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**Business Model Innovation: How International Retailers rebuild their core business
logic in a new host country**

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Business Model Innovation: How the International Retailers rebuild their core business logic in a new host country

Abstract

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

1. Introduction

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

is important as noted by Rask (2014: 158) “An international perspective on business model innovation is rare in the literature but is a common phenomenon in business.” Rask (2014) further suggested that “internationalization through business model innovation involves the creation and reinvention of the business itself”, which is an important part of internationalization process as described in the revised Uppsala model (Johanson & Vahlne, 2009).

Even though the literature has attempted to identify typologies of business models (Lee, Shin, & Park, 2012; Osterwalder, Pigneur, & Tucci, 2005; Pateli & Giaglis, 2005; Weill, Malone, & Apel, 2011; Christoph Zott *et al.*, 2011), very few are about business model innovation (Foss & Saebi, 2017; Schneider & Spieth, 2013), especially in the international context (Anwar, 2015; Zucchella & Siano, 2014). What becomes clear is that to understand business model innovation and the activity driven strategies from home to host country, there is a need to explore local contextual factors that impact on the business model and furthermore how these contextual variations affect the changes of the business model (Dunford, Palmer, & Benveniste, 2010). Dunford *et al.* (2010: 656) suggested that business model literature so far has paid much less attention to the specific details of processes whereby new business models are “discovered, adjusted and fine-tuned” in one given host country. Most of the studies have been cross sectional (for example, Calof & Beamish, 1995; Machado-da-Silva *et al.*, 2001). There is call for a sharper focus such as within particular industries, for example, the retail industry (Massa & Testa, 2011; Sorescu, Frambach, Singh, Rangaswamy, & Bridges, 2011) and service-based companies (Castaño, Méndez, & Galindo, 2016; Kindström, 2010). The business model literature suggests that the process of business model innovation can be considered as an on-going learning process (Chanal & Caron-Fasan, 2010; McGrath, 2010; Sosna, Treviño-Rodríguez, & Velamuri, 2010) with the need to consider what is known as double-loop learning (changing underlying values and assumptions) (Moingeon & Lehmann-

Ortega, 2010). Given the close relationship between organizational learning, innovation and internationalization (Chiva *et al.*, 2014), we believe using organizational learning as a framework to classify the different patterns of business model innovation in the international context provides a promising angle.

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

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

It, therefore, becomes important to mobilize two conjoined theoretical perspectives: internationalization, and organizational learning to address one neglected question. **What are the different patterns of business model innovation which enables international retailers to rebuild their core business logic in new host country?** We focus on the retail industry in one given host country for three reasons: **First**, as we discussed previously, the studies of business model innovation in the international context need to concentrate on a small number of industry segments and countries in order to control industry/segments or country-specific differences (Landau *et al.*, 2016; Schmid & Kotulla, 2011). **Second**, in contrast to the

international manufacturing firms, the international retailers are more embedded into the local business environment and their practices encompass a broader range of activities as they seek to develop new ways for interacting with the local customers and the local suppliers (Currah & Wrigley, 2004; Dawson, 1994).

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

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

In the remainder of the paper, first we review briefly the concepts from previous research regarding retail business model and organizational learning. Then we provide a detailed account of our qualitative research design and methodology. Subsequently, we report our findings and link them with previous research. The paper concludes with the theoretical and managerial implications and suggestions for further research.

2. Literature review

We draw our literature review from three research streams: retail business model, internationalization of retail firms (retail business model innovation in a new setting), and organizational learning.

2.1 Retail business model

Research into business models has grown exponentially in the last two decades, but there is no consensus on what is a business model which often causes confusion among scholars as well as managers (Foss & Saebi, 2017, Zott *et al.*, 2011). In an extensive review of over 40 definitions from 216 articles, Massa *et al.*, (2017) summarized three distinct interpretations regarding the role of business model: business model as attributes of real firms have a direct real impact on business operations, that is, the core logic with which an organization achieve its goals; business model as cognitive/linguistic schema, that is, the dominant logic capturing how a firm believed to operate; and business model as formal conceptual representations or descriptions of how an organization functions, that is, business model as a scaled-down simplified formal conceptual representation. In an earlier review, Zott *et al.*, (2011: 19) considered the common ground of various business model conceptualization and characterized business model as “as a new unit of analysis, as a system level concept, centered on activities, and focusing on value.” Zott and Amit (2013: 403) suggest that the business model is “a theoretically anchored robust construct for strategic analysis.”

In this paper, we consider business model as a concise representation of a firm's underlying core logic for creating value for its stakeholders (Magretta, 2002; Shafer, Smith, & Linder, 2005; Sorescu *et al.*, 2011; Teece, 2010). This core logic suggests that a properly crafted business model helps articulate and make explicit key assumptions about cause-and-effect relationships and the internal consistency of strategic choices (Casadesus-Masanell & Ricart, 2010; Shafer *et al.*, 2005). The strategic choices are related not only to the structure of the value chain (Zott & Amit, 2010), but also regarding the choices of customer (Magretta, 2002; Morris, Schindehutte, & Allen, 2005) and value proposition to these customers (Johnson, Christensen, & Kagermann, 2008; Morris *et al.*, 2005; Teece, 2010). The consequences describe whether the firm can create and deliver value to customers and to itself (Magretta, 2002; Sorescu *et al.*, 2011; Teece, 2010).

Drawing from these core ideas, we define a retail business model as a representation of a firm's underlying core logic and strategic choices of target client (customer), shopper value (value proposition) and the structure of retail value chain for creating and delivering value to the firm itself and its customers.

In other words, we follow the first interpretation of business model conceptualization as identified by Massa *et al.*, (2017). This interpretation of business model is especially relevant to research into internationalization of firms as it “sought to shed light on the role of business models in competitive dynamics and (superior) performance”, explicitly deal with “organizations themselves and their network of partners” (Massa *et al.*, 2017: 79, 88), and “defines also the role a company chooses to play within its network. (Onetti *et al.*, 2012: 362)” In their revised Uppsala model, Johanson & Vahlne (2009) regard reciprocal commitment between the firm and its counterpart as essential requirement of successful internationalization.

