# Differentiating the Indifferent: Dealing with Commoditization Paradox Through Innovation

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## 1 Introduction

Commoditization has been seen as a negative destiny of any products as they lose their novelty to increasingly competitive landscape filled with similar offerings. All is left is intense price competition and decreased profit margin. The phenomenon permeates widely in many industries and is accelerated by the technological advancement and competitive dynamics (Rangan & Bowman, 1992; Shih, 2018). It is dubbed a "trap" (Chesbrough, 2011), "hell" (Lane, 2008), and "battle" (Lager & Blanco, 2010), which indicate the challenges posing firms that operate in a relatively mature market and/or have commoditized products on their hands. In dealing with this, firms face a paradoxical situation where either competing on price or further investment in rejuvenating a commoditized product may lead to further profit erosion. It is argued that organizational mindset matters when it comes to dealing with such paradox. For instance, Schrage (2007) argues that commodities need not to be a destiny, and that through segmentation, differentiation, and innovation, a so-called commodity can be rejuvenated and redefined to ensure a competitive position in the market.

To sustain the competitiveness and profitability of a product, firms could employ either cost leadership strategy to ensure a low-cost advantage, or a differentiation strategy that focuses on creating unique value in order to warrant a price premium (Porter, 1980). Whatever strategies that are adopted, how customers perceive the value they obtain from a product justifies the price. Value is perceived by customers in a cognitive process, where the ratio of the benefits given by a product and the sacrifice paid in exchange, is assessed (Monroe, 1990). This implies that when a customer perceived an increase in benefits, they are likely to be willing to pay a higher price so long as the value ratio remains positive in their assessment.

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Therefore, a differentiated product would only entice customers to buy when there are distinct values they cannot get elsewhere. Similarly, low-cost offering would only be considered by customers when the benefits match or exceed the sacrifice they made.

Both cost leadership and product differentiation strategies require a clear focus on two aspects of business functions: marketing and innovation, which enable firms to create what customers want (Drucker, 2007). Marketing and innovation go hand in hand to ensure that the innovation endeavors are driven and governed by a clear definition of value propositions that capture customer needs (Levitt, 1960; Simmonds, 1986). Research indicates that an organization's marketing and innovation capabilities interplay to create synergies that are not easily imitated, thereby ensuring a superior performance (O'Cass & Ngo, 2011; Song et al., 2005). However, research in marketing and innovation tends to be isolated in its own field, and a more processual and holistic approach is needed to generate richer insights (Holmlund et al., 2016). Within this context, a more holistic understanding is needed on how marketing and innovation as key functions or capabilities are configured and combined in an organization from a processual perspective for delivering superior customer values in order to achieve a competitive advantage.

This article takes the view that understanding, imaging, and planning what can be differentiated is the first step in making a commoditized product differentiated through ways of innovative efforts (Dougherty, 2001). Different types of innovation provide a toolbox for differentiation. The key to dealing with the commoditization paradox is through continuous redefining the meaning of the offerings from a customer's perspective in order to create and capture value through an innovation process (see Fig. 1). It is argued that commodity providers can be as profitable as their specialty counterparts through strategic use (when and how) of innovation, customer relationship management, and value for money tactics (Rangan & Bowman, 1992). On the one hand, segmentation (marketing) helps firms realize what values are sought and unfulfilled, thereby informing the decision on where (which segment) and how (which product) to compete. On the other, it is through the process of innovation the desired values are created or transformed, which either add benefits or reduce costs of the product. Commoditized product markets are characterized by its low growth rate, well established industry processes and norms, and heightened price competition, which make cost reduction inevitable as a byproduct of product differentiation that aims to offer a superior value for money (Hill, 1988; Levitt, 1980).

A change in market position entails resource allocation and configuration for innovation activities. Innovation here refers to "the generation, development, and adaption of novel ideas on the part of the firm" (Damanpour, 1991, p. 556). A wide range of innovation can be adopted for the purpose of de-accelerating or avoiding the commoditization, thereby capturing the commercial value of a product. Innovation can be categorized into: (1) product and service innovation; (2) process innovation; (3) marketing innovation. The first two types of innovation are the direct, technical manipulation on the products or services in order to improve/develop new product or

