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# Market innovation processes: Balancing stability and change

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ABSTRACT

This introductory article on market innovation processes seeks to conceptualize market innovations and elaborate on the processes through which such innovations are achieved. Recent attention to the active production of markets suggests markets are ongoing processes rather than stable entities. This implies a broader definition of market innovation than the opening up of new markets, including changing existing market structure, introducing new market devices, altering market behavior, and reconstituting market agents. In general, market innovation means altering the way in which business is done. Conceiving of markets as on-going processes further suggests that stabilizing efforts (preventing and/or directing market change) are central to market innovation. Such stabilizing efforts include establishing and maintaining a bounded network of buyers, sellers, goods, etc. and configuring this network so as to channel interactions between entities. Drawing on the individual contributions to the special issue we identify and exemplify four interrelated ways of stabilizing markets: institutionalizing norms and rules; building devices and technical infrastructures; generating and disseminating images, models, and representations; and enacting practices, routines and habits. We conclude by bringing attention to the central challenge of balancing efforts to stabilize and change markets.



## 1. Introduction

This special issue of IMM focuses on the examination of market innovation processes. The overall purpose is to explore what market innovation might entail, and to elaborate theoretically as well as empirically on the processes through which such innovations are achieved. In this introductory article, we discuss the starting points for this exploration and elaboration. Based on the assumption that our understanding of market innovation depends strongly on our conception of markets, we discuss the consequences of recent conceptual developments regarding markets as on-going processes. Specifically, we suggest that this conception of markets usefully directs attention to stabilizing efforts as part of market innovation processes.

While innovation processes in principle are recognized to have both a technological and a market dimension (Abernathy & Clark, 1985), and despite Schumpeter's (1934) explicit recognition of market innovation as a particular category of innovation, innovation research has remained technology-focused. The relationship between innovation and markets is understood as either embedding an innovation in existing market structures or creating new markets from scratch, through entrepreneurial efforts including the enrolment of supportive networks (cf. Akrich, Callon, & Latour, 2002a,b). A central driving force in this process is the wish to create transitory market power (Bresnahan, Stern, & Trajtenberg, 1997) by exploiting the relationship between innovative effort and market power (Arrow, 1962). The market dimension is thus evoked primarily to account for how innovators can achieve their objective of ensuring innovative rents (Schumpeter, 1991), including the use of specific market mechanisms such as patents or trademarks to provide temporary monopoly power, or possibly, slow down the pace of rent dissipation (Arrow, 1962).

The technological dimension of innovation is typically seen as primary and external to market processes and the challenge is to adapt to or create markets for it (Johne, 1999). We can go as far as to say that the market dimension of innovation has typically been reduced to a question of demand (Howells, 1997; Mowery & Rosenberg, 1979), and although some scholars have used the term 'market innovation' (e.g. Henard & Szymanski, 2001; Johne, 1999; Nyström, 1990), its precise meaning remains unclear. Still, industrial marketing research has long acknowledged the link between innovations and markets in its emphasis on co-operation and long-term exchange relationships for technological development (Håkansson, 1989; Håkansson & Eriksson, 1993; Lundgren, 1995). The development of novel conceptions of markets over the past 15 years has further underscored the need to revisit market innovation. The growing attention paid to market shaping processes (Araujo, Kjellberg, & Spencer, 2008; Jaworski, Kohli, & Sahay, 2000; Rosa, Porac, Runser-Spanjol, & Saxon, 1999; Vargo & Lusch, 2011) has led to a questioning of the standard conception of markets and highlighted the scope for strategic action to alter them. In short,

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markets are on-going processes and the location of specific market interfaces is neither given nor arbitrary (Araujo & Spring, 2006). In this respect, the research on market devices (Callon, Millo, & Muniesa, 2007) has directed attention to new objects and means of market innovation.

This introductory article is structured as follows. In the next section, we elaborate on the market to innovation link by discussing the meaning of 'market innovation' in the light of the changing conception of markets noted above. In the third section we present the seven articles and highlight how they approach and contribute to our understanding of market innovation processes. We then draw on the articles to develop the overall theme that market innovation processes revolve around efforts at stabilizing markets, which complements the focus on change efforts and destabilization in extant innovation literature. In the final section, we summarize the argument and offer some concluding remarks.

## 2. Towards the study of market innovation processes

What is 'market innovation'? Schumpeter included *the opening up of new markets* as one specific category of innovation alongside those of new methods of production, new products, new sources of supply, and new forms of organization (Schumpeter, 1934, 1947). However, we suggest that the precise meaning of 'market innovation' is linked to how we conceive 'markets'. Given the development noted above of several alternative approaches challenging the dominant view of markets in marketing and innovation studies, there is a need to revisit both the notion of 'market innovation' and the processes that produce them.

