Exploring Coopetition in Single Firm and Its Contribution to Service Management

A case study in Red Star Macalline and IKEA China

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Abstract

Title: Exploring coopetition in single firm and its contribution to service management

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Background: In the contemporary economy, companies increasingly cooperate with their competitors to create competitive advantages through knowledge creation and absorption, broad resource pool, reduced risks and uncertainties, and better products and services for consumers. This situation is termed as coopetition which refers to firms simultaneously competing and cooperating with each other.

Aim: As a newly developed concept, coopetition has not been fully studied in many perspectives. This research studies two furnishing retailers in China, Red Star Macalline and IKEA China to explore more fresh knowledge about coopetition. We put our main focus on a single firm level, investigating the premises of coopetition strategy, the driving forces behind coopetition behaviors, as well as the contribution of coopetition to service management regarding each firm.

Method: Our research design applies the comparative case study. More specifically, we adopt qualitative and deductive approach. The entire research primarily bases on secondary data, including literature and published information about two firms. The main source of first-hand data is gathered by interviews and observation.

Findings: For firms which involved in competition dominant coopetition, the premises display the co-existence of similar and complementary attribute while in cooperation dominant coopetition, bargaining power of specific participants and unique characteristics of firms are key premises.

Mutual dependence and power imbalance are two main driving forces behind coopetitive behaviors. In the low-mutual-dependence condition, actors behave competitively regardless their power imbalance. In the imbalanced dependence situation, the actor who has both power disadvantage and dependence disadvantage has more cooperative behaviors.

Coopetition can contribute to the service management arena. Competition dominant coopetition enhances service quality in terms of products and service diversity, while cooperation dominant coopetition facilitates the customer value co-creation.

Key words: coopetition, competition dominant coopetition, cooperation dominant coopetition, premises, coopetitive behavior, service management, Red Star Macalline, IKEA China.
Acknowledgement

This Master thesis is a final project of the program-Strategy and Management in International Organizations at Linköping University. During this two years’ study, we obtained deep knowledge on business administration in international context. Now it is the time for us to show our gratitude to all who give us support and help during the whole process of our study.

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Limin Chen and Shuai Hao

Linköping

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1 Introduction

1.1 Background

In the contemporary economy, companies increasingly cooperate with their competitors to create competitive advantages through knowledge creation and absorption, broad resource pool, reduced risks and uncertainties, and better products and services for consumers (Ganguli, 2007). In academic research as well as in business practice this phenomenon has been named “coopetition” which refers to firms simultaneously competing and cooperating with each other (Brandenburger and Nalebuff, 1996; Bengtsson and Kock, 2000). It is a new method of operating business that stresses resource sharing instead of resource duplication (Ganguli, 2007). The concept of coopetition is developed from Game Theory which encourages companies to keep both competition and cooperation in mind to shape a win-win business game.

To better understand the meaning of coopetition in real business environment, it is necessary to mention a few coopetition cases among those well-known companies in recent years. In February 2009, Amazon.com introduced Kindle 2, an e-reading device, to the market. Apple, a major rival challenged Amazon.com by releasing iPad in April 2010 as an e-reader with a similar function as Kindle 2. Soon after the launch of iPad, Amazon.com and Apple started a coopetitive relationship where Apple is distributing the e-book content of Amazon.com through the "Kindle App" on the iPad platform (Kalpanik and Zheng, 2011).

In 2010, two dominating firms in telecommunication industry, T-Mobile and Orange, established a 50-50 joint venture in UK, namely, Everything Everywhere (BBC News, 2009). After the merger, Everything Everywhere has become the largest communications company in British market, providing mobile and fixed-broadband communications services to nearly 30 million customers through Orange and T-Mobile brands (Everything Everywhere, 2012). This joint venture stands for a significant cooperation as the outcome of the two firms tying up together. However,
in the store of Everything Everywhere, the products and service are sold under individual brands, to a large extent they remain the traditional competitors which offer the similar products and service categories.

The above cases point out the same phenomenon which is the conventional competitors or firms competing in some areas tie up together and start collaboration to some extent. Meanwhile they do not stop competition. This situation is termed as coopetition which was first conceptualized in 1980s referring to business situations or strategies where rival companies combine to create a stronger product or industry (Quint, 1997). However, it is not until 1990s that it has been constructed and framed. Coopetition is a hybrid strategy which evokes the combination of cooperation and competition. Companies cooperate to create a bigger market pie but compete when it is the time to divide (Abdallah and Wadhwa, 2009).

1.2 Research problem

1.2.1 Research gap

The exploration and exploitation of coopetition is initiated from a network level analysis which has been focusing on a series of fundamental issues, such as defining coopetition and how it was formed (Bengtsson and Kock, 2000), understanding its concept (Ganguli, 2007), illustrating the benefits of coopetition (Bigliardi et al., 2011), and the impacts of coopetition strategy (Osarenkho, 2010). Besides, Chen et al. (2008) explore the success factors of coopetition strategy, such as management leadership and development of trust. Morris et al (2007) assess the relationship between coopetition and firm performance especially in small companies. Tsai (2002) stresses the coopetition among multi-units within a single firm which stands for a minor research field.

As a newly developed concept, coopetition has not been fully studied in many perspectives. In line with the above mentioned research fields, the majority of
litteratures focus on the concept definition, reasons and benefits of coopetition, the alliance and network analysis wherein most of them base on the inter-organizational level or relational analysis (Bengtsson and Kock, 1999; Bigliardi, et al 2011; Todeva and Knoke, 2005). Since the concept was created in the context of inter-firm level, the ongoing researches likely cluster in exploiting the coopetition between firms. However, less focus has been paid to internal coopetition within a single firm, according to Walley (2007).

Furthermore, the research output tends to be less fruitful in the following arenas: typologies and coopetition models, coopetition and firm performance, issues of applying coopetition strategy, to name a few (Walley, 2007). The aforementioned research areas are waiting for the continuous effort. What is more, the research context in most of case study previously concentrated on the manufacturing or technical sector but with less awareness in service industry which becomes more important among the whole industry. The contribution of coopetition to service industry and service management rarely has been touched in the context.

1.2.2 Case context

This paper contributes to extant knowledge of coopetition in service industry by separately studying two furniture retailing giants in China, IKEA China and a Chinese local furnishing retailer, Red Star Macalline. IKEA, the renowned global furnishing retailer which designs and sells its self-owned brands, entered into Chinese market in 1998. It has greatly adapted itself to the Chinese context while still keeps its concept “simplicity is beauty” and self-service business style in China. Unlike IKEA China, Red Star Macalline handles bundled brands. It was founded in 1986 and is growing with the increasing Chinese economy and people’s consuming power. So far it has developed its outlet from a furnishing market to a modern shopping center.

Previous scholars have paid much attention to IKEA China’s low price strategy and cultural adaptation. As for Red Star Macalline, scholars are interested in its marketing
strategy and competitive advantages. However, no one explores the coopetitive relationships of each. Bengtsson and Kock (2000) argue that coopetitive relationship is the most complex and advantageous relationship between competitors. The complexity in question is constituted by two diametrically different logics of interaction. Actors involved in coopetition are in a relationship that on the one hand, consists of hostility due to conflicting interests and consists of friendliness due to common interests on the other hand. In Red Star Macalline, multiple brands which compete fiercely with each other are cooperating in some way under Red Star Macalline’s administration. IKEA China and its Chinese customers also have a coopetitive relationship in which they claim for their optimal interests by competing with their bargaining power while cooperate to co-create value to keep a long-term relationship. Depending on the degree of cooperation and competition, we see two types of coopetitive relationships in these two companies, namely cooperation-dominated relationship and competition-dominated relationship. Their coopetitive behaviors regarding two types of relationships also differ from each other.

1.3 Purpose statement

The purpose of this dissertation stands to deeper investigate the coopetition knowledge, in accordance with internal firm analysis, to address some issues not mentioned in the current literatures. Our main purpose is to deliver updated knowledge of coopetition, particularly the coopetition strategy and coopetitive behaviors which correlate to the single firm’s business model.

Explicitly, the research provides four hypotheses regarding our research questions. First, we explore the premises of application of coopetition strategy with the consideration of different features and structure in different firms. Then we examine the determinants of coopetitive behaviors in order to resolve the issue why the firms exhibit distinct behaviors. At last, this thesis intends to make a connection between coopetition and service management to figure out how coopetition strategy affects the business in service industry.
Overall, it is aimed to deliver the progressed understanding of coopetition within a single firm. In details, we attempt to approach those underestimated subjects by investigating the following three research questions:

1. **What are the premises for a single firm to apply coopetition strategy?**

   The application of coopetition strategy presents as an important as well as an enormous research area. However, within that scope, the premises are the fundamentally determinants for firms to choose which type of coopetition strategy. Due to the individual features of different firms, the premises are rather diversified. Thus this research question is put up in order to investigate the appropriate premises of different types of coopetition.

2. **In the coopetition context, how does resource dependence affect actors’ coopetitive and cooperative behaviors?**

   According to Casciaro and Piskorski (2005), resource dependence contains two main dimensions, power imbalance and mutual dependence, which would affect the degree of a firm’s dependence on external resources. It provides an approach to explain firms’ actions. We use this theory to study the driving forces behind the complex coopetitive behaviors.

3. **How does coopetition contribute to service industry in respect to service management?**

   Service industry has rarely been involved in the coopetition studies. However, it has emerged to be the most dominating industry scope. Coopetition, due to its particular dual dimensions, may have certain contributions to the actors involved in their network. Thus we wonder how coopetition impacts on service management and leads some merits to service industry eventually. Addressing this research question also depends on which type of coopetition strategy in use.

   The questions mentioned above can be addressed through, firstly, sorting the existing literature to outline a fundamental knowledge base. Then the consistent effort and
emphasis will be put on research design, collecting empirical data, examining the hypotheses in the case study (Red Star Macalline and IKEA China as pointed out earlier). Afterward, the conclusion with our main finding incorporated is given at the end of the thesis accompanied with the suggested future research arena.

The thesis compares with current theory and practical phenomenon, hence, to create new knowledge setting for investigating coopetition strategy. We examine previous research output in our specific but influential case context in order to deliver fresh and applicable findings to similar situations.

1.4 Contribution

This research design values a lot in comparative case analysis by which we attempt to deliver some new perspectives of considering coopetition for firms. With a well-integrated theoretical input and empirical information, the research result offers a few implications in both theoretical and practical aspects. On the one hand, the theoretical finding provides more concrete argument on driving forces of coopetitive behaviors and on the premises which largely affect the application of coopetition strategy. Further, as a “strategy”, coopetition provides new interpretation and contributions to service management.

On the other hand, it provides useful and applicable tips on implementing coopetition from the practical perspective. The case companies—the furniture retailers we choose, could exemplify for other players in retail industry. The analysis process and outcome can be replicated into other segment of service industry. Though the context of the chosen case is in China, the research result also could be fitted in other nations. Additionally, referring to service industry, it seems urgent for firms to identify which types of coopetition is more appropriate and to create competitive advantage in attempt to address the fierce competition.
1.5 Research Outline

In this chapter, the content covers the research problem and background. We state why we are interested in studying “coopetition”. The research problem is constituted by research gap and three specific, and interactively related research question which have been portrayed in purpose statement. Furthermore, structure of the whole thesis will be introduced in terms of research outline.

The main body is structured as following. Chapter 2 is a literature review, building the frame of reference. In this section, the previous study of “coopetition”, and its relation with other theories are discussed. We start our discussion by explaining the concept of coopetition. The comparison of different research questions and findings regarding coopetition as well as Game Theory are reviewed to help understand the hybrid concept. Then we go deeper to discuss some related theories such as coopetitive relationships, coopetitive behaviors, and determinants of coopetition, service management, service dominant view and value creation analysis to support our later analysis. An overview of these issues will provide guidance for discussions about the motivation and influence of coopetition strategy for Red Star Macalline and IKEA China.

Chapter 3 presents the methodology of this study. The qualitative and deductive research was applied. Primary data were gathered by telephone and email contact with two companies’ specialists and managers, as well as observation conducted by our friends and families. Secondary data were collected from press, company website and document. In addition, the limitations of this study are also included in chapter 3.

The findings of the qualitative research are presented in chapter 4. More detailed information regarding Red Star Macalline and IKEA China are illustrated. Chapter 5 analyzes the empirical data, guided by related theories and concepts. Three research questions are discussed and answered in this section. The conclusion part in chapter 6 reassesses our purpose of this study and highlights our findings. We also suggest a few direction for future research i.e. how to manage coopetition strategy and apply
coopetition strategy to other industries. The following table gives a brief view of our chapter outline (see table 1).

## Chapter Outline

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1</td>
<td>In this chapter we introduce the coopetition topic and its background, and discuss the research problem and purpose of the thesis.</td>
</tr>
<tr>
<td>Chapter 2</td>
<td>The literature chapter states the relevant theory on coopetition as well as service management which gives a clear framework of the concept.</td>
</tr>
<tr>
<td>Chapter 3</td>
<td>The methodology session explains how we design the research and collect the data, as well as the research limitation.</td>
</tr>
<tr>
<td>Chapter 4</td>
<td>In this chapter, we describe coopetitive behavior and service management system in Red Star Macalline and IKEA China.</td>
</tr>
<tr>
<td>Chapter 5</td>
<td>Analysis and discussion chapter is used to compare the theory and empirical part in order to address our research question.</td>
</tr>
<tr>
<td>Chapter 6</td>
<td>The conclusion part highlights the finding and states the limitation of our paper and future research.</td>
</tr>
</tbody>
</table>

Table 1: Chapter outline  
Source: Authors’ own creation
Frame of Reference

2.1 Coopetition

The dynamic business environment has led many companies from a position where they simply competed against each other, to a situation where they had to cooperate, and now to a point where they have to both cooperate and compete to survive. 

(Walley, 2007)

Coopetition builds on the idea that firms cooperate to create value and create a bigger pie, and when the time comes to divide the pie they compete to appropriate value (Abdallah and Wadhwa, 2009). It is clear from their point of view that coopetition is a hybrid strategy which combines cooperation and competition (See figure 1). Thus two or more organizations cooperate to compete. Nowadays, more and more companies are involved in cooperation activities while simultaneously compete with their competitors.

Figure 1: Combination of cooperation and competition
Source: Authors’ own creation
Coopetition is not a fully fresh idea introduced; however, highly clustered in recent years, the chart below shows the development of published books on coopetition during decades.

![Figure 2: Books published on the topic of coopetition](image)


### 2.1.1 The concept of coopetition

The concept of coopetition which encompasses competition and cooperation is developed from Game Theory. According to Grant (2010), all business relationships combine elements of competition and cooperation, without simple dichotomy between them. Game Theory helps companies to predict the possible consequences of strategic moves by their competitors and themselves.

