

# **MARKET INNOVATION: RENEWAL OF TRADITIONAL INDUSTRIAL NETWORKS**

Suvi Nenonen, Hanken School of Economics (Finland) &  
University of Auckland Business School (New Zealand), s.nenonen@auckland.ac.nz  
Kristian Möller, Aalto University School of Economics (Finland), kristian.moller@aalto.fi  
Kaj Storbacka, University of Auckland Business School (New Zealand), k.storbacka@auckland.ac.nz

**Abstract:** The study adopts a constructionist approach to markets, positing that markets are socially constructed human artifacts resulting from the actions and cognitive framing of the involved actors. The present research has three objectives: to develop a conceptual framework for categorizing managerial market definitions, to investigate empirically how practitioners frame novel markets, and to identify challenges which are associated with creating innovative market definitions in traditional industrial networks. The paper draws on data collected within an extensive research program, carried out between March 2009 and December 2010, consisting six academic research projects covering a wide range of theoretical backgrounds as well as interactions with 112 senior managers from 10 major firms in a series of 52 workshops. The proposed conceptual framework supplements the currently dominant product-based view to market definitions by positing that managers in industrial networks can also choose to define their markets based on (1) the firm's resources and capabilities, (2) the network's resources and capabilities, (3) customers' processes, or (4) end-consumers' practices. The results of the study also showed that the current product-based theories to markets influence managerial judgment as well: practitioners framed the vast majority of new market opportunities (73%) around the product or service being sold.

**Keywords:** market innovation, market definition, social construction, framing, traditional industrial networks

**Competitive paper**

## INTRODUCTION

This research posits that there are no objective markets ‘out there’ (Jenkins & MacDonald 1997) in which firms compete for positions and market share. Markets are increasingly seen as ‘socially constructed human artifacts’, created by the actors who populate a specific context and link resources within it (Granovetter, 1992; Krippner et al., 2004; Peñaloza & Venkatesh, 2006).

The constructionist perspective emphasizes the role of ‘market innovation’ as a key opportunity for renewal in traditional industrial networks. Geroski (1998:693) proposes that “thinking about market boundaries is important for a firm because redefining market boundaries is a fundamental part of the process of innovation”. According to the constructionist view the conception of markets, and consequently their boundaries, are results of the actions and cognitive framing of the involved actors (Callon, 1998; Araujo, 2007). By introducing new subjective market definitions through reframing processes firms influence the collective and continuous construction of markets. This performative action (Araujo, 2007) presumes the identification of relevant network(s) to participate in – both in terms of exploiting existing opportunities and exploring for new ones (March 1991, Möller & Svahn, 2009).

However, the extant marketing research provides little support in understanding the socially constructed markets. The majority of the marketing literature either neglects to define the market construct or implicitly adopts definitions from neoclassical economics where the market is defined around the product and its exchange value (e.g. Lusch & Vargo, 2006; Venkatesh, Peñaloza & Firat, 2006; Vargo & Lusch, 2008).

Thus, there is still only fragmented research using the constructionist approach for understanding markets and market innovation (Vargo & Lusch, 2008; Kjellberg et al., 2012) and the majority of this research has focused on the emergence of new markets or business fields. Therefore, the present research has three objectives:

1. To identify the basic dimensions or perspectives that managers are currently using when pursuing new potential market definitions and, based on these, to *develop a conceptual framework for categorizing managerial market definitions*,
2. To *investigate empirically how practitioners frame potential novel market*, and
3. To *identify challenges which are associated with creating innovative market definitions in traditional industrial networks*.

There are two reasons for focusing on a traditional or established industrial network context. Firstly, as pointed out, the relatively recent constructive market making research has primarily focused on emerging markets and consequently there is a real lack of knowledge on market innovation in mature industries. Secondly, since the mature industries are generally characterized by relatively established and ingrained network relationships, market innovations can be assumed to meet severe barriers in such a context. We seek to examine these barriers and suggest ways of overcoming them.

The paper draws on the data collected within an extensive research program addressing the innovation practices and opportunities within the Finnish forest cluster (RAMI Project – Radical Market Innovations), carried out between March 2009 and December 2010. Within the program,

market innovation opportunities were investigated via six research projects combining over 100 managers from 10 companies and researchers representing a wide range of theoretical backgrounds, including, e.g., industrial networks, practice theory, strategic management and cluster evolution, and management accounting. This paper attempts to synthesize the relatively eclectic findings.

Next, we describe the research process and the six research projects that provide the material to this study. Second, we synthesize the research projects' findings into a conceptual framework and discuss the proposed framework in the light of the existing literature. Third, we examine how practitioners frame novel markets and relate these findings to the proposed conceptual framework. Fourth, we describe the identified challenges in creating innovative market definitions in traditional industrial networks. Finally, we discuss the theoretical and managerial contributions as well as identify avenues for further research.

## **RESEARCH PROCESS**

The overview of the research process described in this section is two-fold. First, we describe the RAMI research program, forming the foundation of the present study in more detail. Second, we describe the process of synthesizing the findings of the RAMI program and the principles governing it.