2.2 Internationalization of retail business: retail business model innovation in a new setting

Since the Uppsala internationalization process model first proposed by Johanson & Vahlne (1977), significant changes in business practices and theoretical advances have been made in the international business literature (Seno-Alday, 2010). Johanson & Vahlne (2009) revised the Uppsala model based on the view that the business environment faced by an internationalizing firm could be considered as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers. Coviello & Munro (1997: 382) suggest that “from this network-driven behaviour, cognitive development also occurs”. Departing from this revised Uppsala model, Blankenburg-Holm *et al.*, (2015) argue that internationalization process can be understood as a transition from the position of being outsiders to become insiders in the foreign market business network through opportunity recognition and exploitation. Moreover, internationalization of the firm can also be understood as an innovation decision process (Andersen, 1993; Johanson & Vahlne, 2009; Jones & Coviello, 2005). Therefore, Chiva *et al.*, (2014) suggest researches in international business field should link the concepts of organizational learning, innovation and internationalization to better understand the knowledge-based economy in the age of globalization”.

The internationalization literature (e.g. Chiva *et al.*, 2014) claims that there is a positive and reciprocal relationship between internationalization and innovation and argues it from different dimensions. First, innovation facilitates internationalization because it confers market power (Roper & Love, 2002) and competitive advantage (López Rodríguez & García Rodríguez, 2005) on the firms to compete in foreign markets. Second, innovation motivates internationalization because innovative firms tend to expand their markets in foreign countries for increasing their sales volumes (Rogers, 2004) or their pay-off from uncertain

innovations (Hitt, Hoskisson, & Ireland, 1994). Third, internationalization improves the firms' ability to innovate because it enriches the firms' sources of knowledge and allows the firms to get new ideas from foreign markets (Hitt *et al.*, 1994). Therefore, it seems relevant to conduct a study in the international business field from an innovation perspective.

There are different types innovation (OECD, 2005). However, business model innovation is increasingly emerging as an important aspect in international business studies (Rask, 2014).

At an abstract level, Business model innovation has been defined as the “process of defining a new, or modifying the firm’s extant activity system” (Amit & Zott, 2010: 2) or “the discovery of a fundamentally different business model in an existing business” (Markides, 2006: 20). Sorescu *et al.*,(2011) define retail business model innovation as “a change beyond current practice in one or more elements of a retailing business model (i.e., retailing format, activities, and governance) and their interdependencies, thereby modifying the retailer’s organizing logic for value creation and appropriation”.

Combining these ideas and our definition of retail business model, we define a retail business model innovation as a change beyond current strategic choices of a retailing business model (i.e. target clients, shopper value, retail value chain), thereby modifying the retailer’s underlying core logic for creating and delivering value to itself and its customers.

Retail firms’ internationalization in contrast to that of manufacturing firms has its own specific characteristics (Currah & Wrigley, 2004; Dawson, 1994; Sparks, 1995). In general, international retailers are more embedded in the local context than production-based international firms (Cao & Pederzoli, 2013; Wrigley, Coe, & Currah, 2005). For example, international retailers have direct contact with consumers in the host country, which makes retailing highly culture specific (Vida, Fairhurst, & Reardon, 2000). As for sourcing and supply chain activities, food retailers in particular still source the vast majority of their

products from the local suppliers (Coe & Hess, 2005), which makes retailers' competitive advantages more vulnerable to local business practices and existing relationships. Furthermore, international retailers need to sink capital into physical assets such as the store network and the infrastructure of distribution and logistics, which connects them intricately to the real-estate and land-use planning system of the host country (Wrigley & Currah, 2006).

In response to these challenges, interest in business model innovation for international retailing studies seems particularly pertinent as it provides a useful tool capable of simultaneously considering all relevant internal and external factors (Schneider & Spieth, 2013). Understanding the mechanism of retailers' internationalization is therefore from the perspective of rebuilding the firms' core logic in host country rather than limiting its scope of transfer or innovation on single retail concepts or formats (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002). We argue that research into business model innovation in the host country for MNEs will provide new insights on this point as business model describes the position of the firm within the value network linking suppliers and customers (Chesbrough 2010) and business model innovation therefore useful for the firm to map and seize the opportunities for value creation across the network (Bocken, Rana, & Short 2015; Massa *et al.*, 2017).

2.3 Organizational Learning, Innovation and Internationalization: An Analytical Framework

Building from the above arguments and from an organizational learning perspective of internationalization literature, we propose an analytical framework for classifying the international firms' business model innovations in the host country.

In general, the literature posits close relationships between organizational learning, innovation and internationalization (e.g. Alegre & Chiva, 2008; Chiva *et al.*, 2014; Molero, 1998). In particular, research suggests that the process of business model innovation can be

considered as an organizational learning process (Chanal & Caron-Fasan, 2010; McGrath, 2010; Sosna *et al.*, 2010). Therefore, it seems relevant from an organizational learning perspective to identify the axes by which business model innovations could be classified.

Jansen, Van Den Bosch, & Volberda (2006) discuss that innovation could be incremental or radical, that is, based on exploitative or explorative organizational learning. Exploitation refers to “refinement, efficiency, selection and implementation” (March, 1991: 71). Exploitation is operational efficiency-oriented arising from the incremental improvement of existing organizational routines to enable the firm to realize economies of scale, and consistency through the application of standardized practices across all its units. For example, international retailers’ global integration (e.g. application of standardized practices across nations) is essential for them to reduce costs, optimize return on investments and protect their established reputation (Swoboda, Elsner, & Morschett, 2014).

However, exploration refers to “search, variation, experimentation and innovation” (March, 1991: 71). Exploration is the development of new routines to capitalize on novel environmental conditions, but more time consuming, entails uncertain results, and has a longer time horizon than refining current knowledge and extending current competencies (March, 1991; Sorensen & Stuart, 2000). For example, international retailers may innovate on different dimensions: retail formats, branding, assortment, customer experience, information technology, new media, handling of payment and order fulfilment for addressing the challenges raised from host countries which are different from those of their home country (Reinartz, Dellaert, Krafft, Kumar, & Varadarajan, 2011).

As explorative learning and exploitative learning are relatively contradictory but also interdependent, Li (2010) suggests that such duality of exploitative and explorative learning is essential for international business especially for cross-border learning. Using such a lens

therefore enable us to scrutinize business model change patterns and thereby business model innovation when MNEs move to host country from home country.