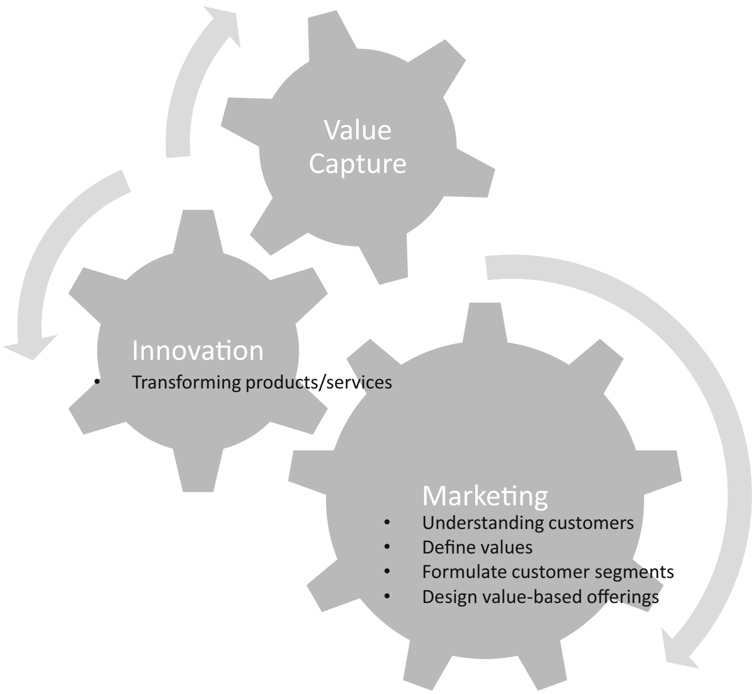


**Fig. 1** Marketing, innovation, and value creation and capture

services and the associated process of the production (Bantel & Jackson, 1989; Damanpour, 1991). Marketing innovation is non-technical, referring to improvements of new ideas in the design, placement, pricing, and promotion of the offerings (Deshpandé & Farley, 2004; Hurley & Hult, 1998). This framework gives a point of departure in explicating how firms can deal with the issues of commoditization and sustain their exploitation of a product through different types of innovation.

The following discussion draws on the literature in different disciplines in marketing, innovation, and strategy. The concept of differentiation is closely examined through a whole product framework by Levitt (1980). This framework provides a way to thinking about on *what* basis a product (or service) can be differentiated. Two cases drawn from consumer technology and retail banking industries are presented to provide illustrations to the framework. Following this, the focus shifts to *how* to differentiate through different approaches to innovation. It is not the intention of this article to exhaust the full extent of the literature, but to introduce and draw some insights from the relevant research coupled with practical examples that are either from prior work or applicable, contemporary cases.

## 2 What to Differentiate: Possibilities

> Any product or service can be differentiated, even the commodity that seems to differ from competitors' offerings only in price (Levitt, 1980, p. 83).

According to Levitt (1980), the basic principle for dealing with issues in relation to indifferent commoditized product market is creating points of differentiation, which can be done through modifying and/or enhancing the core elements of a product, i.e., the generic product, which may be indifferent from that of competitors. The commoditized products here refer to raw materials (e.g., wheat), processed materials (e.g., steel and carbon fiber), end-user products (e.g., computers), and services (e.g., investment banking). No matter what form the product is, ranging from raw materials to finished products or services, there are different tangible and intangible elements in the offering. In the heart of the offering lies the generic product, which is the most fundamental element to a product. In the context of the commoditized product market, it is the seemingly indifferent products that are offered by multiple competitors. Levitt (1980) argues that the generic product as the core of an offering can be expanded to the expected product, augmented product, and potential product, which can all provide points of differentiation based on the generic product. Figure 2 is an adapted depiction of the whole product system.

First, the expected product indicates the bare minimum of an offering that a customer is willing to pay for the generic product. Differentiation can, therefore, be based on meeting or exceeding a set of expectations that are attributed to the generic product (Ford et al., 2001). Second, the augmented product goes beyond what customers expect in a product. Instead, the product can be augmented based on what customers do not expect. "The unexpected" values could provide points of differentiation only if they are desired by customers. Third, in its widest scope is the potential product, which captures all possible improvements or changes in order to entice customers that lead to an increased competitive strength in the marketplace. The potential product could be substantially different from the current product and may require investment into new technologies that enable substantial cost reduction and/or innovative features. To illustrate on what basis companies develop points of differentiation for their commoditized offerings, two cases are presented, one focuses more on products and the eco-system, the other on services.

