

The cultural rise of winner-take-all-ism in America has reached a dangerous and self-defeating extreme.

Can the nation once again come together in a common interest or is divisiveness too great?



The following article was originally published in "What I Learned This Week" on July 27, 2017. To learn more about 13D's investment research, [please visit our website](#).

Back in March, with Uber engulfed in scandal after scandal, we wrote the following about CEO Travis Kalanick: "In an era when 'winner-take-all' dynamics increasingly dominate the digital economy, is it any surprise one of Silicon Valley's greatest disruptors would be infected by a 'win-at-all-costs' culture?"

Of course, Kalanick would be pushed out of the company three months later, blamed for cultivating a myopic, if not abusive, fixation on victory over common decency.

Whether corporate governance, politics or cultural touchstones like sports and entertainment, winner-take-all-ism has grown ever-dominant over the American mindset. And this shift underlies many of the central issues facing the country and its markets. To name just three: the relentless, [destabilizing imperialism of tech giants](#); [the opioid crisis created by the predatory practices of pharmaceutical companies](#); and the crippling [collapse of bipartisanship in Washington](#).

Twenty years ago, John Kenneth Galbraith recognized Darwinism was escalating in America, [warning in Harvard Business Review](#): "The larger social effects [of a winner-take-all society] are not good." Which begs a question central to predicting market outcomes: **Is a backlash against winner-take-all-ism coming or will its continued rise further compromise America's political, economic, and cultural leadership?**

Galbraith was not the only prominent economist to spot the incoming Darwinian tide. In fact, his *HBR* article was written in response to Robert H.

Frank and Philip J. Cook's seminal 1995 book, [The Winner-Take-All Society](#). Today, the book's intro reads near-prophetic:

*"Winner-take-all markets have already wrought profound changes in economic and social life. And **because many of the forces that create these markets, [primarily globalization and technology], are intensifying, even more dramatic changes loom ahead.** Some of these changes are for the better... But winner-take-all markets also entail many negative consequences...[They] have increased the disparity between rich and poor. **They have lured some of our most talented citizens into socially unproductive, sometimes even destructive, tasks.** In an economy that already invests too little for the future, they have fostered wasteful patterns of investment and consumption. They have led indirectly to greater concentration of our most talented college students in a small set of elite institutions. They have made it more difficult for "late bloomers" to find a productive niche in life. **And winner-take-all markets have molded our culture and discourse in ways many of us find deeply troubling.**"*

Few arenas of American life better reflect the cultural primacy of winner-take-all-ism than sports. As legendary broadcaster Howard Cosell was known to say: "Sports is human life in microcosm." The proliferation of performance-enhancing drugs throughout the 1990s and 2000s demonstrated the corruption of a win-at-all-costs mentality. The NFL's systematic suppression of concussion research showed profit growth trumping morality, loyalty and employee safety. However, **the shift is far more culturally fundamental than just the actions of noted bad actors.**

The NBA's Philadelphia 76ers provide a clear example. Over the past four seasons, Sixers fans have endured an historic run of futility, the team winning only 75 of 328 games. Worse yet, this futility was by design. Starting in 2013, GM Sam Hinkie—an **analytics devotee** and Stanford MBA with a stated admiration for the titans of Silicon Valley—dismantled a good, but not great core of young players in order to "tank". The logic went: championships are won by superstars; **your best shot at a superstar is at the top of the draft; and your best chance at the number one pick is losing.**

Such deliberate team evisceration sustained for multiple seasons is unprecedented in the history of American sports. In turn, **many in media's old guard saw Hinkie's strategy as sacrilegious—a blatant insult to the competitive spirit of the game**, [or as *Deadspin* writer Tom Ley put it](#), “a Godless abomination.” And in practice, **fans hated it as well**—the unprofessional product on the floor each night meant Sixers attendance and TV ratings were near-worst in the league.