Although both exploration and exploitation are essential for organizations, they compete for scarce resources (March, 1991). The resources which foreign subsidiaries of the international firms draw upon may be located in the home base of the firm and/or the subsidiary's host country environment (Frost, 2001). Even though the valuable, rare and inimitable resources from parent company are deemed important sources of competitive advantages for its foreign subsidiary, the ultimate successful deployment of these resources requires not only the parent's transference of resources but also the subsidiary's absorptive capability and motivation to effectively utilize these resources (Fang, Wade, Delios, & Beamish, 2013). The parent company generally is in the position to select, reconfigure and integrate existing resources to address changing environments (Teece, Pisano, & Shuen, 1997). However, the subsidiary's motivation to learn from its parent and its ability to integrate locally the transferred resources is important (Zahra & George, 2002). The development of governance mechanisms to assist in the transference and use of resources while ensuring protection against misappropriation and misuse by subsidiaries seems a fundamental premise for the international firms (Teece, 2007).

Furthermore, subsidiaries also have to learn to use their local-based, external resources as they may face constraints both in term of quantity and type of resources required to build its competitive advantage in the host market (Tseng, Tansuhaj, Hallagan, & McCullough, 2007). Therefore, the effective exploitation and exploration of local resources require the subsidiary's dynamic capability to combine external local resources and internal resources together (Buckley, Munjal, Enderwick, & Forsans, 2016). The strategy for the international firm to decentralize is seen to be important in ensuring that both the flexibility and responsibility of the subsidiary is not eroded (Teece, 2007).

To sum up, drawing from an organizational learning perspective and the internationalization literature, an analytical framework for classifying the international firms' business model innovations in host country could therefore be built with two dimensions: organizational learning capability (exploitation vs. exploration) and source of resources: (home-based vs. host based resources). We apply this analytical framework in our case studies of international retailers in China. The results of this study allow us to identify the major patterns of international retailers' business model innovations as well as the concrete routes to rebuild the firms' core logic in the host country under each pattern. We report the details in the next sections.

3. Research Methodology

To evaluate the research questions we used a multi-case inductive study approach, based on a comparative analysis of 15 companies. Given the complexity of describing business models (Smith, Binns, & Tushman, 2010) the multi-case study approach enabled the collection of data from multiple sources instead of self-reported events (Yin, 1994). Furthermore, it enabled the examination of each firm's behavior over a reasonable period time rather than being a simple cross sectional check. The use of multiple case studies allows a replication logic which tends to yield better grounded theories and more generalizable results than those from a single case study (Eisenhardt & Graebner, 2007). In our research, we followed the procedure recommended by Eisenhardt (1989) and Yin (1994).

3.1 Unit of analysis

The unit of analysis is the business model of an organization at the level of strategic business unit (SBU) which is defined here as a given retail format in a given foreign market. For example, Carrefour hypermarket China and Carrefour hypermarket France are two different SBUs. Carrefour hypermarket China is also different from Carrefour supermarket China. If

the international retailer operates multiple retail formats in China, we focused only on its dominant retail format in that market while we were carrying out this research. For example, we realized our interviews with the managers of Carrefour China in 2005 when it operated 70 hypermarkets but only 8 supermarkets in China (Carrefour Annual report 2005). We therefore only chose to study Carrefour hypermarket being the major retail format exploited by Carrefour in China.

3.2 Sample selection and justification

Fifteen international retailers from a total of 152 registered in China (Database of Ministry of Commerce, P.R. China) were selected. Suitable firms were chosen using the following criteria as shown in Table 1. First, a high level of retail sector representativeness was required. Nearly all these firms were listed in top 100 retailers in China. Second, these firms were richly diversified in terms of sector of activity, entry mode, order of entry and country of origin, enabling our theory build.

[Table 1 about here]

For each company, we collect the data through documentation and semi-structured interviews. To gain contextual and company-based information we also used a wide range of databases such as EBSCO, Euromonitor, Factiva, Xerfi 700doc, S&P Capital IQ as well as the firms' websites, existing case analysis of individual companies (available from the European Case Clearing House (ECCH)), archival data from the investigated companies, as well as other sources such as retail business portals (e.g. www.linkshop.com.cn). We then identified managers who were involved in both strategic decision-making and strategy implementation for the interviews. These included Chief Executive Officers (CEOs), Chief Operating Officers (COOs), and General Managers and Directors operating in different functions (See Table 1). A total of 18 face-to-face digitally recorded semi-structured interviews of top

managers were conducted from the 15 selected firms (in three companies we interviewed two managers). The interviews commenced by initially identifying each manager's understanding of the Chinese retail industry, their firm's business strategy; their role in the firm and how their firm sought to achieve a competitive advantage in Chinese markets. Using open-ended questioning we were able to identify: each organization's strengths and weaknesses, the methods used to establish the local consumers' requirements, the retail solution for host country consumers and the implications of these solutions to the organizational core logic of each firm. We then explored how the organizations adapted their home country business model to the specificities of the Chinese market and what resources were transferred. To enable responses to be easily compared interviews with uniform and structured close-ended questions (Wimmer & Dominick, 1997, p.139; 156) were carried out in order to establish insights into firm performance, such as, sales turnover, number of stores, inventory turnover, etc.

Potential informant bias was addressed in several ways. First, the interview guide was developed by initially piloting the questionnaire with two experts: an academic, expert in the retail field, and a retail industry expert. Second, the use of open-ended questioning focusing on the firm's strategic activities rather than on general descriptors, helped to limit recall bias, following the "party line", and to this extent enhanced the level of openness and accuracy (Koriat, Goldsmith, & Pansky, 2000). Third, to prevent causal and temporal inferences we triangulated the data enabling a systematic examination of data from multiple sources which raised more questions, enabling verification, and therefore reducing the likelihood of data and researcher bias. For example, in addition to the information gathered from the managerial interviews, we collected more objective data from other sources such as S&P Capital IQ. Finally, as part of the verification of the data process we also carried out post-interview e-

mail and telephone follow-ups to reiterate and clarify the data obtained, and to ensure that it was a true reflection of what the interviewees intended to express.

3.3 Data analysis procedure

We conducted a five-stage data analysis (the data analysis procedure is described in Figure 1).

[Figure 1 about here]

First, we assembled the data from the multiple sources in chronological order for each study unit. (e.g., all data gathered from interviews, database, company published reports, external reports etc.). The data was validated by undertaking parameter comparisons for each of the companies enabling the data-set build –up for each study unit.

Second, we undertook the coding process using Nvivo9 and assigned labels to the each retailer’s strategic choices from three dimensions: target clients, shopper value propositions and retail value chain (see Appendix 1). With respect to establishing the retail value, we identified and summarized the key strategic activities for each study unit using (Swoboda, Foscht, & Cliquet, 2008) twelve categories: conception of products, production of private label products, procurement, logistic, retail concept, HR management, financing and accounting, organization/structure, information system, relationship with suppliers, relationship with customers and CSR (see Appendix 1).