### **RA**dical Market Innovations research program

The “RAMI: RA**dical** Market Innovations” research program was initiated and financed by the Forestcluster Ltd., one of the six strategic centres for science, technology and innovation in Finland, owned by key companies in the forest cluster and main research institutes and universities in Finland (for overview, please see <http://fibic.fi/about-fibic>; [http://fibic.fi/wp-content/uploads/2012/07/Forestcluster\\_prev1.pdf](http://fibic.fi/wp-content/uploads/2012/07/Forestcluster_prev1.pdf)). The objective of the RAMI program was to support the Finnish forest cluster companies to produce radical innovations outside their current core businesses.

The RAMI program consisted of six academic research projects that involved altogether 28 researchers from Finland and Sweden. The overall research project themes were selected by the Forestcluster Ltd. in an iterative process involving the board and the research committee of Forestcluster Ltd. as well as the steering group of the RAMI program. After the overall themes of the RAMI program were defined, the more precise research questions of each research team were defined in cooperation with the representatives of the Forestcluster Ltd. and the leaders of the academic research projects. The leaders of the academic research projects, however, had a substantial freedom in selecting their research methods and appointing the research team members. The research projects and their research questions are described in Table 1.

**Table 1.** Overview of the research projects in the RAMI program

	Theme	Research questions
1	Base of the pyramid	<ul style="list-style-type: none"> <li>• Examine consumer practices in Base of the Pyramid (BOP) markets (disposable income under 5€/day) related to packaging, mass communication, and primary education</li> <li>• Identify and describe best practice BOP business models</li> <li>• Describe BOP markets and their trends</li> <li>• Identify opportunity spaces for the Finnish forest cluster</li> </ul>
2	Capabilities and forest cluster evolution	<ul style="list-style-type: none"> <li>• Map the capabilities that the forest cluster companies possess and potential capability gaps</li> <li>• Analyze strengths and weaknesses of Finnish-based forest companies compared to international competitors</li> <li>• Describe how and why capabilities interact with cluster evolution</li> <li>• Investigate how capabilities enable (and hinder) innovation and renewal</li> </ul>
3	Customer processes and cost structures	<ul style="list-style-type: none"> <li>• Analyze customers' revenue and cost structures</li> <li>• Identify key processes that drive firm performance</li> <li>• Map activities and identify critical interdependencies</li> <li>• Explore potential innovation opportunities for the Finnish forest cluster</li> </ul>
4	Multimedia evolution	<ul style="list-style-type: none"> <li>• Analyze multimedia behavior of young people using electronic media and print media</li> <li>• Identify different reading profiles and their behavior regarding different media choices</li> <li>• Identification of trends related to media consumption</li> </ul>
5	Paper in practice	<ul style="list-style-type: none"> <li>• Study ethnographically office work and the use of paper</li> <li>• Investigate the historical evolution of everyday practices related to paper</li> <li>• Develop scenarios of future consumers and consumption</li> </ul>
6	Value networks	<ul style="list-style-type: none"> <li>• Analyze and map of the value networks and business models of the packaging industry, as well as the mental models of industry's leaders and experts</li> <li>• Analyze benchmark cases that represent successful value system innovations outside the forest industry</li> <li>• Explore potential for new value-system innovations in the Finnish packaging industry</li> </ul>

In addition to the academic researchers, the RAMI program involved a total of 112 senior managers from 10 major firms within the Finnish forest cluster. The intermediate and final results of the six academic research projects were discussed with the practitioner participants in a total of 52 workshops ranging from project-specific sparring sessions with selected industry representatives to large-scale seminars and innovation workshops.

Each of the authors participated in the RAMI program in different and distinct roles. One of the authors was the program manager of RAMI, overseeing the development of all six academic research projects and participating in the majority of the workshops. Another author was involved with the RAMI program as a member of the program steering group and a facilitator of the seven largest seminars and workshops. The third author was the project leader of one of the academic research projects.

### **The process and principles of synthesizing the findings**

The research process synthesizing the findings of the RAMI program focused on interpretation and reflection instead of data collection and processing (Alvesson & Skoldberg, 2005). The research process was abductive in nature, combining induction and deduction in a non-linear, non-sequential iterative process (Dubois & Gadde, 2002; Locke, 2010).

Abductive reasoning is particularly suitable when pursuing theory development; refining existing theories instead of inventing entirely new ones (e.g., Dubois & Gadde, 2002; van Echtelt et al., 2008). This approach, an interaction with the theoretical and empirical elements was enabled by the extensive collaboration between managers and researchers. The entire research process, including both the RAMI program and the following synthesis phase, extended over a period of four years. This allowed sufficient time for the reflective process, aimed at considering and combining elements in to detect emergent patterns, and develop further the constructs used to portray reality (Eisenhardt, 1989).

The process of synthesizing the findings of the RAMI program was divided in three phases. During the first phase, the authors familiarized themselves individually to the project reports and final seminar presentation materials of all six research projects. These materials consisted of six Word documents, totaling of 613 pages, and ten PowerPoint documents, totaling of 645 pages. Over the course of the second phase, the authors shared their findings with each other, discussed them in the light of the extant literature, and created a first version of the conceptual framework. The third phase of the synthesizing process consisted of the writing of the research report, during which the reflections between the empirical findings and existing theories continued. All three authors were active participants throughout the synthesizing process and the conceptual developments were created collaboratively.

The process of synthesizing the rather large set of empirical data was governed by explicitly defined principles; drawing from criteria commonly used in interpretive research and grounded theory (see also Flint, Woodruff, & Gardial, 2002). Drawing on Lincoln and Guba (1985), Miles and Huberman (1994), Spiggle (1994), Strauss and Corbin (1990), Wallendorf and Belk (1989), four main principles were selected: Pre-understanding, dependability, conformability, and integrity.