“Coopetition” was first introduced in the early 1980s, which refers to business situations or strategies where rival companies combine to create a stronger product or industry (Quint, 1997). However, this concept did not get much attention since scholars at that time developed their researches on two opposite perspectives, i.e. cooperative perspective and competitive perspective. The competitive perspective advocates that companies should develop their unique resources and capabilities to achieve competitive advantages, while the cooperative perspective advocates that companies
can improve their performance by sharing complementary resources (Abdallah and Wadhwa, 2009). It is not until the latest ten years that “coopetition” has been paid more and more attention by scholars and managers.

The reason behind coopetition is that companies try to pursue a way to gain a competitive and cooperative advantage (Quint, 1997). In line with this argument, Brandenburger and Naleff (1996) claim that coopetition goes beyond the traditional boundaries of competition and cooperation, in order to achieve the advantages of both.

2.1.2 The previous concern of coopetition

Though the topic is concentrated on coopetition, the focused perspectives are rather diversified, including coopetition strategy, coopetition and firm performance and network analysis. We select some articles with the main research effort and sort them into the following table (Table 2). Thus, based on this sorting, it not only illustrates previous research problems, but also provides readers a comparison of different approaches and focuses.

<table>
<thead>
<tr>
<th>Author</th>
<th>Research question</th>
<th>Primary organizational focus</th>
<th>Industry</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bengtsson &amp; Kock (2000)</td>
<td>How can simultaneous competition and cooperation in a relationship be divided, and how can advantages of coopetition be further examined?</td>
<td>Network</td>
<td>Lining, Brewery and Dairy</td>
<td>In a coopetitive situation firms tend to cooperate more frequently in activities carried out at a greater distance from the buyers.</td>
</tr>
<tr>
<td>Gnyawali, et al.</td>
<td>How</td>
<td>Network</td>
<td>Steel</td>
<td>In a coopetitive</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Year</th>
<th>Title</th>
<th>Authors</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Coopetition affects firms’ competitive behavior?</td>
<td>Chen &amp; Hao</td>
<td>Network, firms that are highly central and structurally autonomous tend to be more competitively active.</td>
</tr>
<tr>
<td>2007</td>
<td>To understand coopetition concept in different types of businesses.</td>
<td>Ganguli</td>
<td>Coopetition challenges the old competition-centric viewpoint. 6 coopetitive models were identified.</td>
</tr>
<tr>
<td>2011</td>
<td>To exam the benefit of coopetition model.</td>
<td>Bigliardi, et al.</td>
<td>Coopetition helps firms develop and expand their business.</td>
</tr>
<tr>
<td>2002</td>
<td>How coopetition strategy is able to guarantee value creation?</td>
<td>Dagnino &amp; Padula</td>
<td>Coopetition give rise to knowledge and economic value in macro, meso and micro levels.</td>
</tr>
<tr>
<td>2004</td>
<td>How to develop and survive a coopetitive relationship?</td>
<td>Zineldin</td>
<td>Coopetition can deliver synergy if carefully planned, managed and controlled.</td>
</tr>
<tr>
<td>2010</td>
<td>What’s the impact of coopetition on collective strategies for value generation?</td>
<td>Osarenkhoie</td>
<td>Coopetitive relationship fosters collective intelligence through information and knowledge sharing.</td>
</tr>
<tr>
<td>2007</td>
<td>What can be future researched in the subject of coopetition?</td>
<td>Wally</td>
<td>Presents an agenda for researchers with eight topics.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>What’s the formation of coopetition?</td>
<td>How firms improve their performance by being engaged in coopetitive networks with their rivals?</td>
<td>Assess the relationship between coopetition and small firms’ performance.</td>
</tr>
<tr>
<td>--------------------</td>
<td>-------------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Mariani (2007)</td>
<td>Network</td>
<td>Network</td>
<td>Network</td>
</tr>
<tr>
<td>Morris, et al. (2007)</td>
<td></td>
<td></td>
<td>For small firms, partnerships with competitors are indeed predicated on mutual benefit, trust, and commitment.</td>
</tr>
<tr>
<td>Ritala (2011)</td>
<td></td>
<td></td>
<td>Coopetition strategy is beneficial under high market uncertainty, high network externalities and low competition intensity.</td>
</tr>
<tr>
<td>Tsai (2002)</td>
<td>Firm</td>
<td>Cross-industry</td>
<td>Both formal and informal coordination mechanisms influence intrafirm knowledge sharing.</td>
</tr>
</tbody>
</table>
with their competitors inside the organization?

<table>
<thead>
<tr>
<th>Source</th>
<th>Question</th>
<th>Network</th>
<th>Manufacturing</th>
<th>Management leadership and development of trust are the most important success factors.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chin, et al. (2008)</td>
<td>What are the success factors to coopetition strategy management?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 2: Selected articles of coopetition**

*Source: Authors’ own creation*

**The formation of coopetition: emergent or intended?**

It remains an argumentative issue whether the coopetition is unconsciously emerging through the developing process of firms or as a strategy that firms intend to implement. Most of the extant studies have emphasized the intentional character of coopetitive strategies. Bengtsson and Kock (2000) argue that the driving force behind coopetition is the heterogeneity of resources, as sometimes it is best to combine a company’s unique resources with other competitors’. On the contrary, Mariani (2007) finds that coopetition strategy is a process guided by external forces. In other words, environment plays a crucial role in shaping coopetitive strategies.

**Types of coopetition models**

Regard to the degree of competition and cooperation, Luo (2004) identifies four types of coopetition models, namely contender, adapter, monoplayer and partner (figure 3). Coopetition strategy is more and more crucial for companies as the technology and business environment change faster, hence the market becomes more uncertain. Concerning the level of commitment to market creation and technology developments, Chirgui (2005) also distinguishes four kinds of coopetition models, that is standard setting, business integration, knowledge exchange, cooperative R&D (figure 4). Companies need to adopt proper coopetition models by considering both external and
internal environment.

![Diagram of the four coopetition models](image)

**Figure 3:** The four coopetition models  
*Source: Luo (2004).*

<table>
<thead>
<tr>
<th>Level of Commitment on Market Creation</th>
<th>Level of Commitment on Technology Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Standard Setting</td>
</tr>
<tr>
<td>Low</td>
<td>Business Integration</td>
</tr>
<tr>
<td>Low</td>
<td>Knowledge Exchange</td>
</tr>
<tr>
<td>Low</td>
<td>Cooperative R&amp;D</td>
</tr>
</tbody>
</table>

**Figure 4:** Coopetition models  
*Source: Chirgui (2005)*
Coopetition and knowledge sharing

On the inter-organizational level, Osarenkhoe (2010) argues that coopetition fosters collective intelligence through information sharing. On the intra-organizational level, Tsai (2002) studies the social structure which contributes to knowledge sharing. Based on a big multiunit organization, he illustrates that informal lateral relations among different units enables them to cooperate to share knowledge while compete with each other for market share.

Coopetition affect performance

One of the reasons that companies coopete with each other is that they collaborate in the quest for improved performance. Zineldin (2004) as well as Morris et al. (2007) demonstrate that coopetition strategy improves companies’ performance if it is carefully planned, managed and controlled. In line with this argument, Ritala (2011) examines the effect of coopetition strategy on companies’ innovation and market performance, arguing that coopetition strategy is beneficial under high market uncertainty, high network externalities and low competition intensity. Abdallah and Wadhwa (2009) propose a framework which defined companies’ coopetitive performance and identified three potential sources of coopetitive performance: network resources, absorptive capacity and relationship governance.

Coopetition strategy is a hybrid strategy combining two paradoxical logics, which makes it more difficult to handle. Scholars have also identified several success factors for coopetition in practice. It is emphasized that development trust and managerial leadership are the most important success factors (Chin et al., 2008; Osarenkhoe, 2010).

2.2 Elements and determinants of coopetition

2.2.1 Competition and similarity

The definition of competition is referred to a dynamic situation where several
participants in a specific market or segment are struggling for scarce resources, market, and the homogenous products (or services) in attempt to meet same customer demand (Hunt, 2007; Bengtsson and Kock, 2000). The driving forces for firms competing with each other are largely based on the scare resource and market position. However, in accordance with the research by Kildull et al (2010), the similarity between competitors has a positive impact on rivalry which also fundamentally leads to substitute.

From the perspective of psychology, people are easily to be threatened by their close people’s success on self-relevant dimensions (Tesser, 1988; Menon et al, 2006). It is argued that competitors, either similar in location or features might show the similar “value identities or identities they strive for” (Menon et al., 2006, p.947). Britt (2005) also suggests that individual level of motivation and stress rise when a task is largely related to their valued identities. Hence the similarity between rivals in social society, with respect to characteristics and location could foster acute competition. Regarding economically rational reasons, as mentioned above, competitors who are in the same industry often compete for same scarce resource, and pose greater pressures to one another (Chen et al., 2007).

Similarity can be interpreted by both the same resource or assets (Menon et al., 2006) and the proximity in location (the latter one is normally named as “cluster”). Proximity in respect to geography, culture, and institution enable the creation of special access, relationships, and upgraded knowledge, facilitate the smooth communication among business parties, and build up other advantages on growth and productivity which rarely can be achieved from a distance operation (Porter, 2000). The aforementioned issues or advantages are likely to be found in a cluster that refers to a geographically concentrated entity. Delgado et al., (2010) express that clusters enables the improved productivity and efficiency so that companies involved can compete internally, nationally and globally.

Porter (2000, p.16) points out that “with globalization, new influences of clusters on competition have taken on growing importance in an increasingly complex,
knowledge-based, and dynamic economy”. The multi-face communication and knowledge sharing within a cluster enable participants to rethink competitiveness and shift the conventional mind-sets of being granted (Porter, 2000). With respect to the connection between cluster and coopetition, it can be illustrated by a case. For instance, the fashion street with many stores, normally group together and depend on each other. Those stores selling similar products compete for attracting consumers, but at the same time, cooperate with others to create an advanced shopping environment and minimize the operating cost.

2.2.2 Cooperation and complementarity

Cooperative relationship is emerging through the situations involving competitor interaction (Ang, 2008). Cooperation means a relationship where interactions among individuals and organization take place through the sharing of complementary resources and capabilities or leveraging these with the considerations of mutual benefit (Gnyawali, et al., 2006; Blomqvist, et al., 2005). The main motive for firms to cooperate tends to be adopting collective strategies in order to achieve value creation. (Wang and Krakover, 2008)

A player can be viewed as a firm’s complementor when customers value the product portfolio more than when they have previous product alone (Nalebuff, 1996). The cooperative relationships between complementors largely contribute to the added value. Thus complementor network is very crucial regarding the concept of coopetition. When companies consider cooperating with previous rivals, complementing character plays an important role as it offers the opportunities for firms to create new values.

The theory of complementarity initiates from the complementary product and its economic value mentioned in the value network which is also portrayed as the sixth element in addition to Porter’s five industry forces (Brandenburger and Nalebuff, 1996). Adegbesan (2009) states that the value of “complementarity” can be displayed when a combination of different resources contributes to the creation of a “surplus” beyond the
overall amounts of value they could create independently. “Firms with a greater degree of complementarity to a target resource are able to create a larger surplus in combination with that resource than firms with a lower degree of complementarity to the resource.” (Adegbesan, 2009, p.463)

In accordance with RBV, the performances of different firms vary because of different resource endowments which cover assets, processes and knowledge possessed and allocated by individual firm efficiently (Barney, 1991). Complementary resources, for instance, the technology know-how from the company side and the market know-how from the customers, lead to advanced capabilities and performance in comparison to applying one resource alone or independently (Milgrom and Roberts, 1995; Moorman and Slotegraaf, 1999).

2.3 Coopetitive relationship

In today's business environment, companies are acting in a business network where they compete and cooperate at the same time. The ambiguous interaction among companies makes it difficult to define a competitor or a cooperator. Thus the pure cooperative or competitive relationships can no longer describe companies mixed relation.

(Bengtsson et al., ?)

The hybrid coopetition strategy leads to complex coopetitive relationships. The coopetitive relationship is defined by Zineldin (2004) as an ongoing relationship between different actors in networks which cooperate and compete simultaneously with each other. They are able and willing to cooperate and compete on a basis of mutual commitment and trust, and a mutual sharing of information, risks and rewards. Bengtsson and Kock (1999, 2000) stress that coopetitive relationships in business network is the most complex relationship, as there is a paradoxical logic behind it. On the one hand, the idea behind cooperation is to involve in collective activities to achieve
common goals. The idea behind competition on the other hand, is to compete with each other to achieve self-interest.

Previous studies concern two types of relationships within networks, vertical relationships between buyers and sellers, and horizontal relationships between competing companies. The vertically linked actors are usually emphasized cooperation; hence a cooperative coopetition is dominated. However, the horizontally linked actors are usually related to competition, hence it is dominated by a competitive coopetition (Steinby, 2002).

### 2.3.1 Horizontal Relationships

According to Steinby (2002), the horizontal relationship is among competitors. As the rivalry nature of it, actors who involved in a horizontal relationship try to avoid interaction. Their relationships are often informal and intangible, as the exchanges among them are mostly information and social exchanges.

Cooperative relationships can be seen among different organizations. For example, the retailer Tesco has developed a cooperative relationship with Royal Bank of Scotland (Walley, 2007). Dell and Compaq simultaneously compete in hardware development and cooperate with software producers such as Microsoft (Zineldin 2004). It is labeled as “inter-organizational coopetition” by Osarenkhoe (2010). Through cooperative relationships, companies can gain benefit derived from market power, shared experience, access to technologies, reduced threat from others competitors, etc.

Cooperative relationships also exist among different units within the same organization, which is known as “intra-organizational coopetition” (Tsai, 2002). As they have different interests but aiming at a same organizational goal, many units are forced to both compete and cooperate with each other. Tsai (2002) argues that organizational units cooperate to gain new knowledge and to exploit economies of scope for their business operations. Simultaneously, they compete to get access to rare resources and to achieve high rates of return. Figure 5 shows the relationships of the two relationships
discussed above.

![Diagram of coopetitive relationships]

However, in our case, the relationship between different brands in Red Star Macalline’s shopping mall and Red Star Macalline are more complicated. We name it landlord-tenants relationship. We discuss more about it in Chapter 4.

### 2.3.2 Vertical Relationships

Vertical relationships exist e.g. among supplier-buyer relationships. They often build on a mutual interest to interact and try to maintain interaction, as the improved cooperation will contribute to the effectiveness in supply chain (Steinby, 2002).

Both cooperation and competition are needed in vertical relationships (Bengtsson and Kock, 2000). For one thing, actors compete in some extent to capture benefit for oneself as much as possible. For example, buyers ask for higher quality products while sellers bargain for higher prices. For another, there is a need for cooperation, as the actors must make adaptations to keep stable relationships. The relationship between customers and IKEA in our case is one of the examples of vertical coopetitive relationships.