### 2.1 Case 1: Differentiation in Consumer Technologies

High-tech industries have experienced an acceleration of commoditization due to the fact that even tacit knowledge, accumulated and developed overtime by an organization, could become transpired to the wider industry sector. This is due to the connectivity and embeddedness of tools, methods, and applications that are used to develop and manufacture products (Shih, 2018). Such situation lowers the entry barrier considerably in certain hi-tech products, which allows new entrants to compete effectively without having to learn the know-how from scratch. This further

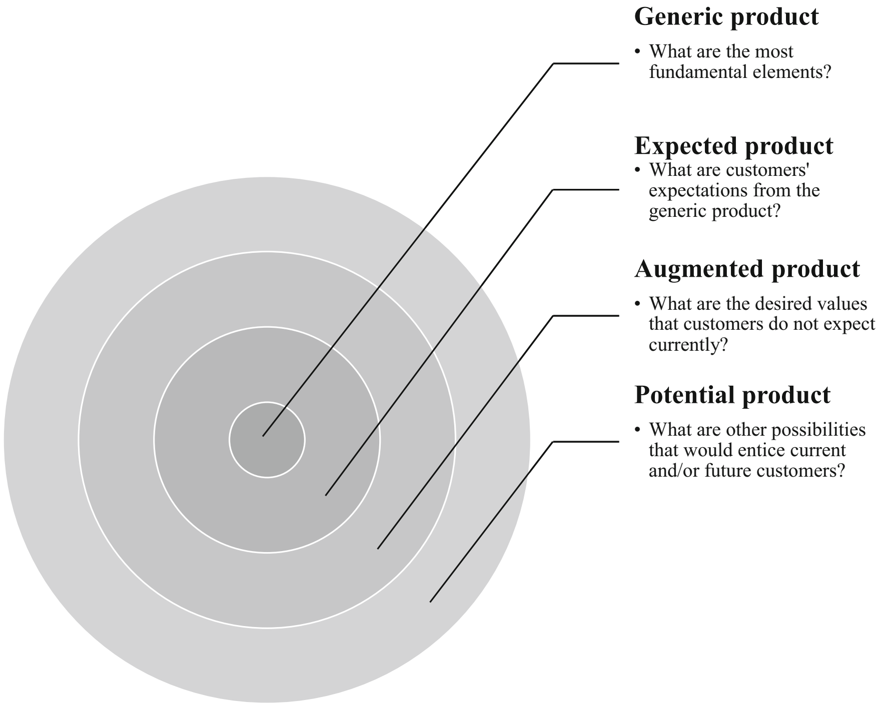


**Fig. 2** Generic, expected, augmented, and potential product (Adapted from Levitt, 1980, p. 86)

accelerates the maturity of the market, which drives price competition—a typical commoditized product market is taking shape. However, hi-tech companies can still differentiate their offerings through redefining the values that are based on the fundamental elements of a product. This requires a thorough understanding on how customers perceive such values. For example, how consumers perceive the values they gain from a smartphone today is substantially different from when the first generation of Apple iPhone came to the market in 2007. Through expanding the utilities and connectivity, and redefining the meanings, a smartphone has become something that is integrated into many people's everyday life that they may not have previously anticipated. Apple has been a front runner in the smartphone market as it sets the industry standards. Even with fierce competition from major players in the market both on technologies and price in an increasingly saturated market, Apple's brand value has been consistently rising, now standing at $352 billion in 2020.

Apple has transformed the consumer technology appliances and services industry by building an ever expanding, enhanced, and integrated eco-system based on a range of intra-functional devices, applications, and services, e.g. personal computer (Mac), tablet (iPad), smartphone (iPhone), smartwatch (Apple Watch), TV (Apple TV), music content (Apple Music), and cloud service (iCloud). Such an eco-system provides their customers with a comprehensive solution to their personal productivity and entertainment needs that are sometimes unanticipated by themselves. It also becomes a mechanism to lock in their customers and breed loyal customers (Zhang et al., 2011). Apple has built a strong foundation for the expected product and focused on developing augmented and potential product, which provide points of differentiation that separate Apple from their major competitors. As the market matures, customers become more sophisticated in their understanding and decision making as they know better what matters for them from a high-tech product. Apple's increased options in all product lines have reflected a more sophisticated segmentation to different customer groups that have varying needs and budgets. This approach provides a mindset that drives continuous development in products and services that not only meet and exceed customers' expectations, but also offer unexpected benefits. The unexpected always keeps their customers and the media guessing prior to their highly anticipated product launch events each year, which create a sense of hype and excitement. Such approach is a source of a sustained competitive advantage and can only be afforded by combining strong and unique marketing and innovation capabilities (Ngo & O'Cass, 2012).