Pre-understanding, defined as the extent to which the researchers are familiar with the empirical phenomena, was gained through authors' long-term academic experience in the area of B2B marketing. Additionally, all authors were involved in the RAMI program, ensuring first-hand exposure to the empirical material. Finally, all authors have been involved in business development projects closely related to the topics of the present research, either through applied research projects or consulting assignments.

Dependability, defined as the extent to which there is consistency of explanations, and conformability, defined as the extent to interpretations as subject to researcher biases, were improved through triangulation (Denzin, 1978; Stake, 1995; Creswell & Miller, 2000). During the synthesizing process, three forms of triangulation were used: (1) data triangulation (the empirical data in the six underlying research projects was collected through several sampling

strategies, at different times, in different social situations and contexts, and from various firms), (2) methodological triangulation (various methods were used, ranging from bibliometric studies and quantitative content analyses of secondary data to ethnographic observations and case studies), and (3) investigator triangulation (all three authors were involved in interpreting the data).

Integrity, defined as the extent to which interpretations are influenced by misinformation from the participants, was supported by the fact that all the companies and the individual managers participated in the RAMI program as they felt that this particular program is beneficial for their businesses. Additionally, the in-depth academic research projects were all conducted in a non-competitive environment, ensuring that no competing companies were sponsoring the same projects. Finally, all the interviews were anonymous and the workshops were participative in nature, encouraging the industry representatives to express their true views.

### **CONCEPTUAL FRAMEWORK FOR CREATING INNOVATIVE MARKET DEFINITIONS**

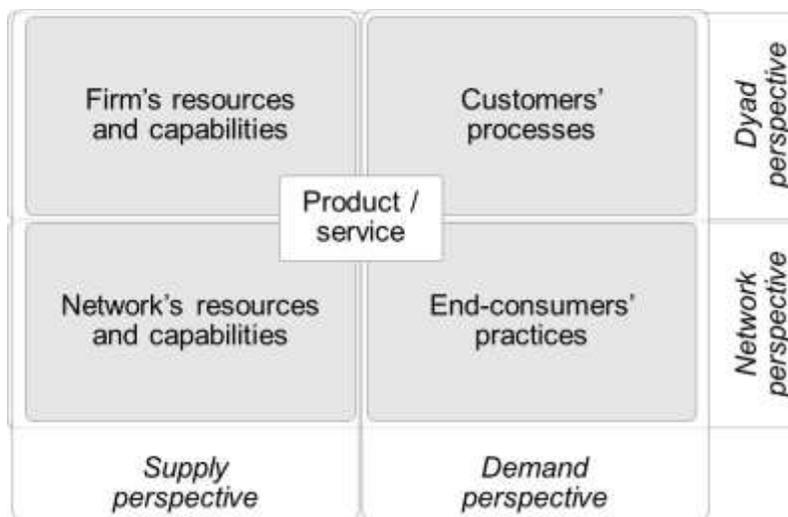
Based on the synthesizing process described in the previous section, and building on Zook (2007), the authors concluded that innovative market definitions in firms operating in traditional industrial networks can be classified using two dichotomies in market definitions: supply vs. demand perspective, and dyad vs. network perspective.

In the current literature, markets are usually defined employing either supply-side or demand-side characteristics. Most of marketing literature has adopted a demand-oriented view, i.e., by taking customers as the focal unit of analysis and defining markets in terms of segments of customers (cf., Clarke & Freytag, 2008; Sausen, Tomczak & Herrmann, 2005; Shapiro & Bonoma, 1984). Jenkins and MacDonald (1997) critique this demand-oriented approach and propose that market definitions should be closely linked to specific supply characteristics, such as firm capabilities and the nature of the organization. In order to reconcile the supply and demand oriented views to markets, Geroski (1998) and Datta (1996) argue for integrating demand and supply side factors into market definitions that reflect simultaneously both these viewpoints.

Continuing the tradition set forth by the neo-classical economics, the majority of the extant marketing literature implicitly adopts a dyadic view of the markets: There is a 'supply' provided by the providers and there is a 'demand' created by the customers. However, some researchers argue that such a dyadic view on the markets is limited and wider network perspective is needed. For example, Henneberg, Mouzas and Naude (2010) argue for a segmentation of business networks instead of segmentation of only customers.

Combining these 'supply vs. demand' and 'dyad vs. network' dichotomies creates a conceptual framework consisting of four alternative routes to surpass the traditional product-based view of markets and create market definitions based on: (1) firm's resources and capabilities, (2)

network's resources and capabilities, (3) customers' processes, and (4) end-consumers' practices. Figure 1 illustrates the proposed conceptual framework.



**Figure 1.** Conceptual framework for creating innovative market definitions

The *firm's resources and capabilities* view approaches market definition from supply-side and dyadic perspectives. Managers adopting this thinking seek to define markets through the resources and capabilities that a firm possesses. Depending on the firm's resource and capability base, it can operate on, e.g., 'paper production' or 'fiber know-how' markets. Theoretically, this view is obviously intimately linked to the resource-based view of the firm and its capability extension (Wernerfelt, 1984, 1994; Barney, 1991; Teece, 2007), which defines the firm and explains the performance differences among firms based on their resource and capability endowments. Some marketing scholars have also adopted this view to market definition. For example Jenkins and MacDonald (1997) advocate for market definitions and segmentation models building on the capabilities and the nature of the firm. More recently, it has been shown that firms' resources and capabilities are based on managers' behavioral and cognitive practices (Danneels, 2010). This further supports the relevance of the constructionist perspective in understanding markets and market innovation.