Regardless of whether it is horizontal or vertical relationships, Bengtsson and Kock (2000) point out three different types of coopetitive relationships among actors depending on the degree of cooperation and competition, namely
cooperation-dominated relationship, equal relationship and coopetition-dominated relationship. Based on unique resource endowment theory, Castaldo et al (2010) also identify two kinds of coopetitive relationships. They argue that a high resource similarity will lead to a more competitive relationship, while a low resource similarity will lead to a more cooperative relationship. Because of the nature of these two relation types are different, the aspects of coopetition must be analyzed with different approaches (Steinby, 2002). In a coopetitive relationship, actors are facing a strategic dilemma, that is, to what extent they should compete with competitors and to what extent should they cooperate. Unfortunately, recent literatures have limited empirical insight into this issue.

2.4 Coopetition as a strategy to shape the business game

Business is a complex game which is not about winning and losing, nor is it about how well people play the game (Brandenburger and Nalebuff, 1995). They argue that companies can use game theory to develop their strategies as game theory allows companies to understand the structure of the competitive situation and facilitates a rational approach to decision making. Successful business strategy is about shaping the right game to play. By “the right game”, they mean a shift from a win-lose (or even alose-lose) game to a win-win game.

The traditional approach to conduct business is based on an assumption of competition. It emphasizes that a company seeks for above-normal profits (capturing more value) by gaining an advantageous position in an industry or by deploying distinctive competences to offer superior products or services in relation to its competitors (Osarenkhoe, 2010). Through the lens of game theory, competition will lead to a win-lose scenario for a short term and end up in a lose-lose scenario. For example, a company lowers price to gain more market shares. However, the strategy may stimulate other competitors to offer even lower price which leads to a price war (a lose-lose
situation). Consequently, the temporary profit provided would evaporate.

Contrarily, cooperation is a strategy through which companies share complementary capabilities and resources for the purpose of mutual benefit. Successful cooperation is based on trust, commitment and mutual agreement aiming at achieving common goals. The main motive for cooperation is to create value (Osarenkhoe, 2010). The famous game theory “prisoner’s dilemma” and “red and blue test” have improved that cooperation results in a superior outcome for all game players compared with competition (Grant, 2010). In other word cooperation shapes a win-win game.

However, it is important to keep both cooperative and competitive approaches in mind when shaping a business game, because the game is not only about creating value but also capturing it. Coopetition as a strategy encourages companies to think about both approaches to shape the game, putting themselves in competitors’ shoes to play out all the possible reactions as far ahead as possible. Brandenburger and Nalebuff (1995) point out five elements of the game, namely players, added values, rules, tactics and scope, also known as PARTS. Coopetition strategy has the potential to change these elements to shape a right game. For example, companies can change the role of players, including themselves. A complementor may change its role to a supplier, but still keep the competitive perspective in mind, seeking opportunities to capture more value. Companies can also change their business scope, the boundaries of the game in accordance with their relationships with competitors.

2.4.1 The propositions of coopetition strategy application

The propositions for applying coopetition strategy have not been fully explored due to the context variables. Dowling et al. (1996) point out a series of propositions of applying coopetition which illustrate a few general conditions (see figure6). Regarding to practical implementation, executives need to be provided with an insight into the nature of the coopetitive activities which could facilitate the determinants of applying
coopetitive strategies (Walley, 2007). The profound aspects of premise, for instance, when and in which conditions to apply the coopetition strategy for firms in terms of input and output should be put more effort of investigation.

<table>
<thead>
<tr>
<th>Proposition</th>
</tr>
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<tbody>
<tr>
<td>P1 Multifaceted (coopetitive) relationships are more likely to be found among larger firms in concentrated industries than among smaller firms in fragmented industries.</td>
</tr>
<tr>
<td>P2 Multifaceted (coopetitive) relationships are more likely to occur in industries facing less munificent environments.</td>
</tr>
<tr>
<td>P3 Multifaceted (coopetitive) relationships are more likely to occur in regulated industries.</td>
</tr>
<tr>
<td>P4 Multifaceted (coopetitive) relationships are more likely to occur in global industries.</td>
</tr>
<tr>
<td>P5 Supplier firms with products or services that are considered essential by buyer firms are more likely to be involved in multifaceted (coopetitive) relationships.</td>
</tr>
<tr>
<td>P6 Firms with greater transaction-specific assets are more likely to be involved in multifaceted (coopetitive) relationships.</td>
</tr>
<tr>
<td>P7 Supplier firms seeking to gain through opportunism may seek out multifaceted (coopetitive) relationships that they can use to achieve competitive advantage over competitors.</td>
</tr>
<tr>
<td>P8 More powerful firms seek to avoid multifaceted (coopetitive) relationships through merger, acquisition, or divestiture.</td>
</tr>
<tr>
<td>P9 Firms are likely to avoid multifaceted (coopetitive) relationships that affect their core competencies.</td>
</tr>
<tr>
<td>P10 Firms that cannot avoid multifaceted (coopetitive) relationships in noncore competence areas can best adapt by decentralizing the relationship through divisionalization or departmentalization and treating the different components of the relationship independently.</td>
</tr>
<tr>
<td>P11 Firms that cannot avoid multifaceted (coopetitive) relationships in core competence areas can best adapt by centralizing information about the relationship through relationship managers or committees or even by establishing inter-organizational structures to share information.</td>
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Figure 6: Propositions of applying coopetition strategy


2.4.2 The motives and benefits of coopetition strategy

The reasons of operating coopetition strategy are varied, however to some extent, also concentrated, such as easier and earlier access to a large volume of network resources, efficient knowledge integration and developments in the industry, and ability to control
information and resource flows outside the organizational bound (Gnyawali et al., 2006). The motives and benefits regarding coopetition are the two sides of one coin. They might simultaneously cover a countering motive (i.e., to decrease the benefits enjoyed by a competitor) or a clustering motive (i.e., to incorporate the resources and competencies of each other) (Madhavan et al., 2004). The advantages created from the strategy include the synergistic effect, specification, advantage of scale and risk reduction (Bigliardi et al, 2011). Among those benefits, the competitive advantages triggered by coopetition strategy are more visible and influential.

2.4.3 Coopetition and competitive advantage

Two main schools predominate the theoretical framework of competitive advantage, one is industry position focusing on industry forces put up by Porter in 1980s; the other refers to resource-based view and stresses on unique resources and capabilities for organizations (Barney, 1991). Those two courses explore the essence of competitive advantage from the perspective of industry level and internal firm analysis respectively (Ritala and Ellonen, 2010).

The industrial organization economics (IOE) has primarily correlated to expressing and accessing industry performance (Spanos and Lioukas, 2001). Later the view was redefined in Porter’s frameworks which concentrate on individual firm’s performance and the impact from industry forces (Porter, 1980). The essence of this perspective stresses that a firm with an advanced market position can manipulate market power and gain monopoly rents (Teece, 1984; Mahoney and Pandian, 1992; Teece et al., 1997). The resource-based view (RBV) argues the source of competitive advantage for firms in terms of heterogeneous resources and capabilities they possess (Barney, 1991; Nelson, 1991). According to Acedo et al. (2006), resource-based theories, as a broader theoretical framework incorporate several different streams of thought, including the conventional resource-based view, the knowledge-based view, and the dynamic capabilities view.
Porter’s theory and resource-based view have gained critique of over stressing on value appropriation for a single company rather than on value creation in the relationship created by coopetitive network (Gulati et al., 2000; Duschek, 2004). However, a rather new unit of analysis have been emerging, namely network or relationship which can be viewed as a new source of competitive advantage. Dyer and Singh (1998) introduce a relational view and have identified four sources of inter-organizational competitive advantage, respectively relation-specific assets, knowledge-sharing routines, complementary resources and capabilities, as well as effective governance.

Explicitly, the more investment put in relation-specific asset, the more relational rent could be generated in attempt to enable long-term existence and big volume of interactions between coopetition parties. According to Dyer and Nobeoka (2000), a network with a strong identity and communication rules where individually tacit language happens to exchange tends to be superior to a single firm in recombining and creating knowledge. Furthermore, firms could gain a better competitive position with the help the complementary resources than operating individually. Lastly, effective governance mentioned here is associated with minimizing the transaction cost and self-enforcing safeguard employed by the participants within the coopetitive relationship (Ritala and Ellonen, 2010). Table 3 illustrates the main terms on each perspective and exhibits a clear comparison.
### Table 3: A review of different types of competitive advantage

Source: Ritala and Ellonen (2010)

#### 2.4.4 Coopetition and value creation

**Value net**

Brandenburger and Nalebuff (1995. p.59) claim that “game of business is all about value: creating it and capture it”. Thus value net was created to express all the players and the interdependencies among them which include five components respectively, the firm itself, suppliers, customers, substitutors and complementors (see figure 7). The value net reveals two basic symmetries in business game, the one between suppliers and customers, and the other one is between complementor and substitutors. Brandenburger and Nalebuff (1995) develop this model in coopetition which can be seen as another approach of strategy formulation in comparison to the Porter’s five forces (Porter, 1980). Coopetition, based on its meaning, can interpret a new kind of inter-firm dynamics when competition and cooperation frameworks take place at the same time (Dagninand and Padula, 2002).
In accordance with value net model, there are eight relationships among the players where the added relationships are the interactions of competitor and complementor with the supplier, company and customer. The underlying logic demonstrates that a competitor decrease the total value by taking away suppliers or customers from a firm’s network while a complementor usually adds value for a firm to strengthen its attractiveness. Particularly, in line with Dagnin and Padula (2002), there are two kinds of value added: one is economic value while the other is knowledge-related value. Incorporating complementing resources, it seems promising to bring in economic value directly for firms. Regarding knowledge-related value, through communication and information flows, coopetition facilitates the added value stocking in knowledge taking place during the expanded network. Consequently, the knowledge creation and transfer occurs and results in a higher commitment and incentive. Eventually, it contributes to a swift and effective transition from R&D to production process and enhances the overall productivity (Dagnin and Padula, 2002).
Bargaining power

As mentioned before, the value net put up by Brandenburger and Nalebuff (1995) can be taken as an alternate of Porter’s five forces. Porter’s five forces is one of the primary competition framework including five elements: industry rivalry, threat of entry, threat of substitutes, supplier power and buyer power. Grant (2010) claims firms in an industry compete in two types of markets, inputs market and outputs market. Value creation takes place in two markets for both buyer and seller. However, the value appropriation and profitability basically rest on the bargaining power of each participant.

Regarding the factors of influencing the strength of customer’s power, buyer’s price sensitivity and related bargaining power are involved. Customers tend to easily switch to other competitors if the product they purchase is less important or less differentiated. The bargaining power correlates to the “size and concentration of buyers relative to supplier”, buyers’ information, as well as ability to integrate vertically (Grant, 2010, P. 76).

Grant (2010) in line with many empirical studies, points out that customer concentration enables lowering prices in the supplying industry. What is more, the more information buyers get about the supplier (e.g. price and cost), the better they are able to bargain. Ability to integrate vertically refers to “do it yourself” for firms instead of finding another supply chain party to enhance its own bargaining power. On the other hand, the bargaining power of suppliers together with the different inputs suppliers represents the main determinants in terms of supplier’s strength.

Unique characteristics

Unique resources create the heterogeneity which is able to explain the dependence within a business network (Bengtsson and Kock, 2000). Barney and Hoskisson (1990) express that companies could develop and renew their resources and preconditions due to their unique characteristics. Therefore they can obtain a better competitive position through their own effort. The differentiated machinery and product as well as
the personnel knowledge and skills represent the typical heterogeneous resource which cannot be shared with the population of competitors.

With those specific resources, a firm is able to better serve the customers than its industry rivals thanks to the newly-generated competitive advantage. Hence, heterogeneity appears as a means to develop the competitive relationships within a network. Kock (1991) stresses that to ensure long-term cooperative relationships predominantly requires securing the access to unique resources. Bengtsson and Kock (2000) suggest that “heterogeneity in resources can foster coopetitive relationships, as unique resources can be advantageous both for cooperation and competition” (p. 421). Besides, heterogonous resources fundamentally form a major proportion of unique characteristic.

Considering aforementioned two elements of coopetition as well as the interaction among five actors in the value net, we hypotheses in regard to our first research question:

Hypothesis 1: The premises of different coopetition type are different. When applying coopetition strategy to firms which involved in competition dominant coopetition, the co-existence of similarity and complementary is the primary premise, while in cooperation dominant coopetition, bargaining power and unique characteristics are more important premises.

2.5 Coopetitors’ behaviors

The nature of coopetitors’ behaviors can be defined by the concept of resource endowment, which regards the possible similarity of companies in tangible and intangible resources to gain competitive advantages (Castaldo et al., 2010). In other words, coopetitors’ behaviors are largely influenced by the resources they have. Castaldo et al. (2010) argue that coopetitors are playing in the markets with a high commonality. A high similarity of resources is helpful to understand the nature of the competitive behaviors, while a high degree of complementariness of resources is useful
to explain cooperative behaviors.

In the context of coopetition, both the cooperative and competitive behaviors are different in their attributes compared to a pure cooperative or a competitive context, as actors need to consider their double relations with the other. To maintain a strategic coopetition is not simply about managing cooperation, but about behaving cooperative under a competitive context. An actor needs to work with other actors in the network, but it also needs to work against them and even in spite of them (Zineldin, 2004).

2.5.1 Coopetition and competitive behavior

Resources play an important role in determining a company’s competitive behavior (Gnyawali et al., 2006). Competitors with similar resources are likely to have similar strategic capabilities and competitive strategies, which will enhance competitive behaviors. According to Gnyawali et al. (2006), competitive behaviors can be understood from two aspects: competitive activity and competitive variety. The former reflects the scale of competitive behavior, referring to the total number of competitive moves undertaken by a company to keep its competitive position. The later reflects the scope of competitive behavior, referring to the diversity of competitive actions. The more various actions a company takes the more difficult for its rivals to react and imitate, hence the more competitive advantages it will gain. In other words, within a pure competitive context, aggressive competitive actions are important for companies to keep their position in the industry. However, in a coopetitive relationship, companies’ competitive behaviors tend to be less aggressive and the coopetitive agreement itself may include related rules to prescribe companies behavior (SaïdYami et al., 2010). For example, competitors that cooperate in R&D activities to innovate new products may choose to enter different markets to avoid direct conflict.

2.5.2 Coopetition and cooperative behavior

Competitors with different but complementary resources are likely to perform more
coopetitive actions to achieve knowledge exchange and cross-fertilization, and reduce the intensity of rivalry. Behaviors that guarantee successful cooperation have been discussed in management literature, which can be concluded as trust, commitment, and mutual agreement both in formal and informal contracts. Similar to coopetitors’ competitive behaviors, cooperative behaviors are also different in their attribution from those seen without a competitive relationship.