However, on NBA draft night last month—the team picking first for the second year in a row—the chant of appreciation rang loud and clear: “Trust the Process.” To Hinkie and the many that still revere him **even a year after his resignation** from the organization, **everyone is a loser except the team holding up the trophy at the end of the season; therefore losing on purpose is justified.**

Another cultural pillar, movies, has followed a similar progression towards winner-take-all-ism. Five of the top ten highest-grossing films of 2016 were kids movies. The remaining half are strikingly homogenous: four comic-book adaptations and a Star Wars movie, all with plots driven by one superhuman winner (the protagonist) and one loser (the antagonist). Going back two decades, such homogeneity is absent. **In 1996, the top 10 films included two romantic comedies, a courtroom drama, and a natural disaster movie.** Only one movie, “Independence Day”, clearly aligns with today's winner-take-all blockbuster paradigm.

When formative cultural institutions like sports and movies revere winner-take-all-ism, is it any surprise business and politics reflect the same? Tellingly, [Vanity Fair anointed Ayn Rand the most-influential figure in the tech industry last year](#), surpassing Steve Jobs. Meanwhile, Donald Trump has declared Rand his favorite author. Silicon Valley and the Trump Administration agree on little—that is, except a governing philosophy. In Rand's words: **“Man exists for his own sake, that the pursuit of his own happiness is his highest moral purpose, that he must not sacrifice himself to others, nor sacrifice others to himself.”**

Relentless wage stagnation; rampant consolidation across American industry; neglected infrastructure decay: Frank and Cook foresaw the escalating consequences of winner-take-all-ism more than two decades ago. **Yet, political and business elites have failed to adequately respond, no doubt in part because of greed, but also because the culture has embraced winner-take-all-ism instead of demanding change.**

So the question remains: Are we at the peak of winner-take-all-ism in America? According to those loyal to Adam Smith's invisible hand theory, "impersonal market forces" *should* "channel the behavior of greedy individuals to produce the greatest good for all." However, decades into the escalation of winner-take-all-ism, any faith in self-correction appears ever-more farfetched. This is why, in a follow-up book published in 2011, [*The Darwin Economy: Liberty, Competition, and the Common Good*](#) (see *WILTW* January 28, 2016), Frank claimed Darwin would supplant Smith as the accepted "founder of economics":

*"Darwin's view of the competitive process was fundamentally different. His observations persuaded him that **the interests of individual animals were often profoundly in conflict with the broader interests of their own species...** Far from creating a perfect world, economic competition often leads to 'arms races,' **encouraging behaviors that... cause enormous harm to the group.**"*

Meaning, the economic progression won't self-correct, therefore the "harm to the group" must grow so acute the cultural pendulum swings and the people force change. If President Trump fails in his promise to deliver "wins" to the white working class, if wages continue to stagnate, if the only countermeasure Silicon Valley luminaries can come up with is Universal Basic Income—a fundamentally flawed idea in an automating world in which the declining dignity of work underlies populist anger—the **"losers" that constitute the majority will retaliate against free markets, voting against them.**

Put simply, **winner-take-all-ism is unsustainable in a world of democracy and the more influence it has over economics and culture, the more**

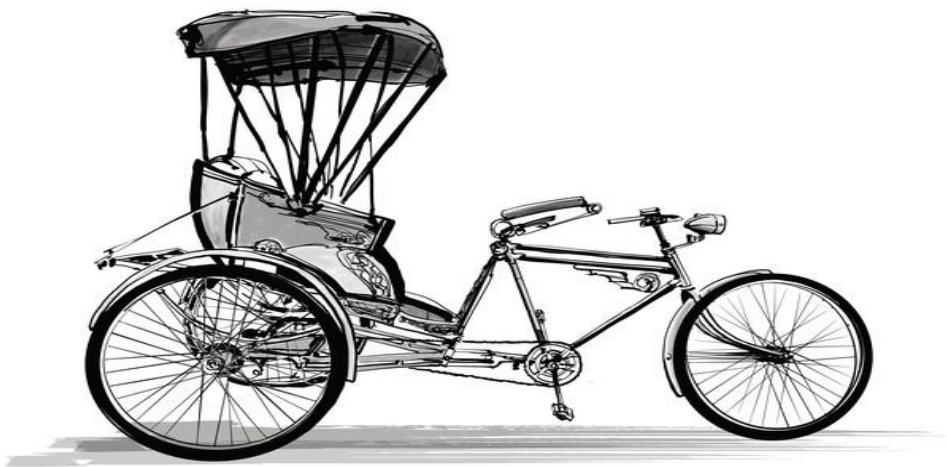
inevitable a reckoning becomes. That day is coming—evident this week as the Democrats unveiled a new party platform, which anointed antitrust intervention as a top priority. And when the backlash begins, heightened regulation and restrictions on competition will create a vastly different world.

