Coopetition and market performance

Ritala Paavo

This is a Author's accepted manuscript (AAM) version of a publication published by Routledge in The Routledge Companion on Coopetition Strategies.

DOI:

Copyright of the original publication: © 2019 The contributors

Please cite the publication as follows:


This is a parallel published version of an original publication. This version can differ from the original published article.
Abstract: Coopetition strategy—the way how firm collaborates with its competitors—has been suggested to potentially improve firm performance in the markets. However, the literature is scattered in terms of providing evidence of how and why coopetition strategy affects firm’s market performance. This chapter reviews the existing evidence for key mechanisms, contingencies, and practical examples across four categories: (1) resource efficiency, (2) market growth and development, (3) new market creation, and (4) competitive dynamics. Future research directions are also envisioned.

Introduction

Coopetition can be viewed as a specific type of relational logic beyond pure competition or collaboration, as it can combine the benefits of both (Chen & Miller, 2015; Lado et al., 1997). In this regard, coopetition has been portrayed as a paradoxical relational strategy (e.g., Gnyawali et al., 2016; Raza-Ullah et al., 2014), as, at first sight, collaborating with competitors seems to contradict the idea of the traditional competitive strategy. However, early coopetition literature, as well as a wealth of examples from business practice, established that coopetition can provide benefits for the focal firm, as well as for its coopetitive partners. Thus, at best, a coopetition strategy allows firms to search for improved market performance outcomes not available through a competitive or collaborative strategy only. The reason is that markets are often evolving and growing, and often, there are many opportunities for competitors to collaborate in different parts of the value chain for efficiency and effectiveness reasons (for a discussion, see e.g. Walley, 2007).

Market performance benefits via coopetition can be achieved by different means. For instance, some firms utilize coopetition to share resources and risks in research and development (R&D), manufacturing or, marketing (Choi et al., 2010; Gnyawali & Park, 2011; Ritala et al., 2017), therefore lowering the costs of the actors involved. Furthermore, some firms have been shown to utilize coopetition-based strategies and business models for global, scalable growth, as in the well-documented case of Amazon.com (Ritala et al., 2014). Finally, coopetition is often used for fighting over market shares, with different coalitions among competitors going head-to-head over customers, as in the case of global airline alliances (Chiambarretto et al., 2016).

This chapter provides an integrative review of the existing evidence for coopetition and market performance and provides insights into key mechanisms, contingencies, as well as practical examples. Here, the examination is delimited to the focal firm level, that is, how an individual firm can pursue improved market performance by collaborating with competitors. This
question is fundamental for a firm’s coopetition strategy, and the aim of this chapter is to provide a useful and accessible outlook on the field in this regard.

1. Markets, performance, and coopetition

Market performance has been defined as a firm’s economic outcomes, relative to its competitors (Delaney & Huselid, 1996). To better understand what market performance means for coopetition strategy, several important points need to be discussed.

First, we need to define markets (the context within which performance is discussed), as well as competitors (the actors that compete over performance differentials in these markets). For the current analysis, markets refer to the overall products, services, institutions, and actors with shared features, and typically, a group of competitors has common features (Chen, 1996). To become successful in such markets, firm performance should ultimately be examined in a relative sense, against other horizontal market players, that is, competitors. However, industry and market boundaries are getting increasingly blurry and dynamic (Storbacka & Nenonen, 2011; Vargo & Lusch, 2011), which makes such assessment sometimes difficult, if not impossible. Therefore, for the purposes of this chapter, market performance is examined from the firm perspective (i.e., whether the firm can enhance its market performance through coopetition in general), as well as from the relative perspective (i.e., whether the firm can perform better than its horizontal competitors). Second, the performance component relates to the focal firm’s financial and economic outcomes. These outcomes include cost and resource efficiency, profitability, growth in sales, as well as changes in market share (Delaney & Huselid, 1996). Assessing such performance outcomes is not straightforward, however, and feasible data is not always available.

