

Small-business Savvy: Competition and Clustering

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Do you steer away from the competition? Or do you embrace the opportunity and locate beside your competitors?

Often small-business owners will tell you that they would be happy if they had no competition. Yet having no competition may mean you are selling something that no one wants.

Given that thought, the same owner may say that competition is all right as long as it's not located close to his or her store. But is that a good idea?

A recent road trip found me on the highway for nearly 1,500 miles. During that time, I had a visual reminder about competition and clustering. What you will notice, as I did, is that if one hotel or gas station or restaurant is at an intersection, a second one or even more may be at the same location.

The reason this occurs is the same reason why many other types of firms will locate near their competition: Clustering makes the entire group stronger.

Research has verified the strength of clustering in many industries. Clustering allows the consumer a choice. Having more selection will draw more customers than just one business of any type. It not only draws customers, but those businesses often will see higher revenues.

Clustering helps the group become viewed as a destination. This certainly is true in the tourism industry, but the same has been found for manufacturers as well (i.e., why is it called Silicon Valley?).

Not only does clustering increase the destination perception, but related businesses also may begin to locate in the same area. These businesses might offer complementary goods and services, thus further increasing the customers' perception of value. Or these businesses might be suppliers, therefore reducing supplier costs of production.

Thus, as a small-business owner, competition may be a really good thing.

For more help, visit our website, <https://www.ag.ndsu.edu/smallbusiness>, and sign up for the monthly newsletter.

More information is available at your local Extension office, as well as at <http://powerofbusiness.net> and <http://www.eXtension.org/entrepreneurship>.

The Small Business Administration and its related organizations, such as the Small Business Development Centers and Service Corps of Retired Executives, along with many other state agencies, also can be valuable resources.

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NDSU Agriculture Communication

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