

# Collaborate to Compete

## A strategic weapon for SMEs

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### Introduction

In theory a group of small companies (SMEs), working in unison by pooling their resources and collaborating on projects of mutual benefit, should be able to better compete with larger companies. In practice this rarely happens. It takes time to nurture relationships with other organisations and to find likeminded partners that can be trusted. Time is something that most SMEs are unwilling to commit to applying new theories unless the risk is low and the outcome will benefit the bottom line of the business. Only if SMEs can be encouraged to consider collaboration as a realistic and achievable strategic option to help them compete will they be persuaded to use it. This is the thinking behind a European funded project called SMEexcel set up in 2004. (Fig.1)



Figure 1. The partners in the SMEexcel programme

The aims of the project are to

- Assist an individual small company in analysing its opportunities, capabilities and, most importantly, 'attitude to working with others' in order to use

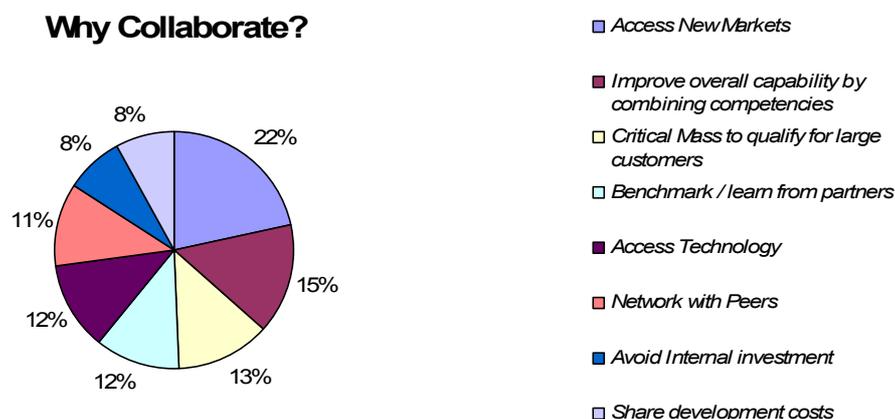
collaboration as an option for developing its business outside of its existing products or markets.

- Enable a group of companies to prioritise joint collaborative opportunities; to analyse its collective capabilities; to determine capability ‘gaps’ and to address these gaps through recruiting new members or developing the competencies of existing members.
- To provide a full set of support tools and methods to assist individual companies and partnerships to develop and implement successful collaborative partnerships
- To help development agencies support collaborative networks within their regions.

This article describes the tools the project has developed so far, firstly to attract organisations to participate in collaborative projects, and then to help them achieve successful outcomes.

## Benefits of collaboration

In their book “Managing to Collaborate” researchers Chris Huxham and Siv Vangen from the University of Strathclyde in Scotland state that “if collaboration could be done without too much pain then benefits could be enormous.” But what are these benefits and how do the managers of SMEs themselves think that collaboration could benefit them? To find out it was decided to survey SMEs across Europe. The survey involved over 100 companies across five European countries and it revealed a number of priority reasons why an SME might collaborate - see Fig 2. Prime reasons include getting new markets and customers, working with organisations that have complementary competencies and developing the critical mass for taking on bigger and better orders.



**Figure2. Perceived collaboration benefits**

This is not surprising when one looks at the major business challenges which companies face. Chief among those identified in the survey are (i) difficulty in attracting new customers and (ii) too many low-margin products and services. When asked in what areas they would like others as partners, the majority expressed a need for market access and a stronger sales force. There was an interesting response when companies were asked how important networks are to them. The majority, over 50%, said that peer collaboration was the most important type of network that they could be

involved in, however, less than 25% admitted to having ever been involved in such a network. On the other hand, less than 10% of respondents placed much value in industry networks; however, more than 65% had participated in such networks. This is understandable; as the latter are passive networks, while the former require significant time and effort in order to be effective.

Other issues highlighted in the survey include the relationship between growth-oriented companies and collaboration, the need for a specific unifying objective to pull the collaborators towards a result, rather than a relationship which has no specific objective, the need for trust between partners and the need to resolve intellectual property issues. The survey also explored how companies could become competent in collaboration. The preference was for a facilitated training programme working on an actual project. An overwhelming majority of companies wanted to ‘learn by doing’ while progressing a real business opportunity. One of the major problems facing many SMEs, is the lack of time and attention that they can devote to projects of this type. Most are so stretched that all activity needs to be focused on either running or developing the business. However, if a project worth collaborating on had potential to deliver substantial benefits for the participant companies then they were more likely to get involved and, more importantly, stay involved.