Coopetition undoubtedly has a major potential to affect market performance. Coopetition literature at large has suggested that coopetition is a strategy that can positively affect focal firm performance, although this is subject to different contingencies and conditions (for reviews, see e.g., Bouncken et al., 2015; Gast et al., 2015; Walley, 2007). However, the body of literature quantitatively assessing the effect of coopetition and market performance is very limited. It includes survey-based studies with perceptional assessment of overall market performance, which find that coopetition positively affects a firm’s market performance under certain conditions (Bouncken & Fredrich, 2012; Ritala, 2012) or alternatively, decreases the firm’s market performance in international markets (Nakos et al., 2014). Studies using objective performance measures include Luo et al. (2007), who found a curvilinear relationship between the focal firm’s coopetition involvement and its financial performance, measured with return on equity (ROE). Furthermore, Ritala et al. (2008) used return on assets (ROA) and found that global information and communications technology (ICT) firms’ performance suffers if they have too many key competitors among their focal alliance portfolio but enjoys benefits if they have formed strategic alliances with many of their key competitors. Finally, Sanou et al. (2016) investigated the relative increase in the number of subscribers (i.e., market share) as an indicator of the positive effect of coopetition on market performance.

Given the scarce quantitative evidence for a direct coopetition–market performance link, it is fair to say that there is no overarching understanding of the variety of mechanisms and means in how and why coopetition affects the focal firm’s market performance. The remainder of this chapter pursues to provide more understanding on this core issue in coopetition literature and practice.
2. Main benefits of coopetition for market performance

What follows is a short, integrative overview of the literature that includes evidence, description, and implications between coopetition strategy and various types of market performance. The related contingencies and contextual issues are discussed, and illustrative examples are pinpointed.

This review builds on the previous categorization of the main motivations and benefits of coopetition developed in Ritala (2012) and Ritala et al. (2014). In particular, the main benefits of coopetition that drives a focal firm’s market performance are divided into four categories: (1) resource efficiency, (2) market growth and development, (3) new market creation, and (4) competitive dynamics. These four categories are analyzed mostly from the focal firm’s strategic perspective, that is, how the market performance in this particular category is facilitated by collaboration with competitors. Table 1 provides a comprehensive overview of the field in this regard, and the next sections briefly elaborate each of the four categories.¹

The resource efficiency category involves concrete cost savings and profitability measures and implications. For instance, the literature provides much evidence of the benefits of coopetition for cost savings in upstream activities, such as R&D and manufacturing (Choi et al., 2010; Gnyawali & Park, 2011; Ritala et al., 2017), as well as downstream activities, such as delivery, logistics, branding, and marketing (Chiambaretto et al., 2016; Kotzab & Teller, 2003; Teller et al., 2016). Furthermore, some studies have discussed specifics in terms of the types of resource efficiencies achieved. For instance, Peng et al. (2012) studied a broad range of measures related to productivity and performance in a Taiwanese supermarket network that utilized coopetition. They found that coopetition can improve a broad range of such measures over time, leading to improved quality, and reduction in various operational costs.

Market growth and development is a broad category, providing evidence of how coopetition improves market performance in terms of raising overall sales by broadening and developing the current markets (Gnyawali & Park, 2011; Peng et al., 2012). In general, coopetition allows market growth especially in contexts where horizontally aligned firms can utilize their own or shared interfaces and platforms in pursuing larger markets (Basole et al., 2015; Gueguen, 2009; Ritala et al., 2014). Coopetition can also help improve the overall conditions and legitimacy of industries, including social and environmental aspects (Volschenk et al., 2016). Furthermore, the benefits of coopetition are both local and international. The former often refers to geographically co-located activities (see Teller et al., 2016) which help competitors improve the market conditions and customer access, for instance. In doing so, coopetition helps the participating firms access their partners’ customer bases, as well as benefit from sharing of brands and marketing efforts (Chiambaretto & Dumez, 2016; Chiambaretto et al., 2016; Czernek & Czakon, 2016; Wang, 2008). International growth via coopetition initiatives has also been observed across many studies. It is well-known that coopetition allows established players to enter new foreign markets by collaborating with local rivals (Chiambaretto & Fernandez, 2016). Furthermore, Vanyushyn et al. (2009) and Kock et al. (2010) suggested that coopetition is a feasible strategy especially for resource-constrained small- and medium-sized enterprises (SMEs) for pursuing international opportunities and thus to gain new market share.

