MARKET CREATION: A PATH TO SUSTAINABLE COMPETITIVE ADVANTAGE

Jenny Darroch, Claremont Graduate University, United States
Morgan Miles, Pennsylvania State University - Erie, United States
Andrew Jardine, Chapman University, United States

ABSTRACT

We extend the innovation-performance debate by considering the impact innovations have on markets; more specifically, whether an innovation creates a new market. This approach to innovation is important because most research on the innovation-performance link asks managers to self report how many or how radical the innovations developed by their firm are, rather than consider the impact the innovation has on the market.

Our results show that market creating firms outperform non-market creating firms in both the short and long term. We suggest that this performance advantage comes about because market creation leads to the formation of new consumer ideal points against which other products are compared, encouraging consumers to stay with the brand and not brand switch (Carpenter and Nakaomoto 1989; Kerin et al. 1992). We found, however, that market creation is not highly valued by the stock market. We suspect this finding reflects the short-term focus characteristic of the stock market (Dobrzynski 1993; Monks and Minow 1995) and a tendency for stock markets to adjust their valuation of the firm at the time of a new product announcement (Chaney, Devinney and Winer 1991) without waiting long enough to see whether or not a new market is actually created ex-post.

Managers are encouraged to focus their attention on innovation as a way of generating economic growth. Our results suggest that while innovation is a precursor to market creation, it is market creation itself that provides a sustainable competitive advantage. Our analysis also demonstrated that firms do not need to follow an intensive R&D or marketing strategy in order to create markets. In fact, the opposite was true: in the R&D intensive pharmaceutical industry, large R&D budgets appear to hinder market creation and large marketing budgets neither help nor hinder the market creation process. Thus, the effective use of money appears to be more important than the size of the budget itself and managers should focus their efforts on using marketing expenditure to shape consumer tastes and preferences. Similarly, a preoccupation with cost efficiencies is not going to support a position of market creation – possibly because it encourages quite a different set of attitudes and behaviors in the workplace. That is, saving money, extracting more revenue from current customers, driving efficiencies in the supply chain and improving production efficiencies rather than taking risks and exploring new product-market spaces.

References available on request.