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<https://latest.13d.com/cultural-rise-of-winner-take-all-ism-america-has-reached-a-dangerous-self-defeating-extreme-da970694423e>

Is Europe’s stand against Uber a sign that the “sharing economy” is in trouble?

By classifying the ride-sharing app as a transportation service, Europe could regulate Uber to death.



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The European parliament voted overwhelmingly in January to back a report calling for better worker protections in the “on-demand” economy, better known as the sharing economy. Then, last Thursday, the European Court of Justice sought to answer a more pointed question in a long-awaited case involving a Spanish taxi association: **Is Uber a transport company, or a digital-services company?** The response from one of the court’s top lawyers could have major consequences for both Uber and the gig economy. Maciej Szpunar found that the \$68 billion US ride-hailing app was a “transport company”, rather than a digital or “Information Society service”, under the EU’s terms. Szpunar advised that Uber “must be classified as a ‘service in the field of transport.’”

“This is not a ruling—that will be made by judges considering his opinion at the ECJ later this year, most likely in the summer,” [The Financial Times](#) reported. “The judges tend to go with what their top lawyers advise.”

The stakes of the case are high. If Uber is classified as a purely digital platform, then it could set up its app in the UK, and operate its services across France, the Netherlands or Spain. But **if it is classified as a transport company, then it will be subject to regulations and possible bans in each of the bloc’s 28 members.** Meanwhile, the skies for gig economy companies are darkening across the continent. New research from [the European Central Bank finds that “precarious” jobs](#)—a political lightning rod in Europe—are on the rise. And for all its flexibility and freedom, the digital gig economy turns out to be very divided, fanning the flames of populism—the rise of the “cybertariat”. A politician like Marine Le Pen could ride such trends to victory in 2022.

Politicians from Brussels to Washington are worried. **By “relabelling” platforms and mandating employment standards, governments could severely hobble gig economy companies.** Given the current political turbulence, some experts think that might be wise.

As we have argued many times, **the current political turbulence has much to do with dramatic, recent changes in how the digital economy operates.** [We quote from a 2016 report by the OECD:](#)

“A comparison between the top-15 Internet based companies by market capitalisation in 1995 with those in 2015 shows that the main players used to be Internet Service Providers (ISPs), media and hard- or software companies, whereas today most are platform operators...”

Table 1. Top 15 public Internet companies by market capitalisation in 1995 and 2015

