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Demand-side strategy and business models: Putting value creation for consumers center stage

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Value creation for consumers, as the *conditio* sine *qua non* for value capture, is at the heart of demand-side strategy research and is a core element of almost any business model. In this paper, we discuss the unique ideas that demand-side strategy and business model research jointly contribute to the strategy literature, and we elaborate on the potential for cross-fertilization between both areas of study. We argue that both the demand-side perspective and the business model concept could jointly promote a better understanding of strategy-making by mutually relying on the distinctive insights from each stream; specifically, while research on demand-side strategy can help business model scholars gain a more robust and granular understanding of effective value propositions, business models can serve as a "bridging concept" that links the shared ideas of both areas of study to resource-based streams of strategy research.

Entrepreneurship is the pursuit of opportunity, without regard to resources currently controlled.
Howard Stevenson

Introduction

Howard Stevenson generally responds to entrepreneurship students who say they have found an opportunity, yet have insufficient resources to pursue it, by noting that: "What's stopping them is that what they've got is not truly an opportunity—it's a bad idea" (Harmeling, 2003: 5). Indeed, good new ideas that create consumer value draw resources, while bad new ideas (generally) don't. Thus, the initial issue facing nascent entrepreneurs and established executives alike is how they can develop a new idea that offers improved or different benefits for a particular segment of consumers (Priem, 2007). Of course, one can simply copy another's successful value proposition, as Lyft and Didi did following Uber's success, or as Taobao and others did after eBay. Alternately, one can transfer a successful idea from one setting to another, as the Subway sandwich chain learned when others used Subway's "build it by allowing consumers to participate in selecting ingredients" method in multiple new, fast-casual restaurant chains specializing in everything from pizza, to pasta, to Mexican and Asian cuisines. These transfers of value-creation ideas to other settings both increased consumer benefits and reduced firm risk, since the core idea already had been at least partially tested. Yet these businesses each were spurred by a single, foundational "good" new idea; i.e., value was created *before* these businesses could capture it (see Priem, 2001, 2007). Therefore, Stevenson's "good" new idea—a benefit-generating consumer value proposition—is a prerequisite in explaining firm success.

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This shows why demand-side strategy and the business model concept are such important topics for entrepreneurship and strategy scholars. While mainstream strategy research centers on value capture for the firm, both the demand-side and business model streams highlight the strategic relevance of consumers and the importance of creating value for them (e.g., Chesbrough and Rosenbloom, 2002; Demil et al., 2015; Priem, 2007; Priem et al., 2012, 2013; Zott et al., 2011). Value creation focuses on increasing benefits to consumer segments, while value capture focuses on profitable delivery (Priem, 2007; Teece, 2010). In this short paper, we discuss the unique ideas that research on demand-side strategy and business models jointly contributes to the strategy literature, and we elaborate on the potential for cross-fertilization between these areas of study.

We begin by providing an overview of demand-side strategy research and its key characteristics. Specifically, we explain that demand-side research highlights the strategic relevance of giving focused consideration to consumers—and their dynamic, heterogeneous, endogenous, and, at times, latent needs—by: (a) looking downstream in a value chain toward product markets, rather than upstream toward factor markets; (b) focusing on value creation rather than value capture; and (c) exploring new demand-side strategies, instead of mapping resource-based factors on firm performance (Priem, 2007; Priem et al., 2012). Against this backdrop, we elaborate on the uniqueness of the business model concept and on its convergence with the demand-side perspective in strategy (Priem et al., 2013). Each of these literatures highlights the central role of value creation (e.g., Massa et al., 2017; Priem et al., 2013; Zott et al., 2011), which the mainstream strategy literature does not equally consider (Adner and Kapoor, 2010; Nickerson et al., 2007; Priem and Butler, 2001a, 2001b). Therefore, each contributes to bringing the consumer back into the strategy literature (e.g., Demil et al., 2015; McGrath, 2010; Priem et al., 2013). Then, we highlight potential areas of cross-fertilization. Specifically, we argue that demand-side strategy research may benefit business model research by developing a more robust and granular understanding of effective value propositions. In turn, because the business model concept extends beyond firm boundaries by looking *both* upstream toward factor markets *and* downstream toward product markets and consumers, it can become an important "bridging concept" (Floyd et al., 2011) that links resource-side and demand-side strategy research, thereby contributing to a more holistic understanding of strategy-making. This is why demand-side strategy scholars and business model scholars can make mutually reinforcing discoveries, and why examining the interactions among firms and consumers in these processes can strengthen the usefulness of business models as a bridging concept.

We define our terms early on, because demand-side and business model scholarship both draw upon strategy, economics and marketing—literatures with differing lexicons. A *value system* (Porter, 1985) consists of those activities, usually performed by a series of firms, which transform raw materials into products or services for end users. *Consumers* are end users, whereas intermediate, B2B purchasers in a value system are *customers* but are not consumers. *Value creation* from a value system is determined by consumers' expectations of the benefits they will receive from a purchase, represented by willingness-to-pay (WTP). Absent perfect price discrimination, consumers will retain some *consumer surplus,* because payments to the value system will be less than aggregate WTP. *Value capture* by any individual firm, however, is determined by the resource ownership and power structure in the value system, and by individual firms' costs structures and negotiating skills (see Bowman and Ambrosini, 2000, 2001; Priem, 2001, 2007). *Resource-based view* (RBV) strategy research typically predicts an individual firm's value capture based on firm resources and upstream factor markets, eschewing consumer demand and heterogeneity issues. *Demand-side* strategy research instead looks externally toward consumers, downstream from the focal firm, to explain and predict those managerial decisions that increase value creation for the entire value system. Therefore, demand-side research is concerned first with a value system's or firm's total value creation (Priem, 2007), rather than with value captured by firms or industries (Barney, 2001; Porter, 1985).

Demand-side strategy

The most recent review of demand-side research—focusing on technology innovation, entrepreneurship and strategic management—was provided by Priem et al. (2012). Their review highlighted a number of articles from the demand-side that produced what previously would have been considered to be counterintuitive findings. Adner and Snow (2010), for example, showed that when the customers of a dominant incumbent are themselves heterogeneous with respect to their end consumers' needs, the dominant incumbent need not follow the usual strategy of responding to a disruptor's innovation in kind. Instead, the best strategy may be to specialize in providing and improving the current, less-advanced technology to a smaller set of customers when consumer heterogeneity indicates that the innovation's key benefits are unnecessary or too costly for a large enough consumer segment. Ye et al.'s (2012) work focused on demand-side synergies available through diversifications that serve the same consumer. The key feature of their study is that sustainable competitive advantage can be obtained for targeted consumer segments through multi-product, demand-side synergies, even when the resources used are widely available.

Table 1
A comparison of demand-side strategy and resource-based strategy perspectives.

	Demand-side strategy	Resource-based strategy
Predominant focus	Downstream: Toward product markets	Upstream: Toward factor markets
Primary unit of analysis	Value creation	Value capture
Main explanandum	Demand-side innovation strategies targeting heterogeneous consumers	Heterogeneous, resource-based drivers of firm performance

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