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Amazon, Google and Facebook now drive the economy



Alex Pollak, CEO of Loftus Peak, warns the big tech companies are becoming the real gatekeepers to the global economy. Chris Pearce



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by Philip Baker

Asked a few weeks ago what kept him up at night one of Australia's leading investment bankers replied three companies, Amazon, Google, and Facebook.

They have a market cap of \$US1.5 trillion and a workforce that everyday was heading to the office with the aim of making life tough for a range of other businesses.

They are becoming so powerful, like a [cartel](#), that already some are calling for them to be broken up, while others are comparing their impact on the global economy to what oil did 100 years ago.

People might debate the difference between innovation and disruption and worry about the damage these companies can cause, but shareholders are laughing all the way to the bank.

For sure Wall Street has done well over the past few years, the Dow Jones is close to 21,000, the S&P 500 and the Nasdaq at record highs, but nothing has come close to the money made by investing in those three stocks.

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Since it listed five years ago Facebook has increased almost 300 per cent, while over the past decade Amazon has risen 1375 per cent and Google is up 303 per cent.

That compares with a fall of 7 per cent in the major S&P ASX 200 index since 2007, that rises to 44 per cent once those dividends are included.

It's also worth noting that the entire market cap of our top 200 stocks is \$1.68 trillion, according to Bloomberg, while our top 20 stocks total \$935 billion.

The nation's biggest three are Commonwealth Bank at \$141 billion, Westpac \$109 billion and \$86 billion for National Australia Bank.

This week after the federal budget there was outrage when the [banks were slugged with a tax](#), or a levy, to [raise \\$1.5 billion over](#) the next four years.

But that's nothing compared to the levy that companies like Facebook, Google and Amazon can impose on any business that uses the web to make its money.

And as Alex Pollak, who runs Loftus Peak, a global fund manager that specialises in listed disruptive businesses, says, these days that is every other business.

The way he looks at the world these big tech companies, armed with the data they glean from all of us, are becoming the gatekeeper to the global economy.

But they need more than just the data.

"Data on its own is useless without the ability to action it. Google talks about data as ingredients, with the value in the cooking, or applications which use it. Which is why the emergence of the data oligopolies and the houses they live in, the hyperscale data centres, are so important," he says.

According to Pollak we use these data centres all the time for working out the most direct route to a destination, or starting a new business and even to buy a sprinkler to keep any dogs from tearing up the lawn.

"Just as fossil fuels were important to the world economy of the last century, new companies will find it hard to get to scale without relying on data and the datacentre," he explains.

They are so important that in [Snapchat's recent IPO](#) filing, the company said its single largest cost was Google.

For that reason Snapchat will fork out \$US2 billion to Google Cloud over the next five years so their software and computer systems can tap into all the data that Google has.

In essence, Snapchat has its own data – but not its own data centre.

It needs Google for that and once it has, then the data they produce becomes even more powerful.

As Pollak notes Google founder Larry Page is on to this and isn't going to give it away for free.

Why it's so important is there's still so much information that you can only see on the web, like a photo that can reveal if someone is married or not.

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Then there is the streetscape that can name the business and give clues about what sort of businesses it is.

"All of these visual data have been, well, visible – but not actionable, without the learning tools which have emerged literally in the past three years.

"Indeed, a major leap in machine learning capability, and so the usefulness of data, took place using the data sets available on Youtube – a Google computer identified a cat, without ever having been told, in programming language, what a cat is," says Pollak.

"Machine learning makes possible differentiation based on all available data, not just computer code. These visual data will be part of another significant leap in the new economy in the next 10 years, which should explain why Facebook and Apple are so keen to get the photo tagging working well," he adds.

But it leads to problems for others.

"Amazon doesn't just crowd out small retailers with its better tools, it may also result in smaller operators having to deal with Amazon in order to stay in business – meaning, for example network, cloud and logistics – to be found and shopped. And where Amazon enables, it charges. And those charges can be increased," says Pollak.

Already there are entrepreneurs who are trying to create businesses by carving up the data into more "actionable" forms.

"Some of these have become significant, such as Alteryx, founded in 2010, with over 1000 employees, or MapR, in which the Future Fund is invested, as well as a host of others," adds Pollak.

But they are small fry when compared to the "really big troves of data".

Already, Facebook is moving away from a commitment that it would put all the data from WhatsApp, which it paid US\$19 billion for, to one side.

"Alert users will already be aware that Facebook recently rejigged the WhatsApp privacy policy, which was a core attraction for users, with much less favourable terms of service essentially allowing the messaging service the right to commercialise user data as it pleased. Those who didn't tick the box were kicked off the platform, naturally," explains Pollak.

These big companies argue they don't do any harm but it might take years before we all find out what it really costs to get that sensational mapping service.

But as Pollak says "these data players are emerging as gatekeepers to the economy itself, with the ability to levy a charge on any business which is web-enabled. And today, that is every business".