## 2.2 Case 2: Differentiation in Retail Banking Services

Retail banking in the UK has long been a well-developed and regulated sector that is widely used by the public for accessing credit and managing money in a secure manner. Banks in this sector offer some key banking services, such as saving account, current account, and mortgage, which can be seen as generic products. Generally, any bank could offer these fundamental services to their customers and, therefore, as far as product portfolio is concerned, there is little differentiation across competing banks. However, changes in the wider environments, most prominently regulation and technology, shape the market and prompt attitudinal and behavioral changes in consumers. The banking reforms, such as Open Banking, together with Payment Services Directive, have allowed consumers to share their financial data so that they can get better services that suit their needs and budgets from other banking service providers. These reforms aim to bring about more competition and innovation that would benefit bank users. The changing operating environment and power shifting toward consumers prompt banks to redefine what their core services are so that they become meaningful and relevant to their customers. Within this context, competitors can differentiate their offerings on "how" their seemingly indifferent services are delivered that meet or exceed their expectation on service quality to ensure customer satisfaction (Parasuraman et al., 1991).

For instance, customer service has been the point of differentiation for First Direct Bank, an UK online banking service provider, which is a subsidiary of HSBC. While First Direct offers whatever other banks offer, such as bank accounts, mortgage, loans and credit cards, insurance and travel and international finance products, the differentiator is not necessary on the generic product, but on expected product. While the product portfolio does not set the bank apart from other banks, the focus has been placed on customer service interface. First Direct's marketing communication is revolved around a simple message: "We never sleep, so you can. Real people, available however and whenever you need us. Banking you deserve. Always open 24/7." This is a direct confrontation to the commonly known problem in retail banking in that customers are often directed to an endless queuing system, which requires them to input information so that they can be directed to the right customer service departments. This is often a frustrating experience as customers expect to be served right away so that their problems are resolved in a timely manner. Technologies have been used to tackle the high volume of service requests in retail banking, such as automated customer system, using Interactive Voice Response (IVR), that could offer standardized and timely service. However, this often results in dissatisfied customers, whose problems and queries are complicated that require a customized response from "a real person." First Direct offers a unique proposition to their customers: "If you want to talk to us, you'll always be able to speak with a fellow human here in the UK, 24 hours a day, 7 days a week."

## 3 How to Differentiate: Approaches to Innovation

This section explores approaches to innovation that realize points of differentiation and transform them into values, sought and perceived favorably by customers. The discussion here is, therefore, firmly placed on approaches that fit such purpose, which are not limited to only product-focused, technical, innovation. Specific to commoditized markets, product and process innovation have mostly been exploited to capture the early adopters, who focus on performance and technical details of an offering (Moore, 2004). Research shows that as the market becomes more commoditized, firms benefit less from a product- or process-focused strategy, and instead marketing and customer insights become more important as customers know better what they want in a mature market (Reimann et al., 2010).

Innovation in its broader sense is not limited to the novelty of tangible features of a product. Chesbrough (2011) argues that product-focused innovation has its limits due to the commoditization, which makes it ineffective for sustaining a long-term competitive advantage. Product-focused firms encounter a differentiation bottleneck as they are faced with difficulties in maintaining a long-term advantage on the basis of product-focused innovation alone. This is due to the fact that knowledge and know-how permeate the wider sector, and this means that competitors can catch up on the technical improvements quickly. Low-cost production and shorter product lifecycle add further difficulties to product-focused firms in sustaining the differentiated position through innovation. While technical capability is one of the key aspects to innovating successfully, capturing the commercial value of the innovation in a saturated, mature market requires specific approaches to innovation that focuses on providing customers better experience and value (Moore, 2004). To realize the points of differentiation based on the core elements of a generic product as discussed in Sect. 2, firms need capabilities and capacity in innovation to translate the ideas into deliverable values. This section presents three approaches through which firms can explore and exploit the commercial value of their commoditized products.