These findings shaped the way the SMEexcel set of tools and training was developed. A collaboration process was developed that a group of companies could go through together to progressively implement a collaborative project. The tools and training involve facilitation of companies, both individually and collectively, working on a project of mutual benefit.

## The Collaboration Process

A flow diagram illustrating the stages in the collaboration process developed by the SMEexcel team is shown in Fig 3

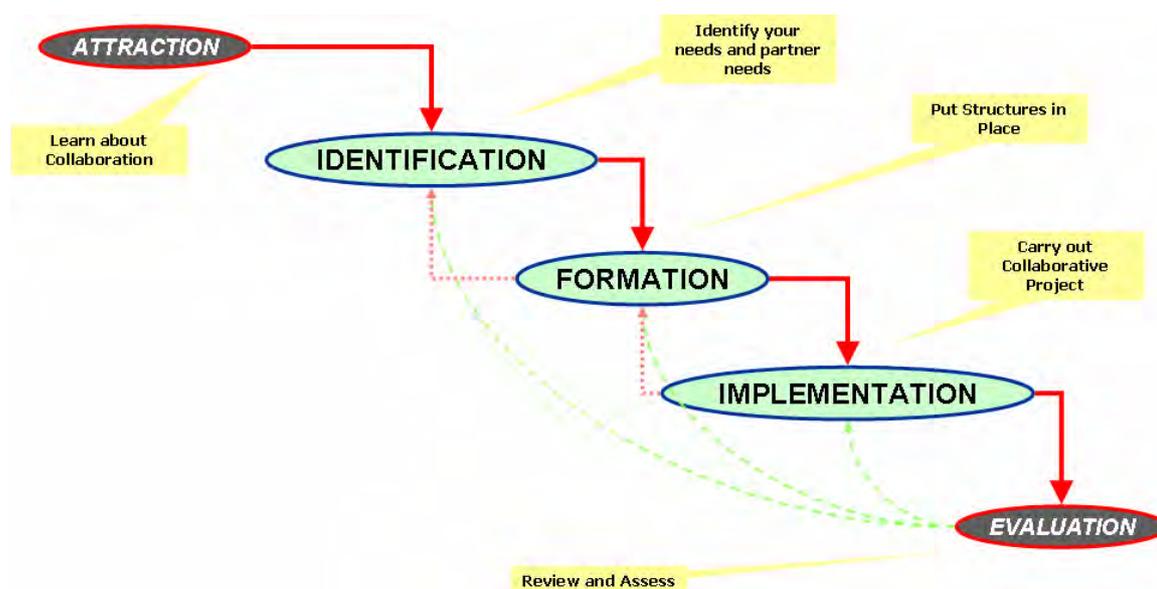


Figure3. The collaboration process

A five-stage process is involved. However, that core activity of collaboration involves the three middle stages, Identification, Formation and Implementation. The Attraction stage is involved with helping companies identify what collaboration is all about, such that they can make an informed decision about whether this is a suitable business option for them to consider. SMEexcel is developing a cost-benefit analysis model to help companies understand collaboration. It is also developing a simulation game such that teams can understand collaboration through playing. The Evaluation phase, which occurs at the end of the collaboration cycle, is concerned with reviewing the processes and systems for collaboration in order that these can be improved.

Companies, which are interested in pursuing collaboration seriously, are guided by a facilitator through the identification, formation and implementation stages.

The Identification stage is comprised of two elements:

- Internal analysis is carried out for each potential collaborating company. This involves looking at the strategic goals of the organisation, identifying the potential areas of opportunity, matching those opportunities against its own competencies and identifying the skills or competencies, which it needs to develop internally or find elsewhere.
- External analysis is carried out jointly across the potential group of collaborating companies. In this stage, the companies work through a process to identify common opportunities and to prioritise these opportunities in terms of joint exploitation. Once an opportunity has been identified, the capabilities needed to address that opportunity are determined. The joint competencies of the consortium are assessed against the capabilities required. If an additional competence is identified during the analysis phase which is necessary for project success (or to reduce the risk of failure), then it is agreed that the group will either develop the competency internally, or seek another partner to provide that competency and so strengthen the group.

At the end of the Identification stage, the consortium knows what it wants to do and whom it wants to do it with. Figure 4 outlines an example of an opportunity review process.