According to Morris, et al. (2007), companies with coopetition trust partners to meet the requirements of cooperation but not undermine the possibility to compete. They build their trust regarding how their partners will share resources and meet commitment. In terms of commitment, Morris et al. (2007) argue that partners may have an incentive to under-commit with a consideration of their own benefit and self-interest. Mutual agreements are reached by the permit of mutual benefit for each party. However, a competitive side of coopetitive relationship does not require a mutuality of benefit. The motives to identify and work on mutual benefit largely depend on the structure of coopetitors’ relationship, which can be influenced by organizations’ size and position (Morris, et al 2007). It can be concluded that the cooperative behaviors are partly abated by the coopetitive relationship. In order to minimize the drawbacks of insufficient cooperation and maximize the benefit for each other, coopetitors set their bottom lines to cooperate and carefully consider their cooperation scope.

**2.5.3 Resource dependence**

Resource dependence theory is a powerful explanation of inter-organizational behaviors, which provides an approach to help developing a managerial guide into how to maintain coopetitive relationships. The central proposition of resource dependence theory is that the survival of organizations hinges on their ability to obtain critical resources from the external environment (Casciaro and Piskorski, 2005). In order to reduce the risk in unavailability to get access to certain resources, organizations try to restructure their dependencies by using various tactics. One is to reduce the interest in a certain resource and find an alternative substitute. Another is to constrain partners in a
relationship. For example, a company can stabilize the flow of resources by exchanging information and technology with its partners. Casciaro and Piskorski (2005) stress two important dimensions of resource dependence, power imbalance and mutual dependence, which affect organizations’ ability to reduce dependencies.

“*Mutual dependence* captures the existence of bilateral dependencies in the dyad, regardless of whether the actors’ dependencies are balanced or imbalanced.”(Casciaro and Piskorski, 2005, p.170) In a balanced dependence situation, if the mutual dependence is low, actors are less dependent on each other, because alternative partners are more available to them. If the mutual dependence is high, actors would face big uncertainty if exchanges between them fail. However, in an imbalanced dependence situation, one actor depends less on the other actor, either because the other actor provides less critical resources to it, or it has many alternative partners can choose from.

*Power imbalance* is defined as the difference in the power of an actor over other actors in the relationship (Casciaro and Piskorski, 2005). In the relationship where actor A is less dependent on actor B, when the exchanges between them fail, it is easier for A to handle the situation, while B will face greater uncertainty. As a result, A will has more power to dictate the relationship with B.

Power imbalance exists under different levels of mutual dependence (Casciaro and Piskorski, 2005). When mutual dependence is low, the obstacles of exchange negotiation generated by power imbalance are of less concern to the actors as they have access to resources provided by other suppliers. By the contrast, in a high mutual dependence situation, the obstacles induced by power imbalance may lead both actors to loss benefit, as mutual satisfaction is less likely to be fulfilled under the unequal power condition.

We suppose the resource dependence theory can also explain firm- customers’ and landlord-tenants’ competitive behaviors. We hypothesize as follow:

*Hypothesis 2: Resource dependence can influence coopetitors’ relationships and
further affect cooptitors’ behaviors.

Hypothesis 3: In the low-mutual-dependence condition, actors behave competitively regardless their power imbalance. However, in the imbalanced dependence situation, the actor who has both power disadvantage and dependence disadvantage has more cooperative behaviors.

2.6 The critics of coopetition

We mean that business relationships entail costs and problems that warrant some attention [. . .] It is argued that the burden of relationships is the other side of the benefit potential [. . .] it is the automatic consequence of the development of a fruitful relationship [. . .] Close relationships can sometimes become “black-holes” as mutual expectations increase and thus demand on each other’s resources increases.

(Håkansson and Snehota, 1995)

The major attention of coopetition has been paid to creating benefit and facilitating the long-term relationship in academic work. However, cooperation and the benefits it brought can be counterbalanced by burdens and conflicts. After sorting the theoretical approach of coopetition, it is found that rarely previous researchers have published the dark-side consequences(Zineldin, 2004).

Coopetition is rather dynamic process with the movement of competition and cooperation. Zineldin (2004) expresses that values of cooperation change over time and so does the development of a relationship. The later one relies on the way that each participant interprets, re-interprets, and behaves during the period of forming the relationship. In addition, hidden costs in a close relationship seem rarely been taken into account, most of the time they are invisible. Moreover, according to Bengtsson and Kock (2000), conflict occurred in intra-partner, inter-role, inter-partner, and personal can jeopardize the coopetitive relationships due to lack of experience and extra cost of time and effort. Managing and controlling the cooperation and competition activities
tend to be much costly as for a coopetition strategy. Power and dependence are also sources of conflict. Coopetitive relationships could possibly remove flexibility and increase the vulnerability for a single firm (Zineldin, 2004).

2.7 Service management

Looking back to the literature review sorted by authors in table 2, coopetition is studied in the industries such as steel (Gnyawali, et al., 2006), automobile industry (Dagnino and Padula, 2002), food, information, wood processing (Osarenkhoe, 2010). Coopetition in service industry seems rarely to be paid attention. Therefore, it exhibits an opportunity to conduct a study in service industry with service management as a particular focus.

Theoretical framework of service management will be demonstrated in the following parts initiated by service dominant view. Service management commonly can be perceived as intersection between the goods/service provider and the customer, as well as an integrated process of supply chain management. The objective of performing high quality service management presents optimizing the service-intensive supply chains (more complex activities than the traditional goods supply chains). This emerging arena has obtained more attention because of awareness and importance of service dominant logic (SDL).

2.7.1 Service dominant view

Vargo and lusch (2004a) claim that service has emergently replaced conventional goods and become the common dominator as the focus of market and in exchange. Thus they point out the SDL of marketing tends to be the more penetrating and comprehensive foundation (Payne et al., 2006). SDL stresses on the importance of operant resources (e.g. service, experience, knowledge and competences) since they can impact on the products and create value for individuals or organizations (Vargo and lusch, 2004a). Service dominant view is identified as being largely associated with value co-creation,
which especially emphasizes the roles of customers. In addition, Gronroos (2006) notes that customers in this situation actively participate in the value-creating process.

**Value co-creation**

Prahalad and Ramaswamy (2000) illustrate that value can be better co-created by incorporating customers into the network. In recent years, customers have the increasing access to participate in the value-created activities, for instance, product design and delivery (Payne et al., 2006). Additionally, a more important part of co-creating value represents the customers’ feedback which helps to re-shape the company’s operating concept. In line with SDL, suppliers instead of directly delivering value to the customers, support the process of value generating in marketing section. Therefore Gronroos (2006) claim that is the dominating value-creating process where customers possibly get involved in value co-creation activities through goods, competencies, ideas, and information provided by suppliers, to mention but a few.

**Service quality**

Quality is commonly viewed as the key means of competition and a prerequisite to meet customers’ satisfaction and profitability (Edvardsson et al., 1994). Gronroos (1982) also contends that customer often compare the service they expect with their perception of received service as a way to evaluating the quality. Service quality has been defined as a customer-oriented concept, that is the “service should correspond to the customers’ expectations and satisfy their needs and requirements” (Edvardsson, 1997, p.33). Additionally, he points out that service quality is perceived by the customers which stresses on the active role of customers during the service activities.

Parasuraman et al. (1985) state three well-portrayed characteristics of services, i.e. intangibility, heterogeneity and inseparability. Based on these features, service quality tends to be more difficult for customers to evaluate than goods quality. In addition, two types of service quality exist to determine the overall judgment from customers; one is technical quality meaning what exactly customer receive and the other presents
the functional quality in regard to how the service is delivered (Gronroos, 1982). Lehtinen and Lehtinen (1982) also mention three other quality dimensions, explicitly, the physical quality, corporate quality and interactive quality.

2.7.2 Service management system

From the customers’ perspective, service is combined by their experience and perception of the outcome of the service. Johnston and Clark (2008) argue that service value is one of the important elements of service outcome. It is defined as the customer’s assessment of the benefits of the service weighed against all the cost, including price and inconvenience. The benefits are not only the tangible benefits but also the feelings got from the experience. It can be said that what customers buy is not only the elements of a service but something usually intangible.

Service management is concerning with delivering service to the service users. It includes understanding users needs, managing the service delivery, as well as improving the service quality (Johnston and Clark, 2008). Normann (2002) defines a conceptual framework on the structure of service management called service management system (see figure 8). The components include the service concept, the market segment, the delivery system, the image and the business culture and philosophy which inter-connect with each other.

According to Johnston and Clark (2008), “The service concept is something more emotional than a business model, deeper than a brand, more complex than a good idea and more solid than a vision. It is something that can unite employees and customers” (P40). Service concept is constituted by the core concept and the peripheral where firm pay different attention. By looking at core service and peripherals on offer, it can be explained through the description of service package. In the case of airline transportation, the actual transport of client from one city to another tends to be more important than reservation of seat, providing food on the flight or the cleanliness of the airport. The service benefits clients obtained in a service system is to use physical
product as a metaphor to list everything possible to be offered (Norman, 2002). Thus in many cases, the core service could be physical product or the extension from product to service, for example, the lifestyle or atmosphere found out in IKEA China.

Market segmentation refers to the particular type of client that the entire service system was designed to. It is based on customers characteristics, say incomes, geographic region, and lifestyle. Service provided may consist of organizing and managing customers, which mirrors that market segmentation has to base on the clients need and his/her willingness to “allow another organization to effect his way of functioning.” (Normann, 2002, p.129) Therefore, when concerning market segment, the customers’ competence and willingness to participate and the participation style posit more crucial role, which largely rest on customer’s knowledge and how they would utilize them. Understanding the needs of the customers in the segments would help firms manage customer relationships well.

The service delivery system pointed out here is often diversified in character while can be “equivalent of the production and distribution system in manufacturing organizations” (Normann, 2002, p. 59). Service delivery system is designed in accordance with a firm’s supply chain characteristics and the degree of customers’ involvement. Traditionally, service providing firms are in charge of delivery activities while customers tend to be rather passive during the process; however, recently clients in increasing cases take an active role in delivering system, for example, self-service in restaurant and IKEA stores. Good service is the result of the carefully designed delivery system which involving a whole set of interrelated activities, and supported by skillful delivery people as well as other materials and equipment (Johnston and Clark, 2008). A experience of poor service experience could result from a lack of coordination of activities. For example, a service people in a hotel promise you that they offer hot shower water without knowing that there is something wrong with the warming system on that day.

Image is regarded as an information tool that helps firms distinguish from competitors
and create identity in the long run. Image can be taken as an instrument of communication. Normann (2002) brings image and reality rather closely. Influencing people’s images which demonstrate the way of perceiving reality is a management tool with great potential, according to Kets de Vries (1980). Furthermore, image generates the purposeful behaviors which tend to justify and reinforce image if successfully. The image derived from the service company would be largely determined by the nature of service, the culture and organization, as well as market segment.

The culture and philosophy as the last element in this system is often hidden, and acted out by employees’ attitude and behaviors. It shapes and rejuvenates the unique “values and ethos on which the company thrives” (Normann, 2002, p.60). Johnston and Clark (2008) emphasize that “understanding and influencing organizational culture is central to delivering a consistent service” (p 482). Culture is the basis of collaborative human behavior, including the set of beliefs, norms and values which are fairly stable. However, it can be changed in business context, somehow effectively if under right circumstances. Each industry or company have some special inherency of culture which is unique and easy to discover, for instance, “most airline companies have a military establishment and pioneering enthusiast spirit” (p.215). There is no doubt that culture and dominating ideas are important management tool particularly in service organizations.
As mentioned before, service industry is rarely involved in the discussion of coopetition. However, due to its raising importance and its relevancy with coopetition as considered after investigating the theory, it is reasonable to study the niche between coopetition theory and service management. In line with the advantages brought by coopetition, the service management serves as a tool to detect the benefit or contribution of coopetition to service industry.

Coopetition is constituted by competition and cooperation taking place simultaneously. To compete with other, the firm has to realize its differentiated advantage in comparison with the rivals. It enables the firms to better their performance and improve the service quality relating to the participants of service industry. Cooperation normally highlights the generation of added value, which can lead to the customer value co-creation. Hence, different types of coopetition shed light on distinctive roles for service management. In attempt to discuss this issue, we come up with the fourth proposition that is concerning how does coopetition contribute to service management.

**Hypothesis 4:** Coopetition can contribute to the service management arena. Competition dominant coopetition enhances service quality in terms of product diversity and customer satisfaction, while cooperation dominant coopetition facilitates
the customer value co-creation.

2.8 Summary and hypotheses

To sum up, in this chapter, we reviewed previous “cooopetition” researches regarding coopetition concept, coopetitive relationships and behaviors, motives for coopetition strategy, as well as the limitation of coopetition. We also discussed the theories of competitive advantage, value creation and service management, which are related to our further analysis in the rest of the paper.

As it is showed in Table 1, most of the researches are focused on a network level, in which coopetition takes place among two or more companies. However, the coopetition knowledge in single firm level tends to be undervalued which leads a gap for continuous contribution to this arena. Due to the characteristics and complexity of firms’ structures, coopetition can be identified in single firm level, with two coopetition types, i.e. competition dominant coopetition and cooperation dominant coopetition. Moreover, we state four hypotheses with respect to our three research questions.

Hypothesis 1: When applying coopetition strategy to firms which involved in competition dominant coopetition, the co-existence of similarity and complementary is the primary premise, while in cooperation dominant coopetition, bargaining power and unique characteristics are more important premises.

Hypothesis 2: In the low-mutual-dependence condition, actors behave competitively regardless their power imbalance.

Hypothesis 3: In the imbalanced dependence situation, the actor who has both power disadvantage and dependence disadvantage has more cooperative behaviors.

Hypothesis 4: Coopetition can contribute to the service management arena, competition dominant coopetition enhances service quality in terms of product diversity and customer satisfaction while cooperation dominant coopetition facilitates the customer value co-creation.
3 Methodology

3.1 Overview of research design

According to Bryman and Bell (2007), research design represents structure and guidance for the execution of the research methods. The research design includes five categories, explicitly, experimental design, surveys, case study design, comparative design and longitudinal design (Bryman and Bell, 2007). Though all these five columns have distinctive means to form a research, they share three common criteria, reliability, replicability and validity. Our research design applies the case study with a focus on comparison of two firms. More specifically, the research is conducted in qualitative and deductive approaches which are in the following demonstration.

3.1.1 Case study research

*The case study is a necessary and sufficient method for certain important research tasks in the social sciences, and it is a method that holds up well when compared to other methods in the gamut of social science research methodology.*

(Flyvbjerg, 2001)

According to Bryman and Bell (2007), case study belongs to the scope of research design despite quite often considered as a research method. Simply selecting a case subject does not automatically equip one method with data which, however, should take place in the post-case selection stage to find out which type of research method match that particular case (Bryman and Bell, 2007). Stake (2005) stresses that case study presents the most common way to do research in respect to qualitative inquiry by which researchers could easily understand a complicated phenomenon and enrich existing theoretical framework (Yin, 1994). The case study in our research is not in a single case scope, but a dual and comparative case study. Flyvbjerg (2001) notes that case study can help analyzing in depth despite limited in breadth whereas large sample approach offers more in breadth but lack of depth.
3.1.2 Choice of case company

The case companies we chose, IKEA China and Red Star Macalline, are both well-known in furnishing retail industry in China. Reasons of choosing the furnishing sector and the representatives tend to be multitude, including the industry characteristics, the success of their business and their unique business models which reflect two types of coopetition.

