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# The risks withself-collection for incumbent firms

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## Abstract

It is a common practice for incumbent firms and start-ups to allow customers to self-collect their products from factories as a marketing and distribution strategy. However, this practice has been found to be undoing many businesses in recent time. The risks arise because of the increasing competition and difficulties for business survival globally. By examining the practice of self-collection amonga group of related confectionary businesses, it was observed that rise in competition trigger competitor's probing into rival operational environment.This cases self-collection to correlate with competition risk. Firms who allowed much exposure to their operational activities stand greater chances of being imitated or higher competition. Firms who allowed greater percentage of customers to self-collect face the greater risks than those that deliver directly to their customers. Being a market with relative little barrier to entry, incumbent firms face greater challenge in fully optimizing gains from major innovation. This factor account in part as the reason whyfirms rarely grow into long run or generational businesses.

## I. Introduction

Self-collection is a practice in transport and logistics management whereby customers send vehicles to companies to pick their goodsfrom the manufacturers once their orders are confirmed. In other words, self- collection implies that the customer is responsible for the collection oftheir goods from the company. The vehicle used for such purpose may be directly owned by the customer or hired under a third-party arrangement. Under the arrangement, the supplier do not bother about how fast the customers pick their goods once their orders are raisedandpayments continually turn in. For small business establishments with little capacity to deliver customers' demand, it is always attractive to allow customers self-collectso as to quickly clear stocks and/or allow a continuous productionand payment inflows. But for large business organizations[1] with huge delivery capacities, delivery policymay bedesigned todiscourage customers from self-collecting. This is because owing a large delivery architecture allows a company the leverage of ensuring steady availability of their product across the markets, stabilize prices and knowing the customers closely as well curtailing the possibility of diverting products to unintended territories. In fact, company delivery constitutes an important tool for market capture, eliminating price discriminations and fraud detection. Firms with huge delivery capacity tend to charge lower freight prices for their goods and by that knocking off competition. By such action, customers will be trapped to waiting for company delivery than self-collecting. The strategy on its own is a form ofprice rebate and it is exploited by large monopolistic and oligopolistic firms to sustain national price uniformity. This strategy has been the reason for the uniformity of brand prices of sugar, flour and cement across different markets in Nigeria.

There is a number of reasons why customers like to self-collect. First, self-collection of goods make customers receive their goods faster, flexibly and with more certainty about the time of supply. In fact, a customer can raise order and load same day if the goods were to be self-collected. This is unlikely in the case of company or scheduled delivery. The order will have to move from the sales department to the logistics, wait to be allocated to a particular truck before it is loaded out. In addition, a customer canflexibly raise any quantity of order in the case of self-collection. For company delivery, it has to be a specific quantity in line with the available truck capacities, which is usually 300, 600, 800 or 900bags order.During period of product rationing or peak of sales, customers that self-collect stand at greater chancesof having steady supply of stocks. But in the case of company delivery, customers have to wait for at least 1-3days before

[1] For instance, Flour Mills of Nigeria (FMN), Dangote group of companies, etc

their goods can be delivered because of the pressures on demand and availability of trucks. In addition, such delivery must follow specific size of order. Based on experience,incumbent firms do allow self-collection at the early stage of operation but progressively will move to company delivery while making the practice unattractive as they build larger delivery capacity over time.

This study is centered on the effect of self-collection in promoting imitative competition inchinchin and peanut markets of Nigeria. The confectionary market has grown in size and competition in the last two decades. In terms of size, the number of firms has increased from less than 10 participants in the year 2000 to over 120 as at end of 2023.These growths have impacted on the mode of operations, competitiveness and selling strategies of the products. One of the areas where the firms seemed to have strategized greatly in the face of the growing competition is in the mode of delivery.While it is rational for small firms to desire that customers come to pick their goods for themselves at start-up stage because of the huge financial strains it imposes to house a delivery capacity, a number of firms build in company delivery as part of their policy from the onset. The debate between the desirability of the self-collection over company delivery with its attendant incumbent curse and consequences is the crux of this study. In furtherance, this paper argued that self-collection is a major precursor to competition by imitation which is the major means by which many join the industry. This rest of this paper is sectioned as follows. In section 2, a conceptual clarification of self-collection is made. In sections 3 and 4, the methodology and results were presented. Section 5 explained further arguments to support why self-collection is riskier than company delivery. Section 6 concludes the study