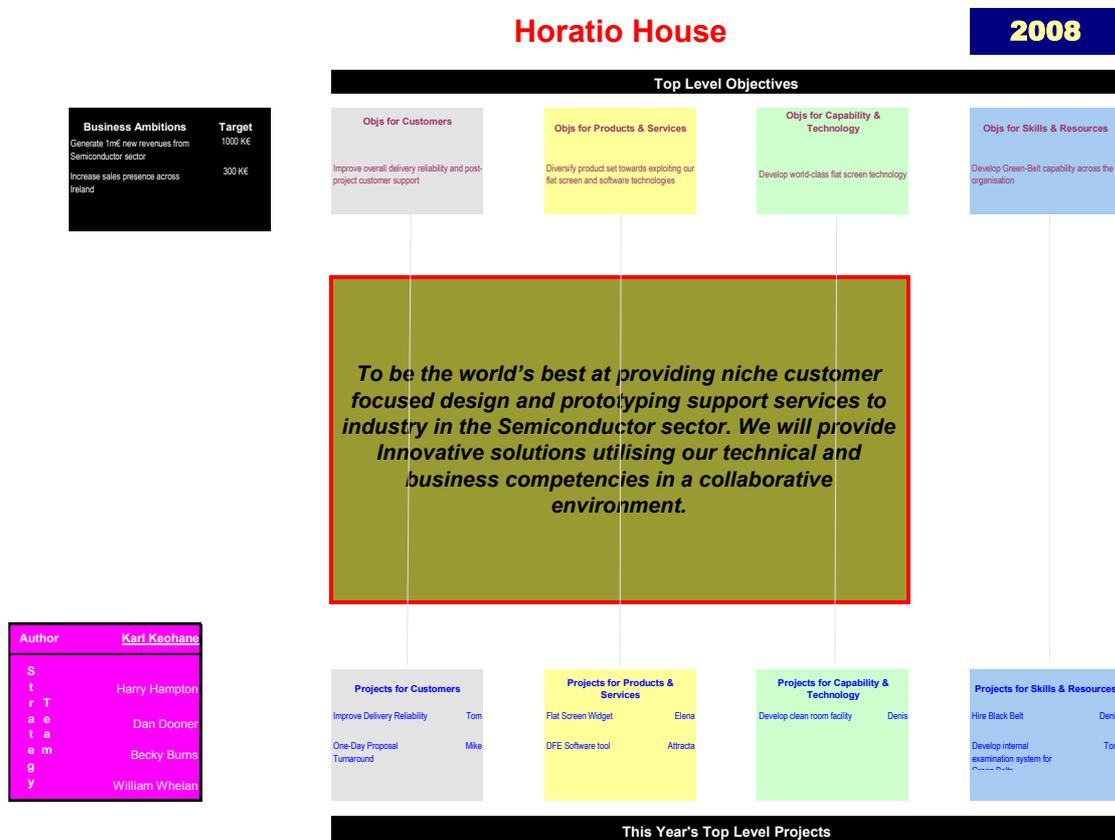
Description of Business Collaboration opportunity	Who are the Customers?	What is the Technology Challenge?	How Competitive is the Market?	Risk Measurement		Set Up Cost	On-Going Revenue			3-Year Net Revenue / Cost
				Gain	Loss		Initial Revenue	Ongoing Revenue	Total Revenue	
14 TurnKey Box Build	New Products in Existing Markets	Can be Acquired / Adapted	Intense Competition / Cost Driven	27	2	100,000	1,500,000	0	2,500,000	3,000,000
15 Focus on Semiconductor Sector	Existing Products in New Markets	Requires some Development	Intense Competition / Value Driven	36	1	250,000	500,000	0	1,200,000	2,100,000
16 Focus on Ireland as a Market	Existing Products in Existing Markets	Known and Currently used	Low Competition / Niche	1	5	80,000	350,000	0	750,000	1,200,000
17 Outsourcing Functions	Existing Products in Existing Markets	Known and Currently used	Intense Competition / Cost Driven	3	4	40,000	200,000	25,000	500,000	575,000
18 Certified Contract Service	New Products in Existing Markets	Requires some Development	Low Competition / Niche	18	3	125,000	20,000		200,000	540,000

Figure 4. Reviewing collaboration opportunities

Having decided which collaboration project to implement, the individual companies now proceed through a Formation stage to bind them together into a team with

common objectives and defined roles to play during the Implementation of the project. They may need to draw up a confidentiality or non-disclosure agreement to protect their interests before sharing information. Performance measurements are determined to assess the ongoing success or otherwise of the collaborative project. These metrics will differ depending on the scope of the project and whether the project is focused on market development, operational improvements or new product development.

The partners are encouraged by the facilitator to develop a one-page collaborative strategy for the project (Figure 5) that allows the participants to agree what is going to be done, to set targets, and to write down agreed objectives. The first pass at a formal collaboration agreement is drawn up which describes the basic rules for managing the collaboration and, most importantly, defines the processes for solving the inevitable problems that will arise. All partners are expected to sign the collaborative agreement to demonstrate their commitment to the project.