One of our research problems is to detect the association between coopetition and service management. Furniture industry, though as a conventional goods-oriented sector, has gained increasing added value and attention of service management. It can be viewed as moving toward the service industry and is greatly impacted by service management. As mentioned in frame of literature, service management system put up by Normann (2002) serves as useful and applicable tool of analyzing the components of service management. We adopt service management system to make a close look at Red Star Macalline and IKEA China’s service and further investigate the contribution of coopetition to service management.

Besides, these two companies have superior performance in Chinese market with respect to customer volume or number of the outlets. Many academic work and media awareness have been focusing on certain themes related to these two firms. Hence there are plenty of academic or published materials in use which could provide intensive secondary data. In addition, the two firms exhibit remarkably different features in terms of business model, strategy and culture, etc. The more diversity they present, the more precise conclusion we get.

3.2 Research approach

3.2.1 Qualitative approach

The empirical part of the research adopts the qualitative approach. Unlike quantitative approach which is used when one tests for confirmation of a theory, qualitative
approach is applied to develop a theory to explain what has been experienced (Newman and Benz, 1998). Qualitative methods are effective in obtaining specific information about opinions, behaviors and values. According to Finlay (2005), qualitative research usually goes beyond the numbers and helps us understand the issue better.

The main theme of our research question and area can be well addressed by conducting qualitative research in case study. It is not aimed to have a huge amount of number to draw a final conclusion by quantitative approach. Particularly the chosen research method has to be in line with the purpose of thesis. As mentioned in sector of purpose statement, we attempt to explore the premises of applying the coopetition strategy and analyze the reason behind competitive behaviors of firms and relative issues with service management. Thus it is not applicable to have quantitative research to deal with the aforementioned questions.

From another perspective, after sorting the literature to list a few theoretical hypotheses, we put them into the case context and examine the validation of those hypotheses. Therefore, in this sense, it is also a deductive research with a new contribution to the body of knowledge of coopetition strategy. Since verifying the hypothesis is part of the job for research design, the empirical data provides the context for testing them. Moreover, the research design also possesses the character of explanation since coopetition strategy is a rather new concept. Explaining the relevant information and analyzing research questions accompany with each other and end up with a new set of knowledge as the contribution.

3.2.2 Deductive approach

When it concerns theory with reality in academic writing, two main approaches come to researcher’s mind, namely deduction and induction (Jacobsen, 2002) (see figure 9). Deductive approach refers to that a clear theoretical position has been pointed out before collecting data. The finding would be to what extent that empirical data confirm theory and get to know whether there is congruence and gap between the
theoretical framework and reality (Jacobsen, 2002). Crowther and Lancaster (2008) express that a deductive research is applied to test the hypotheses and develop the theory throughout the empirical observation. “It is essentially a test of techniques for applying theories in the real world in order to test and assess their validity.” (Crowther and Lancaster, 2008, p. 23)

Induction, on the contrary to deduction, can be characterized as developing theory from huge amount of empirical data. The theoretical framework has not been defined, and with the way to get a fresh theory through a deep investigation from information in practice (Saunders et. al, 2007). As mentioned before, the aim of the thesis is to test new hypotheses on the basis of past theory and test them through empirical scrutinizing. Thus this thesis uses a deductive approach rather than inductive approach.

![Diagram of Deductive and Inductive Approach](Source: Jacobsen, 2002)

### 3.3 Data collection

“Research method is simply a technique for collecting data. It can involve a specific instrument, such as a self-completion questionnaire or a structured interview schedule, or participant observation whereby the researcher listens to and watches others”. 
Gathering data is such a crucial process for each research, besides qualified and fairly processed data can lead to the good and valid research (Dalen, 2008). Commonly the source of data can be categorized into two types, namely primary and secondary data. The primary sources of data are first-hand information from experiments, interviews, observations, surveys and tests while secondary sources point out as findings accomplished by other authors through articles, books, essays and so on (Thomas, 2003).

There are a variety of instruments to gather both primary and secondary data, among which observations, questionnaires, interviews and experiments are the most common in use of collecting data (Thomas, 2003; De Marrais and Lapan, 2004). The development of questionnaire can be taken as a representation of the quantitative method. Since it is able to facilitate the understanding of issues in question, scholars could generalize the collected data, extract the essence to make hypothesis, later, to provide some implications (Limpanitgul, 2009). Regarding qualitative data, Patton (2002) expresses that three techniques can be implemented respectively, open-ended interviews, observations and documents.

Sticking to a single research method seems still popular in numerous cases; however, it has become widely common to apply a mix of two methods or more for research designs, especially, a well-organized and structured combination of qualitative interviews with quantitative surveys (Bryman and Bell, 2007). Thomas (2003) also claims that single or mixed methods of data collection can be used on the base of boundaries of the study whereas the mixed method is the most common recently. Furthermore, primary and secondary information sources are applied in those research methods which enable enriching the content of the research and providing certain reliability for the obtained results.
The present thesis uses both primary and secondary sources for data collection where the primary sources come from interviews and observations to support the empirical part and secondary data is rooted from academic sources and documentation.

3.3.1 Primary data

The primary source of gathering the empirical data is interview and observation. The case companies are located in China so that we have to contact them in distant.

*Interview*

The so-called open-ended interviews are functioned as yielding direct opinion from people (Patton, 2002). This part of data collection is conducted via semi-structured interview which means interviewers can ask additional questions related to the topic and the answers of interviewees. The interviews contain around 10 questions which were aimed to collect the respondents’ reflection on the coopetition strategy exhibited in each case company. Actually we considered to send out questionnaire to interviewees of each firm by which it would turn into a more flexible and less time consuming way to communicate with them. The interviewees can choose whenever they are available to finish it before the deadline we set. Nevertheless, the answers to questionnaire turned out to be superficial and less thorough than we expected.

Therefore we arranged several interviews in March with IKEA China and Red Star Macalline (Figure 10 shows the interview schedule). The channels of taking interviews covered email and telephone. We contacted IKEA China’s public relations (PR) manager and corporate PR manager via email. While for Red Star Macalline, we made the interviews through the phone call with the specialists in marketing department. One of them is in charge of brand launching and the other one works on market intelligence.
Observations

Observations correlate to involve visiting a community and watching the phenomena to generate the curious questions. It is also a main qualitative means of gathering data from the objectives. As the time and financial limitation, we did not visit IKEA China and Red Star Macalline in person. Instead, we asked our friends and parents did for us. They visited IKEA China’s shopping mall in Beijing and Red Star Macalline’s in Xiamen. We refer their description of the atmosphere as well as the photos taken in shopping malls.
3.3.2 Secondary data

The majority role of secondary data is providing the basics of literature. The processing and refining of primary data tends to be the sources of secondary information and enables to partly address the research question. The existing studies on this subject and relevant articles for case analysis construct the main body of the secondary data. Particularly, in our case, it is in the form of academic literature in library as well as the data base in Linkoping University predominantly.

Academic resource

The main academic literatures we use consist of the books of strategy, coopetition, service management and research method. Meanwhile, the report and articles on authoritative websites and media also serve as the source of secondary data. Rarely are they in use as the concrete evidence, however, they can motivate our thoughts, especially some comparative analysis of furniture companies. Some reports from industry consultancy provide another important resource, for example, in background part, the analysis of furniture market structure and the characteristics for different players.

Documentation

According to Patton (2002), documents as a means of gathering secondary data includes written materials and other documents from organizations, media, letters responding to open-ended surveys and so on. Documents represent a particularly important source in our case for gathering published information. This sector of empirical data mainly comes from the company publications. Unlike the global well-known companies, this kind of national Chinese firms like Red Star Macalline do not possess extensive academic publications except the annual report. Nevertheless, there are quite a few publications on the website which state the updated information about the company and the industry. The document study is applied to avoid one side analysis.
3.4 Reliability and validity

Patton (2002) states that validity and reliability are two factors that any qualitative researcher should concern about while designing a study, analyzing results and judging the quality of the study.

The term ‘Reliability’ is a concept used for testing or evaluating quantitative research, however, the idea is most often used in all kinds of research (Golafshani, 2003). It was argued that to ensure reliability in qualitative research, examination of trustworthiness is crucial. Establishing good quality studies through reliability and validity in qualitative research, states that the “trustworthiness of a research report lies at the heart of issues conventionally discussed as validity and reliability” (Seale, 1999, p. 266). We believe that our research is fairly reliable. Firstly, our research was conducted in two companies with two coopetition types, which provides solid evidence to test our hypotheses. Secondly, the first hand data we got from IKEA China and Red Star Macalline were offered by related managers and specialists, which were official and trustable. Thirdly, the secondhand data were collected from companies’ homepages and Chinese and English news published by authoritative media.

Validity is “concerned with the soundness of findings that specify causal connection” and also about possibility for application to the relative field (Bryman and Bell, 2007, p.63). In other words validity criterion is related to the contribution made by the specific findings. Validity and reliability are not closely coupled, thus high reliability does not provide high validity automatically. However, high validity provides high reliability (Rosengren and Arvidsson, 1997). We claim the results of our research could be applied in other companies within the similar industry. First of all, the promises and the driving force behind the coopetition we studied would provide companies tips on when it is possible to implement coopetition strategy and how to deal with coopetitive relationships with their partners. Moreover, by relating coopetition and service management system, we highlight the contribution of
coopepetition to service quality. We believe companies in service industry could consider a coopepetition strategy to improve their service.

3.5 Limitation

The limitation of our research method derives from different aspects. The prime weakness in this research design is lack of sufficient empirical data. Due to the uniqueness of the topic and certain challenge to collect the enormous first-hand information for individual company, the entire dissertation is theoretical-oriented. Besides, as IKEA China and Red Star Macalline is running their business in China, while we wrote our thesis in Sweden, the limited time and financial resources cause obstacles to personal observations.

Secondly, as the consequence of distance limitation mentioned above, it is difficult to arrange interview time, so we were not able to conduct face-to-face interviews. Face-to-face interviews are efficient means to share in-depth knowledge which helps to analyze the results and develop the bigger picture (Finlay, 2005). We contacted Red Star Macalline’s business planning managers through telephone and IKEA China’s RP managers via email instead. We realized that it may lead to some misunderstandings since we could not get the direct feedbacks from each other. Furthermore, since we did not get access to the top management’s view on coopepetition strategy we could not provide evidence on the contribution of coopepetition strategy to corporate strategy.

Finally, one thing we need to mention is that a big part of the secondary data we used was written in Chinese. We tried to present the original meanings when we translated them into English in our quotations. The case context (i.e. industry and company) are based in China so that we relied on quite a lot published information in Chinese. The news or data of the companies in English is rather a minor proportion. The aforementioned weaknesses might construct a few challenges for our research design; however, we are confident about its quality and logic.
4 Empirical Data

As mentioned before, we investigate two furnishing retailers in China. It is necessary to understand the context of Chinese furnishing industry.

4.1 The furnishing industry in China

China’s furnishing market has been growing rapidly since China started its market-oriented economic reform. The total sales revenue for furniture manufacture industry was 61.58 billion USD in 2010, increased by 31.85% compared with year 2009 (Italian Trade Commission, 2011). According to the marketing research report from Li & Fung Research Centre (2011), China’s retail sales of furniture for enterprises above designated size increase 37.2%, reaching 70.5 billion CNY (10.8 billion USD) in 2010. The driving factors of the industry growth includes rising income levels, growth of middle class consumers, real estate boom, increase in urbanization, strong distribution network, etc. It can be concluded that the year 2010 was a flourishing year for furniture industry in China.

The low entry barriers and promising furniture market in China has attracted many retailers to join. They operate in their own retail channels. Li & Fung Research Centre (2011) shows four major retail channels for home products in China: Specialty stores, which sell specialized product categories, e.g. Beyond and Markor; Furniture marts, which source and sell a broad range of home products, e.g. IKEA and Hola; Mono-brand furniture shopping malls, which lease out retail space to different home product brand companies, e.g. Red Star Macalline and Easyhome; Online platforms, e.g. Dangdang. In recent years, both domestic and foreign furniture retailers have competed aggressively to share the big market pie. Data shows the number of furniture and furnishings outlets increased by 10% to 112,000 in 2010 (Li & Fung Research Centre, 2011). The rapid expansion of local and foreign furniture retailers has resulted in fierce competition, which makes it difficult for retailers to raise prices.
What is more, the growing operating and labor cost makes the profit margin even less. However, there are still some furniture retailers that handle their business successfully and becomes more and more popular in China, such as the companies we chose for our case study: Red Star Macalline and IKEA China.

4.2 Red Star Macalline

Red Star Macalline was established in 1986 with the objectives to create the comfortable home and enhance the taste of home furniture. In over 80 cities in China, there are already 100 Red Star stores in 2012. The firm’s strategy for operating business refers to the chain store nationally and bundled brands. The structure and appearance of stores have been improved and strengthened during decades, from the first generation to the 8th generation (Figure 11). In 2008, the sales revenue in each single city has been ranking the first, leading Red Star Macalline to be the top in furniture retailing of China (Red Star Macalline, 2012).

![Red Star Macalline stores appearance](http://www.chinaredstar.com/)

Figure 11: 8 generations of Red Star Macalline stores appearance

During the development of the company, the western style of business model—the supermarket and mall—has been introduced. In this way, Red Star Macalline was able to gather and arrange the diverse products from different brands, besides, adopted the
bundling strategy in sales. The firm clarifies its responsibility of selecting the brands, controlling the product quality as well as providing the overall service, such as distribution and after-sale management. Now the leading furniture chain offers creative shopping concepts. For instance, it constructs the in-house metro train inside one shopping mall instead of lift. Another example of the building’s interior design decorated by many trees and water landscapes points out the claim of being China’s first park-style shopping complex (Figure 12).

(Shanghai, China, opened in 2008, 14 meters, 6 stations) The new Red Star Macalline store in Shanghai has one of the most unique monorails in the world. The furnishing store features a mini-monorail system that spirals it is way up inside the stores six stories, stopping on each floor. The 14-meter long system is the first of its kind in the world. Gallery? Amusement Park? Museum? The answer is no. It claims as being China’s first park-style shopping complex.

![Figure 12: Red Star Macalline's creative shopping concepts](http://www.bychinese.com/red-star-macalline.html)

The product portfolio includes home furniture, kitchen series, bathroom accessory, constructing materials as well as office furniture and so on. The products in the shopping mall cover nearly a hundred renowned national and international brands (Red Star Macalline, 2012). Customer could find whatever they need for decorating their houses in Red Star Macalline.
4.2.1 Competitive behaviors of Red Star Macalline

Competitive behaviors can be understood from two aspects, competitive scale and competitive scope (Morris, et al., 2007). In Red Star Macalline, though brand vendors could not differentiate themselves from after-sale and delivery service, their competitive behaviors are presented in various products design and marketing activities.