The *network's resources and capabilities* view of markets also approaches market definitions from the supply-side characteristics, but it expands the analysis level from the individual firm's resource and capability base to the resources and capabilities in the firm's network. The markets-as-networks approach (e.g. Mattsson, 1997; Brennan, 2006; Johanson & Vahlne, 2011), developed within the IMP Group, focuses on the actors, resources and activities in industrial networks and proposes that this network system can be perceived as a market. Gadde, Huemer and Håkansson (2003) continue this line of thinking as they call for strategizing in industrial networks and propose that firms can enhance their performance by creatively investigating their network and continuously seeking to combine and recombine existing resources to create new resource dimensions. In a similar vein, Normann and Ramirez (1993) argue that the key task of a

strategy is to reconfigure the value creating system or the value constellation in which the firm is embedded in to create more value. There is, furthermore, research which indicates that among intentionally designed coalitions of firms, so-called strategic nets (Möller, Rajala & Svahn, 2005), the actors can jointly create shared cognitive views about the network and network strategy lending support to the networked-based market innovation approach (Knight, 2002; Möller & Svahn, 2006; Partanen & Möller, 2012).

The *customers' processes* view of markets switches the perspective to market definitions from supply to demand perspective and approaches this by focusing on the immediate customers of the industrial firms. Already in the 1970's, Peter Drucker crystallized this viewpoint to markets: "To satisfy the customer is the mission and purpose of every business" (1973, p. 79). Later, the same line of thought was developed into the customer value based theory of the firm by Slater (1997). Thus, under this view the firm can define its market based the value creating processes of its customers. Depending on the context, the firm can choose to serve, e.g., the "product development" or "efficient logistics" markets. Theoretically, relationship marketing (cf. Berry, 1983; Grönroos, 1994; Payne, Storbacka & Frow, 2008) has investigated extensively the value-creating processes of the customers and how providers can support customers' value creation. Moreover, this view to markets is also closely linked to the service-dominant logic that proposes that service is the fundamental basis for exchange and the value of this service is always uniquely and phenomenologically determined by the customer (Vargo & Lusch, 2004; Vargo & Lusch, 2008).

The *consumers' practices* view of markets also approaches market definitions from the demand perspective, but it looks beyond the dyadic B2B customer relationships to end-consumers and their value-creating practices. Even though defining the market for an industrial B2B firm through the value creating processes of the end-consumers may seem far-fetched, some companies such as Intel have successfully adopted this approach. Intel has business units focusing e.g. on 'digital home' and 'ultra-mobility' markets (<http://www.intel.com/corpInfo.cfm>). Theoretically, practice theory (Reckwitz, 2002; Schatzki, 2001) provides a valuable view to understanding end-consumers' value-creating practices. The concept of practice is not linear (like many process descriptions) and it extends the unit of analysis to the system fostering action, including all relevant subjective and objective elements. Thus practices are especially beneficial in analyzing contextual, mundane, subjective and sometimes even partially sub-conscious value creation of consumers (Shove & Pantzar, 2005; Korkman, 2006). In the industrial network context, Helgesson and Kjellberg (2009) have adopted a practice-oriented view when they have investigated the 'use' as the core construct in understanding both the user and the objects being used. In the business-to-consumers context, the consumer culture theory has investigated extensively consumer practices as social and cultural phenomena (cf., Arnould & Thompson, 2005; Featherstone, 2007).

In addition to the above-described, more innovative views to defining markets, the bulk of the extant literature defines markets based on the *product* to be sold and its exchange value (e.g., Lusch & Vargo, 2006; Venkatesh, Peñaloza & Firat, 2006; Vargo & Lusch, 2008). Since 1970's, the product-geography matrix has been the most common way for practitioners to define their markets (Boardman & Vining, 1976), even though concerns have been voiced that the framing processes based on products and geographies can lead firms to miss opportunities in the

adjacencies (Rothschild, 1984; Zook, 2007). The dominance of product-based market definitions are supported further by the fact that most industry statistics are created for product markets, often for purposes related to national economics and/or the enforcement of anti-trust legislation (Geroski, 1998). Furthermore, also the independent market research agencies tend to investigate markets defined based on products.

## MANAGERIAL FRAMING OF MARKET INNOVATIONS

After the academic research projects of the RAMI program were finalized in May 2010, four two-day innovation workshops were organized in June-August 2010 to discuss the research findings and to use these research results as a platform to identify new growth opportunities for the Finnish forest cluster outside its current core business. The research projects covered and the number of participants in each innovation workshop is described in Table 2.