| | 1995 December | Main product or activity | USD bn | 2015* May | Main product or activity | USD bn |
|----|------------------------|-----------------------------|-----------|-----------------|-----------------------------|-----------|
| 1 | Netscape | Software | 5.42 | Apple | Hardware, services | 763.57 |
| 2 | Apple | Hardware | 3.92 | Google | Information (search) | 373.44 |
| 3 | Axel Springer | Media, publishing | 2.32 | Alibaba | Goods (e-com) | 232.76 |
| 4 | RentPath | Media, rental | 1.56 | Facebook | Information (social, P2P) | 226.01 |
| 5 | Web.com | Web services | 0.98 | Amazon.com | Goods (e-com) | 199.14 |
| 6 | PSINet | ISP | 0.74 | Tencent | Information (social, P2P) | 190.11 |
| 7 | Netcom On-Line | ISP | 0.40 | eBay | Goods (e-com, P2P) | 72.55 |
| 8 | IAC / Interactive | Media | 0.33 | Baidu China | Information (search) | 71.58 |
| 9 | Copart | Vehicle auctions | 0.33 | Priceline Group | Services | 62.65 |
| 10 | Wavo Corporation | Media | 0.20 | Uber | Services (P2P) | 51.00 |
| 11 | iStar Internet | ISP | 0.17 | Salesforce.com | Services | 49.17 |
| 12 | Firefox Communications | ISP | 0.16 | JD.com | Goods (e-com) | 47.71 |
| 13 | Storage Computer Corp. | Storage software | 0.10 | Yahoo! | Information (search) | 40.81 |
| 14 | Live Microsystems | Hard- and Software | 0.09 | Netflix | Services (media) | 37.70 |
| 15 | iLive | Media | 0.06 | Airbnb | Services (P2P) | 25.00 |
| | | | 17 | | | 2,443 |

Note: *Uber and Airbnb are not publically traded companies and their market valuation is based on estimations. They are replacing LinkedIn (14) and Twitter (15) from the original list compiled by the source.

Source: based on KPCB, 2015; Fortune, 2015a.

*Beyond the changed composition of these 15 companies, their value by market capitalisation (current dollars) has multiplied 144 times over 20 years and their activities are increasingly drivers. In contrast to a traditional firm, **the valuation of a platform operator often does not primarily reflect its sales, but the value of the networks, individuals or firms—it matches, their transactions, and the data they generate...***

Online platforms not only scale fast while gaining little mass through matching several networks in two- or multisided markets, which fuels high valuation of

*the operating companies; **they also lower transaction costs to a point at which individuals can compete directly with firms, in particular in service markets.***

Technology has thus empowered some workers while enslaving others. Many have simply been left behind. According to new research by the McKinsey Global Institute, **digitalization “may have accelerated a divergence between the majority of workers and a smaller group at the top.”** We quote a special report by *The Financial Times* on [“The Work Revolution”](#):

*“Clearly, the advent of the high-tech gig economy means very different things to these two kinds of workers. **For the driver, it may feel like a kind of neo-serfdom.** But for highly educated, mobile professionals such as the consultant, it is a way to earn more money in less time, in ever more flexible ways...*

*This bifurcation is exacerbated by the fact that only a few sectors—information technology, communications, financial services and professional services—have adopted cutting-edge technologies in a significant way. In the US, workers in such areas of the economy enjoy twice the average national wage growth. Yet these sectors make up only about 19 per cent of the labour market. **The largest sectors in terms of employment—such as healthcare and education—are less digitalized and, for the majority of workers, less lucrative.***

Considering that the number of people working as freelancers is poised to increase dramatically, the digital divide is quickly becoming a universal issue. **In the U.S., 35% of the labor force is already “gigging”.** By 2025, up to 540 million people globally could land new jobs, additional hours, or work that better fits their skills through online platforms, [McKinsey Global Institute predicts](#). The upsides could be significant.

But these opportunities are not available to everyone (broadband internet access is key), nor do they represent quality work. [A study conducted by the New York Attorney General in 2014](#) found that **nearly half of all money made by Airbnb hosts in the state was coming from three, upscale Manhattan**

neighborhoods: the Village-SoHo corridor, the Lower East Side, and Chelsea. Major economies are feeling the pinch. Despite the eurozone boasting its lowest unemployment level in eight years (the headline rate has dropped from a peak of over 12% to 9.5% in April) and more than five million people finding jobs since 2013, wage growth is lagging. A new report from the European Central Bank explains:

“Despite a clear improvement in many labour market indicators, labour markets in most euro area countries—with the notable exception of Germany—appear to still be subject to a considerable degree of underutilisation,” the ECB’s researchers wrote.