### 3.1 Approach 1: Innovating for Customer Experience

Services provision has been the driving force and the source of growth for developed economies, and even manufacturing firms increasingly employ service strategies to compensate the stagnant growth in their products and drive the overall growth (Ostrom et al., 2010). Services have become a strategic option that provides an opportunity for manufacturers to develop a sustainable competitive advantage since services deliver desired values that contribute to customer satisfaction and loyalty, eventually leading to a competitive, profitably position in the marketplace (Heskett et al., 1994). The shift from a product-focused to a service-focused approach becomes important in a commoditized market where customers have sophisticated understanding of the products and may have diverse needs that could be satisfied by additional services, which enhance the utility and experience of the product. For instance, a supplier in the commodity chemicals sector that offer the generic materials, such as plywood, salt, plastic tubing, strip steel and nails, cannot differentiate on the generic product level, but can differentiate through augmentation that integrates additional services and relationship management into their offerings (Robinson et al., 2002). To satisfy customers' varying needs requires an adequate innovation capability as a vehicle for transforming the generic product into a customer-centric offering (Gebauer et al., 2011).

Services can be conceptualized in a offering as support to products or support to customers, according to Eggert et al. (2014). They investigated 513 German mechanical engineering companies that offered industrial services to their business customers. These services are not generic and have varying degree of customization, which is determined by level of risk, competition, and competitive advantage. Their findings suggest that services that are aimed at supporting customers have positive impact on revenue growth and profitability, while services that support the products only indirectly affect financial performance through customer service provision. However, for customer services provision to become effective and provide financial reward, it depends largely on a substantial base of loyal customers.

Similarly, Fang et al. (2008) argue for the benefit of transitioning from a product-centric to a service-centric providers in dealing with commoditization and globalization. They examined specifically what level of service intensity should be adopted to supplement a product in order to provide a total solution for customers. They suggest that manufacturers should utilize their expertise and knowledge in the product and develop suitable, complementary services that enhance customer usage of the product. In turn, this enhancement would increase customer loyalty when they perceive intangible aspects of the offering, such as brand related qualities and relationships, become more important to them. Based on the investigation on 477 US manufacturers between 1990 and 2005, it was found that for service-centric innovation to contribute to an overall competitive position, services sales should account for more than 20–30% of the total sales of a firm. Such service innovation strategy is also contingent on industry dynamics and is found to be more effective in a slow growing and turbulent (e.g., unpredictable and uncertain demand fluctuation) environment.

There is a clear motivation for manufacturing firms to embark on service innovation as it provides points of differentiation against their competition and increases customer intimacy and proximity, thereby increasing customer satisfaction. However, such substantial shift in focus from product to service also challenges a firm's innovation capability and capacity as the existing resources may not be geared up for developing and implementing services smoothly and efficiently. The cost associated with service transition or servitization may hurt firm performance, particularly at the start of the process. Kastalli and Van Looy (2013) argue that service innovation and its associated implementation of processes and transformation of the business model may not always guarantee competitiveness and performance. They conducted a longitudinal econometric study to investigate 44 national subsidiaries of a global manufacturing firm. The results suggest that when the service activity scale is low, the profit margin decreases and when it reaches to sufficient economies of scale, the profit margin increases. This highlights that the initial investment in service activity design and implementation may initially affect profitability. Furthermore, this highlights the critical role of fitting innovation capabilities to the transitioning from product-centric to service-centric business model where the implementation of services and integration with products reduce cost overtime due to the learning effect.

## 3.2 Approach 2: Innovating for Superior Value

Due to the process of commoditization, any product or service becomes increasingly standardized in a market that is characterized by competition imitation and more sophisticated, knowledgeable customers. One way to tackle the inevitable price competition is to focus on adding values, so the competition and differentiation are on the total value as perceived by customers, rather than price (Matthyssens & Vandenbempt, 2008). Building on a strong brand, marketing (non-technical) innovation provides a range of options that enhance the competitiveness of the product (Gupta et al., 2016). Marketing innovation is defined as "the implementation of a new marketing method involving significant changes in product design or packaging, placement, promotion or pricing" (Manual, 2005, p. 49). Marketing innovation aims to increase market share and sales and addresses issues in relation to positioning in the market, exposure of the products, responsiveness to customer needs, developing customer relationships, and adapting to customization (Manual, 2005).

