

Economic Complexity - M. Balland

Are we entering a winner take all economy? Why and what can we do about it?

First, let's start off by giving a definition of what actually is a winner take all economy.

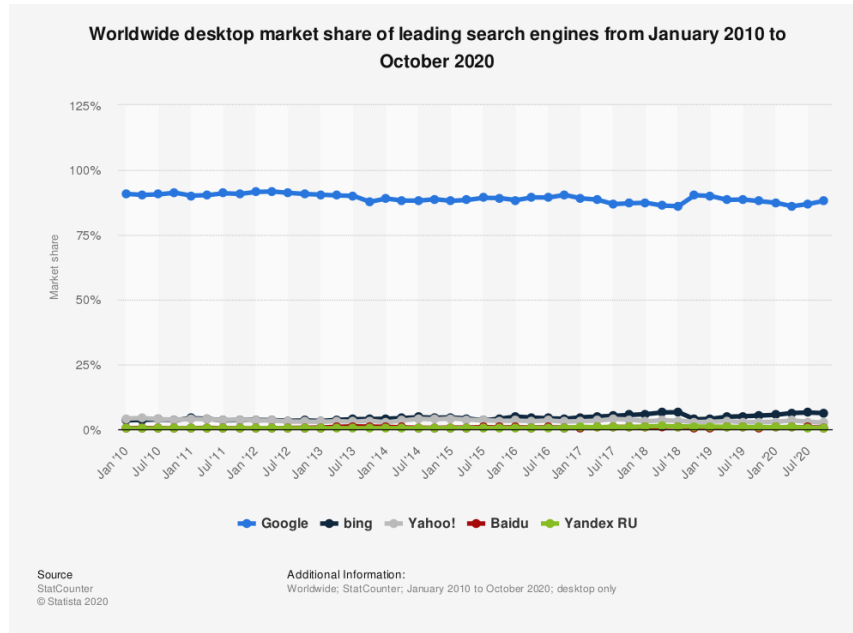
A winner takes all economy is an economy in which the best performers (it can be a company, an artist, or any other organization) are able to capture most of the share available on their market and the remaining competitors are left with really little.

In every market there is competition and everyone wants to rise to the top and be the best performer out of every other competitor.

But over the years, only a few succeed to actually rise to the top to become the "leaders" on the market.

In that way, I believe that we already are in an economy that's going towards a winner take all economy as we can see that we have more and more companies dominating the market in their sector.

If we take the typical example of Google, it is very obvious that we are going toward this type of economy.



As we can see on this graphic, from January 2010 to July 2020 Google have had almost 90% of the share as a searching engine.

The other companies are left with an insignificant number of shares close to 10% in total.

It is an endless circle in favor of the winners because the more your company earns, the more revenue you have to invest in your company and to promote your brand, and the more you get known all around the world.

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But if we investigate a bit more on the subject, we can see that some companies were or are currently charged for using illegal method for creating a monopoly on the market.

And that is exactly what puts competitiveness in danger.

I think that the question that should arise from this topic is **“to what extent can we allow this winner take all economy”** because I believe that this can have benefits on the economy as I will explain later on this essay, but if it threatens competitiveness on a market, it can become a real problem.

What we could do is make sure that companies do not try to take over the market and turn it into a monopoly by using illegal means.

One of the solutions I want to talk about here is the use of the “anti-trust law” to control companies who have too much power and could become a threat for the economy.

This anti-trust law comes from the United States and its goal is to prohibits activities restraining trade such as price-fixing, as well as any action that could go against competitiveness on the market. It is a law that prevents companies from making a monopoly by using “dirty and illegal tricks” and splits up a company into different smaller companies.

This law has been proved to be effective, and has been used multiples times since its implementation.

As an example, we have the case of Microsoft in 1998.

Microsoft was accused by the department of Justice for creating a monopoly that was responsible for the collapse of their past rival “Netscape” who was an independent American computer services. They ended up being split up in two companies to prevent market failure.

Google is facing a similar case today and is currently getting hit by antitrust lawsuit from more than 40 countries, after violating antitrust laws according to the Justice department.

Almost every leader of their sector faced this law because they were putting in danger the competitive aspect of the market which is essential.

It is inevitable and must be done if we still want to keep a somewhat “fair” economic market with competitiveness. I am saying “fair” here because even if they do respect anti-trust laws, the fact that these companies have most of the market share and that other companies are left with very little is still a reality.

However, as long as companies are not violating any laws, going towards a winner take all economy could have some benefits.

It could help to boost creativity and innovation.