Researchers at Bank of America Merrill Lynch arrived at a similar conclusion:

“The near-entirety of the rebound in the headline employment rate since 2013 can be ascribed to ‘lower quality’ jobs. This is usually associated with low-skill, temporary employment marked by the rise of the ‘gig economy,’” Gilles Moec at BAML [told *The Financial Times*](#). **Politicians like Trump and Le Pen have found success by promising to correct that: a return to the good old days of the pre-platform economy.**

More far-sighted politicians are pushing for better standards. Brussels is pushing to bring Uber drivers, couriers and other workers in the gig economy into national social security systems. In the U.S., there is talk of portable benefits that are not tied to an employer or company, but are owned by workers themselves. And just yesterday, Alicia Glen, New York City’s deputy mayor for housing and development, [presented a policy framework to leaders from 22 cities around the world](#), all of whom are eager to assert their regulatory authority over gig economy startups.

“I want these companies to do well, **I want these companies to hire a lot of people,**” Glen said. **“But I want to do it in a way where they understand that we have a legitimate interest in regulating them.”**

By relabeling platforms as traditional services, the EU could regulate their pricing advantage out of existence. **But “relabeling” platforms alone may not be enough.** Even if the EU’s highest court rules against Uber by calling it a transport company, it “won’t create a high enough hurdle to drive it out of business in Europe because it won’t ban it from hiring ‘independent contractors’ at a fraction of the cost incurred by incumbents,” [Leonid Bershidsky noted in Bloomberg View.](#)

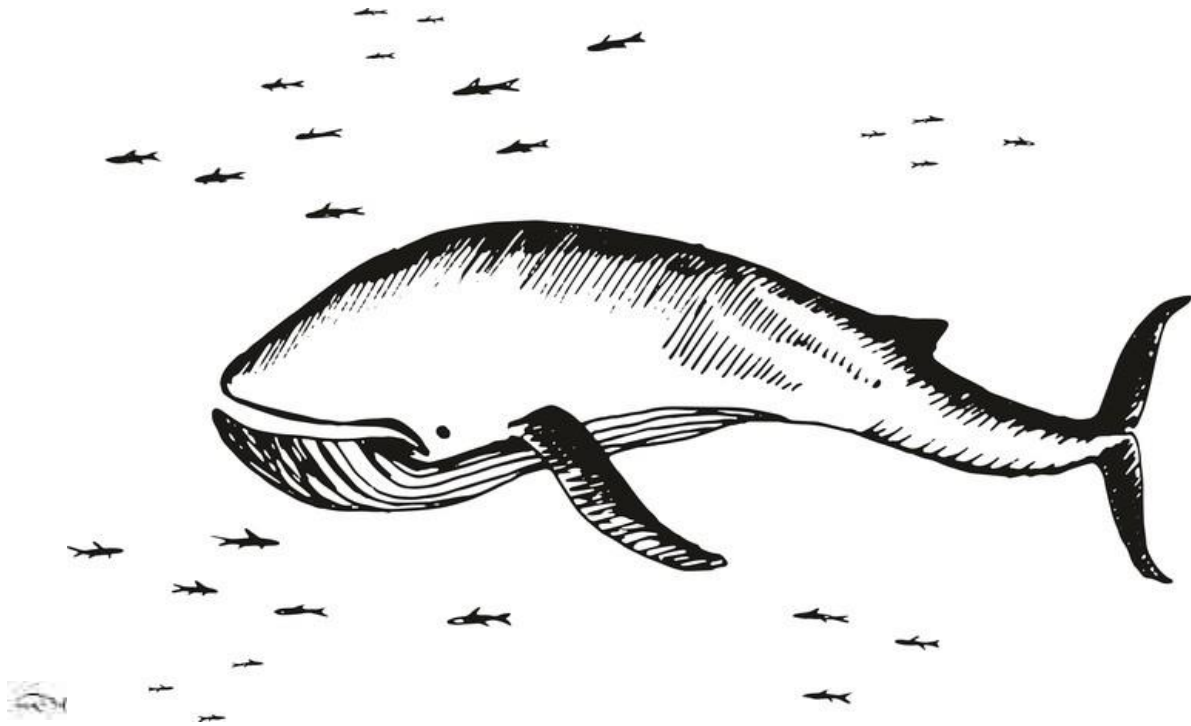
But if **the EU forces platform owners to recognize their workers as employees,** as the report it backed in January recommends, **“it will upend their business models and in some cases make them indistinguishable from traditional companies.”**