**Table 2.** Innovation workshops in the RAMI program

	Research projects discussed	Date	Participants
1	Base of the pyramid	June 8-9, 2010	<ul style="list-style-type: none"> <li>• 16 manager practitioners</li> <li>• 4 members of the research team</li> <li>• 1 student</li> <li>• 2 employees of Forestcluster Ltd.</li> <li>• 5 facilitators (not involved in identifying or describing new growth opportunities)</li> </ul>
2	Customer processes and cost structures	June 15-16, 2010	<ul style="list-style-type: none"> <li>• 19 manager practitioners</li> <li>• 1 student</li> <li>• 2 employees of Forestcluster Ltd.</li> <li>• 5 facilitators (not involved in identifying or describing new growth opportunities)</li> </ul>
3	Multimedia evolution & Paper in practice	August 19-20, 2010	<ul style="list-style-type: none"> <li>• 17 manager practitioners</li> <li>• 3 members of the research teams and 3 other researchers</li> <li>• 1 student</li> <li>• 2 employees of Forestcluster Ltd.</li> <li>• 5 facilitators (not involved in identifying or describing new growth opportunities)</li> </ul>
4	Capabilities and forest cluster evolution & Value networks	August 24-25, 2010	<ul style="list-style-type: none"> <li>• 24 manager practitioners</li> <li>• 4 members of the research team and 1 other researcher</li> <li>• 2 students</li> <li>• 2 employees of Forestcluster Ltd.</li> <li>• 5 facilitators (not involved in identifying or describing new growth opportunities)</li> </ul>

Each of the innovation workshops unfolded in a similar manner. During the first day, the workshop participants (excluding the facilitators) were divided into teams of three to familiarize themselves with the research results and to brainstorm possible new growth opportunities for the Finnish forest cluster outside its current core business. The total number of these “first day” ideas

from all four innovation workshops amounted to 2,323. After the first day, the facilitators categorized the identified ideas (ranging between 477 and 800 ideas per workshop) into four to six groups. The categorization was done following the tradition of grounded theory (Glaser & Strauss, 1967), i.e., the facilitators coded the ideas and then grouped them into similar concepts and categories. During the second day, the participants were divided into four to six groups, depending on the number of emerged idea categories, and asked to synthesize and develop the individual ideas further into more detailed idea descriptions. The total number of the detailed idea descriptions derived from the four innovation workshops was 146.

Since there were some overlapping ideas generated during the innovation workshops, in October-November 2010 two separate teams consisting of four and seven practitioners respectively re-categorized the 146 detailed idea descriptions and developed them further. After this synthesis phase, the number of truly individual ideas for new growth opportunities for the Finnish forest cluster amounted to 126. Each of these 126 ideas has been described from four different viewpoints:

- What is the main idea behind the identified growth opportunity,
- Which actors could turn this idea into a viable business or new market,
- Which actors could be potential customers in this new market, and
- What are the main benefits associated with the growth opportunity.

Additionally, the 126 ideas have been assessed by the 11 practitioners involved in the October-November synthesis phase from five different viewpoints: direct or indirect business potential for the Finnish forest cluster, level of “radicalism”, level of challenges or risks, speed of realization, and which actors should be responsible for turning the idea into reality.

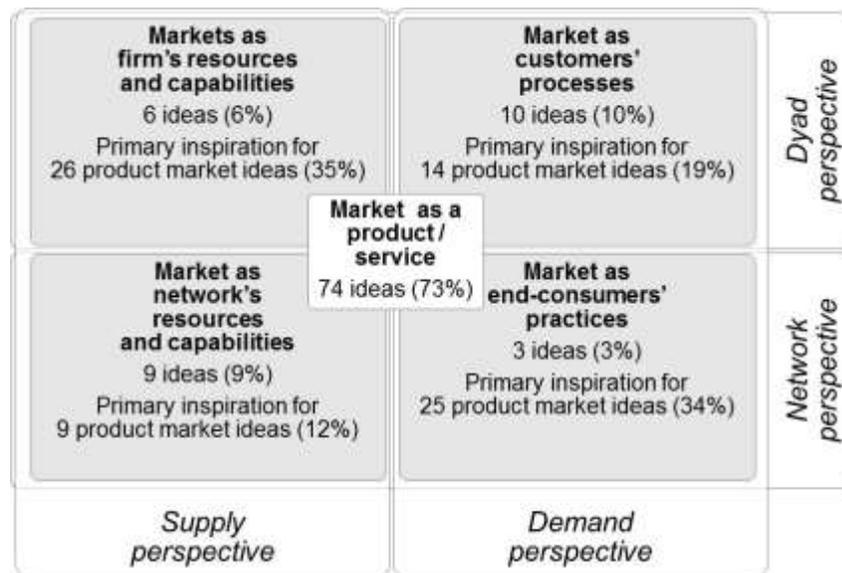
After this, researchers investigated the resulting 126 ideas for new growth opportunities and analyzed them using the proposed conceptual framework for defining markets in an industrial network context (illustrated in Figure 1). First, the researchers investigated whether the proposed growth ideas could be classified as markets, i.e., did they hold potential for monetary exchange resulting into cash flows to the forest cluster firms. It was concluded that 24 of the identified growth opportunity ideas did not meet this criteria of a market, and thus they were removed from the data set to be analyzed. Second, the researchers categorized the remaining 102 ideas for new growth opportunities into prospective markets that were defined around (1) a product or service, (2) firm’s resources and capabilities, (3) network’s resources and capabilities, (4) customers’ processes, or (5) end-consumers’ practices.