**Conceptual Review**

Self-collection is a delivery method being adopted by firms in order to supply customers and clear pending orders. Customers are allowed to self-pick their goods after payments have been confirmed. For such situation, customers pay only the unit price of the goods without freight charges. This mode of delivery is different from freighted or company delivery, whereby the company have the responsibility to deliver to the customer's premises the goods paid for. For a typical manufacturing firm, such delivery span for a minimum of between 48-120hours after payment confirmation. The risk on the goods, security and handling reside with the firms until the customer take possession and signs into the way bill to have received the consignment.Delivery options are known to serve as strategic moves in competitive markets (Ma, 2005; Ofonyelu, 2017). As a result, many firms take their delivery decision carefully.The Nigerian confectionary market is a competitive one. As a result, the mode of delivery also constitutes part of the selling strategy for the firms.

An incumbent firm isused to refer to a businessthat is already established in a particular market.

The firm, by great independent effort is the innovator of a radically new product.Whenever there is discovery of a new product, the preoccupation of the firms is always to annex and satisfy the newly found market. This essentially is the reason for the common perception in economic literature that suggests that incumbent firms hardly provide radical product innovation and market leadership after a relative period of time (e. g. Chandy and Tellis, 2006).After the discovery of a new market, there is always the tendency for new firms to want to join the business to provide the necessary environment for competition and market innovation. Incumbent firms are likely to want to concentrate on profit maximization to appropriate profits and compensate for innovation costs.In the midst of the success of the incumbent firm also lies some potentials for complacency and risk aversion which create motivation for new entrants. The discovery of a new product offers a good opportunity for firms to maximize profit and recoup innovation costs. New innovations come with huge costs. This is apart from the cost of trial and errors and other implicit which are internalized in the process of the discovery. For a firm that succeed in having a product that is relatively new with reasonable market share, the urge for profit is always high. The high profit desire serves as a bait for new entrants to join the market. For markets that are relatively easy to enter without major impediment to entrance, allowing customers to self-collect and get used to the production procedures can be risky.

Following Thomas (1999), a major determinant of entrant into any market is the anticipated reaction of the incumbent. The fear of such anticipated response become assumed away or can be predicted if the incumbent is able to closely understudy the incumbent by having a spy agent as the self-collector.Entrant of new firms is seen as a positive development in any market as it is more likely to bring new and better products. In addition, they are also more likely to introduce more efficient production processes that make firms more competitive that can also lead to lower prices. Despite these benefits, not market will fare well when incumbent firms are not growing. In fact, the gain from market concentration arise from new innovation and efficiencies and not from repetitive imitation or attrition of the incumbent.

There are a number of reasons why customers coming to the factory to self-collect goods is risky. First, it constitutes a means for spying and imitative competition.This is very common in local entrepreneurship. The proliferation of pure water factories, restaurants and bakeries around many cities in Nigeria is driven mainly by this strategy. Competition by imitation has become a veritable source of promulgation of small scale businesses. You just started a business and it picks up and start booming. The next thing you realize is that one of your former customer has teamed with some of your (ex)staffs to form competition. So, the boom is always a pull factor. For new businesses with prospects, the best the firm can do to preclude early competition is to shield the performance of the business from outside persons. This will imply the preclusion of self-collection. One of such potential competitors are the customers and their agents who comes around to pick products or loiter around understudying the incumbent's progress. Competition by imitation has been the main reason for the growing influx of too many people into the pure water and allied businesses. What is disturbing in this development is that the new entrants rarely come with new innovation into the industry. In fact, many come in to adulterate and quit from business as competition crashes the profit margin. The outcome of this lead to incumbent curse for the innovator firm, and could be a source of demotivation for new innovation (Sandberg and Aarikka-Stenroos, 2014)

Second, it creates unnecessary exposure and predation around the business environment. If you want to be a soft target for imitation or competition, just operate your business in an open environment. Have no secret about it. Once the business booms, it will take only a matter of few weeks for your former employees, neighbors or customers to become the competitor. This is the typical situation of many small scale businesses in Nigeria. Somebody starts an akara business and its doing well. Customers crowding in regularly tobuy. In a matter of few weeks, in not too far away distance, a new competitor will spring up. If you are to check further, such person will have been somebody close to the business or that have closely monitored the incumbent. In markets with such high proclivity for imitation or competition, it become safe for incumbents to minimize strangers' entry into the factory site including agents or customers of incumbents who are potential future competitor. By allowing customers to self-collect, potential competitors gain access to confidential information about the firms which are used to form competition.