¹ This review excludes some of the previously mentioned quantitative studies measuring market performance with generic performance measures (e.g. Luo et al., 2007; Ritala, 2008, 2012; Bouncken and Fredrich, 2012) because they cannot be categorized in any particular stream.
New market creation involves particular benefits of coopetition that relate to joint infrastructures, relationships, resources, and capabilities shared among the horizontal players. First, coopetition helps in creating new markets and industries through the development of shared technological infrastructures, platforms, and standards (Christ & Slowak, 2009; Ondrus et al., 2015; Ritala et al., 2009). They help particularly in the emergence of new technical solutions or product families, where coopetition ensures that enough horizontal participation is involved in the new market creation (such as Blu-Ray, Mobile TV, or mobile payments, as discussed in the previous references). Second, coopetition helps to build the legitimacy for new market creation by providing customers more variety (Ritala & Hurmelinna-Laukkanen, 2009; Wang and Xie, 2011), and a related broader potential customer base. Finally, coopetition helps to create new market niches and categories as it allows new entrants to integrate their ideas with the horizontal incumbent players. For instance, Ansari et al. (2016) showed how coopetition strategy allowed new entrants to collaborate with industry incumbents in cable TV markets and therefore penetrate the markets with new offerings (i.e., TiVo services).

Competitive dynamics approaches have provided a lot of evidence of the interplay of the competitive and collaborative aspects of coopetition. This evidence includes studies assessing how firms have been able to affect their competitiveness and market shares via utilizing coopetition alliances (Gnyawali & Park, 2011). Furthermore, studies have shown how coopetition helps the actors involved increase their relative competitiveness against their industrial peers (Choi et al., 2010; Fernandez et al., 2014; Oxley et al., 2009). Several studies have provided additional insights into how a focal firm can increase its competitive abilities via coopetition. For instance, Gnyawali et al. (2006) suggested that the centrality in coopetitive alliance networks increases the focal firm’s tendency to engage in competitive actions, with a reduced risk of encountering aggressive counter-reactions (see also Sanou et al., 2016). Indeed, central firms in networks with coopetitive relationships can utilize their bargaining power to reduce the risks and increase the benefits of coopetition (e.g. Ritala et al., 2017). Finally, some researchers have expressed a cautious note in that coopetition can also lead to collusive behavior in cases when competition is subdued, or the bargaining power of customers or suppliers is reduced (Bengtsson et al., 2010; Gnyawali et al., 2008; Jorde & Teece, 1990).
### Table 1. Coopetition and market performance: overview of the research field