The vast majority (74 ideas out of 102 / 73%) of the ideas were classified as product or service markets. Examples of these product or service market ideas were for example “see-through cardboard”, “modular school building”, or “print-it solar cells”. The second most common category (10 ideas / 10%) was markets defined around customers’ processes. Examples of these market ideas were for example “water recycle for efficient water purification”, “reforestation”, and “utilizing toilet waste to energy and fertilization”. The third category (9 ideas / 9%) was markets defined around network’s resources and capabilities, with examples such as “paper products flagship store chain”, “EasyPrint global print-shop network”, and “closed-loop recycling integration”. The fourth, and the second most uncommon, category (6 ideas / 6%) was markets defined around firm’s resources and capabilities. Examples of this category include

market ideas such as “pharmaceutical products from forestry raw materials”, “water technology”, and “new raw material sources for bio-energy business”. The most uncommon (3 ideas / 3%) category was markets defined around end-consumers’ practices. Ideas in this category included for example “water solutions for households to decrease water usage” and “local content (creation for local media)”.

Due to the dominance of product market ideas, the researchers decided to analyze these ideas in more detail and to investigate which of the four proposed routes to surpass the product-based market definitions (i.e., firm’s resources and capabilities, network’s resources and capabilities, customers’ processes, and end-consumers’ practices) was the main influence behind each product market idea. This analysis was based on the idea description documents that were written for each idea during the synthesis phase. Based on this analysis, the majority of the product market ideas (26 out of 74 / 35%) were classified as being inspired primarily by firm’s resources and capabilities. Interestingly, the second most commonly detected influence behind the product market ideas (25 ideas / 34%) was end-consumers’ practices, followed by customers’ processes (14 ideas / 19%) and network’s resources and capabilities (9 ideas / 12%).

The results of the above-described analysis of managers’ framing of innovative growth ideas outside the current core business are summarized in Figure 2.



**Figure 2.** Managers’ framing of RAMI growth ideas as markets

The results of the analysis indicate that the most common and intuitive way for managers to frame markets is to define them through the product or service being sold – even if the discussions relate to products and services yet to be developed and the managers are sensitized to data and insights from deliberately “non-product” perspectives. However, all the proposed alternative ways of framing markets in industrial network context were observed in the RAMI results and they occurred spontaneously, without any attempts by the facilitators to guide how

the ideas are framed and described. Nevertheless, the number of product-based market ideas far outnumbered these “non-product” market definitions. Finally, the results of the study seem to indicate that ideas for new product markets are more often inspired by firm’s resources and capabilities or end-consumers’ practices than by network’s resources and capabilities or customers’ processes in an industrial network context. Even though the results of the present study cannot be generalized as such to other industrial context, they most probably describe the market framing tendencies in the Finnish forest cluster.

## **CHALLENGES IN CREATING INNOVATIVE MARKET DEFINITIONS IN TRADITIONAL INDUSTRIAL NETWORKS**

In this section we discuss the main identified challenges in creating innovative market definitions in traditional industrial networks that recurred in the findings of the six research projects and during the following innovation workshops: market size myopia, embeddedness of relevant know-how, the negative impacts of market relationships to systemic innovations, and the need to develop new business models to match the new markets.

*Market size myopia.* The focal industry in our study, the forest cluster, is in important parts, especially paper and pulp production, characterized by large firm sizes and highly capital intensive production technology emphasizing the economics of scale in manufacturing and distributing activities. The scale economy conditions are typical in many mature industries utilizing process technology, but also in manufacturing of durable goods such cars and electronics. This “scale effect” seemed to be deeply ingrained in the dominant logic of the managers (Prahalad & Bettis, 1986; Prahalad, 2004); they framed and evaluated the potential value of any new market from the perspective of their current business. Ideas that did not match the current scale in the volume and revenue potential did not overcome an invisible threshold of attraction and credibility (Von Krogh & Grand, 2000). Because of this many potentially profitable and fast-growing new markets were categorized as “unfeasible for the incumbent firms in the Finnish forest cluster” by the practitioners themselves. In order to circumvent this identified cognitive bias, the Finnish forest cluster firms are considering creating a platform that would bring together their new market ideas that are ‘suffering’ from low (initial) business volume and involving actors that come from outside their traditional industry network with business models that enable profitable management of also low-volume businesses. Similar solutions on corporate level have been realized in large US corporations in order to overcome the barriers that development of new radical business ideas and innovations meet in the incumbent firms (O’Connor & DeMartino, 2006; O’Connor & Peters, 2008)

*Embeddedness of relevant know-how.* Defining a market around a network’s resources and capabilities or customers’ value-creating processes requires in-depth understanding of those resources, capabilities and processes. However, this understanding is usually not possessed by the people traditionally involved in making firms’ market definitions, i.e., top management. On the contrary this crucial know-how is dispersed around the organization, and even more extensively around the focal network, hold by typically various middle-management individuals. The challenges associated in identifying and transferring tacit knowledge as well as the need to develop management practices to facilitate them are acknowledged by various knowledge

management researchers (Bolisani & Scarso, 2000; Herschel, Nemati & Steiger, 2001; Dayasindhu, 2002; Foos, Schum & Rothenberg 2006). Thus, it is a true dilemma for the designers of strategy processes to channel this, partially tacit, understanding for the use of top management. This process of distilling the know-how of middle management to the top management can also be a time-consuming process. Consider for example KONE, the Finnish elevator and escalator company that changed their market definition from ‘elevators and escalators’ into ‘People Flow’ in 2008. Interestingly, the term people flow had been in relatively active use in KONE’s R&D department already over a decade – before it was discovered by the top management as the new foundation for their market definition.

