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## **Essay**

On the following question:

**Do we live in a “winner-takes-all” economy?**

by

**Léo CATTOIRE**

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An economy in which competition allows the best performers to rise to the top at the expense of the losers, in which the rich get richer and the poor get poorer, in which you either reach the very top or you fall into the depth of irrelevance. There are a lot of ways you could define a Winner-takes-all economy and it is very debated whether it depicts the world we live in or not. Some will take the example of sport to underline the obvious winner-takes-all side of our society, while some may take the example of agriculture, where your earnings are not related to your relative production, but to your absolute production. However, these things, as important as they can be, are not really shaping a major part of everyone's life, and this is why I will try to demonstrate that we do in fact live in a Winner-takes-all economy through the analysis of some industries, which in my opinion have shaped the world the most for the last decades.

First, the tech industry. Look at your phone, chances are that it has either Android or IOS<sup>1</sup> installed, as 99% of all smartphones use one of these two nowadays. When you want to buy something specific, you do not go through your local stores hoping to find it, you go on Amazon, or Aliexpress, and I am pretty sure that you are currently reading this by using Microsoft Word, and not some obscure Open Office or any other lesser-known word-processing software, if the later was not already shady enough.... In the era where "Google" became a verb, synonym for "searching something on the internet", Tech industry cannot be seen but ruled by Winner-takes-all economy. Specific markets and services are completely dominated by a handful of gigantic companies, if not one single monopolistic company in some cases, just like Google with search engines for instance. The thing is that these companies are not new, and show the proof that we do live in this Winner-takes-all economy. In fact, regarding mobile phones, IOS and Android were the two main operating systems in the early 2000s. Even earlier than that is Amazon for example, which came into the ecommerce market during the 90s nearly 30 years ago, and yet it is still here, with its founder being the second richest man in the world.

In my opinion, this situation very well depicts the society we live in, and it is caused by two main effects, namely the economy of scale, and the Network Effect. The first emphasize on the profitability of producing and selling products in large quantities. When you apply this concept to something such as a company that produces software, it can only be profitable, as digital products may have high fixed prices, but they also and more importantly have low-to-zero marginal costs, which means that they are completely free to mass produce, as it only needs you to copy it indefinitely. Of course, this is not enough to create an oligarchy, the environment systematically created by a Winner-takes-all system, as every software company would just grow thanks to its absolute production measured in quality. This is where the second effect, the Network Effect, takes place. It is extremely relevant in the Tech world and has a direct and an indirect effect. The first is rather simple and applies equally both to the hardware and software industry, and relies on the fact that when people are using your products, it will automatically attract more potential customers, so the more users you have, the more users you will gain. The second, much more associated with software, works as following: When someone uses a product, they share information with the company that made it, whether its about its customer's satisfaction, innovation and changes ideas or even personal information in some cases. Extremely valuable information that comes for free, where starting companies have to invest a lot of money in order to get a glimpse of what customers really need and want.

Thanks to these two effects, a company that starts to succeed and manages to make the right maneuvers when it has to, like adapting its product, making it evolve, listening to what people really need and want to put money on, because that is really what matters in the end, can only snowball and gain in money and mass indefinitely. And such a company then starts a virtuous circle, at least for itself. Gaining mass implies gaining brand awareness, gaining brand awareness means gaining a brand image, having a good brand image brings new customers and makes it easy to create loyalty among them, and

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<sup>1</sup> Apple's operating system on mobile devices

this repeats indefinitely. The obvious effects of this circle, considering an environment only constituted of young companies in a young market or sector, are that, when one company starts to thrive, it is impossible for others to follow, which makes them lose more and more market shares, until they become irrelevant, before finally disappearing.

Take the example of Google and Yahoo, respectively founded in 1994 and 1998. Yahoo was the most used search engine in the world from 1997 to 2003. However, thanks to a clever management from Google direction, and a terrible one from Yahoo let us be honest, it managed to take the lead, which had been occupied for more than six years by its rival at the time. As a result, its growth led it to even more growth, and its management granted it a good brand image based on a much more satisfying user experience than its competitors. Thanks to the Network Effect, Google became the biggest IT company in the world, and Yahoo collapsed, unable to follow Google on its own previous territory. If this is not a sign that we live in a Winner-takes-all economy, I do not know what is.

Then again, this is an example about young companies competing in a young territory, if you consider a mature economic environment, such as what IT has become today, the rules are a little bit different. Sure, you can maybe blow up as a young company, thanks to your innovative products and your visionary objectives, but it is no secret that you are very likely to be bought by some giant firms like Google or Amazon, so much so that some regulators and legislators are beginning to take actions and make measures in order to ensure a semblance of fair competition, such as the European Commission and its antitrust legislation or the Federal Trade Commission. The Tech industry isn't the only proof that we do live in such an economy. Take retail for example. During the last decades, in pretty much every developed country, the retail market has seen some drastic changes, namely, the appearance of huge firms engulfing smaller companies, like Walmart, Costco or the Schwarz Group<sup>2</sup> only to name a few. Sure, they utterly destroy small local businesses due to their brand awareness and their huge infrastructures, but on the other hand, they also provide convenient access to an extended amount of goods, for a below average to low prices. Besides that, I'm not here to discuss whether this is good or not, but rather to support the idea that they are another testimony to the winner-takes-all economy we live in.

On a final note, I would like to say that the very foundation of our present society is specialization, which, in my opinion, can thrive the best in this type of economy. Even if it was the case before, an individual's value is now determined by its specialized knowledge rather than by its versatility and adaptability due to the increase in complexity of knowledge required to achieve innovation or progress in most sectors, even in those that are not economy related. I very well see that today, if one wants to be successful<sup>3</sup> in life, they either have to be specialized on a domain, or very lucky. And a vast majority of the most specialized people are also the most successful people in the world, which, for me, cannot be seen but as a situation where the winner (ie. the one who has an advantage over the others) takes all (ie. the success, the respect, the money, the fame, etc...). Finally, some might say that it is unfair, and everyone should attain success in life. I disagree, and would go as far as saying that it is in fact, in my opinion, one of the most equalitarian system there could be. Everyone has the possibility to achieve success in such an environment, as it only takes efforts, patience and power of will.

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<sup>2</sup> The Schwarz Group is the largest European retailer and the fourth largest in the world. It is mostly known for brands such as Lidl or Kaufland

<sup>3</sup> Understanding having financial security and liberty, and having to work in order to attain it