



# Demand-side Perspectives in International Business: Themes and Future Directions



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## ABSTRACT

Demand-side perspectives represent a burgeoning research area in the fields of technology innovation, entrepreneurship and strategic management, yet are only at an early stage in the field of international business. Demand-side research looks outside the focal organization toward consumers and product markets to explain managers' strategic decisions – decisions that increase value created within a value system by emphasizing: consumer benefits experienced; thematic similarity (i.e., products and services that are used in performance of the same activity); value systems/ecosystems rather than a single focal organization only; and value creation for consumers rather than value capture for a firm. Demand-side research can be valuable for expanding the strategic actions available to multinational organizations and international social enterprises by integrating geographical expansion and business diversification in ways that can create the most value for heterogeneous end users both across and within national boundaries. This adds conceptual complexity to the international business field by raising international consumer issues to the strategic level – with, for example, investments in mergers and acquisitions and strategic alliances – rather than the more typical single-business or functional marketing levels. This added complexity has the potential to extend international business theories in new ways.

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## 1. Introduction

Globalization, companies' increasing emphasis on innovation, and fast-paced introductions of new technologies have encouraged companies to: search for technologies anywhere in the world (Doz et al., 2001), develop technologies in emerging economies (Immelt et al., 2009), and manage innovation internationally (Adner, 2012). International business researchers therefore have begun to examine research questions such as: "How do multinational organizations access knowledge distributed across consumer groups and different countries?" (e.g., Wilson and Doz, 2011); "How does collaboration with suppliers and consumers facilitate value creation through innovation in an interconnected world?" (Autio and Thomas, 2014); and "What are the effects of innovation on internationalization?" (Zeng and Williamson, 2007). These advances notwithstanding, although nascent demand-side approaches to value creation represent growing areas in the fields of technology innovation, entrepreneurship, and strategic management (Priem et al., 2012), demand-side research remains at a very early stage in the international business field (Gulati et al., 2012).

Demand-side studies in other disciplines have begun answering key questions such as how consumer demand may influence innovation decisions (e.g., Fontana and Guerzoni, 2008; Sawhney et al., 2005; Tripsas, 2008), and how consumer-focused strategies influence value creation and appropriation in the realms of entrepreneurship and corporate strategy (Adner and Snow, 2010;

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Gruber et al., 2008). In the strategy field, for example, demand-side research has countered the prevailing wisdom by showing: that mundane, readily available assets can be combined in ways that create synergistic and sustainable value for consumers (Ye et al., 2012), and that an innovation can expose buyer heterogeneity such that the dominant incumbent's best strategic response may be to *not* try to match the innovator (Adner and Snow, 2010). International business research from the demand-side perspective may similarly contribute to a more complete understanding of how demand characteristics, together with new strategic actions of organizations within innovation ecosystems, may influence internationalization. This line of research can enrich the international business field.

In this article, we first highlight the essential characteristics of demand-side perspectives. Next, we describe demand-side themes in the current international business literature, based on our review of recent publications. Finally, we highlight the articles in this special issue and suggest directions forward for demand-side research in international business.

## 2. Demand-side perspectives

Demand-side perspectives typically emphasize the following themes: (1) product markets and consumers rather than factor markets and resources; (2) value creation rather than value capture; (3) value systems/business ecosystems instead of the focal firm only; and (4) thematic similarity rather than taxonomic similarity. We address these themes in the next sections. Before proceeding, however, we must make one key distinction; demand-side research differs from typical marketing research in the following ways. Demand-side research is at the corporate or business level, whereas marketing research is typically at the functional level. Demand-side research examines how major strategic moves like vertical integration and inter-industry diversification can provide a consumer-based competitive advantage, whereas marketing research might instead examine how within-industry product assortments might attract differing consumer types (e.g., Messinger and Narasimhan, 1997). Sometimes these distinctions can be quite subtle, but in many instances they are quite clear. For example, “the late mainframe computer manufacturer Control Data Corporation acquired Commercial Credit Corporation and General Motors established General Motors Acceptance Corporation for the same reasons. These large companies pursued inter-industry diversification to create new value for their customers by streamlining the buying experience while also providing the firms with more value-capture flexibility when negotiating ‘bundled’ prices” (Priem et al., 2012: 348). Clearly, these were demand-side driven strategic actions which exemplify the distinction between demand-side approaches at the corporate or business level versus marketing approaches at the functional level.

### 2.1. Consumers and product markets

Demand-side research looks outside of the focal organization toward users/consumers and product markets, instead of looking internally at resources or the producer-side only, to explain managerial decisions that increase value within a value system (Priem et al., 2013). Demand-side strategy prioritizes identifying consumer needs, which may be expressed or latent, ahead of resource acquisition. This type of strategy is interested in finding new or unmet consumer needs and then developing solutions that create value by serving those needs. Demand-side research also gives attention to consumer-driven business models and the knowledge creation that comes from the user-, consumer-, or demand-side (Priem et al., 2013). Among demand-side approaches, the perspective of “consumer benefits experienced” (Priem, 2007) examines demand-side strategies that firms can employ to create value for consumers. Consumers then are the arbiters of value because they endorse or reject the value of these innovations (Priem, 2007).

### 2.2. Value creation

Demand-side strategy focuses on creating value, irrespective of who captures it. Creating value that increases consumer surplus can be beneficial, because it helps the value system of which the firm is a part become more competitive. For the same reason, creating value for employees, suppliers, and local communities can be critical for strengthening the value system (Tantalo and Priem, *in press*). Companies such as Zipcar and Airbnb have created value for consumers by developing services that represent new solutions for consumers while encouraging a more efficient use of existing assets and serving as a buffer in times of peak demand for temporary transportation and accommodations (Weber, 2014). Value creation is essential for traditional for-profit organizations, but also for social enterprises, given their priority on value creation instead of value capture while they generate positive externalities and social wealth (Santos, 2012). Sometimes organizations must create value even when they do not know which participants in their value system will capture it.

### 2.3. Value systems

A value system (Porter, 1985) comprises primary and support activities performed by a series of organizations to generate products or services for end users. Demand-side strategy boundaries for value creation include all those participants in a value system that are necessary for long-term system survival and success. This includes all essential stakeholders and value chain members, as well as co-innovators and co-adopters necessary for success in the marketplace. Business ecosystems represent contexts in which the success of a value proposition depends on building an alignment of organizations that must work together in order to transform an idea into a practical success (Priem et al., 2013) in for-profit markets (Adner, 2012) or social entrepreneurship settings (Siqueira et al., 2014).

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