“Red Star Macalline’s bundled brands business model offers a fair competitive platform for all the brands settled in the shopping mall”, said Cici Feng, the brand development specialist in Red Star Macalline’s Shanghai headquarter. Brand vendors compete via their products diversity and service qualities as well as images. For example, the luxury foreign brands, Ralph Lauren, Versace, NATUZZI in Red Star Macalline’s shopping mall have their own focused furnishing categories such as sofa, chair or table cloth. Actually, their brands differentiate them from each other, so price competition tends to be rather weak (Figure 13 shows different style of chairs of Versace and Ralph Lauren). In addition, Red Star Macalline encourages the competition among brand vendors, for instance, every month, it praises the best performed vendors and salesmen (see figure14). Under Red Star Macalline’s administration, all the brands can take part in the united sales promotion activities. “It is not a compulsive activity, however, most vendors would like to join”, said Cici Feng. The competition among different brands becomes fiercer during promotion periods.
4.2.2 Service management in Red Star Macalline

The *core product* in Red Star Macalline is the diversified and clustering furnishing product while the *peripheral product* is the high-standard service and shopping environment. Red Star Macalline initiated the conversion from furniture retail stores toward shopping malls in China in order to provide a customer friendly shopping experience. Customer can easily find what they need in specific floor with clear instruction and guiding service. In each floor of their stores, the products are arranged according to styles, function and price. “What we sell is not just products, but also the feeling and the experience”, said Cici Feng.
The market of Red Star Macalline, the same as other furniture retailers, is segmented by income level and age. The target customers are the consumers with middle and high salary. Since opening its first shopping mall in 1997, the company has attracted more and more customers with higher salary thanks to the increasing brand reputation and high-end product portfolio. However, low income groups can also be involved in Red Star Macalline as the company opened its cafeteria with cheap food in attempt to lure those customers to start walking into the stores.

The delivering system of Red Star Macalline includes two parts, firm offering and self-service. The firm keeps the Chinese tradition of free home delivery service; however, in order to cater a number of consumers who prefer self-service, the company adopts the advantageous hybrid system. Customers would not be accompanied with salesperson when they walk inside the stores.

Regarding the image, it has both internal and external perspectives to interpret it. From the internal side, the employees of Red Star Macalline perceive their company as a learning organization and getting inspiration from industry competitors with good performance, said Mr. Li. By offering free furnishing decoration consultation service, Red Star Macalline also delivers a senior consultant image to customers. From the external side, the outstanding shopping mall outlet and the high-end shopping environment help customers self-express their status and fashion taste.

Culture is one of the most complicated concepts to portray an organization. Red Star Macalline expresses its home culture intensively to the customer and sets Dec, 3rd as the Home Day. The company leads a new era of home furniture industry and highlights the awareness of life concept and high life quality. It also claims that the home accessories are not simple products, but stand for the love of people’s home and life (Red Star Macalline, 2012).
4.3 IKEA in China

“At that time (when IKEA entered Chinese market), there were not so many foreign brands here, and IKEA was a completely new experience for the Chinese people. And IKEA furniture of course also represented a whole new style for them.”

(Virginia Ni, PR specialist at IKEA’s Beijing store)

IKEA is the world’s largest furniture retailer, founded in 1943 by Ingvar Kamprad in Sweden. The company is a globally renowned home products company, primarily designing and selling ready-to-assemble furniture at low cost. As a household brand based in Sweden, IKEA has owned 316 stores in 38 countries around the world till 2011. IKEA products are all designed by the company itself, emphasizing products' simple, natural, fresh for common customers (IKEA, 2012).

IKEA entered in the Chinese market in 1998 and built the first store in Shanghai although that store was much smaller than a standard IKEA store (Li, 2007). One year later, another store in Beijing, the capital city was open to public. The development has been slowly preceded over 10 years in terms of the number of malls. In 2003, IKEA built its first full-scale standard IKEA store in Shanghai which has become the largest IKEA store (33,000 square meter and selling over 7,000 product) not only in China but also in other Asian countries at that moment (ibid). This new Shanghai store created a new stage for IKEA’s business and development in China. It also leads to the mass employment recruitment and business expansion in other cities (Li, 2007).

Though with 10 stores in the major cities, IKEA has attracted increased attention of customers, especially young generations. The lifestyle consumption and the Swedish romance derived from IKEA tend to be the center of focus and motivation. Moreover, Ms. Xu, the IKEA China corporate PR manager said to us, IKEA China’s PR team is working more closely with social media since October, 2010 to promote IKEA brand. For example, it created its own profile page on Douban, a popular Chinese social
network website among well-educated and creative Chinese. It puts tips on decorating homes with IKEA products and launches events which encourage Douban users to discuss their dreamed homes and furnishing style. IKEA successfully attracted active engaged Douban users. Through the effect of both on-line and off-line activities, in 2011 IKEA China achieved total sales of 4.9 billion CNY (about 775 million USD) and attracted 31 million customers visiting its stores (The China Observer, 2012).

4.3.1 Cooperative behaviors of IKEA China

Behaviors that guarantee successful cooperation can be concluded as trust, commitment and mutual agreement both in formal and informal contracts (Morris, et al 2007). Ulf Smedberg, marketing manager of IKEA China described IKEA's mission as “to provide smart solutions for homes by implementing three criteria: good design, functionality, and low price.” (Miller, 2004) This is the commitment that IKEA China made for Chinese customers and IKEA has been managing to fulfill it.

“In order to build trust with Chinese customers, IKEA has made many adaptations in China”, said Ms. Xu. One of the biggest changes to make is the name. The letters “IKEA” was accompanied with Chinese characters meaning of comfortable homes, which is much easier for Chinese to remember and build the emotional bond with the firm (figure 15).

![Figure 15: IKEA's logo in China](http://news.bbc.co.uk/2/hi/business/4491128.stm)
The second thing that has been changed is the prices. IKEA’s home products get prevailed in European market by the low price, but not in China. “A small wooden table costs several hundred Yuan (1 USD equals to 6.3 Yuan) and a paper lampshade costs about a hundred” (Franchiseek, 2005). Most of the visitors come to buy small household goods or just to experience the atmosphere. Nowadays, the prices in IKEA’s Chinese stores have been slashed across the board by over 50 percent. “We keep reducing our prices every year so that more people could afford them”, Virginia explained (Malmefjäll, 2010).

The third thing is the assembly and delivery service. Ulf Smedberg commented that IKEA’s DIY (Do it yourself) products and self-delivery are much popular in the West, because customers know they will save money by assembling and delivering products themselves. But in China, where labor is cheap, the DIY notion does not make sense (Miller, 2004). Now IKEA offers local home delivery and long-distance delivery to major cities in China for a fee, and offers charged assembly services.

With all the adaptation that IKEA has made, IKEA delivers a signal to Chinese customers that it wants to set a more cooperative relationship with them and it is managing to achieve it.

4.3.2 Service management in IKEA China

IKEA sells its unique lifestyle as the core service to the customers while the premium of modern home accessories as the peripheral service in its total package. What’s more the leisure, relax shopping context and Nordic romance bring numerous customers into IKEA’s stores.

The customers are those who have middle-income, and among which, young generation accounts for a major proportion. However, the potential customer groups such as university students and old people are not ignored by IKEA China. They are always welcome to have fun and seek leisure in the shopping malls. In addition, since IKEA can be taken as a children's play yard, parents and grandparents with small kids
also go around IKEA much frequently. Even though they do not buy anything or shop a little, they are still the major potential customers. Because next time when they want to buy some home stuff or furniture, they might think about IKEA automatically, said Ian Duff, the CEO in IKEA China (Wei, 2010).

The *delivery system* in IKEA covers the traditional customer self-service which means customers still need to select and pick the products from the shelves and warehouse themselves. Regarding home delivery, however, in order to better fit in Chinese market and please the clients, the firm provides the delivery service with charging fees for customers without cars, said Ms. Yin.

The *image* of IKEA has also been explored in two aspects. Internally, employees look at their organizations as a family not a conventional company. IKEA also treats the employees more like co-workers of mutually supporting. They are not restricted in IKEA but have certain freedom to express their thought as long as it is better for IKEA’s development. As for the outsider, customers consider IKEA as a global network of home fashion and the place where they can spend the leisure time. Comparing with other furniture retailer stores, IKEA has strong global reputation which tends to be the major reason to attract new customers. Especially in China, it was said the local customers were just ready to embrace the trendy and modern western furniture style when IKEA entered into Chinese market (Malmefjäll, 2010).

IKEA China inherits the traditional *culture* as it was founded, which is influenced by the mentality of the civilian. That is to serve people with well-designed, quality products at a price they can afford. Ingvar Kamprad, the founder of IKEA formulated it as “create a better everyday life for many people by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them”. IKEA China made several adaptation in Chinese market but still keeps the core concept, finding cheaper solutions of better life for the majority of people.
4.4 A new phenomenon

In May, 2010, Red Star Macalline and IKEA China have been observed to open their stores side by side. IKEA was constructing its mart just beside Red Star Macalline’s white symbolic building (see Figure 16). This is not a coincidence that two giants happened to open their stores together to compete. Media, Nandu Daily (2010) implies the two companies tied up and opened their stores side by side intentionally. It is observed as a strategy which can be traced back to 2007, when Red Star Macalline planned to initiate the strategic relationship with IKEA (Alestron, 2007). According to the SinoCast China Business Daily News, Mr. Che, the chairman of Red Star Macalline mentioned that Red Star Macalline had made a strategic plan with IKEA China on purchasing land and opening neighboring stores across the country. It is also said that this plan will be implemented by building six new stores in five cities. (SinoCast China Business Daily News, 2007)

“Red Star Macalline is competing with IKEA, however, we are cooperating and complementing at the same time”, Mr. Che said to Beijing Business Today (Wu, 2010). Red Star Macalline’s core products are big furniture, while IKEA China is popular with small home products. Moreover, as IKEA is a worldwide famous brand, customers visit IKEA more frequently. It seems evidential that customer volume in IKEA is much larger than Red Star Macalline. Under such strategic plan, more customers will drop by Red Star Macalline when they visit IKEA(Wu, 2010).

Figure 16: IKEA's mart is under construction near Red Star Macalline in Pudong, Shanghai, 2010
IKEA also has its own consideration to work with Red Star Macalline potentially. A manager of IKEA China said to Nandu Daily that for IKEA’s new marts, the development operation would be self-purchased land and self-built marts. However, it is not easy for foreign retailers to purchase land in China, the rather that IKEA needs a large area for its mart. The strategic plan with Red Star Macalline will make it easier for IKEA to purchase land. At the same time, IKEA could rely on Red Star Macalline’s channel system promoting in first-tier and second-tier cities (Nndaily, 2010).

The coopetitive relationship between IKEA in China and Red Star Macalline though largely exposed by media, have not been confirmed by IKEA China. When asked about whether Red Star Macalline and IKEA China cooperate with each other, Ms. Yin did not reply us directly, she only mentioned, “IKEA China and Red Star Macalline are friendly neighbors in several cities. Red Star Macalline is a successful company with many merits that IKEA China can learn from”. Cici Feng’s reply was just a meaningful smile. Even though it has not been confirmed to be a real cooperation between two firms, this definitely represents a new phenomenon in retail industry.
5 Analysis

5.1 Premises of coopetition

Coopetition exists in both horizontal and vertical relationships in line with the value
net created by Brandenburger and Nalefuff (1995). Red Star Macalline’s tenants are
involved in competitors and substitutors relationships which are considered as
horizontal coopetition. While in relation to IKEA China, a vertical coopetition is
observed, as customers play a more important role in the network. The vertically
linked actors are usually emphasized on cooperation, while the horizontally linked
actors are to rival (Steinby, 2002). Therefore, the premises are discussed in horizontal
and vertical perspectives which are also closely associated with cooperation-dominated and competition-dominated coopetition.

5.1.1 Competition-dominated coopetition

Economic theory identifies two types of relationship between different products:
substitutes and complements (Grant, 2010). To large extent, products in Red Star
Macalline are constituted by these two types. The product portfolio includes sofa,
mattress, and traditional furniture all in all ten big categories (Red Star Macalline,
2012). In each product item, there are many brands for customer in different taste and
demand. In terms of individual product item, the goods for example, sofa, are in a
large similarity in respect to exterior, function. The major differences among various
brands can be categorized through the style, price range and customer group.
Regarding the strategy or business orientation, Red Star Macalline attempts to cover
customer as many as possible no matter in ages, salary and purpose, said Mr. Li.
Therefore, their products can really satisfy different types of customers’ demand.

Complementary

Complements have been added as sixth force to Porter’s framework of five forces
given its importance (Grant, 2010). Regarding the complements of product in Red
Star Macalline, it tends to be a broader concept since it goes beyond the traditional understanding of complements, like printer and ink. In this case, for instance, construction materials to furniture, the high-end imported brands to local manufacturing, can also be categorized as complements. Complements do increase values for products in which they bring more value to customers.

Furthermore, in early established stores, the product portfolio is constrained to conventional furniture. But now they have already managed 10 big columns. The stores from generation to generation, not only has been changed to more outstanding exterior, but also the largely improved shopping environment and service standard.

In shopping malls in cities like Beijing, Red Star Macalline imports the high-class furniture from Italy and Spain as alternative options to national products. They intend to make the product portfolio more comprehensive and diversified. According to their analysis, customers in such metropolitans present the demand for high-class product, mostly, globally renowned brands. Senior manager in Red Star Macalline, Mr. Shen comments they were the first company which considers attracting this group of people and gaining their consumption loyalty (Sina, 2006). Together with the majority middle-class products, thus, customers in different income range can choose the goods both preferable and affordable.

*Similarity*

The feature of complementary and similarity build the foundation of complements and substitutes, which consequently leads to the cooperation and competition concerning the relationship. Substitutes in Red Star Macalline’s product portfolio posit significant component. For instance, there are nine brands in bedding series, including MPE, Enlanda, Auping, Matterring, Plaza, Stylution and so on (Red Star Macalline, 2012). From the perspective of function, the firms are all manufacturing and selling same product. These mattresses from different brands can substitute each other if abolishing the issue of price and specification. The more substitutes exist, the
easier for customers to switch to other brands in response to the price increases (Grant, 2010). Hence, the situation for competition cannot be denied in any circumstances.

The products, in same function but different brands and style, are competing for the customer’s attention. They are rivals in this sense. However, they are under the overall administration and control of Red Star Macalline, explicitly in united pricing and delivery system. When it comes to specific events, Red Star Macalline launches activities like discount and exhibition, with the support and attendance of the vendor companies. It does not mean to force each vendor take part in, Cici Feng mentioned. However, most of the time, these activities are viewed as obtaining the mutual benefit for both Red Star Macalline and vendor companies so that companies seem more volunteered to join. From this point of view, Red Star Macalline and vendor firms are working on a cooperative base. Therefore, the coopetition has emerged with the co-existence of substitutes and complements.