Third, we compared the business model of an international retailer between home and host country and wrote the summary for all 15 sample companies (see Table 2).

[Table 2 about here]

Fourth, by so doing we were able to identify the key strategic choices and consequences for each unit of analysis. The choices are related to the strategic changes of an international

retailer in the host country. The consequences were observed from two dimensions: value created for consumer and value created for the enterprise. We then were able to draw “a causal loop diagram” for each study unit in host country. The causal loop diagram, which was first introduced by Casadesus-Masanell and Ricart (2010: 198), is a useful way to represent a business model where strategic “choices and consequences were linked by arrows via causality theories”.

We illustrate our approach of building a causal loop diagram through the example of 7-Eleven China. For instance, we are able to draw the causal linkage between the strategic choice of “alliance with local partner” and the consequence of “reduction of purchase cost” based on the analysis of the documents of the firm. This result was confirmed and enriched by the statement of the interviewee *“7-Eleven in South China has strong negotiation power with the suppliers for some categories of products as we shared the source of purchase with our local partner Dairy farm international Corp., HK”*. We, therefore, draw a logic flow from “alliance with local partner” to “reduction of purchase cost” which in turn contributes to the effect of “low cost” and “high profit (value created to the firm)”. Figure 2 shows the main logic flows from strategic choices of 7-Eleven China to their consequences. The same analysis was applied for all the 15 companies in the sample.

[Figure 2 about here]

Fifth, based on the above results, we classified the routes of business model innovation. Five firms were dropped as they did not arrive at rebuilding the core logic of their business models implemented in China (See Table 2). For the remaining 10 firms, we conducted a cross-case analysis using a constant comparing method. The objective of these cross-case analyses with no *a priori* hypotheses was to build our theory (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). Each change was labeled with a label – for example, we assigned the label “Alliance

with local stakeholders” to the changes on the procurement policy “more than 70% products sold at local stores are made in China and establishing the long relationship with more than 300 Chinese suppliers”. Then, the next unit of data was analyzed and compared with the first. If similar, it was assigned the same label. If not, it was coded as a different concept. This step enabled us to identify 6 routes of changes for international retailers to rebuild the core logic of their business model in a host country (see Table 2). We present these in detail in our research findings.

4. Findings: Six routes of retail business model innovation to rebuild the core logic

We now present the different routes of retail business model innovation which the international retailers adopted to rebuild the core logic of their business models in China. We then move on to discuss the critical activities which drove the firms to create and capture values which can be organized into three patterns. Table 3 shows the incidence of patterns to rebuild core logic: legitimatizing brand image in the local market, new innovation for the local market, alliance with local stakeholders, sharing resources within the group, transferring knowledge from headquarter and imitating the local competitors.

[Table 3 about here]

4.1 Legitimizing brand image in the local market

Two firms (7-Eleven and Zara) pursued the route of legitimatizing their brand image in the local market to rebuild core logic. Both these two firms reviewed their target segments and provided the local consumers with new shopping values to meet the local market demands rather than the proposed shopping values of the home market.

“In Japan we target clients living or working within 300m walking distance from the store. However, in China we refocus towards new target clients: students and urban white collar

groups, who were time restricted, low price sensitive, open minded to a new concept of retailing and inclined towards the western life style”. [Deputy MD, 7-Eleven China]

They emphasized symbolic values and integrated them into their brand identity in the local market. For example, 7-Eleven proposed the value of modern lifestyle and Zara made European brands affordable to Chinese consumers.

“For our clients, shopping in our stores, it is not only for buying but also one way to access the modern life.” [Deputy Managing Director, 7-Eleven China]

The brand image successfully established by these two firms enabled them to obtain a price premium in the local market, setting a higher price level than their competitors in the host market (7-Elven) and in the home market (Zara). As a result, they were able to create values both for the local consumers and for the firms themselves. The value-based logic being rebuilt after the transfer of the business model from home to host country.

“We set higher price in China than in Europe. Here, we target only young people in 18-35 years old and living in big cities. They are high sensible to the fashion but most of them without the ability to afford the international first-line brand. I think our competitive advantage is that we are European brand, and are able to provide them latest design similar as international first-line brands, but much cheaper”. [Director, Zara China]

Following the legitimatization of the brand image in the local market, the firms sought firstly, to achieve a social fit with the local market by proposing an appropriate shopper value. In enabling this the firms invested heavily in market research to gain insights into consumers’ expectations, social norms and industrial environment of the local market.

“Although our first store was just opened in China, we had prepared our entry in China for a long time. In fact, our first office of market research was opened in Shanghai since 10 years ago.” [Director, Zara China]

Second, the firms sought a fit between the shopper value proposition and retail value chain build. The firms reformed their retail value chain in order to create and delivery new shopper values to the local consumers and thus to achieve competitive benefits.

“We opened our stores in privileged commercial zones in Shanghai and Beijing, spending a lot on store decoration. Our transport cost is also relatively high because sometimes we delivery our new collections to the Chinese market by air instead of road, in Europe. We introduced our new collections at the same time between in Europe and in China. The cost escalation in China was partially compensated by the price premium we got, but we should still reduce the cost. We improved again our efficiency by centralization of design and logistics. We did also some local sourcing. Today, 35 percent of products sold in our Chinese stores were sourced in Asia.” [Director, Zara China]

4.2 New innovation for the local market

Seven of the firms in the sample (7-Eleven, Decathlon, Parkson, Carrefour, Metro, Etam and Sephora) pursued the route of developing new innovation for the local market and rebuilding their core logic For example, companies such as 7-Eleven, Decathlon, Carrefour, Metro and Sephora developed specific products and services for the local markets.

“We respect local consumer habits and started to sell living fish in our stores like in other traditional wet markets in China”. [Managing Director Carrefour China]

As these innovations brought about real added value to the local consumers, the firms sought to command a price premium in the local market and maintain a value-based logic. Therefore,

these new innovations for the local market became important sources of competitive advantage for the firm.

“We can stand out in the market, not because of the advantage on the price but because of our services. In the past thirteen years, we continued to introduce new services in China. Our success depended on not only our advanced technologies and management systems transferred from our group, but also our local experiences which enabled us to provide innovative convenient services which the local consumers really needed.” [Deputy Managing Director, 7-Eleven China]

Apart from the innovations for developing new products and services, three out of the seven firms (Decathlon, Parkson and Etam) focused on process innovation to reduce costs of inventory, operation, etc. As a result, these innovations enabled the firm to rebuild an efficiency-based logic.