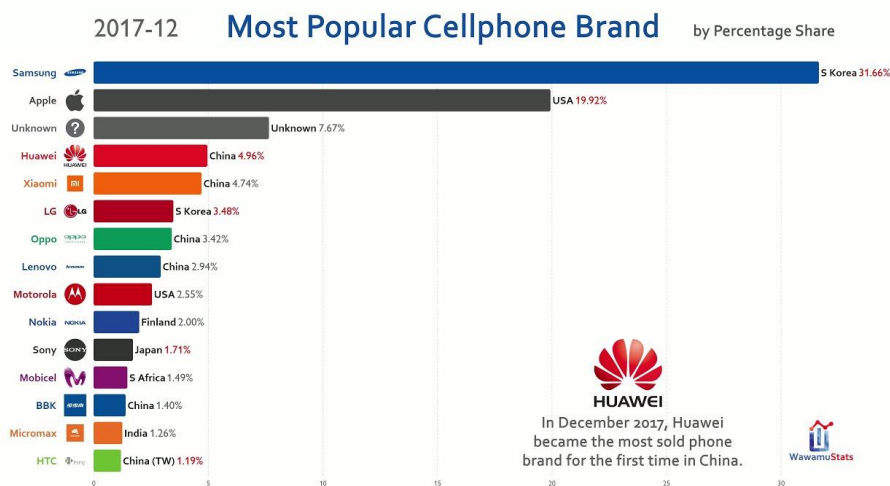
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When you are in a market, the goal is to appeal to the customer by selling better products or services than the products and services of the competitors in term of price, quality and many other factors.

In order to rise on the chart of the leaders of the market, you have to constantly renew your ideas and keep on innovating. And the higher the goal is, the more you need to improve.

So, in that way it can help to boost the innovation capacity of companies.

To illustrate this, let's have a look at the smartphone sector.



In fact, according to 2017 datas, Samsung is the leader with 31.66% of the shares, quickly followed by Apple with 19.92%.

Samsung and Apple combined have half of the shares on the market.

But this doesn't mean that there is no competition possible in this sector.

In fact, if we look at the little text in the corner of the horizontal histogram, it says that "Huawei became the most sold phone brand for the first time in China in December 2017."

In 2017 it only had 4.96% of the shares but this simple sentence is enough to announce what is about to happen later.

Let's now take a look at the shares of Apple, Samsung and Huawei on the second quarter of 2020, we can see a drastic change.

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Huawei overtook both Apple and Samsung to become the smartphone leader.

If we look at the percentages, Huawei saw a 2% growth in the space of a year (between 2019 and 2020) whereas Samsung lost around 4% of its market share and Apple grew by 4% but is still far

behind Huawei with only 14% against 20% of the market share for the new Chinese leader.

70% of the smartphones sold by Huawei were sold in China, but they still managed to climb up the ladder and overtake the two previous leaders of this market.

Furthermore, with new technologies and the use of communication tools, this winner takes all economy is not going to stop soon because it will only increase disparities.

So beside regulating and controlling big companies with anti-trust laws, it is more a question of “How can we game with this situation and adapt to it”.

In the following year, it is very obvious that every sector is going to have 1 or 2 winning companies in their market. But it doesn't mean that the other companies competing in the same sector will be left with nothing. There is always a way to get the best out of every situation.

What I think is one of the reasons why some companies are “winners” in the economy is mostly due to their way of delivering a service or a product, as well as the method they use to promote their company or their work. Again, the more they earn, the more they can use to promote their brand and occupy and even bigger part of the market.

In fact, technology plays a critical role in this winner take all market. Over the years, businesses have become more and more reliant on these technologies and use computer ranging from the most fundamental to the most difficult of processes.

What could seem unfair is that smaller companies or even artists, can get less recognition, they can be in the “shadows” of these winners, but it doesn't mean that they have nothing.

It is an opportunity to focus on innovation or on the way we can use communication tools to promote a product, a service or an artist.

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Lastly, let's not forget that these winner companies became giants in today's economy, but they were once small and started at the very bottom of the ladder like everyone else.

As we saw with the case of Huawei, they succeeded in overtaking Apple and Samsung, meaning that there is always a way to rise to the top.

This implies that even if the situation might seem to be complicated today, it will keep on pushing new businesses and companies to create and innovate even more towards a future market that may have different needs.

So, even if they are not successful now, as long as they adapt and stay in the field, if they are aware of what is going on in their sector, of the needs of society, they will grab onto opportunities and turn them at their advantage to get the best out of it and rise in the winner take all economy.

That is why I believe that doing nothing while still controlling companies who use illegal means to create a monopoly on the market, is a way to keep pushing new businesses and companies towards renewing their ideas and therefore create new products, new services and keep on innovating.

Because the higher the goal is, the harder we will try to do our best to reach it.