Such policies could prove essential for sustainable growth and political stability. They also speak to larger questions: **how do you build a 21st-century social contract? What is the future of work?** How much longer will tech giants be allowed to suck all the capital out of the digital economy without playing by the rules? What exactly are the rules anyway? A line from the book, *Drift and Mastery*, [written by Walter Lippmann in 1914 and recently revisited by The New Yorker](#), resonates. It was written for an America struggling with inequality and global forces—an America eerily similar to the one we live in today: **“The battle for us, in short, does not lie against crusted prejudice, but against the chaos of a new freedom.”**

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Walmart and Verizon deny what Uber knows is true: we live in a winner-take-all era.

Can the old-economy giants buy their way to digital dominance?



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Following Verizon's \$4.8 billion acquisition of Yahoo, Tim Armstrong — CEO of Verizon-owned AOL — stated in defense of the deal: "People act like Google and Facebook have already won. But nobody owns the future." Last year, Google and Facebook took in more than 50% of all digital ad spending, including 75% of new spending. Verizon hopes, by combining Yahoo and AOL, it can loosen the search and social giants' perpetually-tightening stranglehold on digital advertising. Meanwhile, it was announced Monday that Walmart is acquiring Jet. com for \$3.3 billion, the brick-and-mortar behemoth's latest attempt to disrupt Amazon's e-commerce monopoly. Both acquisitions are in stark contrast to Uber's recent exit from China. In retreat, Uber recognized Didi's dominant hold over China's ridesharing market is likely insurmountable. **With Silicon Valley's platform monopolies more powerful by the quarter,**

can old-economy giants like Walmart and Verizon defy network effects and buy their way to digital dominance? Chances are Uber is right and the answer is no.

As we have discussed with Aggregation Theory (*WILTW* August 27, 2015), power in the Digital Age is derived by owning the final link in the consumer market value chain—consumers. As the self-perpetuating cycle goes: a superior user experience attracts consumers; those consumers attract suppliers; that supply improves the user experience; more consumers come; and more suppliers follow. The ever-increasing dominance of Google, Facebook, and Amazon is predicated on this dynamic. **So why do Verizon and Walmart believe they can break the winner-take-all cycle?**

Verizon's acquisitions are an attempt to penetrate a new, growth business—digital advertising—while their old one retracts. **Cable and telecom giants are losing control of the TV ecosystem, threatening to render them little more than owners of “big dumb pipes.”** [As *Wired* wrote in late July:](#)

*“Telecom companies today are gripped by the fear of being reduced to utilities, and for good reason. The unbundling and decentralization of the cable package, combined with the FCC’s staunch advocacy of net neutrality, **have given ISPs a glimpse of a future in which they’re every bit as exciting as the local waterworks board.**”*

While chided for buying two companies that have “devolved into punchlines,” [Verizon’s purchase of AOL and Yahoo](#) does suggest a coherent strategy. While the 2015 AOL acquisition came with big-name content domains—led by *The Huffington Post*, *TechCrunch*, and *Engadget*—Verizon paid \$4.4 for the former, dial-up giant primarily for its industry-leading ad tech. Yahoo, meanwhile, has an enormous user base—combined traffic to Yahoo-affiliated sites places the company third in the U.S. behind only Google and Facebook—but notoriously inadequate ad tech. **In theory, by combining the two companies, Verizon can maximize their strengths and emerge a viable third option for the digital advertising marketplace.**

