Chapter 5
Strategic Asset Building and Competitive Strategies for SMEs which Compete with Industry Giants

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ABSTRACT
This chapter studies companies which are arguably business super-heroes – the small firms which despite the apparent handicap of very limited resources are able to compete against much larger, multinational firms – the micro-giants Davids that take on Goliaths. Through a process of detailed case studies of actual firms, analysis of asset structure, and experiments with a simulation model, the relationships between key assets, critical success factors, and micro-giant competitiveness are explored. The model produces six scenarios reflecting different strategies for developing tangible and intangible assets and, critically, the balance between them. A level of aggression is needed in asset building to maintain competitiveness, but the simulations show that this can all be undone if balanced development is not managed. This confirms there are pathways by which micro-giants can remain competitive and deny multinationals the overwhelming victory that the received wisdom suggests.

DOI: 10.4018/978-1-4666-5962-9.ch005
INTRODUCTION

A small but not insignificant group of small companies are in the arguably unfortunate situation that, despite their small size, they are actually competing in major markets where much larger, multi-national firms also operate.

There are essentially two ways that such SMEs can be competitive in these environments:

1. They develop and protect a small, highly-specialised product or service. This strategy enables them to utilise their relatively scarce R&D and other resources most effectively to develop their offerings and protect their competitive position. The small size of the highly specialised market may also mean that it is not a target of the larger firms, and this can offer them an element of further protection. This has been called a “deep niche strategy.”

2. The small firms face head-on the competition from much larger, often multinational firms. Despite the disadvantages of their small size, they must design strategies that fully exploit all their strategic resources. We have chosen to call these firms ‘micro-giants’ – they are small themselves but the nature of their market position means they operate in major national and even international market places against the giants of their industry.

This chapter will examine both these strategic approaches. However, the deep niche approach has been addressed elsewhere, but more importantly is predicated on the SME discovering or developing a highly specialised niche in the first place. This is not a strategy that can therefore be adopted by more than a very small number of enterprises. On the other hand, any small firm with a solid product base and which enjoys a period of extended growth might in time find itself in the position of being a micro-giant. These firms must purposefully develop the necessary strategies to compete in this environment.

Such firms face the challenges that all smaller enterprises face, but have the added struggle of having to develop sustainable strategies that will enable them to build and maintain high levels of relative competitiveness against the big firms which enjoy all the benefits that size brings. These are Davids taking on Goliaths. Typically, multi-nationals enjoy much larger product and market development budgets, larger knowledge and skill bases, and other advantages their size, multi-divisional and multi-national nature bring.

By focussing on the characteristics of micro-giant firms, the main objective of this chapter is the development of a quantitative model which could be used to simulate their system behaviour and to examine how the balance in asset management differentially impacts on company performance, and, in particular, to analyse micro-giants’ competitiveness. The process for achieving this involves looking for links between three cases of successful “micro-giants” and to develop generic insights into the relationship between the balanced management of assets and competitiveness, and to then reflect these within the generic model and system behaviour. System Dynamics (SD) methodology will be used to model the relationship between key asset management and competitive success of such SMEs.

Examining Competitiveness in Micro-Giants

This chapter will briefly examine three case study companies, each in a quite different industry, and the critical system drivers are identified. Of particular interest are the pressures placed on small company competitors because of their need to be reactive to the timings and competitive thrusts of their bigger competitors. The analysis centres on the close interaction between three interlocked