“In January 1995 we opened our first shop in Shanghai. In the past decade of our development in China, we used our successful experiences in France. But more important, we fully studied the special characteristic of the Chinese market and innovated a new way to develop store network. Different from the stand alone stores in France, we opened our stores integrated within big department stores (shop-in-shop) with relatively low cost of network development. Quite quickly, Etam became the well-known brand in China.” [Managing Director, Etam China]

Following the route of new innovations for the local market, the recruitment and promotion of local talent was seen to be critical for the firms. As the local staff understand the local market better than the expatriate employees, attracting local talent and creating favorable working conditions for them helped many of the firms to achieve a superior insight into the

local market. The firms were able to use a more qualitative knowledge of local consumer preferences and capture the value by way of new product/service or process innovations.

“Our key successful resources are our ten years’ local experiences. Every year, we recruit young talents from renowned universities in China and provide them with adequate training and promotion opportunities.”[Deputy Managing Director, 7-Eleven China]

4.3 Alliance with the local stakeholders

Four firms (7-Eleven, Decathlon, Zara and Watson’s) pursued the route of alliance with the local stakeholders to rebuild core logic. All these firms found the right local partners or local suppliers in order to achieve “embeddedness” in the local supply systems and the local cultures of consumption.

“We found our local partner Shanghai Zhonglu group which helped us to learn the Chinese market and open our first retail store in Shanghai in 2003.” [Director, Decathlon China]

Moreover, the Chinese subsidiaries of these firms played the role of hub to facilitate the transactions between Chinese suppliers and global sourcing for their whole group.

“We started our business in China since 1992 from sourcing the products here for our stores in other countries. We well established four supply centers respectively in Shanghai, Guangzhou, Shenzhen and Tianjin. We are closely working with more than 300 Chinese suppliers. In 2003, we exported 300 million US dollars products from China to the other countries where our store are located.” [Director, Decathlon China]

The big volume of global purchasing with suppliers in the host country facilitated the firms to achieve a stronger bargaining position and effectively reduce the cost of purchasing. As a

result, enabling the firms to become more efficient and to rebuild their core logic in that local market.

“We continued to reduce the cost of purchasing. Now, more than 70% products sold at our stores in China are supplied by the local suppliers which also supply our global market.” [Director, Decathlon China]

Regarding the pattern of alliance with the local stakeholders, the efficiency was not created only within an individual firm level but across the entire network of suppliers and customers. Although increasing the volume of transactions is certainly important, what is seen to be more critical for the firms is to enable the local suppliers to integrate quickly into the global value chain of the relevant activity.

“Local suppliers are motivated to do the business with us as they intend to integrate into our global sourcing system or even into the whole global value chain of sport products. We organized the training and the seminars for them in order to help them to meet our international standard of the products. Today, one third of products in the global market of Decathlon are from China. The importation from China is developed in our group in double-digit annual growth.” [Director, Decathlon China]

4.4 Sharing resources within the group

Six firms (Parkson, Auchan, Carrefour, Zara, Etam and Sephora) in rebuilding their core logic sought to share resources within the group.

“The purchasing of Auchan China was integrated into the Auchan global sourcing.”
[Communication Director, Auchan China]

Apart from centralizing procurement, Zara integrated its logistics management across the countries.

“Each Zara store, either franchisee or company-owned store, should use the standard information system which was developed by our group in order to share data in real time. Our distribution center is located in Spain. Everyday it is able to distribute 2.5 million products to the diversified destinations across world.” [Director, Zara China]

The centralization of procurement and/or logistics enabled the firms to benefit from economies of scale and improve the efficiency of their supply chain. The cost of purchasing and inventory were effectively reduced. As a result, the firms were able to rebuild efficiency-based logic.

Furthermore, the firms in China established privileged relationships with some key suppliers by sharing the source of supply with their group. The existence of such relationships often made it quite difficult for the local competitors to access the same suppliers. This strategy enabled the firms to create value to the local consumers, even achieve a price premium in the market and rebuild their value-based logic.

“We share the source of international purchasing. For example, nearly all the famous brands in the category of cosmetic products collaborate with us. They have already done the business with our stores in south-east Asia. Now for our stores in China, they continue to supply us.” [Chief Operating Officer of the northern region, Parkson China]

Following the route of sharing resources within the group, creating appropriate an organizational structure was critical for the firms. Most firms managed their activities in a centralized way in order to facilitate the integration and coordination of activities across different functions and business units within the group. However, for internationalizing decentralization was seen to be important to maintain flexibility and responsibility especially in highly fragmented markets, such as the Chinese market. Therefore, finding a fine balance

between centralization and decentralization was a significant challenge for international retailers.

“The negotiations with suppliers are organized in several levels in our group: international, national and local. Even we have our global sourcing centers, we have also our local purchasing teams. We think it is a good solution to provide the products which the local consumers specially need.” [Managing Director, Carrefour China]

4.5 Transferring knowledge from headquarters

Eight firms (7-Eleven, Decathlon, Auchan, Carrefour, Metro, Zara, Watson’s and Sephora) pursued the pattern of transferring knowledge from their headquarters to rebuild the core logic. The systems, best practices and retail technologies transferred from headquarters to subsidiaries in host country helped the firms implement their activities in a more efficient way than their local peers and thus enabling a rebuild of an efficiency-based logic.

“The adoption of the same system of supply chain management in China as in Germany helped us effectively reduce the cost of inventory and quickly respond to the needs of local consumers.” [Deputy managing director, Metro China]

The firms also transferred their store concepts from headquarters to the host market. These new store concepts quickly filled the gap between Chinese consumers’ changing needs and traditional local retailers’ inability to fill them. There was a clear shift in the shopping habits of the local consumers who sought a more modern lifestyle and shopping experience from these new concept stores.

“Our concept is totally new in the Chinese market. The consumers in our store can touch the product, freely test them. The products are displayed in terms of three categories instead of different brands. That may facilitate the consumers to compare the different

brands in one category of products. Moreover, we give professional advice to the consumers. The merchandising, atmosphere and the rich color in store...The consumers enjoy their shopping.” [Managing Director, Sephora China]

Furthermore, the transfer of knowledge on quality control of products effectively helped the firms to build a reputable brand image in the local market. This value was appreciated by the local consumers, especially middle class consumers who were sensitive to the quality of products rather than the price. Therefore, the transfer of knowledge from headquarters to home market enabled the firms to create added-value to the local consumers and a price premium in the local market. As a result, this facilitated the firms to rebuild their value-based logic.