**Figure 5. One page strategy document**

The Implementation stage involves specific activities to deliver the identified collaborative opportunity. This is the hub of the collaborative programme, however, it will only be successful if due consideration is given to the activities that have taken place in both the identification and formation stages (research indicates that up to 70% of collaborative programme fail). In the Implementation stage, the sharing of information and resolution of problems preventing progression towards the objectives and targets set by the team, need to be managed. Approaches to allow this to be done in a disciplined way have been developed for project teams to use during this phase of

a project. Facilitators can advise on project management skills and the use of communication tools and software for companies to monitor and share progress. The agreed performance measurements are implemented and monitored throughout the project.

It is good practice to have ongoing reviews of the performance of any project. For collaborative projects, this is vital as the level of resources and cost increase with each stage. Hence, gates have been added between stages in the collaboration process to allow partners to critically review whether to progress to the next stage or not. Generic checklists have been developed, an example of which is shown in Figure 6.

#	Item	Status
1	Has a business plan for the collaboration project been drawn up together with metrics, targets and CSFs and circulated to all members?	
2	Have all members signed off on the business plan for the collaboration?	
3	Have the benefits for each partner been estimated resulting in agreement to continue? Have reward and recognition arrangements for people involved in the collaboration been agreed?	
4	Have the management structure, accountabilities, risk factors and review mechanisms together with conditions for terminating the collaboration been agreed and put in place?	
5	Have the systems for sharing information and allocating resources been agreed?	
6	Has an overall control policy been agreed, which may include the appointment of a collaboration leader, together with boundaries and decision making arrangements?	
7	Are the IPR implications (if any) known and have arrangement been put in place to manage IPR?	
8	Has an auditing process been agreed for the initial stages of the collaboration?	
9	Is an agreement in place regarding financial arrangements between the partners – investment, bank accounts, invoicing, spending authorisation etc.	

**Figure 6. Checklist Example - Formation stage**

## Testing the collaboration process within SMEs

A programme of testing the **collaboration process** to validate and improve it is currently underway. Networks of companies are in place in Ireland and Scotland, while networks are being set up in Poland and Turkey.

Examples of collaborations that are currently underway include the following:

- A partnership of three companies in the Mid-West region of Ireland have come together to offer electronics customers a turnkey solution for the whole supply chain from design to delivery of products. The competencies shared between these partners include: CAD design, component sourcing, specialist assembly and electronics prototyping, and sales and marketing.
- A partnership of three companies, two from the South West of Ireland and the third from Italy, is developing a composite pallet block using waste Wood and tyre-derived materials. Competencies shared include material sourcing, assembly technology and block manufacture.

- A partnership of two companies from the West of Ireland is evaluating the possibility of collaborating in the production of specialist machinery for concrete processing. Competencies shared include design, validation, production and sales.
- A Scottish network has come together from the drinks sector. The whiskey<sup>1</sup> industry in Scotland has a large number of SMEs providing services to the giant global companies that dominate the industry. This consortium identified a project, which combines small-scale packaging of high value malt whiskey for a low volume but well-known brand of whiskey. The pooling of resources and competencies is allowing them to grow market share for this speciality whiskey but at lower unit cost and better profitability.

It is planned to develop case studies from a selection of these projects, and those currently being started in Poland and Turkey. These will be available towards the end of 2006.

## **Viewpoint of Collaborators**

The general feedback from those consortia, which are up and running, has been positive so far. Frank Keohane, managing director of one of the companies involved in the Mid West, Ireland collaboration, says, “We have had some difficulties to overcome, but it has been worth it. We were able to eliminate our prototyping and sourcing services, areas in which we were not very good anyway. We can now concentrate on our core design skills and on our extensive marketing and sales capabilities. We expect that this is going to generate a significant improvement in turnover for ourselves and for our partners, a win-win all round.”

Bill Dickie, operations director of a company in the Scottish network said “The opportunity for new thinking, with new people giving a new perspective on the business, is one of the main benefits of taking part in the collaboration. However, you must be willing to compromise, and you and your partners must be willing to share information and to trust each other”.

## **Dissemination of the Research**

The SMEexcel programme runs until the end of 2006 but the concepts and tools used in the programme are being made available to the general community across Europe. A number of web-based tools are being developed which will provide a comprehensive step-by-step journey through the collaborative process. Training materials, both in soft copy and printable form, will support these tools.

It is expected that the primary users of these tools will be facilitators for collaborative networks, and also executives from industry support agencies. However, the tools are also suitable for SMEs to use directly.

If you are interested in being kept informed of progress of the SMEexcel toolkit, please contact the technical manager, Denis Kearney at [roscam@iol.ie](mailto:roscam@iol.ie).

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<sup>1</sup> ‘Whiskey’ in Ireland; ‘whisky’ in Scotland.