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Business model innovation: How the international retailers rebuild their core business logic in a new host country

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ABSTRACT

Although research into the business model has received increasing attention, few studies have so far been conducted on business model innovation in an international context. The purpose of the study is to identify different patterns of business model innovation which enables international retailers to rebuild their core business logic in new host countries. On the basis of comparing and contrasting the business model changes of 15 international retailers from various home countries to one single host country (China), our study provides an in-depth understanding of business model innovation in the context of international business. By looking at the firms' capabilities in rebuilding their core logic in the setting of a host country, we reveal six routes of retail business model innovation. Utilizing the lens of organizational learning theory and internationalization, we identify three patterns of resource deployment by international companies in the process of developing business model innovations. Our study, therefore, provides insights and guidance for multinational companies in general, international retailers in particular, as for how to successfully adapt their business model from home country to host country.

1. Introduction

Internationalization of the firm can be understood as an innovation decision process (Andersen, 1993; Johanson & Vahlne, 2009; Jones & Coviello, 2005). Moreover, the extant research suggests that organizational learning, innovation and internationalization are linked together in a complex way (Chiva, Ghauri, & Alegre, 2014; Eriksson, Johanson, Majkgard, & Sharma, 1997). Reflecting on the significant advancement in international business literature since the Uppsala internationalization process model first proposed by Johanson and Vahlne (1977), Forsgren (2016: 1139) called on further research to address how various “counteracting forces affect the shape and direction of the internationalization process”, such as relationships among players inside and outside the business network. We argue that research into business model innovation in the host country for MNEs will provide such new insights into internationalization process as business model innovation not only deals with views from the ‘supply side’ but also the ‘demand side’ (Massa, Tucci, & Afuah, 2017). This is important as noted by Rask (2014: 158) “An international perspective on business model innovation is rare in the literature but is a common phenomenon in business.” Rask (2014) further suggested that “internationalization through business model innovation involves the creation and

reinvention of the business itself”, which is an important part of internationalization process as described in the revised Uppsala model (Johanson & Vahlne, 2009).

Even though the literature has attempted to identify typologies of business models (Lee, Shin, & Park, 2012; Osterwalder, Pigneur, & Tucci, 2005; Pateli & Giaglis, 2005; Weill et al., 2011; Christoph Zott et al., 2011), very few are about business model innovation (Foss & Saebi, 2017; Schneider & Spieth, 2013), especially in the international context (Anwar, 2015; Zucchella & Siano, 2014). What becomes clear is that to understand business model innovation and the activity driven strategies from home to host country, there is a need to explore local contextual factors that impact on the business model and furthermore how these contextual variations affect the changes of the business model (Dunford, Palmer, & Benveniste, 2010). Dunford et al. (2010: 656) suggested that business model literature so far has paid much less attention to the specific details of processes whereby new business models are “discovered, adjusted and fine-tuned” in one given host country. Most of the studies have been cross sectional (for example, Calof & Beamish, 1995; Machado-da-Silva et al., 2001). There is call for a sharper focus such as within particular industries, for example, the retail industry (Massa & Testa, 2011; Sorescu, Frambach, Singh, Rangaswamy, & Bridges, 2011) and service-based companies (Castaño,

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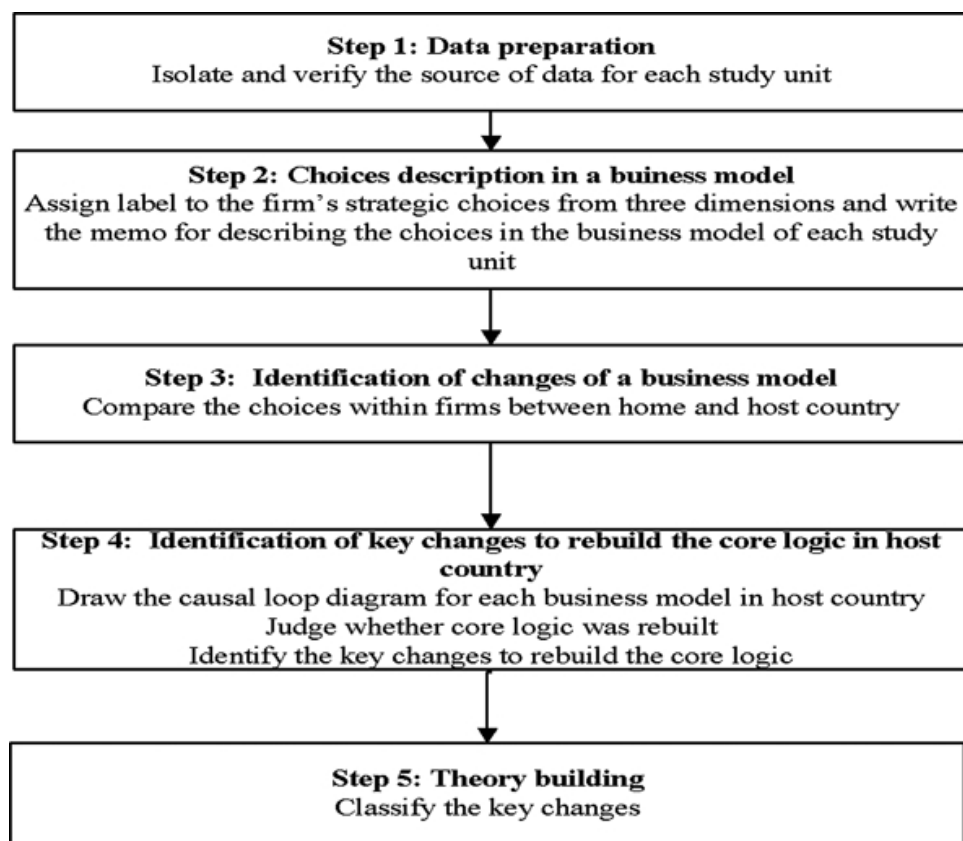


