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Winner-takes-all Market



Top Performer Takes Giant Share of Rewards

In its book “Croître ou mourir, il faut choisir”, French author Gabriel Dabi-Schwebel refers to a winner-take-all economy or “effet superstar” in French. For him, companies have to adapt each day in order to be competitive and not be overwhelmed by others. It can be compared to the jungle, where it is all about the survival of the fittest.

In a winner-takes-all economy, the top players capture a disproportionately large share of the rewards, while the rest of the performers are left with extremely little. Examples can be found in sports, pop music, entertainment and movies. For example, the highest paid soccer players in Europe’s most successful clubs (Manchester United Chelsea, PSG...) earn infinitesimally more money than the players in the second, third, or fourth divisions in their country’s leagues. This structure used to exist in very few sectors, but it has now reached other occupations, including law, management, and economy. This essay will be focused only on the winner-takes-all economy and the role digitalization and technologies have on the spreading of a winner-takes-all economy, as it is written in the title of a *Bloomberg* article published in March, 2017: “The Tech Fuels The Winner-Take-All economy”. First, it is important to explain why we are entering a winner-takes-all economy system. The second part will be about the consequences and the third part will explain how small companies and newcomers can survive in this economy.

This part will focus on the competition existing between Amazon and Walmart, two of the main players in the online shopping arena.

In a winner-takes-all economy system, there is no place for two leaders. Even between big companies, there is always one that is more powerful than the others. They all try to find the best marketing strategy, based on their competitors. Here is an example of competition between Walmart and Amazon, which confirms that we are living in a world where a small number of companies control massive global market shares.

Amazon is a vast Internet-based enterprise that sells books, music, housewares, electronics, toys, and many other goods, either directly or as the middleman between other retailers and its millions of customers. At the beginning, it was only a bookseller but now, it is the leader in the e-book industry with its famous product: Kindle e-book. Amazon has completely transformed the retail industry and the way people consume: now they have the ability to purchase all sort of things and get them as quickly as possible. More than 500 retailers had to change their entire approach and build their own online platforms to keep up. This little detail shows that a company on its own can change the market forever. Today, Amazon keep offering new high-tech products (home automation product Alexa). It is even possible to watch films thanks to Amazon Prime Videos, which is in competition with Netflix. In 2017, Amazon had about 300 million users whereas after its first year (1994), it was only 1.5 million. Around 650.000 employees worked for Amazon in 2019. The company’s net sales in 2019 was \$280.5 billion (around 230 billion euros).

On the other hand, Walmart is an American operator of discount stores. An emphasis on customer attention, cost controls and efficiencies in its distribution networks helped Walmart become the largest retailer in the US in 1990. Now, it has thousands of stores in 28 countries across the globe

and 2.2 million people were working in the company in 2019. On its website, we can purchase 60 million items. The company represents 6% of the share of US online consumer goods sales.

Obviously, there is a rivalry between Amazon and Walmart and they each keep on looking for ways to be the best. As it is written in the previous paragraph, Walmart used to be the largest retailer in the US and also the largest corporation in the world. For several years, the company has struggled to keep up with the giant Amazon, which is growing more and more every day. In the fourth trimester of 2017, the number of Walmart online sales grew only by 23% whereas the ones of Amazon grew by 40%. The previous semester, Walmart online sales growth reached 50%. Thus, it is quite disappointing. At the time, Walmart CEO Doug McMillon defend himself by saying that the website was facing logistics problems. Stocks were not sufficient during the holidays, for example. To solve this problem, Walmart chose to reorganize its website and offer new ranges of products. It also encouraged its consumers to buy online and to pick up their purchases in store or to be delivered. Anyways, Amazon is still a huge competitor and the leader in its domain, as it is part of the Big Five companies in the US information technology industry.

The data given in the first part show that big companies play a significant role in today's economy. Their power allows them to influence the way we consume, the way we live and even the way we think. Next part will be about the consequences of a winner-takes-all economy.