<table>
<thead>
<tr>
<th>Main mechanisms</th>
<th>Resource efficiency</th>
<th>Market growth and development</th>
<th>New market creation</th>
<th>Competitive dynamics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource efficiency</td>
<td>Resource and risk sharing in pre-competitive activities (Gnyawali &amp; Park, 2011; Gwynne, 2009)</td>
<td>Growth of sales in current markets (Gnyawali &amp; Park, 2011; Peng et al., 2012)</td>
<td>Set-up of technological infrastructures, platforms, and standards among horizontal actors to create traction and legitimacy for new markets (Christ &amp; Slowak, 2009; Ondrus et al., 2015; Ritala et al., 2009; Vanhaverbeke &amp; Noordehaven, 2001; Wang &amp; Xie, 2011).</td>
<td>Central position in coopetitive network increases the competitive abilities of the focal firm (Gnyawali et al., 2006; Ritala et al., 2017; Sanou et al., 2016)</td>
</tr>
<tr>
<td>Productivity, cost efficiency, quality, and safety improvements (Kotzab &amp; Oum et al., 2004; Peng et al., 2012; Rusko, 2011; Teller, 2003)</td>
<td>Productivity, cost efficiency, quality, and safety improvements (Kotzab &amp; Oum et al., 2004; Peng et al., 2012; Rusko, 2011; Teller, 2003)</td>
<td>Developing the common market legitimacy via social and environmental initiatives (Volchenk et al., 2016)</td>
<td>Creation of customer appeal through variety of choices in a particular category (Ritala &amp; Hurmelinna-Laukkanen, 2009)</td>
<td>Focal firm market share growth (Gnyawali &amp; Park, 2011)</td>
</tr>
<tr>
<td>Improved resource utilization via cross-selling and co-branding (Chiambaretto et al., 2016; Lindström &amp; Polsa, 2016; Oum et al., 2004)</td>
<td>Improved resource utilization via cross-selling and co-branding (Chiambaretto et al., 2016; Lindström &amp; Polsa, 2016; Oum et al., 2004)</td>
<td>Geographic market expansion and internationalization (Chiambaretto &amp; Fernandez, 2016; Kock et al., 2010; Vanyushyn et al., 2009)</td>
<td></td>
<td>Increase in joint competitiveness of coopetitors against the rest of the field (Choi et al., 2010; Fernandez et al., 2014; Oxley et al., 2009)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicators and measures used</th>
<th>Inventory, operating, purchasing, and delivery costs (Peng et al., 2012)</th>
<th>Sales growth rate, number of customer visits (Peng et al., 2012), store performance (Teller et al., 2016)</th>
<th>New product launches (Garrette et al., 2009)</th>
<th>Volume of competitive actions (Gnyawali et al., 2006; Sanou et al., 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity, measured by overall outputs divided by overall inputs (Oum et al., 2004)</td>
<td>Productivity, measured by overall outputs divided by overall inputs (Oum et al., 2004)</td>
<td>Market share: number of subscribers and the average increase (Sanou et al., 2016)</td>
<td>Installed user base (Wang &amp; Xie, 2011)</td>
<td>Stock market reactions to coopetitors’ shares outside the coopetition agreement (Oxley et al., 2009)</td>
</tr>
<tr>
<td>Contingencies and contextual issues</td>
<td>Coopetition pays off especially when there is a lot of market uncertainty, allowing risks and costs to be shared among horizontal actors (Gnyawali &amp; Park, 2011; Gwynne, 2009; Ritala, 2012)</td>
<td>Firms can grow markets faster in industries where joint platforms, standards, and interfaces among competitors are available (Basole et al., 2015; Carayannis &amp; Alexander, 2001; Christ &amp; Slovak, 2009; Gueguen et al., 2009; Mione, 2009; Ritala et al., 2014; Wang &amp; Xie, 2011)</td>
<td>Creating a new market category via coopetition relationships with the incumbents (Ansari et al., 2016)</td>
<td>Coopetition improves the firm’s tendency to engage in competitive actions (Gnyawali et al., 2006; Sanou et al., 2016)</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Industry infrastructures, standards, and associations provide accessible contexts through which competitors can coordinate resource efficiency improvements (Mione, 2009; Spiegel, 2005)</td>
<td>Coopetition in internationalization is a source of opportunities (Kock et al., 2010; Vanyushyn et al., 2009) but might also reduce export market performance (Nakos et al., 2014)</td>
<td>The number and variety of supporting firms of a new technology/market is appreciated by customers (Ritala &amp; Hurmelinna-Laukkanen, 2009; Wang &amp; Xie, 2011)</td>
<td>Coopetition announcements reduce the value of other horizontal actors outside the alliance (Oxley et al., 2009)</td>
<td>When coopetition negatively affects the bargaining power of industry’s customers and suppliers, there are potential antitrust problems (Gnyawali, 2008; Jorde &amp; Teece, 1990)</td>
</tr>
<tr>
<td>Agglomeration effects from geographic co-location help to increase competitors’ performance (Czernek &amp; Czakon, 2016; Teller et al., 2016; Wang, 2008)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Illustrative industry examples</th>
<th>Joint R&amp;D and production facilities between Sony and Samsung to reduce costs and share risks (Gnyawali &amp; Park, 2011)</th>
<th>Amazon.com was able to grow its share of global e-commerce markets by providing access to competitors to its sales and web platforms (Ritala et al., 2014)</th>
<th>Blu-Ray and HD-DVD standards battled for new market dominance (Christ &amp; Slowak, 2009)</th>
<th>New Zealand and Australian wine industry competitors collaborated on screwcap technology in order to attain global competitiveness (Choi et al., 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code-sharing alliances between airlines (Chiambaretto et al., 2016; Oum et al., 2004)</td>
<td>Retail and service sector stores enjoy agglomeration benefits by being closely located and providing customers improved access to a variety of products and services (Teller et al., 2016)</td>
<td>Firms were able to create markets for new services in the US TiVo ecosystem by creating coopetition relationships with incumbent broadcasting sector actors (Ansari et al., 2016)</td>
<td>Collaboration by regional competitors Thales Alenia Space and Astrium in order to improve global competitiveness (Fernandez et al., 2014)</td>
<td></td>
</tr>
</tbody>
</table>
3. Future research opportunities in coopetition and market performance