*Negative impacts of market relationships to systemic innovations.* Certain research projects, “Customer processes and cost structures” and “Value networks” in particular, concluded that the presence of market-based relationships, i.e., relationships that are characterized by competitive monetary exchange over a market mechanism, hinder the emergence of value-creating systemic innovations. In the context of market innovations it is interesting to contemplate whether this negative impact to systemic innovations are due to market relationships per se or the fact that these market relationships are configured around a relatively stable product and may involve the use of strong price competition by the dominant actors. Several industrial marketing researchers have discussed the negative effects of strong and established relationships may diminish firms’ capacity to change (cf., Brennan & Turnbull, 1999; Håkansson & Ford, 2000; Beverland 2005) Economic sociologists, on the other hand, propose that products stabilize, at least temporarily, otherwise fluid exchanges between actors (Callon, Méadel & Rabeharisoa, 2002). Lacking the empirical material to answer this question conclusively, the inertia involved in the market configurations should be kept in mind when seeking new, innovative market definitions: The current (most likely product-based) market definition is likely to cause resistance to change both internally within the organization and externally among the other actors in the network – and as the new market definition becomes more accepted as the norm, that will also inhibit new systemic innovations.

*Need to develop new business models to match new markets.* All research projects investigating end-consumers, i.e., “Base of the pyramid”, “Multimedia evolution”, and “Paper in practice”, highlighted that being relevant in different end-consumer practices than currently would most likely require radically different business models from the forest cluster firms. For example, consumers’ multimedia consumption practices are not exhaustively supported by a business model that is built around production and distribution of newsprint and magazine paper. In the recent years, the business model construct has attracted an increasing number of studies (cf., Zott & Amit, 2008, 2010; Demil & Lecocq, 2010; Nenonen & Storbacka, 2010; Teece 2010). The identified challenges in changing a business model of an established actor range from unresolvable conflicts between the current and the new business models (Amit & Zott, 2001; Johnson, Christensen & Kagermann 2008) to the inability to vision a viable new business model (Chesbrough, 2010). The firms seeking to radically redefine their markets have, thus, acknowledge that their current business model might not be suitable in the new market configuration – and that changing an existing business model has been labeled as an challenging task in various studies (Amit & Zott, 2001; Christensen & Kagermann 2008; Chesbrough, 2010).

## CONCLUSIONS

In this section we will discuss the theoretical contributions of the study, its managerial implications and limitations as well as identify avenues for further research.

### Theoretical contribution

The paper responds to calls for research in strategic marketing issues that are relevant to marketing practitioners (Reibstein, Day & Wind, 2009; Varadarajan, 2010; Jaworski, 2011) with three objectives: (1) to develop a conceptual framework for categorizing managerial market definitions, (2) to investigate empirically how practitioners frame novel markets, and (3) to identify challenges which are associated with creating innovative market definitions in traditional industrial networks.

First, the paper presented a conceptual framework that supplements the currently dominant product-based market definitions (Boardman & Vining, 1976; Geroski, 1998; Lusch & Vargo, 2006; Venkatesh, Peñaloza & Firat, 2006; Vargo & Lusch, 2008) with two dichotomies relevant for defining markets in an industrial network context: supply vs. demand perspective, and dyad vs. network perspective. According to the proposed framework, managers can choose to define their markets also based on (1) the firm's resources and capabilities, (2) the network's resources and capabilities, (3) customers' processes, or (4) end-consumers' practices (see Figure 1 for an illustration). This framework contributes to the emerging theorizing on socially constructed markets and market innovations (Araujo, 2007; Vargo & Lusch, 2008; Storbacka & Nenonen, 2011; Kjellberg et al., 2012) by providing a conceptualization on how managers can frame their current and prospective markets.

Second, the researchers applied the developed conceptual framework to categorize the 126 ideas for new growth opportunities for the Finnish forest cluster outside its current core business, developed during the "RAMI: RADical Market Innovations" research program, in order to gain an understanding of how managers frame new market opportunities. The results of the study showed that managers had described the vast majority of the ideas for new markets (73%) around the product or service being sold. Even though researchers were able to identify instances when new market opportunities were defined around the firm's resources and capabilities, the network's resources and capabilities, customers' processes, or end-consumers' practices, the dominance of product-based market definitions seems to indicate a clear dominant logic (Prahalad & Bettis, 1986; Prahalad, 2004): Markets tend to be defined around products and services in an industrial network context. This research finding is especially interesting as the entire RAMI research program contexts was designed to sensitize the managers to data and insights from deliberately "non-product" perspectives and "out-of-the-box" thinking was encouraged in all interactions with the managers. These findings contribute to the embryonic existing understanding how markets are being framed in practice by practitioners (see Azimont & Araujo, 2007 for an example)