First, it is important to say that the winner-takes-all economy encourages the creation of monopolies. A new acronym, FANGs, describes four of the market's most successful and invested in companies (Facebook, Amazon, Netflix and Google) and they are all closely linked to the digital economy. As a consequence, this industry is full of monopolies, which leads to an uncompetitive economy, high prices and low employment. To solve this problem, the government could control and regulate the prices of the products but it would not work with all companies. It could also form antitrusts, which means to split up a company with too much control into several smaller ones. Unfortunately, many experts agree to say that in the end, it is not possible to successfully break up tech monopolies. For example, if Facebook split itself into two different social networks, people would gradually leave one and move to the other. At the end, there would only be one network left, so a monopoly. Whereas in normal markets, you can have for example Haribo and Lutti, Pepsi and Coke, Adidas, Nike or Puma. The companies that would have succeeded in the past will now fail and this has been happening in the US since the turn of the century.

Even though some local and small companies fight against an ever-changing economic system, some others are overwhelmed and go bankrupt. The US is facing a hard decline in the number of start-ups, because it has become too hard to succeed. The direct consequence is a declining dynamism among American businesses. According to Noah Smith, a *Bloomberg* Opinion columnist, it is a real concern because new high-growth businesses are vital drivers of GDP (gross domestic product) growth. He believes that technological change and globalization may have transformed the competition structure in the American economy, which today encourages more monopolies. When it comes to France, small convenience stores are having a hard time earning a living because people rather do their groceries at the mall, which is only 5 kilometres away.

Winner-takes-all in the digital economy creates a risk of widening income inequalities. A report released in October 2017 by a United Nations entity shows that winner-takes-all' dynamics in the digital economy creates a risk of widening income inequalities. To justify this statement, in countries of the OECD (Organization for Economic Cooperation and Development), where the digital economy has evolved the most, growing use of ICT (information and communications technologies) has been accompanied by an increasing income gap between the rich and poor. Below are some quotes to highlight the gap between rich and poor people:

- “The rich are getting richer” according to the World Wealth Report.
- “Globalization has expanded the market for skills, increasing the opportunities for the rich to become even richer,” says The Economist’s glossary of terms.
- For Noah Smith, “the lucky and the talented have been doing better and better, while the vast majority has struggled to keep up”
- According to a 2014 report by *Oxfam*, the 85 richest people globally had as much wealth as nearly half the world’s population.

The winner-takes-all economy creates inequalities and smaller companies are the ones who suffer the most from it. What could we they do about it? It is the subjects of the last part.

First of all, the best would be to avoid tech monopolies to help small businesses thrive and thus, have a place in the economy. Unfortunately, many experts agree to say that instead of trying to change the dynamic, small businesses and workers in general should look for ways to become successful in it. For example, they could focus their work on developing their online services and online marketing, even if hundreds of millions of them are trying to attract the consumers’ attention as well. They also have to offer relevant customer experiences and meet their needs at every moment. We can take the example of the fashion industry, where small sneakers shops offer to custom their client shoes in a very short time (1 or 2 hours depending on the project). The aim is to offer something different from big brands like Nike or Adidas, who don’t need to build a reputation for themselves. People also need to cultivate adaptability because we are living in a world full of uncertainties. If they stretched themselves into areas that are not comfortable rather than just doing what comes more naturally, they may have more opportunities and find a way to stand out. Thus, a skill to develop would be speaking in public or data analysis.

In the end, we can say that there will always be big companies that control the economy. However, something could be done within them because even if international firms such as Microsoft, Facebook or Google are very successful, their employees are sometimes not satisfied with their work-life. The pressure of keeping the companies’ image at its best can add stress to their daily-life as well as being extremely productive to keep the gains high. To help their employees feel better, companies could use data about them (which ones thrive, which ones quit and which ones and the differences between those groups). Being aware of the problems going on, they could take measures and improve themselves. Unfortunately, the first concern of some big companies is not the well-being of their employees at all.

To conclude, it seems logical to say that the winner-takes-all economy system have existed for a long time and that we are still completely in it. This is spreading even faster with globalization. A few enterprises, especially in the tech industry, have a monopoly and use it to become even more powerful. The winner-takes-all economy within the digital industry is becoming more important due to the Covid-19 pandemic. Unfortunately, small companies and newcomers have to adapt and live in this new system because the importance technologies have on our daily-life is increasing day by day.

Thank you for reading my essay.

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Sources:

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