The problem lies in the fact that Verizon's strategy hinges on content creation. **Platform monopolies are built on owning consumer relationships, not supply.** As [Erin Griffith wrote for Fortune](#):

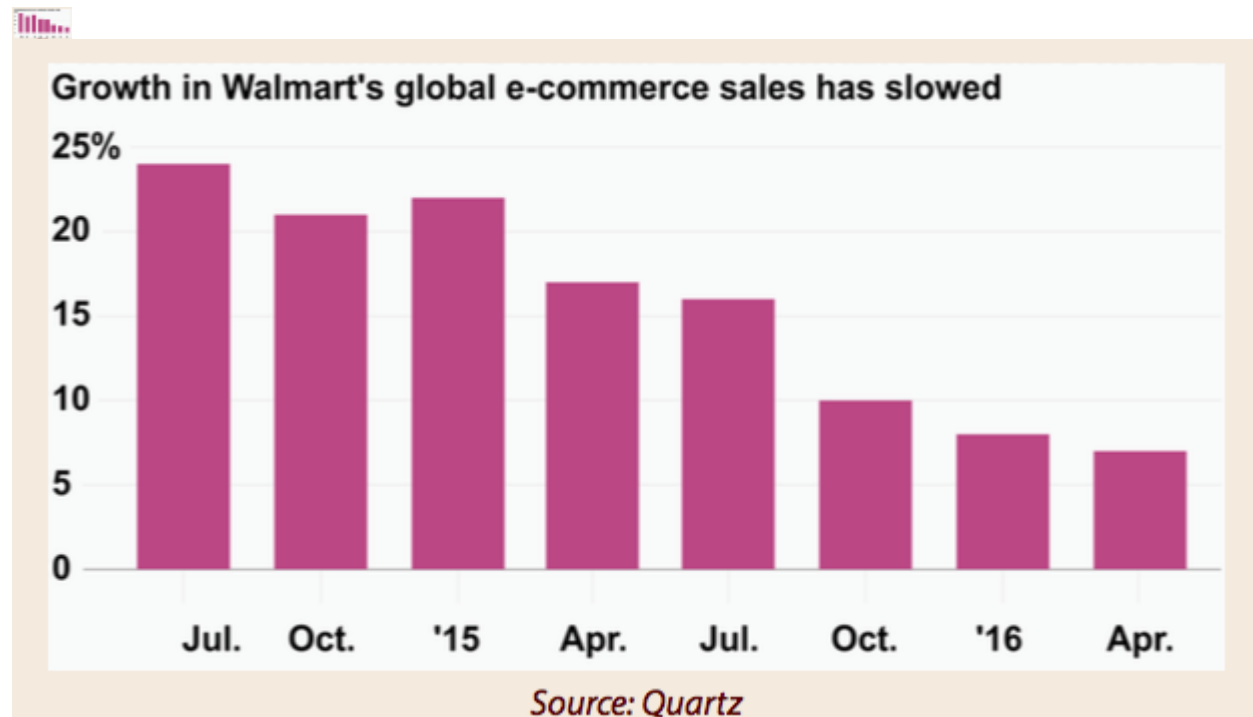
"Facebook and Google built successful, wildly profitable businesses because they have figured out a way to make money on digital content without actually getting into the messy, expensive business of producing it. Verizon, on the other hand, is buying up assets that require huge investments in exactly that."

Facebook leveraged a social media monopoly to monopolize third-party digital news distribution and is now setting its sights on doing the same with video. **By owning no content, Facebook can aggregate all content.** Verizon, on the other hand, will have to arrest Facebook's momentum—Facebook reported a 186% increase in net revenue in Q2 alone—while carrying significant content creation costs and selling inventory largely limited to that content. It is a strategy in opposition to digital advertising's prevailing trend: **content creators are losing control of advertiser relationships as platforms rise.** To our minds, a viable third advertising option will more likely come from an innovative platform than a content creator, with Snapchat appearing the most promising candidate, as we explored in *WILTW* June 23, 2016.

