The rules of the tech game are changing

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Tech competition

A new phase in the global tech contest is under way

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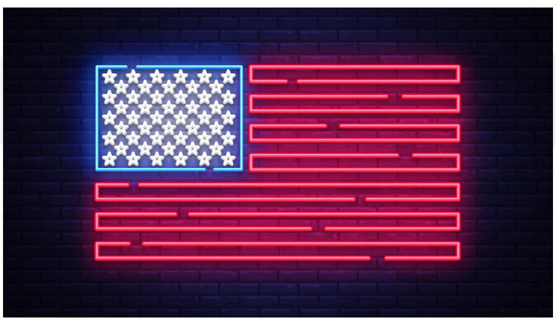
THE IDEA of the technology industry being dominated by monopolies is so widely held that it has monopolised much thinking, from investors' strategies to antitrust watchdogs' legal briefs. Yet, as we explain, it is getting harder to sustain (see article). After a long period of ossification, the industry is entering a dynamic phase. In America digital markets are shifting towards oligopolies, in which second and third firms compete vigorously against the incumbent. The big tech firms are wrestling over customers and data: witness the confrontation between Apple and Facebook over who controls iPhone users' privacy. And all across Asia digital conglomerates are battling it out. The industry's emerging structure is a far cry from the open, diffuse capitalism this newspaper supports. But an oligopoly of rivals is much better than a monopoly.



The gale of creative destruction used to blow hard in Silicon Valley. The list of firms toppled from dominance runs from Fairchild Semiconductor to Hewlett-Packard. Yet recently the giants have clung on: Apple and Microsoft are over 40 years old and Alphabet and Amazon over 20; even Facebook is 17 this month. What happened? Network and scale effects mean that size begets size, while data can act as a barrier to entry. Search, social media, advertising, e-commerce, streaming, ride-hailing, delivery and payments all exhibit these alchemical properties to some degree. Having achieved supremacy in their chosen area, many tech firms, especially the big ones, have shown little appetite to compete directly with each other in the past decade. The three most common searches on Microsoft Bing are Facebook, YouTube and Google. Does anyone remember Amazon's Fire Phone?

At first glance nothing has changed. Tech firms enjoyed a lucrative 2020 and investors are betting more is to come. The $7.6trn market value of America's five giants implies their sales will double in the next decade. Yet if you look more closely, a shift is under way. The incumbents are not getting smaller—their weighted-average market share is stable, at about 35% across each of 11 American tech subsectors. But the share of second and third firms has risen from 18% to 26% since 2015. This reflects two deeper trends.

First, big tech firms are diversifying as their core products mature, new technological opportunities emerge and regulatory threats mount in America, Europe and China. The firms have talked about this for years, but now it is happening. The share of the five American giants' revenues that overlaps with the others has risen from 22% to 38% since 2015. Microsoft and Alphabet are taking on Amazon in the cloud. Amazon is, in turn, the rising force in digital advertising.

The second trend, accounting for a third of the shift in market share, is that outsiders have momentum. From the ranks of the corporate establishment, Disney, aged 98, has acquired 116m new streaming customers in 18 months, while Walmart, aged 58, booked $38bn in online sales last year. Independent tech firms such as Shopify in e-commerce and PayPal have broken through thanks to the digital surge caused by the pandemic, and are generating enough profits to be self-sustaining.

You might think that this competition is just a blip, but it has a precedent in Asia, where customers have leapfrogged ahead and the boundaries between products have blurred, leading to market-share shifts, lower margins and innovation. China has Alibaba and Tencent and five other contenders worth $100bn or more. India has Jio and South-East Asia has Grab, Gojek and Sea. All these firms think in terms of subscribers who could be persuaded to buy a fluid range of services, rather than of protecting a static monopoly at all costs. They seek expansion through diversification, even if that means bumping up against rivals.

One danger is that this oligopolistic rivalry is a Potemkin contest. It has not yet disrupted the Apple-Alphabet duopoly over phone-operating systems or app stores. Although advertisers have more choice, between, say, Amazon and Facebook, those being advertised to still have no real alternative to the products of Mark Zuckerberg, Facebook's boss. And there are too many cosy links between firms. Alphabet pays Apple up to $12bn a year to make Google the iPhone's default search engine. Alibaba and Tencent own stakes in some of China's new entrants.

This is where resurgent antitrust enforcers can make a difference. Those Google payments are now subject to a Department of Justice lawsuit, while Apple and Google face complaints over their app stores. Europe is planning rules to get different firms' products to work together and help users move their data around. China has a new list of "the nine do nots" for e-commerce firms, including not shutting out new contenders.

It helps that ambition is plentiful. In attracting business to its cloud platform, Alphabet is losing $6bn a year—more than Amazon has lost in its lifetime. Disney plans to have 325m subscribers by 2024. PayPal intends to have 750m users of its financial super-app by 2025. Walmart has just bought an advertising firm. Facebook is entering e-commerce. Microsoft has considered buying two social-media firms, TikTok and Pinterest. Huawei in China is busy creating an alternative to the iOS-Android operating-system duopoly.

Oligopolistic competition could benefit consumers in several ways. It could boost choice as more firms compete to offer an expanding range of services: 11 American firms have over 100m digital subscribers. It could raise standards as platforms differentiate themselves by trust. That is why Apple will soon ask iPhone users if they want to opt out of Facebook's data-tracking, upending the advertising market (see article). And it could spur innovation as firms search for new tools, such as virtual reality, to control access to the customer.

Back in 2000 few predicted that tech was destined for monopoly, then it became accepted wisdom. Today no one knows if the emerging pattern of oligopolistic rivalry will last or benefit consumers. But the conditions are more promising than they have been for years. Regulators are trying to prise open closed markets, a financial boom means that capital is abundant and a global surge in online activity has boosted demand. A more contested digital economy would be consequential—for markets, consumers and businesses alike. It is looking more likely. ■

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