Competition and Co-operation between Small Firms and Their Competitors

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Abstract: The concept of co-operation amongst competitors has been considered for some time in the marketing literature generally, and in the small firm marketing literature specifically. However, despite the recognition that small firms do co-operate, there has been comparatively little attention paid to the ways in which such co-operation takes place. Co-operation amongst small firms tends to be only conceptualised as a group of competitors banding together to create a market presence and compete against larger, more established firms. Based on a series of in-depth interviews with owner-managers of small firms in a wide array of industry sectors, this paper examines the relationships that small firm owner-managers maintain with their competitors. Specifically it reports that co-operation between competitors takes place at various levels with so-called joint venture arrangements such as that described above, representing just one type of co-operative behaviour. It further highlights the circumstances where co-operation is likely to occur and how this co-operation is manifest by examining the motivations for co-operation and expected and actual outcomes. It also discusses the factors which may preclude co-operation between small firms and their competitors. Such factors include the nature of the industry sector, the level of competition in the market, the size of the competing firms, the age of the small firm, the existence of an association that represents the industry, the perceived level of professionalism within the industry and trust amongst firms.

INTRODUCTION

Co-operation between small firms and their competitors is generally conceptualised as joint venture arrangements wherein competitors band together in a formal grouping to create a market presence and compete against larger, more established firms (Brown and Butler, 1995). However, it is thought that there are other forms of co-operative relationships between small firms and their competitors and that the small firm literature has failed to explore fully such forms (Bengtsson and Kock, 1999).
Drawing upon a qualitative study of small firm owner-managers, this paper examines the relationships that small firms maintain with their competitors. Specifically it reports that co-operation between competitors takes place at various levels with so-called joint venture arrangements such as that just described, representing just one type of co-operative behaviour. It further highlights the circumstance where co-operation is likely to occur and what factors may preclude co-operation between small firms and their competitors.

THE STUDY

A longitudinal, qualitative study of small business marketing was undertaken where in-depth, semi-structured interviews were conducted with 60 small business managers across a wide array of industrial sectors. The interviews produced substantial qualitative data relating to the nature of small business marketing and for the purposes of this paper, analysis was focused upon the relationships between the small firm owner-managers and their competitors and specifically the co-operative behaviour they exhibited, if any.

A qualitative approach was chosen as this research seeks to gain an understanding of small business marketing generally and of co-operation between competitors specifically. Qualitative methods are thought to be particularly appropriate when the aim of research is to understand, rather than measure things (Gordon and Langmaid, 1988) and furthermore they are considered particularly suitable for gaining an understanding of decision making in small firms (Carson et al., 1998). In addition, in-depth interviews are thought to be the best method to investigate an individual's behaviour or attitudes (Tull and Hawkins, 1990).

FINDINGS

An Overview of the Relationship Between Small Firms and Their Competitors

The small firm owner-managers, although aware that there may be a large number of companies in their industry offering similar goods and services, tend to only regard a relatively small number of these as competitors. In industries with low barriers to entry, very small companies including one and two man bands will operate but the small firms in this study do not regard such players as true competitors. The owners commented that such
companies tend to be formed by employees of larger companies starting out in business on their own. These very small firms tend to have low overheads, allowing them to offer low prices. However, as a consequence they tend not to offer high levels of service or added value. At the other end of the spectrum are very large firms which also tend not to be treated as competitors. This is because the small firms generally serve a specific segment or segments of their market, which their larger counterparts often neglect because they are uneconomical for them to serve.

The owner-managers possess a greater level of knowledge of some competitors than others. From the data, it is clear that the competing firms about whom they have greatest knowledge are those:

- with whom they directly compete
- of a similar size
- of a similar age
- whose owners are of a similar age
- whose owners share similar personal characteristics as themselves
- located within close physical proximity
- with whom they are in regular contact, often through a trade association

The last point is of particular importance in discussing the relationships that the owner-managers share with their competitors. Despite the time and monetary costs involved, all the small firms belonged to at least one trade or professional association, if one existed in their industry. Trade associations provide the most convenient means for owner-managers to interact with their competitors, through meetings and other formal events. Perhaps more importantly, trade associations, through allowing competitors to meet each other, enables the owner-managers to make contact with their competitors on occasions other than those directly related to the association.