Third, the present research identified four challenges in creating innovative market definitions in traditional industrial networks. First, market size myopia refers to the deeply ingrained dominant logic (Prahalad & Bettis, 1986; Prahalad, 2004) of managers in industries characterized by scale

effects to almost intuitively disregard potentially profitable and fast-growing markets as their current scale is deemed insignificant compared to the current business volumes. Second, embeddedness of relevant know-how makes it challenging for actors seeking to create innovative market definitions to make the relevant, often tacit, information on, e.g., network's resources and customers' value creating processes available for the people involved in the market redefinition process. Third, market-based relationships seem to hinder the emergence of value-creating systemic innovations such as market innovations, creating inertia to be overcome by the actors seeking to institutionalize a new innovative market definition. Fourth, the realization of innovative market definitions can be obstructed by the need to develop new business models to fit the new market. The identified four barriers in creating innovative market definitions in traditional industrial networks contribute to the literature on market innovations (Johns, 1999; Storbacka & Nenonen, 2012), market driving strategies (Jaworski, Kohli & Sahay, 2000; Kumar, Scheer & Kotler, 2000; Varadarajan, 2010) and other non-technical systemic innovations (Edquist, 2011) as well as innovation in industrial networks (Lundgren, 1995; Möller, Rajala & Svahn, 2005; Dhanaraj & Parkhe, 2006; Capaldo, 2007).

### **Managerial implications**

The main managerial implications of the present research are two-fold. First, it provides managers with a simple conceptual framework for identifying innovative market definitions that are not necessarily framed according to the product or service being sold. Even though "finding growing markets" and "clarifying the business definition" are acknowledged as crucial strategic tasks by the business practitioners, there is a clear void in managerial tools supporting these themes. Since the existing conceptual tools have been focusing on visualizing the market definition in terms of product-geography matrices (Boardman & Vining, 1976), the practitioners are intuitively inclined to define also emerging market opportunities around the product – as the results of the present study indicate. Providing practitioners with alternative tools to define markets is likely to facilitate strategic discussions on alternative market definitions and the fact that markets are, unlike often portrayed in strategy and marketing handbooks, malleable and socially constructed – and receptive to actors' market shaping efforts.

Second, the study identified four challenges in creating innovative market definitions in traditional industrial networks. Managerially, the possible ways of overcoming these barriers are quite understandably more relevant than the barriers themselves – and in the following we outline some recommendations for the practitioners. The market size myopia can be surmounted by creating structures that enable the development of the new, initially low-volume, business initiatives with other actors than the network incumbents affected by the scale effect (O'Connor & DeMartino, 2006; O'Connor & Peters, 2008). Another way of diminishing the internal resistance caused by the low initial business volumes can be found from quantifying the future market size in terms of the potential use value creation for the customers (Venkatesh & Penaloza, 2006; Storbacka & Nenonen, 2011) as this can be useful in illustrating the long-term market potential when the initial exchange value derived from a particular market is low. The embeddedness of the relevant know-how can be circumvented by designing strategizing processes that involve people also outside the management team, from the firm's own middle management and potentially also outside the firm's organizational boundaries. Furthermore, the extended and networked view to knowledge does not have to be limited to knowledge acquisition

– ideally strategizing in a network would result creation of new relevant knowledge through network learning (Knight, 2002; Knight & Pye, 2005). The negative impacts of market relationships to systemic innovations can be managed by fostering market relationships that are characterized by trust, openness and reciprocity. Additionally, the firms can actively participate in emerging value systems (Möller, Rajala & Svahn, 2005) that are more future-oriented and often facilitate radical changes. Moreover, as Callon, Méadel & Rabeharisoa (2002) suggest that products stabilize markets and exchanges between actors, it can be hypothesized that changing the definition of the product being exchanged could be a powerful method of overcoming inertia in an established market configuration. The challenges developing new business models to fit the new market definition can be overcome by, e.g., engaging in experimentation to define the new business model (Chesbrough, 2010), unveiling the mechanisms and institutional norms protecting the current business model (Johnson, Christensen & Kagermann, 2008), and by organizing the new business model into a new business unit to manage the tensions (Johnson, Christensen & Kagermann, 2008).

### **Limitations and further research avenues**

The empirical material for the present study was gathered only from a singular context: The Finnish forest cluster. Even though the Finnish forest cluster covers several industries, consists of several actors of varying sizes and business models, is truly global in nature, and can be argued to be a good representation of a traditional industrial network, more empirical studies from varying industrial contexts are needed to advance our understanding of the managerial framing of markets and the barriers to creating innovative market definitions in practice.

Additionally, the present research focused solely in market definitions and the managerial framing of new market opportunities. Thus the other aspects of market innovation, such as influencing market practices (Kjellberg & Helgeson, 2006; Andersson, Aspenberg & Kjellberg, 2008) and the outcomes of subjective framing processes such as market multiplicity (Kjellberg & Helgeson, 2006), continuous identity construction and boundary work (Ellis et al., 2010), and competing market definitions (Rosa et al. 1999) are left outside the scope of this study.

Furthermore, the identified challenges in creating innovative market definitions in traditional industrial networks open interesting avenues for further research. For example, there is very little research on how to quantify and measure the use value creation for customers in different market configurations. Similarly, experimentation as a route to find a suitable new business model to match the novel market definition is appealing – but much of the extant experimentation or effectuation (Wiltbank et al., 2006; Sarasvathy, 2008) literature is conducted in the entrepreneurial or start-up context. Thus, more insights are needed on how established actors in industrial networks can effectively facilitate experimentation or ‘non-predictive’ strategies.

Finally, the present study does not discuss the geographical dimension of market definitions, even though it is very prominent in the market definitions used by the practitioners. The geographical dimension was excluded from the scope of the study as it was regarded more as a managerial limiting condition than a foundational premise of a market definition. Thus geographical market entries can be regarded as more of extensions of existing markets than market innovations.

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