

Winner Takes It All

The phrase “winner takes it all”, or a variation of the phrase, is widely used today and evident on an individual, corporate or country level. The phrase emphasizes two parts “winner” and “takes it all”. The term winner typically means a person or thing that wins or a victor. When put together with “takes it all”, it describes a situation or outcome whereby the best performers are able to capture a very large share of the rewards or profits, predominantly due to the lack of significant competition, and the remaining competitors are left with very little¹⁰.

Understanding “Winner Takes it All” through Human Nature and Social Context

Discussions about the origin of the “winner takes it all” mindset and environment often point towards understanding how mankind make decisions and to what extent is the decision making process inherent to human nature or influenced by societal norms. Jean-Jacques Rousseau’s behavioral philosophy had a profound influence on this debate. Rousseau appears to take a cynical view of civil society, where man has strayed from his “natural state” of isolation, and consequent freedom, to satisfy his individual needs and wants, concluding that civil society is a trick perpetrated by the powerful on the weak in order to maintain their power or wealth, meaning that moral inequality is endemic to a civil society and relates to differences in power and wealth. Once man can think and decide, this type of inequality is established by convention.

Additionally, Herbert Spencer built the concept of the “survival of the fittest”¹¹, where he first used the phrase after reading Charles Darwin’s “On the Origin of Species”; drawing parallels between his own economic theories and Darwin’s biological ones. It has been claimed that theory of the “survival of the fittest” was interpreted by late 19th century capitalists as an “ethical precept that sanctioned cut-throat economic competition” and led to

the advent of the theory of “social Darwinism”¹², which was used to justify laissez-faire economics.

Following this rationale, we could argue that man tend to create ways to satisfy his individual needs without, necessarily managing the limits of his satisfaction. That is when extreme situations can exist, such as the situation of the “winner” and of the “winner that takes it all”. Understanding the innate human nature and social context can help us explain the “winner takes it all” mindset.

Global Trends impact the “Winner Takes it All” environment

The “winner takes it all” mindset and environment is not necessarily harmful. In US retail markets, for example, Walmart’s dominance in retail market probably has served well its customers. However, on the other hand, Walmart’s dominance has been detrimental to its suppliers. In the discussion of “winner takes it all”, a far more important aspect is to understand what has led to the prevalence of “winner takes it all” in the last few decades. Professor Alan Krueger in one of his speeches mentioned that in recent decades of globalization, technological changes and an erosion of the institutions and practices that support shared prosperity have been the main reasons for “winner takes it all” societies. Though Krueger was referring mainly to the music industry, the “winner takes it all” attitude can be observed in many other industries. A number of global trends are identified as external factors which impacts the “winner takes it all” environment.

Globalization

In the last century, globalization has changed the dynamics and business landscape for many industries. Globalization has intensified the “network effect” and has helped corporations to grow faster in global markets. It is true that globalization has helped most corporations to flourish but larger corporations were the ones that truly reaped the benefits. Smaller companies did not have enough resources to grow in the new market and many have either become extinct or remained so small that they do not offer significant competition. An

¹⁰ <http://dictionary.reference.com/browse/winner+take+all>

¹¹ Darwin, Principles of Biology of 1864, vol. 1, p. 444

¹² John S. Wilkins (1997), Evolution and Philosophy: Social Darwinism – Does evolution make might right?

example is of Netscape and Microsoft where the former company disappeared when, with huge resources at hand, Microsoft continued to dominate the market. In some specific cases, small companies can become winners in specific markets, however to become that “winners takes it all” would demand a disruptive movement, such as technology, to change the scenario. Google and Facebook are perfect examples where the companies have grown with rapid expansion in global markets.

Technological Advances

Larger companies that are able to invest heavily in R&D and technological advances have managed to secure an edge over their competitors. In countries with low access to public support and limited competition in the private sector, smaller companies rarely have the opportunity to compete without having to face a “winners take it all” scenario. A typical example that we often come across is of Tesla. With heavy emphasis on R&D, Tesla has led the electric car segment. Some might argue that Tesla was a successful start-up, however it is important to note that Elon Musk, the man behind Tesla, was already a wealthy businessman when the company was started.

Economies of Scale

Economies of scale become truly relevant when analyzing success of market leaders within an industry. Companies that have huge economies of scale, either on supply or demand side, assert commanding position over their competitors. Studies of successful corporations demonstrate that these companies exerted scale dominance over their competitors. In the last few decades, “winning companies” have often used economies of scale to dominate the market.

Erosion of Institutions and Practices

The erosion of institutions and practices has a profound impact on the “winner takes it all” environment. Today, society is concerned about winning – getting a bigger piece of the pie – than cooperating with others and when these individuals lead the companies, they tend to bring their personal motivation and drive. Again, it is easy to say that profit-hungry companies have not severely impacted the society and its people but such companies try to take it all because their shareholders are always asking for more.