In respect to this horizontal coopetition, complements and substitutes are equally key factors, contradictive but unitive, leading the coopetition to a dynamically stable situation. Among the coopetition dominant relations, the trade-off between complementarity and similarity represent and highlight premises of coopetition in which competitive nature of similar product in various brands and the cooperative form under the administration of Red Star Macalline apply in this case.

5.1.2 Cooperation-dominated coopetition

Opposing to the horizontal coopetition, seller and buyer represent a cooperation dominant relation which draws remarkable distinction from the previous one. The vertical coopetitive relationship can be demonstrated by IKEA and its customers. Recalling the hypothesis of theory, it is assumed that premises of cooperation dominant coopetition tend to be the imbalance of bargaining power and the firm’s unique characteristics.

*Bargaining power*
IKEA as a seller compete with customers for bargaining power to affect the pricing, marketing activity and delivery service. For example, in early years when IKEA entered in Chinese market, the price for most Chinese people was rather expensive. During the ‘competition’, for attracting people IKEA decided to cut down the price by 50% to meet the customer’s willingness of affordable price. Though lowering the price significantly at that time, IKEA still manages to gain high margin profit with the help of global sourcing and purchasing to decrease operating cost. Simultaneously, it builds the extraordinary reputation among Chinese consumer, good price, good quality, and good design. Based on this viewpoint, customers present a stronger bargaining power that affects IKEA’s action in business.

**Unique characteristics**

IKEA has formed a unique characteristic in furniture retailing in China. The competitive advantage of IKEA, low cost and global reputation can easily attract and retain the customers. More important, the key factor of IKEA’s charm is the unique lifestyle that attract customer to go there even without buying anything. Shopping furniture and home product often has been considered as an exhausting action. However, in IKEA, people take it as a leisure time activity, feeling joy and peace. The shopping atmosphere has impacted on customers quite much and established the unique lifestyle and romance for customers.

However, in response to low-cost tenet of IKEA, customers have to adapt the self-service, in terms of self-packing and self-delivering. In this sense, IKEA does cooperate with customers in attempt to fulfill the business operating. Customer’s value co-creation can be largely manifested in IKEA’s case. Therefore, the competition for bargaining power and cooperation with customers to fulfill the service tend to be simultaneously required in this situation. Those are premises of cooperation-dominated coopetition. Through the interactions between firms and customers, the firm’s competitiveness in terms of customer attraction has been enhanced.
5.2 Coopetition in two companies

Data in chapter 4 shows two types of coopetitive behaviors, competitive-dominated behaviors in Red Star Macalline, and cooperative-dominated behaviors in IKEA China. In this section, we try to find out whether and how mutual dependence and power imbalance affect these coopetitive behaviors. It also provides an approach to understand that to what extent coopetitors should compete, and to what extent they should cooperate.

5.2.1 Competition dominant coopetitive relationships in Red Star Macalline

As we mentioned in Chapter 2, a more complex relationship exists between different brands and Red Star Macalline. It is termed as a landlord-tenants relationship which plays an important role in Red Star Macalline’s business model. Figure 17 shows the complicated relationship.

![Landlord-tenants coopetitive relationships](Source: Authors’ own creation)

Red Star Macalline builds shopping malls on its self-owned land and rents stores out to its selected tenants, who are famous for their domestic or foreign brands. Red Star Macalline, as the owner of the mall, manages administrative task in the daily business and provides the premises for the tenants. All the tenants are involved in an intra-organizational coopetition, in which the cooperative side of the coopetition is passively led by the landlord, Red Star Macalline.
**Mutual dependence**

We analyze mutual dependence on two levels, first, the mutual dependence among different brands. Second, we regard all the brands as a single group, and analyze its mutual dependence with Red Star Macalline. A low-mutual-dependence can be seen in the first situation, as different brands do not depend on one another for critical resources. They are separated furnishing companies focusing on their own products and target markets. For example, there are many imported foreign brands in Red Star Macalline which target on the higher-class consumers. The price is much higher than domestic brands, however, the quality and brand image is also higher, said Yaojun Shen, the top manager of Beijing and Tianjing division to Sina Media (Sina, 2006).

In the second situation, the mutual dependence between Red Star Macalline and its tenants is also low. On the one hand, the primary resources that tenants rely on Red Star Macalline are its united facilities and its reputation in China. They do not need to stick to Red Star Macalline, but have the rights to choose other furnishing retailers or open their own speciality stores to sell their products. On the other hand, as Red Star Macalline is well-known, it has many alternative brands to choose to cooperate.

**Power imbalance**

Regarding power imbalance, Red Star Macalline as the landlord and the shopping mall’s manager has more power than its tenants. Firstly, Red Star Macalline has the rights to choose its tenants. When asking about the criteria, Cici Feng said that only the well-known brands have the chance to cooperate with Red Star Macalline, “The furnishing manufactures know if they are qualified to settle in our shopping malls. They also know their positions when they come in. It has become a self-evident discipline”. However, the criteria are flexible depending on locations, as customers have different tastes in different areas. “We regard the brands which cater for local customers as the popular brands, though they are probably not welcome in other areas.” Said Xingyong Ren, the top manager of Chengdu Red Star Macalline (Chen, 2009) Secondly, Red Star Macalline organizes the administrative tasks and sales
promotion activities. All the tenants need to follow the regulations in the shopping mall and pay administrative fees on time.

Though Red Star Macalline is the power-advantaged party compared with its tenants, it does not control the bottle-necked resources. A low mutual dependence means that both Red Star Macalline and furnishing companies have other accesses to needed resources, they do not need to involve in much cooperation to survive. Moreover a failed agreement between them is of less concern to both parties. For example, a furnishing company could try to cooperate with another retailer if Red Star Macalline refuses its entry.

In this condition, a competition dominant coopetitive relationship is prominent in the network. On the competitive side, tenants are responsible for their own profit and loss. They try to differentiate their products from their competitors in style or quality and ask for a premium price from customers. As now they cluster to operate in the same shopping mall, the competition becomes more severed. What they are really competing is the image delivered to customers, especially in the showrooms, which display different kinds of lifestyle by showing different brands’ combination.

On the cooperative side, all the brands must cooperate in some way, though not deeply cooperate. For example, the tenants need to obey the rules setting by Red Star Macalline. They share the same facilities and janitors, and attract customers to the same place. Red Star Macalline does not conduct the competition among tenants directly, but it manages the cooperation and tries to develop a healthy competitive environment for its tenants. “Red Star Macalline offers unified marketing, after-sale service and staff training program for tenants and it treats every tenant equally without discrimination.” Cici Feng explained.

Therefore, in their coopetitive relationships, competitive side overweight cooperative side, and hence competitive behaviors are more visible in coopetition. This proves our previous hypothesis: in the low-mutual-dependence condition, actors behave competitively regardless their power imbalance.
5.2.2 Cooperation dominant coopetitive relationships in IKEA China

Different from Red Star Macalline, IKEA China, like most of its stores in the world, sells its self-brand products. Thus, there is no such horizontal relationship which is identified within Red Star Macalline. However, for IKEA China, dealing with a vertical coopetitive relationship with Chinese customers is more vital for its business.

**Mutual dependence**

Concerning mutual dependence, Chinese customers’ dependence on IKEA China is less visible than the other way round. IKEA’s Scandinavian-design furniture and its “family” concept does attract many Chinese people to visit. However, Chinese customers have many alternatives to choose from. With the same amount of money, customers could find other satisfied substitutes. In addition, IKEA was an outcomer when it came to China in 1998. IKEA is a brand of typical furnishing convenient store in European countries; however, it was misunderstood as a noble brand by Chinese customers. It is because of the relatively low socio-economic level in China and the different consumption habit from Europe. Furniture is regard as durable commodity which can be used for a long term in China. Chinese consumers are willing to pay higher price for special design. But if too many people purchase the same thing, it is no more special. That’s why Chinese people do not want to pay a high price for IKEA’s simple furniture.

As for IKEA China, its aim of developing in Chinese market determines that it must depend on Chinese consumers. In the first ten years since IKEA came to China, IKEA had only eight stores opened in China, as it was not totally accepted by Chinese customers. For example the self-service concept of the customers driving their new furniture home and then assembling them by themselves, does not make sense to the Chinese (Millier, 2004). IKEA realized that it has to make some changes such as continually lowering prices and offering home delivery service to cater for customers.
**Power imbalance**

The power between IKEA China and Chinese customers is also unequal. We may regard Chinese customers as a powerful organization, which is informal but much bigger than IKEA China. Chinese customers’ potential purchasing power is promised as China’s economy is developing at a fast speed. Data from the World Bank illustrates that the average income of Chinese was on the upper middle level in 2010 (Worldbank, 2010). To some extent, IKEA’s development in China largely depends on Chinese purchase. It needs to better fulfill Chinese customers demand to compete with many other local and foreign furnishing retailers.

Above all, IKEA China is both dependence-disadvantaged and power-disadvantaged. A failure of satisfying Chinese consumers would cost much for it. For that reason, IKEA China is more active in developing a cooperative relationship with Chinese customers. As a foreign company, IKEA adapts its price and business concept to Chinese context to attract Chinese customers. According to Porter’s Five Forces of competition framework, one of the competitive pressures is from buyers bargain power (Grant, 2010). The strength of buying power that IKEA China face from its customers is largely depends on customers’ price sensitivity, because in China, there are a lot of cheap alternatives for almost everything. Ulf Smedberg said that when IKEA first entered China, the price was considered too high for its target consumers—young people—and the company had to lower its prices (Miller, 2004). Pirated IKEA products have also forced the company to cut prices. Nowadays, the prices in IKEA’s Chinese stores have been slashed across the board by over 50 percent.

Though the development of IKEA in China is fairly slow, it has become more and more popular among Chinese people. A survey from China Market Research Group shows that the average number of shoppers a day who visit IKEA’s 463,000-square-foot store in Beijing is 20,000. On weekends the number can spike to around 30,000 (Fortune, 2011). IKEA's Scandinavian-design furniture and in-store
cafeterias serving meatballs are big draws for up-and-coming Chinese (Figure 18 shows an IKEA’s cafeteria in Shanghai). Most people who come to IKEA only want to enjoy the cozy environment. They prefer to relax in Western-style showrooms or stay in the cafeterias with friends. However, managers in IKEA China stores do not mind. Ian Duffy, the company's Asia-Pacific president explained that the idea is that “maybe if you’ve been visiting IKEA, eating meatballs, hot dogs, or ice cream for 10 years, then maybe you will consider IKEA when you get yourself a sofa.” (Wei, 2010) IKEA has built a friendly relationship with its Chinese customers.

In this case we observe a cooperative element dominates the coopetitive relationships, and hence cooperative behaviors are more visible in coopetition. This proves another hypothesis: In the imbalanced dependence situation, the actor who has both power disadvantage and dependence disadvantage has more cooperative behaviors.

To make it more clearly, we draw the relation in the following models (figure 19):
5.3 Coopetition adds values for service management

In line with aforementioned, there are rarely the cases that manifest the connection between coopetition and service management. They mostly appear in technological firms where rivalry firms align to each other to work on a specific solution. Regarding this discussion context, the furniture retailing represents one of the most conventional industries. The entire industry got several problems to move on. Now it has been experiencing the shift from a traditional retailing business to a more service-oriented industry. Thus service management plays such a vital role for organizing the routine. One of the merits derived from coopetition is value creation, also viewed as a key advantage. Some classical alliances in automobile sector, such as Honda-Isuzu, Opel-Renault and Volkswagen-Porsche (Dagnino and Padula, 2002) have provided great representation for value creation among firms.

5.3.1 Service management system in Red Star Macalline

In line with the service management system in Norman (2002), the system design fit in Red Star Macalline can be illustrated as the following chart (figure 20). The core service in Red Star Macalline is diversified and clustering products in high quality

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**Figure 19: Driving forces behind coopetitive behaviors**

Source: Authors' own creation
and slightly high price to attract the customers in middle and high salary. In their stores, Red Star Macalline provides the delivery service for free; meanwhile, customers also can do it by themselves. During the shopping time, sales lady always come to the customer actively and provide consultancy. Red Star Macalline’s employees see the company as a learning organization. From the customers’ point of view, Red Star Macalline stands for the high-end shopping mall which sells the trendiest product.

Service management system in Red Star Macalline

![Diagram showing service management system in Red Star Macalline]

Figure 20: Service management system in Red Star Macalline
Source: Adapted from Norman (2002)

Coopetitive force makes the product portfolio more comprehensive. In order to maintain the product diversity, the company would continue to bring in more brands and other categories of home accessories. Bundling brands offer the opportunities for customer to select and match the products they prefer. Thanks to the multitude diversity, people are exposed to all products and they can stick to one store and finish everything about decorating a house, so-called one-stop shopping. Customers can save their time and leverage their resources with proper options.
Many exhibition rooms in different style in Red Star Macalline are open to customers which aim to provide the basic stream of decorating design. Those showrooms are constituted by furniture from different brands rather than being as a pure advertisement for a single brand. The competitive brands collaborate with each other and offer the inspiration for customers to think about what they really want for their homes. In Red Star Macalline, there are several decorating styles, such as the Southeast style, the European style and the countryside style. To the clients who have no preferred style can easily choose one of those for their homes and pick the current furniture at stores.

The bundling coopetitive brands extend the core competence of Red Star Macalline, from selling single furniture to a more diversified combination and trendy concept, in turn, contributing to customer’s choice and satisfaction. It also leads to the expanded customer group to which the competitive brands can target in different range of income, with most of them clustering in middle-to-high level. Through the pressure from close rivals, vendors in Red Star Macalline pay sufficient effort on building their individual competencies and competitiveness incorporating the administration of landlord. Furthermore, the entire corporate culture has been moving toward more diversified, trendy and modern. Particularly, Red Star Macalline has announced a home-love day on Dec, 3rd each year, aiming to call for the awareness and love of individual home on which customers can enjoy a discount of shopping and fairly prepared gift.

It is assumed that coopetition is able to enhance the service quality among coopetitive entities. With the constant competition and umbrella-level cooperation, the environment in stores become increasingly improved and turn out to be a more service center gathering shopping, leisure and entertainment. Customers enjoy taking a walk in Red Star Macalline, not only looking for the home decorating products, but also getting more inspiration on fashionable home design and staying a place for leisure activities. From the business concept, Red Star Macalline emphasizes a new era, home economy, which stands out of the traditional furniture retailing.
Reflecting on the hypothesis of the connection of coopetition and service management, in the case of Red Star Macalline, it could be summarized that the actors involved in competition dominant coopetition enhances the service quality in terms of product diversity and customers’ satisfaction.