The Nature of Co-operative Behaviour Between Small Firms and Their Competitors

The study shows that co-operative behaviour between the small firm owner-managers and their competitors is manifest in many ways. Not surprisingly, in all cases where co-operation is said to exist, the owner-managers expect co-operative behaviour to benefit them in some way. Presented below is an overview of the various forms of co-operative behaviour exhibited by the small firms in this study, ranging from what can be described as fairly low or basic forms to higher levels of co-operation.
**Basic Co-operation**

At the most basic or lowest level, co-operation can take the form of simply being friendly and approachable to members of competitive firms. There is a shared feeling amongst the small business owner-managers that in business it is inadvisable to make enemies with anyone, if at all possible. The benefit of this co-operation may be merely the confidence that having shown co-operation in the past, the small firm owner could call upon assistance from his competitors should he need to. This attitude, that it is preferable to be co-operative than unco-operative in case assistance is required, is widely shared. One owner-manager explained:

'*If we can help other, we will help each other and that goes for the most of them. Well I could take a very hard-nosed attitude and say, 'no, I don’t want to know.' But you never know the day that you will need some help yourself. So any of them, if they needed something, I will not turn them away. If I can help them, I’ll help them.*' (Tile Designer)

**More Tangible Co-operation**

A more tangible form of co-operation that occurs quite frequently is where one firm would supply another with materials or other resources of which it has run out. Another common form of co-operative behaviour is the sharing of information regarding customers who have incurred bad debt. Even competitors who do not generally communicate openly with one another will be willing to share this information, as the following demonstrates:

'*The only collaboration you will find is credit control, from one company to another. Somebody will actually ring and say 'how is such and such for money?' as a reference. A lot of that will go on, yeah. But as for sharing your source of product, your marketing strategy, your pricing structure or strategy, no.'* (Kitchen Door Manufacturer)

**Co-operation Between Indirect Competitors**

Co-operation between firms who do not compete directly with one another was very much in evidence in the study. Typically this involves firms who provide complementary skills and resources working together to provide customers with a more complete product offering than they could provide individually.

Related to this, the study found that more strategic owner-managers would consider the skills of other players in the industry alongside the demand in the market when planning changes to the business. For example this owner-
manager of an engineering company feels that when buying capital equipment, he should buy equipment that complements his competitors’ rather than buying the same machinery. In this way they at least avoid competing for the same business and may in fact be able to pool resources and work together. He explained:

'So if we’re looking to buy a major piece of equipment, and he’s looking to buy it, maybe we shouldn’t. One of us should buy it. Maybe we should buy something else. If he goes out and buys something now at about a quarter of a million pounds and I go out and buy the same thing then we’re fighting for the same business, it doesn’t make sense to me. What makes sense to me is if he spends a quarter of a million on something and we spend it on some different technology. So if we pick a big package of work, I could do a certain part of it and he can do another. And maybe pull it together.’ (Precision Engineer)

Over-Spill

At a higher level of co-operation, some owner-managers would complete work for a direct competitor who was too busy and similarly would pass their orders to a competitor if they felt that they couldn’t complete the work on time:

'We share jobs etc. etc. We work together to a certain degree, you know. It’s competitive still but if he has too much work on, he’ll send me some of the work to do for him and if we have too much work on, we’d give it to him, and things like that. It is fairly amicable but it’s still business you know and if he is competing for a job and I’m competing for a job, it’s still competition.’ (Screen Printer)

In a similar vein, if the small firm receives a request for a product offering that the firm does not specialise in, the owner may pass the work to a competitor who is more specialised in that area.

However, such co-operation will only exist if all parties involved benefit, in some way. So, while the owner-manager may, for example, claim that co-operation is “bound to be to the good of everyone”, there are deeper motivations at work. In the case of the Screen Printer, above, the reason for the co-operation is to prevent clients taking the work to a company outside the domestic market. He remarked:

“It would have to go outside of Northern Ireland, that’s the difficulty.” Similarly, this owner-manager feels that passing work to competitors is more beneficial for all parties involved:
'I am fine if one of my competitors gets the business. I haven’t a problem with that. Because while he is doing that job maybe I could be doing something else. And all that is doing is bringing in more work, more business.’ (Precision Engineer)

However, by referring work to a competitor, the owner risks losing out on any repeat business from that client if the client finds the competitor’s offering to be satisfactory. For this reason owner-managers will only pass work from regular customers to competitors if they trust that the competitor won't actively endeavour to 'poach' the customer from them in the long term. Similarly should the owner-manager take over-spill from one of their competitors, in the interests of maintaining good relations, the owner-manager will not attempt to steal that customer from the competitor. This owner-manager explained:

'Maybe he had an over-spill at times and he said to me 'can you do this for me, can you help me out?’ I wasn’t going to butt into his customer. The customer he had, I wasn’t going into his customer and saying, ‘I want your work’.' (Textile Manufacturer)

**Collaboration**

At a higher level of co-operation is what several of the owner-managers themselves refer to as 'joint ventures' which refers to occasions where two or more competitors complete projects that are too large for a firm to complete alone. While a similar situation was described earlier in the context of firms who compete indirectly and in effect complement one another in terms of resources, a higher level of commitment is required when such collaboration takes place between direct competitors.

It appears from the evidence that while many of the firms realise the potential benefits of collaboration with competing firms, they haven’t been able to put this into practice:

"We need to get better at it I think. There are a couple of big players out there, bigger than ourselves. We sometimes have to walk away from a major package of work but if we work together we probably could do it” (Precision Engineer)

As was the case with several of the firms who take over-spill from competitors, this particular owner-manager explains that collaboration would allow his and other local companies to “compete with the boys in England”.

Such co-operation requires a stronger relationship, in terms of openness and confidence than any of the other forms just described.
Factors Precluding Co-operation

While there is considerable co-operation between competitors in some industries, in others co-operation doesn’t occur or at least not at a high level such as collaboration in projects or passing on work. Overall, co-operation at any level will occur if all parties believe that the benefits outweigh the costs, including any inherent risks involved.

It appears that in general the propensity for co-operation is higher in situations where the competitors are not aggressively competing for the same customers, as demonstrated below:

‘There would be a better relationship with some (competitors) than there would be with others depending on the geographics of where you are marketing and who you are competing against. So if you are not heavily involved in attacking some other people’s customers, it (co-operation) can work for you in that sense.’ (Window Manufacturer)

In terms of collaboration specifically, the principal reason why the small firm would not collaborate with a competitor is simply that there are no jobs too large to require outside assistance and hence collaboration affords no additional commercial gain:

*I mean if they got a big job, if we even wanted to tender for a job together as a group or something, that would never arise because there would never be a job big enough* (PVC Window Manufacturer)

Some industries did not exhibit co-operative behaviour simply because no one had invested the time necessary to bring parties together:

‘Generally there’s a lot of talk about that, you know, about what we should be doing together but generally it doesn’t ever really materialise because nobody has the time and everybody really is interested in looking after their own business you know.’ (Timber Frame House Manufacturer)

In other industries, individual firms may feel that its competitors are less professional than themselves and accordingly they have nothing to gain from co-operation and in fact may find it damaging as explained by one of the owner-managers below:

‘This is a very rough and ready trade whereas we would like to think that we have got a wee bit more panache than the rest of them.’ (Kitchen Door Designer)
A further factor that will inhibit co-operation is a lack of knowledge on the small firm's part, about its competitors. For high levels of co-operation, the firms involved require to know each other very well. As mentioned earlier, in industries where a trade association exists, competitors are likely to know more about each other and accordingly, the existence of an association that brings competing and related firms together will serve to increase the chance of co-operation.

Finally, an often-cited obstacle to higher levels of co-operation, is a lack of trust. The concept of trust has been explored extensively in the marketing literature, and a commonly accepted description of trust is that it encompasses two aspects: faith in the intentions of others and confidence in their ability (Cook and Wall, 1980). With regard to collaborating with a competitor, if the owner-manager lacks faith on either or both counts, then he can be said to lack trust. For the owner-managers both concepts are in evidence but in the main it is lack of faith in the competitor’s ability to work to the required standard rather than in their intentions, that is most often cited as preventing collaboration.

CONCLUSION

It is clear from the study that there is considerable evidence of co-operation between the small firm and its competitors with the degree of and nature of this co-operation varying across industries. Analysis of the data indicates that co-operation will be greatest when:

- The competitors are not aggressively attacking each other’s customers
- The competitors specialise in different areas (or offer complementary resources)
- Customers demand an offering which requires resources not located in only one firm
- Without co-operation orders are lost to larger competitors which may or may not be based outside the domestic market
- An industry body is in existence which allows personnel from various firms to meet
- The competitors are in regular face-to-face contact
- The competitors know each other well and for some time
- There is trust and respect amongst the parties
- Where the gap between what could be achieved with co-operation and that which is achieved without co-operation is obviously wide
REFERENCES