Concentration of Capital

The expansion of “winner takes it all” markets widens the economic and wealth disparities because a select few are able to capture increasing and concentrated amounts of income that would otherwise be more widely distributed throughout the population. On a broader term, companies with size, scale, dominance and strong operational and financial figures have everything necessary for successful growth. In the process of expanding and dominating their industries, these companies amass even more resources. On the other hand, resource poor companies lacking of cash continues to shrink due to the higher costs of capital, which limits the investments in R&D, for example. This trend has led to the concentration of capital in the hands of certain individuals or companies, more often than not, with strong political connections. With the desire to keep the power and capital in the hands of a few, societal institutions and practices are altered to suit the material needs of the elite few.

Resource scarcity

Resource scarcity has heavily impacted corporations and countries within this century. Countries with dwindling natural resources are looking to secure other resources at any cost. Such countries help their national companies to concur “the world” in search of more resources. This trend is exemplified in recent times, whereby Chinese companies have expanded into Africa in search of more commodities such as oil, gas and metals. However, often such advancements, as history shows, lead to opposition from local communities when they perceive the advances of the foreign nation as a threat rather than mutual benefit.

The temporal state of “Winner Takes it All”

“Winner takes it all” mindset are pushing companies to relentless strive for dominance. Although a company may be able to enjoy a dominant position in a particular industry or business segment, this does not allow the company to remain the winner. This is due to the process of how our economies develop. Joseph Schumpeter argued that economies progress through a process of “creative destruction”, where entrepreneurs disrupt the status quo (which he explains by concept of

circular flow) through innovation. As such, companies that innovate usually gain large profit and become a “winner” who can “take it all” in a particular business or industry. However, such high profit is temporal because competitors will emulate the innovation, provided that the market is contestable. As the followers begin to provide similar goods and services, prices and profits fall, and stationary equilibrium with the circular flow reappears. Through new innovation, the cycle will repeat itself. In this regards, the “winner” or “winner that takes all” will not remain so forever.

Rockefeller is an example of the temporal nature of the “winner takes it all” mindset. Considered to be one of the most powerful families, if not the most powerful family in the history of the US, Rockefeller saw the cutthroat competition in the oil industry as a ruinous influence and began to methodically stamp it out. Under his firm hand, and due to his seemingly super-human abilities to choose excellent managers, by 1890 Rockefeller's company, was well ahead of the industry and enjoying a high profit margin and used these profits to buy out competitors. However, the US Government finally decided to intervene and by 1911, adjusted its legislation and was successful to carve up the Rockefeller Empire into “smaller” companies (i.e. Chevron, Exxon Mobil and ConocoPhillips) under the government's supervision.

Implication of “Winner takes it all”: How should you navigate the future?

The implications of the “winner takes it all” mindset could be represented on three levels, that of an individual, company and country (sovereign entity). The individual level stands out and could likely be the catalyst of decisions made at the corporate and country levels, given the important role that personal choice plays in decision making as discussed in the earlier chapters quoting Rousseau's human behavioral philosophy¹³. At the same time, the question arises whether it is indeed necessary to follow the “winner takes it all” concept and, even more importantly, does it produce the best competitive advantage for doing business? Companies operating in the “winner takes it all” environments tend to strive to become sole market leaders in their industries. It is widely

argued that the combination of the current trends intensifies and speeds up the process of “winner takes it all” establishment in ever increasing numbers of economic activities. It can be observed that, as Rousseau observed in the case of the individual, the same environmental selection process applies to companies at different stages of their development be it in the selection of senior leadership, markets or types of business to compete in. However, at a certain level of market dominance, these dominant players will receive a backlash, either from competition, international community, regulators, government bodies or even the wider public. This will push the dominant player to seek out cooperation agreements with other players within the industry. If these partnerships can be achieved proactively then the companies are better able to prevent any backlash and help solidify longevity and profitability of their business. This may well be one of the more efficient methods to be able to respond and withstand any innovative disruption within the industry, and successfully compete to stay relevant.

In the long term, virtually any “winner takes it all” position is endangered and not sustainable. It might not be a creative destruction or innovation that poses the most threat to a business, but the specific competitive configuration within the industry. There are four competitive configuration as detailed below represented in the diagram:

1. Horizontal competition (“Winner Takes it All”) - regulatory reaction to tackle monopoly
2. Vertical competition (“Fight for Profit Pools”) - concentrating profits into one area of the value-chain, leaving some areas of the value-chain uneconomical to continue business
3. Vertical cooperation (“Specialization”) - specializing in a number of core competences or specific business activity within the given value chain (outsourcing is an example of jointly sharing profit margins along the value chain)
4. Horizontal cooperation (“Partnership”) - sharing of resources through common projects, joint-venture agreements and opening-up of patents

¹³ <http://plato.stanford.edu/entries/rousseau/>



Source: Ralf Boscheck, *Competitive Advantage – Superior Offer or Unfair Dominance?*

It is extremely difficult to achieve and maintain the equilibrium as represented in the “Winner Takes It All” quadrant. In most cases, corporations tend to evolve from one quadrant to another when responding or reacting to the competitive environment.

In summary, the “winner takes it all” mindset and environment will continue to dominate in most societies and global economy. The current societal, economic and technological trends only reinforce this mindset and serve as a self-fulfilling prophecy. Taking into consideration all of the above, every business leader must ask a very profound question: Is the “winner takes it all” approach right for me and my business or is it just a delusion driven by the prevalent “winner takes it all” mindset?