“We respect strictly the rules and standards related to the supply chain management for fresh food. The variety, origin of production and producer are strictly selected. Then the producing process is inspected and controlled. The products that conform to the quality of system of Carrefour are allowed to be sold in no matter which stores of Carrefour in the world. We differentiate from other competitors here by the safe and fresh foods.”
[Administrative Director, Carrefour China]

The experiences and best practices transferred from home to host country was seen to be invaluable. For example, the home firm employees conducted training, internally and within the field and also set up internship programs for the local staff. Tacit expertise could be shared at a distance through the virtual platforms built by the group.

“The transfer of company culture and experiences in Carrefour is traditionally by oral means, by the expatriates, especially the Taiwanese, and also by the training internship program.” [Managing Director, Carrefour China]

The knowledge transferred was shared both formally (joint projects, functional meeting and visits) and informally (personal network).

“This exchange of best practices had been done everywhere. In Sephora we did many business trips. We learnt on site by visiting our stores in different countries.” [Managing Director, Sephora China]

4.6 Imitating the local competitors

Two firms (Auchan and Carrefour) pursued the pattern of imitating the local competitors to rebuild core logic. The firms learnt from the local competitors some supply and logistic solutions which were specially efficient and adequate to the special characteristics of the local markets.

“At the level of logistics, we adopted flexible and diversified ways even using tricycle motor to deliver the merchandise to the stores. As the poor logistics network in China when we had started the business here, most of our products were delivered directly by the suppliers to each of our stores instead of collected by our distribution center and then dispatched to each store. This solution which effectively had reduced the cost of logistics under the conditions in China at that time was similar as our local competitors are doing, but different as we did in Europe.” [Managing Director, Carrefour China]

The complexity in the local markets and the big psychic distance between the home and the host markets bring about a high level of uncertainty for the firms. They had to learn not only from their own experiences in other countries but also from their local peers' experiences in order to reduce the uncertainty. The “embeddedness” of the international firm into the local business culture helped the firm to find the most efficient way to organize its supply and logistics systems in the local markets, in the attempt to rebuild an efficiency-based logic.

In imitating the local competitors, a strong understanding of the local business culture was seen to be essential.

“It was these very interesting experiences that showed me that we are in another world. If you come to China with preconceived ideas after having been successful in Europe or the U.S., you make mistake after mistake.” [Managing Director, Carrefour China]

Some firms sought to undertake experiments to understand how the local business culture worked. Two firms undertook research in Taiwan (as a proximate country to mainland China). Such pilots or experimentation enabled the firms to gain an insight as to how to balance standardization and adaptation in setting up in a new host country.

“We discovered Chinese culture and the way to work with the Chinese suppliers in Taiwan.” [Managing Director, Carrefour China]

5. Findings: Three patterns of retail business model innovations

The findings of this study suggest six routes of retail business model innovations as well as their critical activities. These six routes of retail business model innovations can be categorized into three patterns in terms of their organizational learning capability (exploitation vs. exploration) and resources to which they deploy (home-based vs. host-based). These three patterns of retail business model innovations are presented in Figure 3.

[Figure 3 about here]

In pattern 1, international retailers exploit their established resources which are generated in their home market, such as brand reputation, privileged relationship with key suppliers, international distribution center, retail systems and technologies and best practices. Emphasis of this pattern is placed on the extension of the firms’ existing products and technologies in order to capitalize upon the firms’ established knowledge base.

In pattern 2, international retailers exploit existing resources in the environment of host markets where their subsidiaries operate. The firms may achieve these resources via alliance with the local stakeholders or imitating the local competitors. The integration of these resources into the firms' adaptive processes aids the customization of existing products and technologies to the local market needs. Emphasis on this pattern is placed on the embeddedness of the international firms into the local business environment in order to adapt to local needs and reduce the uncertainty.

In pattern 3, international retailers develop new products, service or business process based on stimuli and resources (e.g., from customers, regulatory agencies, or competitors) in host markets where their subsidiaries operate. The subsidiaries themselves may emerge as the center of excellence within the firm for particular products and technologies. The autonomy of the subsidiaries allows local talents to pursue innovative paths that are more compatible with their own education, training, and experience. Emphasis on this pattern is placed on the autonomous set of activities of the subsidiaries that are less closely aligned to the existing resource base of the firms.

International retailer seem inclined to follow more than one pattern of business model innovation to rebuild their core logic in China, such as three patterns for the cases of 7-Eleven and Carrefour and two patterns for the rest of the firms listed in Table 3.

6. Discussion and Conclusion

Internationalization of the firm can be understood as an innovation decision process (Andersen, 1993; Johanson & Vahlne, 2009; Jones & Coviello, 2005). Existing research suggests organizational learning, innovation and internationalization are linked together in a complex way (Chiva *et al.*, 2014). Business model innovation provides a new source of sustained value creation for firms therefore a source of future competitive advantage (Foss &

Saebi, 2017). We argue that research into business model innovation in the host country for MNEs will provide new insights into internationalization process as business model innovation not only deal with views from the ‘supply side’ but also the ‘demand side’ (Massa *et al.*, 2017).

However, on the question of whether there exists different patterns of business model innovation which enable the international firms to rebuild the core logic of their business model in host country, we note that little study is available (Schneider & Spieth, 2013). Our study focuses on the retail industry and analyses the data collected from 15 international retailers in China. Our findings reveal six potential routes of retail business model innovations: legitimatizing brand image in the local market; sharing resources within the group, transferring knowledge from headquarters; alliance with the local stakeholders; and imitating the local competitors; and new innovation for the local market. Apart from the new innovation for the local market, five of the six routes are exploitative business model innovations. From the organizational learning perspective, these six routes can be clustered into three patterns of resource deployment: extension of existing knowledge base, embedment with the local environment, and autonomic exploration of subsidiaries (see Figure 3). The first two patterns (extension and embedment) are exploitative learning in nature, whereas the third pattern (autonomy) is explorative. These patterns provide novel insights into the nature of the internationalization process as “multilateral rather unilateral” as in the original model of Johanson & Vahlne (1977) and the process is “also inter-organizational and not just intra-organisational” (Johanson & Vahlne, 1990: 19). They also disclose different ways of MNEs which recognize and exploit opportunities together with or against their local partners in the host market, therefore addressing the call by Forsgren (2016: 1139) regarding how various “counteracting forces affect the shape and direction of the internationalization process.”