Third, it imposes heavy cost on the incumbent firms. Where the incumbent firm is not strong in withstanding the competition, it could lead to eventual shutdown of business. An incumbent curse is the cost and risks that arise for a firm that fails at the peak of its success. Most Nigerian firms pass through a lot of trails and errors in terms of the mistakes and lessons that is learnt through the business. For instance, the first pure water factory would have experimented with a number of machines failures before the automatic water packaging machine was produced. With the new inventions, the factory will have to abandon the old machines for new one in order to meet up with speed and efficiency required to be competitive in the market. Otherwise, a new competitor could just acquire acost effective machine as a competitive advantage to enter into competition against the incumbent. The cost of those errors and trials that firms undergo especially in green ocean markets can be enormous.

Fourth, it creates tendency for collaborative fraud in business organization. With the familiarity of the customers and staffs of the organization, it becomes easier to plan high level fraud such that some of the sales may be unrecorded or under recorded. In fact, for a business in which the operation is very exposed, customers can infiltrate into the production procedure to defraud businesses of their supposed profits by moving many goods out without payments.

## Data and Methods

There is no comprehensive data source for all chinchin and peanut producers in Nigeria. The data used in the study was compiled from extracts and interviews from sales representatives of flourmills of Nigeria, Crown Flourmills and IRS flourmills. A look at table 1 below shows the profile of chinchin firms which have closed down within the last two decades in Nigeria in lieu of their delivery mode. As typical of most start-up in developing economies, the first five years of existence is the most critical stage in the life of any firm. One major thing that is common to all of the firms is that customers self-collect and they also faced imitation and competitions. The businesses were local, with little operational secrecy and high third party exposure. Most self-collection is done

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through third parties. As a result, the quality, handling and preservation of the product rest on these third party agents until it is delivered to the customers. These third party are usually commercial drivers who sole interest is to maximize profit. As a result, they tend to charge higher freights which in turn make the product to be more expensive in the market. Second, some of the vehicle used for the delivery purpose are usually not suited for the purpose. As a result, how far the product can go and the preservation of quality rest on the third party agents rather than the producer. As a result of this, the product rarely can go far.

**Table1: list of Closed Chinchin firms (2000-2024)**

| Name of firm | Location/state | Delivery mode | Year of start-up/closure |
|---|---|---|---|
| Chinchin maker | Osun (Modakeke) | Self-collection | 2001/2007 |
| Honeydropchinchin | Lagos (Ikeja) | Self-collection | 2003/2005 |
| Amazing grace chinchin | Ondo (Ikare) | Self-collection | 2015/2019 |
| JimahChinchin | Ondo (Arigidi) | Self-collection | 2011/2017 |
| MikisBilkis | Ektit (Ado) | Self-collection | 2007/2019 |
| Our Lady's chinchin | Ondo (Ugbe) | **Mixed delivery** | 2015/2021 |
| Special chinchin | Ondo (Ondo) | Self-collection | 2008/2011 |
| Ceerichinchin | Lagos (Ajah) | Self-collection | 2007/2016 |
| Chinzchinchin | Enugu (Nsukka) | Self-collection | 2009/2011 |
| IbukunOluwachinchin | Ogun (Ota) | Self-collection | 2008/2011 |
| Mac-King chinchin | Port Harcourt | Self-collection | 2007/2009 |
| Winnie Chinchin | Ibadan | Self-collection | 2009/2013 |
| | Abuja | Self-collection | 2011/2013 |
| | Kano | Self-collection | 2014/2016 |

**Source: Author's compilation**

One can observe the strong connections between the failed firms and their mode of sales, which is by self-collection.In fact, with some of them existing for barely 2 years before closing up.Self-collection exposes infant and small firms to easy imitation and competition. It is always easy for one to think of venturing into a business that is seen running with huge sales and customer base than one that is just starting one that one will need to build and grow customers. Ma (2005) and Ofonyelu (2014 and 2017) have argued about the strong connection between companies' mode of delivery and their competitiveness. The crux of this argument suggests that firms that allowed customers to self-collect will suffer greater imitative competition. Being a competitive market with flexible exit and entry, there is the greater chances that some part of the customers of today and including employees will be the future competitor of tomorrow. With self-collection, it allows these agents of common interest to meet, unite and increase the propensity for imitative proliferation. Figure1 and table2 shows the schema of the imitative multiplication and incumbent attrition within a span of 5years in chinchin and breadbuns market in Nigeria.