Which brings us to Walmart and its purchase of Jet.com. Only a year old, Jet is an innovative platform. It utilizes an algorithmic approach to flexible pricing to reward bulk buying and maximize geographical logistics. Its founder, Marc Lore, is viewed by many as the only e-commerce entrepreneur capable of challenging Amazon's Jeff Bezos. **Many have gone so far as to suggest Walmart's move was more an "acqui-hire" than an acquisition.** Lore will now oversee Walmart's entire e-commerce operation, bringing a much-needed culture of innovation to the incumbent.

For years, Walmart has tried and failed to leverage its huge customer base and extensive retail infrastructure—4,500 stores and 102 distribution centers in the U.S. alone—to arrest Amazon's insurgency. However, **relying on its old-economy advantages has not worked.** The company brought in \$15 billion

in e-commerce sales in 2015, which compares to \$100 billion for Amazon. Moreover, Walmart's online growth has been in steady decline:



While Lore gives Walmart necessary e-commerce expertise and Walmart gives Lore unparalleled resources, the question is whether it is too little, too late. Walmart and Jet.com both rely on the old retail model of generating profit by marking-up third-party goods. **Amazon is rendering that model obsolete.**

For years, Amazon accepted losses to keep prices low and accrue a massive user base. Now, it is leveraging that massive user base to reinvent the retail model. It sells products with little to no margin at all, generating profit through Prime memberships and fees to third-party merchants. In the past year, Amazon has finally reached retail profitability—according to its Q2 earnings, Amazon's retail operating margin is now at 2.09%, still far behind Walmart's 4.6%, but nonetheless a 181% jump over the year-ago quarter.

Even with Lore at the helm, Walmart—and any other retail competitor—will be hard pressed to duplicate Amazon's e-commerce scale and turn a similar model profitable. And Walmart must do it while protecting their core, brick-

and- mortar business, which still generates nearly \$500 million in annual sales, five times Amazon's e-commerce business. Walmart has long been handcuffed by its previous dominance and as much as the purchase of Jet may signal a new leaf being turned, the company is still beholden to its infrastructure and shareholder expectations. **Meanwhile, Amazon will continue revolutionizing retail logistics and leveraging its user relationships to monopolize vertical after vertical, with groceries clearly next in its sights.**

In considering their digital futures, Verizon and Walmart may have been well-served consulting with Uber CEO Travis Kalanick. In exiting China, he seemed to recognize the reality both old-economy giants are denying. When Uber decided to enter the Chinese market despite knowing the Chinese government has long made Silicon Valley infiltration near-impossible, the opportunity was clear: Didi and Kuaidi—the two, main homegrown challengers—had yet to launch ride-sharing services, still relying on a taxi hailing model. Uber hoped it could enter first, aggregate enough users to establish a ride-sharing lead, and then maximize ride-sharing's winner-take-all characteristics: more users, means more drivers, which means a better service. However, **to Didi's credit, the company reacted quickly and brought its own ride-sharing service to market before Uber could reach its critical mass.**

As a result, Didi never relinquished its user lead and at the time Uber surrendered, Didi was holding tight at an estimated 80% of the Chinese ride-sharing market. The fact that Uber CEO Travis Kalanick was able to secure a 20% share of Didi seems like a massive victory. Uber was spending an estimated \$1 billion per year to gain ground in China. Eliminating those expenses could pave the way for an IPO. In addition, the Didi shares could prove a substantial long-term value driver as Didi's monopoly solidifies, its competition-costs decline, and its profitability skyrockets.

Should it be any surprise that a rising, new-economy giant like Uber recognized the reality of a user-relationship lead and salvaged substantial value from their Chinese insurgency while Verizon and Walmart appear to be banging at a closed door? **Tim Armstrong may be right, "nobody owns the**

future,” but the path to digital relevancy is clearly not denying the realities of Digital Age-business.

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