6.1 Theoretical implications

We extend the research on international business literature by providing an analytical framework for explaining how the firms adapt and/or renew their business model in international context. Although prior research (Calof & Beamish, 1995; Machado-da-Silva *et al.*, 2001) has considered the product, mode and organizational changes made by the firms while internationalizing, it has not clarified the interdependency between the changes of these elements as well as the consequences of the changes. To address this knowledge gap, we adopt the theoretical lens of organizational learning and internationalization to examine business model innovation which enables us to systematically examine the changes on the firms' varied dimensions between home and host market and the consequences which the changes may result. Furthermore, we augment the study of the relationship between organizational learning, innovation and internationalization (e.g. Alegre & Chiva, 2008; Chiva *et al.*, 2014; Molero, 1998; Cerrato, Crosato, & Depperu, 2016) by adding the new dimension of resources (home-based vs. host-based). Our study into business model innovation in the host country of international retailers thus deepens our understanding of the complex and dynamic relationships of these four key ingredients for the international firms.

We advance the literature in business model by proposing a novel analytical framework to study business model innovation in international context. The prior research suggests that the process of business model innovation is a learning process (Chanal & Caron-Fasan, 2010; McGrath, 2010; Moingeon & Lehmann-Ortega, 2010; Sosna *et al.*, 2010). We develop this view by building a theoretical framework to research into business model innovation in international context with two dimensions: organizational learning capability (exploitation vs. exploration) and source of resources: (home-based vs. host based resources). This framework enables us to better understand and analyze how the international firms rebuild their business models in a new setting (exploit and/or explore home-based or host-based resources). We found that an international firm may simultaneously exploit and explore the resources both

from home base of parent company and host base of environment to rebuild the core logic of its business model.

Furthermore, we extend the literature on international retailing by adding a view from retail business model innovations in a new setting. Prior research related to international retailing strategies often focuses on the conceptualization of international retailers' operations in individual dimensions other than business model as a whole (Brown & Burt, 1992; Goldman, 1981; Kacker, 1988; Martenson, 1987). We augment these studies by adopting the perspective of retail business model innovation in the research of international retailing. This perspective enables us to rationalize the decision on changes/non-changes and levels of changes on each dimension in a holistic way, whilst examining whether these changes enable international retailers to rebuild the core logic of their business models in a new setting.

6.2 Managerial implications

This study provides guidance to international retailers that aim to change their business model to achieve success in host markets. According to our findings, international retailers may follow three patterns of retail business innovations (extension, embeddedness and autonomy) to achieve competitive advantages in host country in terms of providing values both to the firms themselves and to the local consumers. If they follow the pattern of extension, they should focus on the capitalization of their existing resources generated in their home market. If they follow the pattern of embeddedness, the priority for them is to be aligned with the business practices of the local suppliers and the competitors. If they follow the pattern of autonomy, they should encourage local talents to develop new products, services and technologies to adapt to the local consumers' needs.

Furthermore, six specific routes to change the components of international retailers' business model in a new setting have been identified. International retailers may implement the key

activities of these routes to rebuild the core logic of their business model in host market, while considering different circumstances of the host market (Zhu, Lynch & Jin, 2011).

6.3 Limitations and directions for future research

Our study opens the door for future research. Firstly, our findings suggest that the international firms may simultaneously exploit and explore the resources both from the home base of the parent company and the host country environment to rebuild the core logic of their business model in the host market. However, the international firms to survive and succeed need to maintain the balance between exploitation and exploration (March, 1991). It is therefore interesting to study further how to handle the tensions while keeping this balance and to consider which contextual factors determine the choice and degree of exploration and exploitation for international firms.

Secondly, our study has focused on only one host country, namely China. Arguably the most prominent limitation of a single country study analysis is the issue of external validity or generalizability. Nevertheless, we see our study enabling significant utility for analytical generalization. The exploration of the transfer of business models to a new host country provides a template for international retailers in considering the patterns of retail business model innovation and therefore enabling a theory build and groundwork for theory testing. Although this has the advantage of comparing business model innovation in a similar host environment, it is essential to extend the findings to a different host context. Therefore further studies into different host countries are called for.

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Figures and Tables

Figure 1 Illustration of data analysis procedure

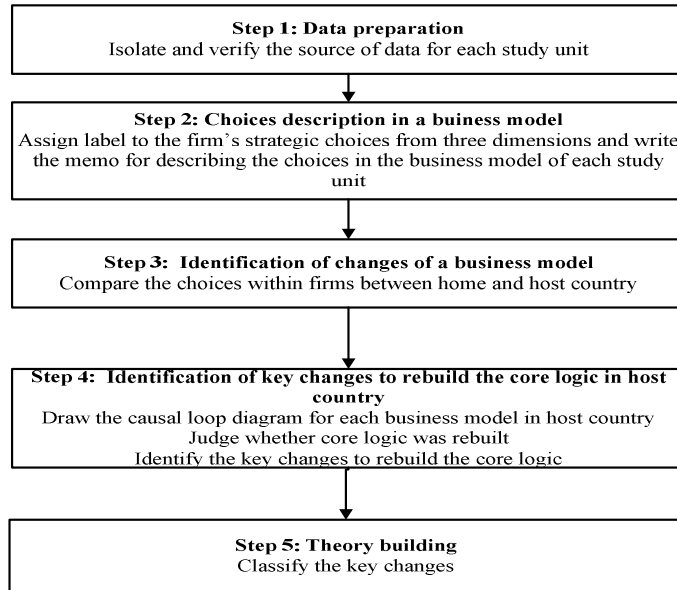
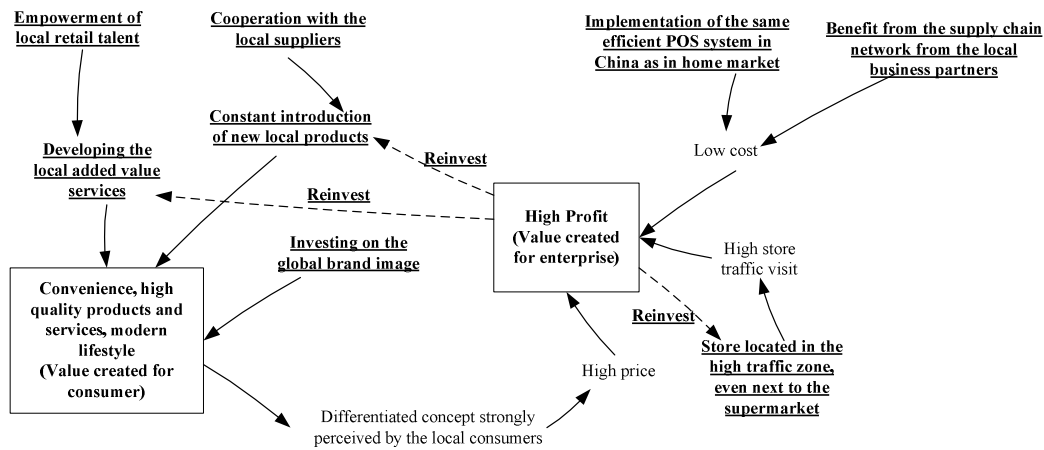