Finetuning and calibrating value propositions through innovative marketing initiatives provide opportunity to engage existing and potential customers, e.g. non-users and competitors' customers. For instance, bundling, as part of pricing innovation, has been one of the effective tactics that aims at providing customers with a unique bundle of values through combining a range of products and/or services. This is to break off the "like for like" comparison in the marketplace that customers can easily assess with individual product specifications across different providers. When products are bundled in a way that is uniquely configured to give customers a superior benefits/price ratio, i.e., value, it becomes a strong differentiator that cannot be easily imitated by competitors, thereby ensuring a competitive advantage (Lawless, 1991) and profitability (Hinterhuber & Liozu, 2014).

This approach provides firms with an opportunity to leverage their existing products and/or services in a way that offers a superior value that does not provide a like for like comparison, thereby breaking the price competition. Apple One, for example, is a new bundle subscription plan based on Apple's existing services, which could be purchased separately. Three modular offerings based on the main components, Apple Music, Apple TV+, Apple Arcade, and iCloud storage, target at three segments, individual, family, and premium. These packages provide different levels of services, such as storage and sharing capacity as well as additional services, such as Apple Fitness+ and Apple News+. Price is determined by the total value of each package based on the services provided. Although these services are drawn from the existing portfolio, the innovation is the way they are combined that create a "new" offering, which redefines the value these services could offer separately. Bundling in this instance is a form of pricing innovation where value configurations are used to segment customer groups, which provides each segment with the desired value they are willing to pay for. This allows a firm to capture a large customer base that has varying valuation of the individual components (Hinterhuber & Liozu, 2014), e.g. valuation on music content offerings, Apple Music vs. Spotify.

The counter example of bundling is unbundling, which has been adopted by service providers, such as airlines. In the case of the airline industry, it is about unpacking different services and distinguish the core and peripheral elements. The core service is the safe and reasonably comfortable transportation of an individual to a destination. The peripheral services are on-board services (food, drinks, WiFi, etc.), check-in luggage, seat selection, and other services at the airport, such as the use of the airline dedicated lounge. The so-called no-frill airlines embrace such unbundling approach to lower their price substantially based only on the core services, which provides a superior benefits/price ratio. All peripheral services will be added to the core service either at the time of booking or on-board to determine the final price. Customers have control over what they actually need and pay for, and therefore it is more likely to result in satisfied customers, who have clear expectations of what they will receive in return against what they pay for. This allows service providers to differentiate the values sought by their customers, which can be further conceptualized and operationalized to determine levels of services based on quality and comprehensiveness of the offering (Song & Li, 2018).

Effective marketing innovation requires a functional, efficient system within the organization. Gunday et al. (2011) found that manufacturing firms with high level of organizational innovation are more innovative in their marketing approaches, owing to effective business practices, organization of activities, and external relations with key stakeholders, such as customers and suppliers. In turn, marketing innovation drives product and process innovation, particularly in a customer-focused market (Reimann et al., 2010).

### 3.3 Approach 3: Innovating for Value Creation

The last approach to innovation is business model innovation, which is pertaining to redefining "existing value proposition to the customer or a company's established role in the value chain or both" (Moore, 2004, p. 88). Business model innovation aims to develop a framework or system that creates and delivers values to customers (Teece, 2010). Technology advancements are often the catalyst for business model innovation as real-time information and communication enable firms to deliver values in a speed that was previously not possible. The Internet has revolutionized the business landscape and provides limitless possibilities to create and deliver values that fulfill varying customer needs. Contents are created and shared instantly through information platforms, which bring together a valued network that connects organizations and consumers. The examples of such business model can be seen in some ecommerce markets, such as airlines, financial services, energy, grocery, and telecommunications, where consumers are connected with a constellation of providers that have a common goal to attract "traffic" (Holland et al., 2020). New business models, such as AirBnB, Uber Eat, and TripAdvisor, to name a few, are all built on platforms where consumers look for best suited offerings from a large number of providers that they would not have been able to identify in their own search. The differentiation is on the basis of how value is created and delivered, not necessarily on the products or services that are being considered. In addition, technologies have helped companies to understand their customers timely and precisely, owing to the use of sophisticated loyalty program, data analytics, and applications of big data. This makes targeted marketing and customization feasible.

