what we mean is that a single company receives the majority of available profits. A few others have at best a modest share and the rest fight over a minuscule remnant. A question remains: Are we really entering in a winner-takes-all economy? Why and what can we do about it ? In order to answer this question, we will first assess the current economic trends, then we will explain why this economic model is taking over and finally we will try to go over the possible outcomes and solutions.

I - Current economic trends

As stated previously, the growing use of digital technologies in the ways businesses interact with each other and with their customers and suppliers has radically changed the rules of every market in almost every industry. This is also the case of globalisation with the integration of domestic and overseas markets. Now, In some industries, digitalization and globalization have created a new dynamic, the winner-take-all dynamic, in which the strongest company wins almost all the pay-off.
The most obvious example being the e-commerce industry, where Amazon has achieved the size to be the winner-take-all. A lot of individuals compete for a limited number of slots to the top, and those who win take all. To put it simply, it is like a game where 99% of people lose and 1% win everything. This economic phenomenon used to be limited to the world of entertainment, where celebrities would fight to get the most media exposure. With giants such as Amazon or Google, it is safe to say that we have already entered a winner-takes-all economy. Now, companies need to re-assess their priorities: it is all about being the winner on their markets: whether it is global or local, mass market or niche. But is it even possible to compete with giants?

II - How the winner-takes-all economic model is taking over

Those giants, also known as FAANGs (Facebook, Amazon, Apple, Netflix, Google), have been making the most gains over the past few years. Facebook, for example, is the world’s preeminent social networking platform. With a user-base of more than 2.5 billion people as of August 2020, the company can claim approximately 30% of the world's population as its customers, monetizing its massive user base, by selling targeted ads based on users’ personal preferences. Amazon, on the other giants, is also doing great. It has become the leading business to consumer e-commerce platform, using data analytics technologies so as to sell a retail catalog. Netflix, the online entertainment streaming service specializing in movies and television shows, is also known for its impressive customer growth from 22 million in 2011 to more than 190 million in 2020. The will to win us such that to compete with new entrants to the streaming market, Netflix has begun aggressively producing its own exclusive content, moving beyond its traditional role as a content aggregator. One of the reasons they have been so successful is thanks to what economists call ‘network externalities’: in short, it is when a transaction between party A and party B influences a third party (party C), who was not involved in the original transaction. According to an 2017 article from The Guardian, the share prices of the four American tech giants have climbed so far that together in 2017 they were worth an extraordinary $250 billion. Facebook, Amazon and Google have now amassed $140 billion altogether while Netflix is continuously investing and creating new business and Apple is hoarding $256 billion. Their network externalities are so effective that we end up with runaway economies and companies that are way ahead of the competition. As a matter of fact, it feels almost impossible to beat them, resulting in monopolies in the tech sector. In pure dystopian fashion, many refer to these companies as corporations, alluding the fact that they are on another level. Furthermore, this difference in size is also noticeable on the worker scale. The technology to make it happen demands immense investment, massive forces of specialized labor and complex management structures to make it all work. Because of this, the FAANGs stay winning. It is almost virtually impossible for small and medium-sized businesses to win against such competition, as FAANGs' capabilities are tenfold that of their competitors. However, these shifts are happening in every industry, the tech industry being the most prevalent one.

III - Outcomes and possible solutions

One of the most obvious outcomes is how technology is being used. With our world getting increasingly interconnected throughout, large companies can take over the local market anywhere they want. Without the barriers once associated with communication and supply networks, those large firms can simply dominate. Small businesses have a very hard time competing. What's more, when a new market appears, entrepreneurs rush to create products, services and technology. With time, customers gravitate toward the two or three companies they prefer. Starved of revenue, the other competitors shut down. Technology has exacerbated the growth of winner-take-all markets. This is especially relevant with ride-hailing services: apps like Uber and Lyft dominated many similar services. They won the game and claimed all the profits thanks to the speed and efficiency of their services, completely overshadowing regular taxis. A similar situation can be encountered with search engines. Indeed, Google has now eliminated any meaningful competition. As their profits soar each year, even their nearest competitors such as Yahoo and Bing struggle. This may be one of the best examples of winner-take-all markets. Google is on top, so it gets the best employees and has high research and development budgets. Google can afford to take risks and accumulate growing mountains of user data. In addition to that, thanks to its impressive financial power, any losses or failures get absorbed. Though some alternative search engines like Duckduckgo or Ecosia are appearing, it is almost virtually impossible to top Google. Another outcome is the massive performance gap between big corporations and small businesses. In industry after industry, spanning both the new and the old economies, a small set of companies is creating almost all of the new shareholder value. Simultaneously, the value of their less successful competitors is actually declining, and to an unprecedented degree. Companies whose products or service models have the slightest edge over the competition can quickly exploit that advantage. Investors are scrutinizing companies one by one, screening out those with merely average performance and investing their money with the top one or two players in each arena. This phenomenon has created a new dynamic, akin to the winner-takes-all economy, in which 5 to 10 percent of the companies in a given industry create all of the shareholder value. The biggest and most frightening outcome is the monopoly. If every sector is going to be dominated by one or two companies, it will create an uncompetitive economy which will bring in high prices and low employment. This could mean a complete market failure in the near future. So where do we even begin? One solution could be to control the prices, with the government regulating the prices of the product. Though this could work on companies such as Netflix, this would have no impact on Google or Facebook where the users' data is the price. The second solution is that a government can split up a company with too much control into several smaller ones. A well-known example would be Standard Oil. Once a company that held 90 percent of the refining market in the USA in the 20th century, it got split into thirty different companies so as to avoid a monopoly. This method greatly aided and helped against a possible market failure. Again, this could be hard to accomplish because of the nature of modern companies, especially tech companies. Even if you split a company like Google into thirty companies, eventually one of the 'new' search providers will surpass the competition once again. Because of today's technologies and markets, it is bound to happen.

In a nutshell, we are in the process of creating a 'winner-takes-all' economy. With only a few huge corporations dominating every sector. We must prevent these companies from wielding an unethical amount of power. Therefore, it is critical that we find a solution to slow this process down. We need a free, competitive and strong market ready to breed innovation. As the years go by, this topic will become more and more relevant, thus the need to talk about it.

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