Figure1: Competitive Branching among dominant chinchin brands

(a) Happybite Chymat → Highclass →
(b) Happybite → Queens' bite
(c) Happybite → Royal bite (Ilorin/former customer)
(d) Happy bite → Ire Ayo chinchin
(e) OnyekabreadbunsGbayerobreadbunsErioluwabreadbunsmomohbreadbuns

These branching and imitative duplication happened within a span of 5years. One major thing that can be observed from the development is that rather than the new entrant coming in with new innovations or technology, the motive seemed essentially to crowd into the market for market share and profits. Hence, rather than the market experiencing new innovation in products development, packaging, taste and customer satisfaction; the market becomes pushed with cheaper but inferior quality products. The end result of this becoming that customers start losing interest in continuous consumption for the inability of differentiating the inferior from the original ones. Due to the close homogeneity and short shelf life of the products, branding and other product differentiation options are not always pursued. A

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look at table3 showed the quick growth in the number of chinchin makers across the country. This list is supposedly conservative as there are a number of unregistered and informal sector participants who cannot be captured in the number because of lack of registration of the business. These growths have been mainly through imitative competition. Chymat and queen's bite chinchin grew from happybite. Highclass owner was a former customer of chymat. Queen's bite owner was a former customer and neighbor of happybite. The list of these continuous proliferation continues. Recently, this development can be seen to be playing out in a local bread substitute product, bread buns (see point (e) in figure 1). Within a span of 30years, the chinchin and bread buns market has bifurcated and branched into many firms. For instance, Chymat started from happybite after 15years but it only took highclass 3years to grow out from chymat in 2019.

**Table3: Profile of chinchin and granules market in Nigeria**

| Year of Entry | No of participants |
|---|---|
| 2000 | 8 |
| 2005 | 13 |
| 2010 | 16 |
| 2015 | 21 |
| 2020 | 26 |
| 2021 | 22 |
| 2022 | 34 |
| 2023 | 41 |
| 2024 | 43 |

Source: Compiled

## II. Further Discussions

A look at table 4 shows the distributive pattern of three leading chinchin/granules brands in Nigeria. Over 75% of all of the deliveries are made by the firms themselves (company delivery). These decisions have been informed by experience gathered by the firms over the operations. In developing economies, there is always existence of idle and surplus laboursupply which become very available for the imitating and duplicating businesses.The cross correlations ratio between company self-collection and competitiveness is significant, large and strong for all the firms. This factor is a reason why most manufacturing firms house their own delivery system.The risks arise because of the increasing competition and difficulties for business survival globally. By examining the practice of self-collection among a group of related confectionary businesses, it was observed that rise in competition trigger competitor's probing into rival operational environment. Being a major precursor for imitative competition, firms who allowed greater percentage of customers to self-collect faced greater competition risks than those that deliver directly to their customers. Incumbent firms face greater challenge in fully optimizing gains from major innovation as the barrier of entry into the market increases. This factor account as part of the reason many firms rarely grow into generational businesses.

**Table 4: The distribution profile of some selected chinchin firms**

| Minimie | | Happybite | | Phocus | |
|---|---|---|---|---|---|
| Self-collection | Company Delivery | Self-collection | Company Delivery | Self-collection | Company Delivery |
| 5% | 95% | 23% | 77% | 15% | 85% |
| Cross correlations | | | | | |
| Self-collection | Company Delivery | Self-collection | Company Delivery | Self-collection | Company Delivery |
| 72 | | 69 | | 76 | |

**Source: Computed**

## III. Conclusion

Self-collection is a major policy that companies adopt along their growth life. In the main, firms resort to self-collection at the early stage of the business to reduce the huge financial burden that is required from companies having to deliver good by themselves to all the customers. However, along the line, and in order to be able to reach far and penetrate wider markets, company delivery is always resorted to in the long run. When company deliver good to customers themselves, they are able to establish wider access to the market, keep good oversight on their customers, sustain loyalty as well be able to keep unintended exposures of their firm's operation from the public space. This study argued that self-collection is a major precursor and motivation for the growing imitative competition in the confectionary market in Nigeria. It draws on the strong correlation between firm's competition and delivery mode.The

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competition in the chinchin and confectionary market is based on price and quality of products. New entrants enter mainly by undercutting market prices, though with lower chances of retaliatory price response. A new entrant into the market is not likely to face major barriers on entry and this give room for more entry into the market in the short run. This development may suggest the reason for a high level of incumbent inertia in the market.This factor account as part of the reason many small firms rarely lead radical innovation and growth in the market.

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