The “Winner Take All” Dynamic in Investing

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Nels Wangensteen December 6, 2018

Prior to the turn of the last century, the industrial revolution was powered by capital and people intensive companies that came to dominate the economic system. Railroads, manufacturers, coal, steel and other powerful businesses and business combinations grew large and successful in their quest for efficiency and profits.

One hundred years later, the “winner take all” dynamic, this time enabled by technology, is once again an increasingly dominant part of the economic landscape. But in a new and transformative way.

Powerful industrial giants like the railroad and steel trusts that drove the industrial age have been replaced by sleek, lean companies that require fewer people and much less capital but have attained dominance through control of information and innovative use of technology.

In 2001, business guru Peter Drucker compared the blossoming technological age to the transformative industrial age, writing, “These parallels are close and striking enough to make it almost certain that, as in the earlier industrial revolutions, the main effects of the information revolution on the next society still lie ahead.” We are feeling those effects across the globe today.

Proof of how technology is changing the business world is everywhere. Amazon boxes are ubiquitous. Uber is a multi-billion dollar transportation company that owns no vehicles and has only a relative handful of employees. Airbnb has more rooms for rent than any hotel chain but owns no property.

These three examples, along with other disruptive innovators, have become market leaders, demonstrating that the competitive advantage has become a function of the network effect. The new industrial conglomerate is built on a platform, using connectivity and information sharing to dominate a market.

This is leading to powerful ecosystems developing around these platforms through partnering, joint ventures and acquisitions. For example, between 2011 and 2016, Apple acquired 70 companies, Facebook more than 50, and Google nearly 200.[1] The big are getting bigger by concentrating data, cutting edge technology, and machine learning to consolidate their position.

In the past, Walmart captured a significant portion of the domestic retail market by building more than 1,000 “big box” stores and filling them with almost every product available, from soft goods to tires. But they can’t stock everything. Amazon, on the other hand, uses technology to address the “long tail” of retail. They can profitably sell everything from the most common mass market items to the most obscure niche products.

What does this mean for the future of investing? We think the winner takes all dynamic is likely to continue and perhaps even be amplified by the next big wave, artificial intelligence. Of course, we are always looking for potential new disruptors and watchful for changing government regulation. The future will present investors with opportunities but benefitting will require diligence, intense drill down research, and the ability to link opportunity with new ideas.

1. “Machine Platform Crowd,” Andrew McAfee and Erik Byrnjolfsson, 2017

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