Schumpeter's classic definition of market innovation as the opening up of entirely *new product and/or geographical markets* has remained influential in both marketing and innovation studies (Berry, Shankar, Turner Parish, Cadwallader, & Dotzel, 2006; Mowery & Rosenberg, 1979; von Hippel, 1986). Johne (1999: 6) defines market innovation as "improving the mix of target markets and how these are served". The first part of this definition mainly concerns the identification and choice of target markets (customer segments) and is thus well aligned with Schumpeter. The second part suggests that by being attentive to customers' *modes of buying*, a firm can differentiate the same core product through how it is being sold. While this extends the concept of market innovation by acknowledging that markets can be served in different ways, it retains the customer focus characteristic of how the innovation literature conceives markets (Mowery & Rosenberg, 1979; Rogers, 1962; von Hippel, 1986). From this perspective, market innovation is thus about tapping into demand that is already there, or will be there in the future (von Hippel, 1986); it concerns changes on the surface rather than in the core of what constitutes markets. This conception of market innovation implicitly embraces a view of markets that has long dominated marketing thought, namely that markets are 'things out there', consisting of collections of actual and potential customers (e.g. Best, 2000; Kotler, 1999: 13).[1]

Against the backdrop of these pre-existing markets, the main objective for firms is almost invariably to generate as good a market image as possible to ensure adequate decisions are made in the given situation (Day, 1981), notably concerning which markets to enter (Hauser, Tellis, & Griffin, 2006) and/or how to improve market orientation within existing markets (Kohli & Jaworski, 1990). Johne's (1999) discussion of the challenges facing market innovators (or market champions in his words) also includes a broader perspective: "It is the task of the market champion to question current market practices" (Johne, 1999, p. 9). In line with the idea of a stable (market) core, Johne sees this primarily as an analytical challenge of taking buyer preferences, competitor reactions, and internal competences into account.

Recent scholarly work on markets in marketing and economic sociology has questioned this epistemologically oriented approach (i.e. focusing on generating the right knowledge about markets); instead a more ontologically oriented approach is proposed by emphasizing the active production of markets (e.g. Araujo, 2007; Callon, 1998a; Callon & Muniesa, 2005; Jaworski et al., 2000; Kjellberg & Helgesson, 2006, 2007a; Read, Dew, Sarasvathy, Song, & Wiltbank, 2009; Storbacka & Nenonen, 2011). These contributions question whether markets have a stable core. Consequently, they do not limit market innovation to the 'working up' of new markets but also include changes within existing markets. The work of Jaworski et al. (2000) on market-driving strategies specifically challenges the idea of the market as a 'given' and of market orientation as a matter of simply adapting to current market conditions. More recently, Read et al. (2009) made a similar point in their discussion of how serial entrepreneurs act according to an effectual (rather than a predictive) logic, embracing the endogenous and open-ended character of markets. Both these contributions suggest that firms can enjoy success not only by adapting to, but also by changing the market. Beyond this general shift in perspective, several recent contributions have suggested specific facets of markets that are subject to such change efforts.

The first dimension of markets subject to market-driving according to Jaworski et al. (2000) – market *structure* – offers a convenient starting point for discussing what market innovation could entail. Here, a considerable body of literature has served to enrich our conception of market structure beyond the micro-economic heritage of buyer and/or seller concentration, entry barriers and product differentiation (Scherer & Ross, 1990). Most notably, the network approach in industrial marketing and purchasing (Axelsson & Easton, 1992; Håkansson & Snehota, 1995) and the new economic sociology (Granovetter, 1985; Uzzi, 1996) directed attention to *connected* rather than *aggregated* market structures. 'Structural' market innovations can thus concern classic issues such as the entry of new actors, the removal of existing actors, changes in the division of labor between actors, as well as changes in how actors are interconnected (Burt, 1992; Hertz, 1996; Jaworski et al., 2000).

More recent studies of the specific arrangements that are put in place to have markets work in certain ways suggest a second, complementary dimension — discussed in different literatures as market micro structures (Spulber, 1996), market socio-technical agencements (Callon, 2007, 2008), or modes of exchange (Kjellberg & Helgesson, 2007b; Lie, 1992). These studies have highlighted the considerable variation that can be observed across markets in terms of how individual exchanges are being consummated, and the direct link between this variation and specific market arrangements. The conception of markets as socio-material networks suggests that market innovation also includes the introduction of various *market devices* (Callon et al., 2007), including algorithms (Muniesa, 2004), business models (Doganova & Eyquem-Renault, 2009; Mason & Spring, 2011), retail interiors (Cochoy, 2007), performance measures (Azimont & Araujo, 2010; Poon, 2007; Sjögren & Helgesson, 2007), etc. These latter changes are often linked to the use of new technical solutions, e.g. information or distribution technologies, that need not be specific to the particular market in question; the availability of technical infrastructures developed for other purposes can offer many opportunities for market innovators.

The introduction of new market devices is closely linked to a third dimension of market innovation, namely changes in *market behavior* (Jaworski et al., 2000). Here, economists have primarily emphasized ways of counteracting behavior at odds with their ideal market model (Crew & Kleindorfer, 2002; Roth, 2009). Economic sociologists and marketing scholars have instead sought to identify and explain behavioral variation across markets (e.g. Easton, 2004; Håkansson & Snehota, 1995; Uzzi, 1997). The latter stance has highlighted the potentially negative consequences of efforts to 'rationalize' markets by preventing certain behaviors, e.g. long-term exchange relationships (Uzzi, 1997).

[1] While competitors are sometimes taken into account, these are often discussed separately as *the industry*.