Amazon's continuous business model innovation since 1994 has seen it become the largest ecommerce company in the world with over $386 billion revenue in 2020. Its business model has been transformed from an online book seller to an all-encompassing ecommerce business that offers 26 major product categories, and a superior, ever increasing value to their customers. It has simplified an integrated process of searching, ordering, delivery, and return through their technologies, warehousing, and value network management. Its business model has changed over time to create and deliver a superior value to customers. For instance, Amazon Prime membership started out as a subscription for customers to save delivery costs so that they can order when and as they need to. Overtime, the Prime membership has become a powerful way to engage and develop relationships with customers through added values, such as free streaming of contents, early access to special deals, etc. Such continuous business model innovation and transformation has given Amazon a sustainable competitive advantage.

Ocado as the first UK online supermarket has a business model that is different from all other supermarkets that offer in-store grocery shopping. The kinds of grocery products that Ocado offers are similar to that of the big four supermarkets in the UK, Tesco, Asda, Sainsbury's, and Morrisons. Ocado has a completely different business model from their inception in 2000. Initially, it formed a partnership with Waitrose and carried and delivered Waitrose's products alongside their own labels to customers in the UK. They redefined grocery shopping, which captures customer's need to save time. They have no physical stores to display and accommodate the products, but they have the state-of-the-art automatic warehousing facilities, customer interface that is designed to maximize customer experience and a loyalty program (SmartPass) that helps in understanding, engaging, and delivering values to their customers. Most importantly, they have the know-how of the online grocery shopping business model that they can leverage and franchise to other supermarkets globally. Ocado only captures a small fraction of the grocery market share at 1.7% in 2020, compared to the big four, ranging from 10–27%, but it overtook the leader, Tesco, to become the most valuable retailer in the UK, owing to its unique business model that encompasses technologies, processes, and know-how to create and deliver values.

## 4 Conclusion

The purpose of this article is to provide a way of thinking for firms to identify what and how to differentiate their commoditized products and services that are subject to increasing price competition. A clear focus on customer needs and perceived values, whether they be current, potential, anticipated, or unanticipated, is essential to first evaluate the possibilities of differentiation based on the seemingly indifferent generic product. This underscores the importance of the market orientation of a firm that informs and drives an overall strategic intent that is firmly and clearly focused on customer needs (Kohli & Jaworski, 1990; Narver & Slater, 1990). Commoditization might seem to be an eventuality, but the possibilities to create and capture values beyond an existing product manifest themselves through customer insight and changing business landscape. Innovation is the vehicle that transforms and realizes the values that are sought by customers. In this sense, marketing function has to be seamlessly connected to the innovation if a firm is to successfully compete and ensure a differentiated position in the market (Han et al., 1998), especially in a highly competitive environment such as a commoditized market that is characterized by intense price competition (Grinstein, 2008).

The three approaches to innovation that address commoditization necessitate changes in resource utilization and innovation capabilities. The first approach that deals with customer experience entails, at a basic level, adding services to an existing product, and as a total offering it enhances customer experience. It aims at moving away from competing on a like for like product, and instead offering a solution package that enhances customer intimacy and satisfaction. Economies of scale and the smooth implementation of the additional service provision are key to ensuring a profitable and competitive position. Therefore, firms need to be mindful of necessary capabilities needed for innovation as well as resources in place for implementation that captures the commercial potential. The second approach is utilizing marketing innovation to influence customer perceptions and strategically position the offering based on a more desirable, differentiated value proposition. An established marketing function, which is embedded in an efficient system of organizational arrangement and operation, is necessary to facilitate marketing innovation through effective business practices, organization of activities, and external relations with key stakeholders, such as customers and suppliers. The third approach requires a redefinition of values and a business system that can create and deliver values. Embracing technologies is important in creating and delivering values, but without a sound business model, the value cannot be fully realized (Chesbrough, 2010).

It is apparent that firms are operating in an increasingly complex, interconnected business landscape with customers becoming more sophisticated and knowledgeable as a result of technological advancements. In this situation, innovation is a resource intensive process with a complex set of resources and activities, which go beyond organizational boundary (Chesbrough, 2003). This means that firms need to be able to mobilize resources that reside outside of the organization through their network of counterparts, such as customers, suppliers, distributors, competitors, academic and professional research institutions (Thornton et al., 2019). Such an open system perspective is not particularly the focus of this article, but it provides a wider framework for firms to gather and make sense of important market intelligence, such as customer insights, competition, technological developments, supply and demand trends and potentials, etc. Following this, how marketing drives innovation to create, deliver, and capture values can be built upon this open system perspective, which requires firms to be continuously evolved in its use of resources and development of capabilities.

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