Fig. 1. Illustration of data analysis procedure.

Méndez, & Galindo, 2016; Kindström, 2010). The business model literature suggests that the process of business model innovation can be considered as an on-going learning process (Chanal & Caron-Fasan, 2010; McGrath, 2010; Sosna et al., 2010) with the need to consider what is known as double-loop learning (changing underlying values and assumptions) (Moingeon & Lehmann-Ortega, 2010). Given the close relationship between organizational learning, innovation and internationalization (Chiva et al., 2014), we believe using organizational learning as a framework to classify the different patterns of business model innovation in the international context provides a promising angle.

The business model in practice is a complex phenomenon (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002), understanding which in the international business context is more nuanced and challenging (Onetti et al., 2012). Therefore, more research especially those by multi-case studies are needed to investigate the best practice of business model innovation in the international context as called by Anwar (2015); Landau, Karna, and Sailer (2016), and Delios (2017).

A critical issue is that the transference of business models from home to host country does not itself guarantee success. Business model innovation arises from not only the interactions and shared learning between home and host organizations but a multiple set of actors from consumers, stakeholders and competitors (Landry, Amara, & Lamari, 2002; Zheng, 2010). These interactions create patterns of strategic behavior (Brass, Galaskiewicz, Greve, & Tsai, 2004; Kilduff & Tsai, 2003).

It, therefore, becomes important to mobilize two conjoined theoretical perspectives: internationalization, and organizational learning to address one neglected question. **What are the different patterns of business model innovation which enables international retailers to rebuild their core business logic in new host country?** We focus on the retail industry in one given host country for three reasons: **First**, as we discussed previously, the studies of business model innovation in the international context need to concentrate on a small number of industry segments and countries in order to control industry/segments

or country-specific differences (Landau et al., 2016; Schmid & Kotulla, 2011). **Second**, in contrast to the international manufacturing firms, the international retailers are more embedded into the local business environment and their practices encompass a broader range of activities as they seek to develop new ways for interacting with the local customers and the local suppliers (Currah & Wrigley, 2004; Dawson, 1994).

Thus, the retail setting provides a compelling context for observing how the firms conduct business model innovation in a new business environment. **Third**, the existing studies regarding international retailers' market operations often focus on the analysis of retail format or concept transfer strategies and adaption decisions (Swoboda, Zentes, & Elsner, 2009). However, this study adopts the concept of business model innovation which aims at consciously renewing a firm's core business logic rather than limiting its scope of innovation on single retail concepts or formats (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002). Thus, the choice of the retail industry setting enables this research to make contribution to international retailing. China is the largest, the fastest growing, and the most heavily engaged country in international trade and investment (Child & Tse, 2001) and in retail.

On the basis of comparing and contrasting the business model changes of 15 international retailers from various home countries to one single host country (China), our study provides an in-depth understanding of the business model innovation in the context of international retailing. By looking at the firm's capabilities in rebuilding core logic in the setting of a host country, we reveal six routes of retail business model innovation. Utilizing the lens of organizational learning theory, we identify three patterns of resource deployment by international companies in the process of developing business model innovations. Our study therefore provides insights and guidance for multinational companies in general, international retailers in particular, as for how to successfully adapt their business model from home country to host country.

In the remainder of the paper, first we review briefly the concepts

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