Based on this chapter, it is evident that we already know a lot about coopetition and market performance. However, there are still many opportunities for further research. In this section, some of the pressing research gaps and future research opportunities are discussed.

The first future research opportunity is related to pursuing more objectivity and rigor in the methods and measurement of the market performance outcomes of coopetition. Overall, it is evident that our understanding of coopetition and market performance relies mostly on case-based evidence, and very few quantitative studies have examined market performance using objective measures. These benefits could be examined at the firm level, such as in Luo et al. (2007). However, firm performance itself is affected by many different issues; and thus, it is not a surprise that such measurement is rarely available or observable. Thus, the literature could also pursue the quantification of the coopetition benefits more directly. One good attempt is documented in Peng et al. (2012), where various indicators are tracked and linked to coopetition initiatives. Future research could provide a more detailed tracking of the performance benefits of coopetition relationships within the firm’s alliance portfolio and contrast them against other types of alliances such as non-competitive or vertical alliances (this is done in some coopetition and innovation studies, such as Quintana-Garcia & Benavides-Velasco, 2014). Furthermore, studies could explicate how coopetition affects focal firm performance via different direct measures, such as how much revenue coopetition initiatives have generated or the types of resource efficiencies achieved. In all of the research designs, it would be important to specify how coopetition strategy in particular—as opposed to “regular” alliance strategy—has benefited market performance.

Second, interfirm collaboration—as well as coopetition—is increasingly being organized via technological platforms and related ecosystems (Cennamo & Santalo, 2013). Therefore, it would be relevant to further examine how firms scale their business by interacting with their competitors through connectivity provided by modern platform-based models. Existing coopetition literature has shown some indication of how platform leadership allows companies to reap profits by involving competitors in their growing ecosystems (Ondrus et al., 2015; Ritala et al., 2014), but more evidence would be useful.

Third, future studies could dig deeper into the competitive dynamics implications of coopetition strategy. There is evidence for how competitors can collaborate in order to make them more competitive in regional and global competition (Choi et al., 2010; Gnyawali & Park, 2011; Ritala et al., 2017), and that coopetition allows firms to pursue competitive strategies more effectively (Gnyawali et al., 2006) and subsequently improve their market performance (Sanou et al., 2016). However, our understanding in this field is still scant. More studies that examine the dynamics of competition, collaboration, and coopetition in markets, and how these dynamics between different relationships affect focal firm performance, as well as the relative market share of actors involved, could be conducted. Further research could also be dedicated to the potential antitrust and collusion implications of coopetition, which remain underexplored, despite earlier conceptual discussions and calls for further research (for discussion, see e.g. Bengtsson et al., 2010; Gnyawali et al., 2008; Jorde & Teece, 1990).
Conclusion

This chapter has provided an integrative outlook on the state-of-the-art evidence of coopetition and market performance. This includes examination of the mechanisms, indicators, and contingencies related to the market performance benefits of coopetition in four categories: (1) resource efficiency, (2) market growth and development, (3) new market creation, and (4) competitive dynamics. Overall, as this review demonstrates, coopetition research has already provided a compelling account of potential market performance benefits. However, there is a lot more to be done to understand the specific antecedents, contingencies, and outcomes. The increasing research interest in coopetition and contributions using different methods will hopefully provide much more evidence in this regard.

References