5.3.2 Service management in IKEA China

Turning our focus to IKEA, the service management system in IKEA China exhibits great distinction compared with the counterpart of Red Star Macalline (see figure 21). The core product in IKEA China is the lifestyle implanted in huge amount of products which stand at the premium of modern home accessories with a good integration of cost efficiency and functional fancy. In IKEA stores, self-service is prevalent protocol which means customers have to reach products and deliver them home by themselves. Additionally, the payment can be done with the cashiers due to the abundant cheap labor in China, instead of machine in most western nations. Customers who are in favor of IKEA tend to be the young generation. Their salaries are normally in the middle range so that they can afford the lower price products sold in IKEA in comparison with Red Star Macalline. Most frequently, they go to IKEA to get some inspiration of decorating their houses and the fashion on home accessories. Employees in IKEA view their company as a family, mainly because the flat hierarchical structure and peaceful atmosphere rooted from the Nordic European tradition. The external image appears among consumers can be characterized by global, fashionable and a fancy place for leisure.
The coopetitive relationship between IKEA and customers put up a close connection with the representation of the service management system. Coopetition is able to enhance the customer value co-creation in order to achieve better performance of service provider, IKEA in this case.

As confirmed in previous section, the coopetition type in IKEA is cooperation-dominated and vertical where the direct components in this network are suppliers and customers (particularly in this case). Cooperation-dominated coopetition affects IKEA-customer relationship in many aspects. Due to the additional requirement of delivery system, IKEA launches its home delivery to Chinese customers. It can be observed that IKEA has put intensive effort to adapt into Chinese culture and better meeting customer’s satisfaction. Besides, customers give the feedback and approve the leisure “mark” of IKEA stores. For instance, when the potential clients see other people visiting the store and spending their leisure time,
they might go to IKEA stores next time and become the new customers. Customers create value for IKEA and themselves simultaneously as the value co-creator.

The cooperation-dominated coopetition is more crucial in the function of enhancing service management. IKEA in its early time in China is just considered as a common furniture retailer which highlights the shopping environment and cares about customers’ feeling during the shopping time. However customers who experience the unique shopping atmosphere and value leisure-spending environment truly contribute to broaden its reputation. Via word of mouth, more and more customers fall in love with this relaxed shopping in IKEA. Consequently, customers co-create IKEA’s culture-civilian choice for a better life. It is not only a store where people could buy cheap and functional as well as good looking products, but also a place where people could have a rest and spend an afternoon with friends after shopping. Furthermore, the self-service and service-payment, as the cooperative activity of coopetition, also represent the important components of value co-creation. Thus the cooperation derived from coopetition enables the customers co-creating values.

Therefore, we conclude that cooperation-dominated coopetition can contribute to service management, particularly, customer value co-creation which mirrors the fourth hypothesis.

So far we have analyzed the promises of two types of coopetition in Red Star Macalline and IKEA China respectively, and the driving forces behind them. We also claim that coopetition contributes to service management system with respect to service quality and value co-creation. To make our analysis clearer, we list them in the following table (see table 4).
<table>
<thead>
<tr>
<th></th>
<th>Red Star Macalline</th>
<th>IKEA China</th>
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<tbody>
<tr>
<td><strong>Competition type</strong></td>
<td>Competition dominant</td>
<td>Cooperation dominant</td>
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<td><strong>Premises</strong></td>
<td>Co-existence of complementary and</td>
<td>Bargaining power, unique</td>
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<td></td>
<td>similarity</td>
<td>character</td>
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<td>**Resource</td>
<td>Low-mutual-dependence, power imbalance</td>
<td>Dependence disadvantage,</td>
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<td>dependence**</td>
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<td>power disadvantage</td>
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<td>**Contribution to</td>
<td>Product diversity, enhanced service</td>
<td>Facilitate customer value</td>
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<tr>
<td>service management**</td>
<td>quality</td>
<td>co-creation</td>
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Table 4: Comparison between Red Star Macalline and IKEA China

Source: Authors’ own creation

5.4 Discussion on coopetition possibility

Recently, Red Star Macalline and IKEA China have planned to open their stores side by side in five cities. The benefits of neighboring stores are various, including the cost efficiency, attracting more customers and potential landmark of local area. First of all, through building their stores together, these two companies can share the parking area and warehouse and have the joint management. Consequently, they can reduce the expense of constructing and maintenance. Secondly, customers do not hesitate which store to choose because they can definitely visit both of them. Thus, Red Star Macalline and IKEA China enlarge their own client groups.

We wonder if one day they would really cooperate with each other. Is it possible for them to compete and cooperate at the same time? It is interesting to discuss about this
issue, since we see potential promises and a probable benefit regarding service management for both of them.

**Possibility of coopeetition**

Both Red Star Macalline and IKEA China are aiming at providing solutions for customers to live a better life. In this sense, they have a common goal which is the precondition for two companies to cooperate (Morris et al., 2007). The coopetition will be conducted in a horizontal relationship, where similarity and complementation present another premises. Since most Chinese customers prefer the small home accessories in IKEA China and big furniture in Red Star Macalline, the two companies show large proportion of complementation and could become the potential complementors. Moreover, since both of them have quite comprehensive product portfolio, Red Star Macalline and IKEA China can still remain competitors in traditional segments. Therefore, the coopetition strategy between them has the possibility to be adopted.

**Future advantages**

Taking the competitive advantage into account, coopetition is a strategy for companies to gain more market shares (Abdallah and Wadhwa, 2009). IKEA stores are concentrating in the first tiers cities in China. However, Red Star Macalline has penetrated into 80 cities, both first and second-tier cities. IKEA can really take the advantage of the channels and national network to enter into more markets. For Red Star Macalline, it gets the closest access to IKEA and can learn from its experience of global business operating which would help it expanding its business globally in the future.

Furthermore, both Red Star Macalline and IKEA China could strengthen their brand image and provide their customer better service by coopetition (Walley, 2007). When two giants cooperate, several industrial and market information could be shared. Probably some managerial experience could also be communicated and learned. With the better knowledge of customers and management, they could sense and seize more
opportunities to serve customers (Teece, 2007). It is not only a win-win game for Red Star Macalline and IKEA, but also a benefit for all the customers.

Mirroring on the issue that Red Star Macalline and IKEA tie up together to build the neighbor stores, it might be possible to implement the coopetition strategy between the two firms. On the one hand, they are keeping traditional competitive relationship in order to maintain and improve individual business. On the other hand, they have a large change of complement each other as the base of the cooperation. Thus they can create a new shopping concept as an integrated service provider, as well as develop a new era for not only furniture retailer but players in other sectors.

**Challenges**

The concept of coopetition underlies a paradox situation as it brings together both common and conflicting interests under one arrangement. A primary concern of two parties in a coopetitive relationship, for example, tends to be the secrecy. When two firms start to collaborate with each other, certain information exchange and mutual access to potentially sensitive data take place. Thus it presents a risk of exposure of business intelligence of both companies (Zineldin, 2004). Red Star Macalline and IKEA China still have large proportion of products in direct competition. For instance, the more access to each other, more information of product cost and pricing are visible. If both of them design the same type of product in similar price, the competition will be even fiercer. Under this circumstance, cooperative firms have to walk a clear-cutting line and negotiate about competing activities and goals. From the other perspective, mutual trust, tolerance and openness are required if they proceed the cooperative agreement in attempt to reach the desired outcome (Zineldin, 2004).
6 Conclusion and Discussion

6.1 Conclusion

In this study we aimed to make a deep research on coopetition strategy to address some issues not mentioned in the current literatures. We put our main focus on a single firm level, exploring the premises of coopetition strategy, the driving forces behind coopetition behaviors, as well as the contribution of coopetition to service management regarding each firm. We conducted our research in two popular furnishing retailers in China, Red Star Macalline and IKEA China, which reflects two types of coopetition, namely competition-dominated and cooperation-dominated coopetition. Through our comparative case study, we eventually made certain theoretical contributions to deep knowledge on coopetition in respect to single firm perspective.

First, the premises of competition-dominated and cooperation-dominated coopetition are different, as these two types of coopetition are usually connected to a horizontal or a vertical coopetitive relationship. When applying coopetition strategy in firms which involved in competition dominant coopetition, the co-existence of similarity and complementary is the primary premise, while in cooperate dominant coopetition, bargaining power of specific participants and unique characteristics of firms are more important premises. As discussed in Red Star Macalline, coopetition lies in the diversified similar products under one category and the complementing product portfolio. Whereas in IKEA China, the bargaining power of customers and the heterogeneous characteristics of the firm present the key premises.

Second, actors involved in a horizontal or a vertical coopetitive relationship also behavior differently. Among others, the two main elements of resource dependence play crucial roles as driving forces. Mutual dependence is the first definitive element since it determines the stability of a relationship. Imbalanced mutual dependence further determines which actors have more bargaining power when setting an
agreement. Power imbalance exists under different levels of mutual dependence. It offers as another factor that affects bargaining power besides mutual dependence. Our study shows that in the low-mutual-dependence situation, actors have competitive behaviors regardless of their power imbalance. Because power advantage does not make so much sense if the reliability among actors is fairly low. However, in the imbalanced mutual dependence situation, the actor who has both power disadvantage and dependence disadvantage have more cooperative behaviors, as it largely rely on its partner. The conclusion explains why different degrees of competitive and cooperative tension exist in a coopetitive relationship. It also sheds light on a tricky question, that is, to what extent firms need to compete, and to what extent they need to cooperate.

Third, we make a bridge between coopetition strategy and service management. The two companies we selected are running their business in service industry since the service dominant view and service management philosophy have been gaining increasingly attention among industry sectors. As the finding, competition dominant coopetition facilitates the improvement of service quality in terms of product diversity which was tested through the case of Red Star Macalline. Whereas in IKEA, cooperation dominant coopetition identified in vertical relationship enhances the customer value co-creation.

In our research, the service industry was the study context. The study result aims not only applicable in these two firms, but also could be replicated into other firms in service industry and become an emerging important branch of service management.

6.2 Limitation and future research

6.2.1 Limitation

The entire dissertation is theoretical-dominated approach with the peripheral support of empirical case study. The main weakness, as stated in methodology section, tends
to be less primary data from the case companies. The prime data sources are the observations, previous interviews and published information. Unfortunately we did not have the face-to-face interview session. However, during the data collection stage, we tried to contact both the firms by emails and phone calls and luckily gathered certain proportion of the empirical information that we needed. Furthermore, as IKEA China and Red Star Macalline are running their business in China, while we wrote our thesis in Sweden, the limited time and financial resources cause obstacles to personal observations.

Another limitation lies in the deficient theoretical framework of coopetition which we can base our research on. As it is a newly developed concept, there are less predominant framework and general typology in the previous research. Thus the coopetition-related knowledge we investigate are self-organized but not systematic.

Besides, we mainly focus on individual company rather the network with more than two companies. It can be seen as a niche without sufficient previous theoretical effort.

Lacking of sufficient data blocks us to make deeper analysis on companies’ managerial practice. It is a pity that we only compare some certain items of Red Star Macalline and IKEA China, but did not provide empirical implications on how to manage the coopetition strategy, nor did we find out how companies deal with the paradoxical coopetitive relationships.

### 6.2.2 Future research

Bengtsson and Kock (2000) mentioned in their study, “both qualitative and quantitative studies are needed to penetrate this area of research deeper” (p. 424). Researches among those previous studies as well as ours are mainly qualitative-based.

We hope later researches could fill in this gap.

Secondly, we investigate the coopetitive characteristics in individual firm which has a complex structure like Red Star Macalline. It would be interesting to further explore how the organizational structure affects coopetitive attribute and coopetitive
behaviors. Our research brought close connection between horizontal coopetition and its competitive side while vertical coopetition and its cooperative side, which tend to be easily visualized. However, more profound and systematic classification and typology of coopetition still requires ongoing investigation.

More specifically, we discussed the possibility of coopetition between Red Star Macalline and IKEA China. The two firms have been observed to build neighboring stores together. There are comments and news from media which stresses on the cooperation truth between them. Resultantly, it can be viewed as the coopetition strategy (simultaneously compete and cooperate). However, during our interview, they rejected this news. No matter it actually takes place or not, from the theoretical point of view, it is worthy to investigate the potential, and both pros and cons of applying coopetition strategy. With more detailed information from both firms, the future research on this theme is possible to be conducted.

In addition, in our research, the industry background is furniture retailing, which belongs to the service industry. We highlight the contribution of coopetition to service management. However, while analyzing the explicit service management, we primarily adopt the service management system of Norman (2002) as the main column to compare the two firms. In future, we do hope researchers could explore this area through other analytical approach and construct the bridge between coopetition and service industry investigation.

Overall, coopetition as a newly developed concept which have to be paid more attention since it plays increasingly vital role in industry network. The traditional single scope of competition or cooperation is less able to demonstrate the more complex industry context. Furthermore, as mentioned above, we did not provide practical suggestions on how to manage coopetition strategy, due to limited data. Besides, managerial practice differs from different industry and period. Therefore we encourage the later researches with both theoretical and empirical focus to enrich this topic and make solid implications for companies.
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Appendix

Interview questions for Red Star Macalline

1. Comparing with other competitors in furniture industry, what are the more competitive products and services for Red Star Macalline?
2. What are the value-added services offered by Red Star Macalline?
3. Who are the main customers of Red Star Macalline in terms of age, income and consumption objectives?
4. Which kind of corporate image and culture does Red Star Macalline intend to deliver to customers?
5. What are the criteria for selecting vendors, e.g. classification, price and brand reputation?
6. Please list a few famous brands in the furnishing, constructing materials and furniture in Red Star Macalline’s stores.
7. What measures does Red Star Macalline take in order to manage fair competition among vendors?
8. Is it compulsive for vendors to join the sales promotion activities?
9. After joining in Red Star Macalline, can the vendor firms also join in other furniture retailer independently?
10. Is there any cooperation among those vendor firms under the united administration of Red Star Macalline?
11. Red Star Macalline adopts the business model as brand bundling. What are your comments and understanding about this situation where vendors simultaneously compete and cooperate with each other?
12. What does the business model in terms of brands bundling bring to the core competence of Red Star Macalline?
13. We have observed that Red Star Macalline stores and IKEA stores are neighbors in a few cities like Shenyang. Does Red Star Macalline cooperate with IKEA China? Will Red Star Macalline cooperate with IKEA in other aspect nationally or internationally?
Interview questions for IKEA China

1. Comparing with other competitors in furniture industry, what are the more competitive products and services of IKEA China?
2. What are the value-added services offered by IKEA China?
3. Who are the main customers of IKEA China in terms of age, income and consumption objectives?
4. Which kind of corporate image and culture does IKEA China intend to deliver to customers?
5. What are the challenges did IKEA met when it entered Chinese market?
6. What do you think of IKEA's self-service model in Chinese context?
7. What changes has IKEA China made to build trust with Chinese customers?
8. What efforts have IKEA China’s PR teams made to promote IKEA in China?
9. Many Chinese come to IKEA’s stores only to enjoy the environment. What do you think of this phenomenon?
10. We have observed that IKEA has intently built its stores beside Red Star Macalline stores in a few cities like Shenyang. Do you think it is a way that IKEA China cooperates with Red Star Macalline?