Figure 2: 7-Eleven China's business model



Bold and underline text= choices of changes; Regular box= Rigid consequence; Plan text= Flexible consequences; Solide line= linkage from choices to consequences; Dotted line= feedback from consequences to choices

Figure 3: Theoretical modelling for typology of retail business model innovation

	Exploitation	Exploration
Home-based resources	<p>Pattern 1: Extension</p> <ul style="list-style-type: none"> Legitimizing brand image in local market Sharing resources within the group Transferring knowledge from headquarter 	
Host-based resources	<p>Pattern 2: Embeddedness</p> <ul style="list-style-type: none"> Alliance with local stakeholders Imitating local competitors 	<p>Pattern 3: Autonomy</p> <ul style="list-style-type: none"> New innovation for the local market

Table 1: Sample profile and informant details

Firm	Revenue (millions)	Number of employees	Retail Format	Sector of activity	Year of entry	Mode of entry	Country (region) of origin	Type and number of informants interviewed
7-Eleven	€32,000	60,000	Convenience store	Food	1992	Master franchise	Japan	Deputy MD: 1
Decathlon	€3,430	26,000	Specialist	Non-food (Sport products)	2003	Joint subsidiary	France	Director: 1
Parkson	€2,664	29,883	Department store + Supermarket	Mixed (food + non-food)	1994	Joint subsidiary	Malaysia	COO of the northern region subsidiary: 1
Lane Crawford	-	-	Department store	Non-food	2000	License and subsidiary	Hong Kong	President of group: 1
Auchan	€35,000	170,000	Hypermarket	Mixed (food + non-food)	1999	Joint subsidiary	France	Communication director: 1
Carrefour	€72,600	430,000	Hypermarket	Mixed (food + non-food)	1995	Joint subsidiary	France	Administrative Director: 1 Managing Director: 1
Walmart	€234,520	950,000	Supercenter	Mixed (food + non-food)	1996	Joint subsidiary	US	Communication Director: 1
B&Q	€12,753	70,000	Specialist	Non-food (home improvement products)	1999	Joint subsidiary	UK	Managing Director: 1
Ikea	€14,800	90,000	Specialist	Non-food (home furnishing)	1998	Joint subsidiary	Sweden	Administrative Director: 1
Metro	€6,000	270,000	Cash & Carry	Mixed (food + non-food)	1995	Joint subsidiary	Germany	Deputy MD: 1 Store manager: 1
Zara	€8,196	69,240	Specialist	Non-food (textile)	2006	100% subsidiary	Spain	Director: 1
Watson's	€4,100	98,000	Specialist	Non-food (health and beauty)	1989	Joint subsidiary	Hong Kong	Development director: 1
Esprit	€2,964	9,617	Specialist	Non-food (textile)	1992	Joint subsidiary + Franchise	Germany	Managing Director: 1
Etam	€960	16,683	Specialist	Non-food (textile)	1995	Joint subsidiary	France	Managing Director: 1
Sephora	€15,306	-	Specialist	Non-food (beauty)	2005	Joint subsidiary	France	Managing Director: 1 Marketing Director: 1

Table 2: Summary of the research findings

Retailer	Changes of target client	Changes of shopper value	Changes of retail value chain	Representative informant quotes	Causal linkage between choices of changes and consequences
7-Eleven	From [All individuals living or working within 300m walking distance of the store. Three categories of key targets: immediate consumption (young people), distress and daily (local neighborhood population) and one stop shopping (older people, people without car)] to [Students /urban white collar]	From [convenience, freshness and high quality products and services] to [convenience, high quality products, service and modern lifestyle]	Adoption of the private label strategy from home country; Establishment the same information system as that in home country Development of the products and services adapted to the local needs with the local suppliers; Benefit from the supply chain network from the local business partners; Proposition of added value local service; Training the local retail talent; Changes of the type of governance of store network; Logic system was not well built	“We shared the same suppliers for the own brand products with other subsidiaries in Asia” “The high performance POS system was installed also in each store in China” “We constantly add the new services... according to the needs of the local consumers...” “We shared the source of purchase with our local partner Dairy farm international Corp., HK” “Each year we provide the training to 40-50 university graduates who are the candidate of the future managers.” “Different as in Japan, here majority stores are regular china, not join-in store” “We can’t organize the same logistic system here because of the less developed infrastructural environment”	Value created for the local consumers (Yes) - Brand image (Modern lifestyle) - New innovations for the local market (Development of the products and services adapted to the local needs with local suppliers) Value created for the enterprise (Yes) - Alliance with local stakeholders (reducing the cost of purchasing in using the supply chain network of local partner) - Knowledge transferred from headquarter (high inventory turnover by implementation of the same efficient POS system in China as in home market)
Decathlon	From [individual and especially family clients wishing to take up for	From [wide range of sports products, prices affordable to make sport accessible to all budgets, innovative and high-quality	Transfer of the store concept from home country; Centralization of design, production and logistic; Global sourcing	“We kept the same store concept: everything is under the same roof, rapid self-service purchase...” “Due to the homogeneity of the functional demands of the consumers in the world on the sports products, we kept a rather important business principle: unified design for the	Value created for the local consumers (Yes): - Knowledge transferred from headquarter (wide range, innovative, high quality and low price sports products by transferring the store concept

	the first time, or further their practice of one or several disciplines] to [20-40 years old white collar wishing to take up for the first time, or outdoor leisure sports enthusiasts]	products and professional advice in stores] to [wide range of sports products, innovative and high quality products with relative low price, make sport accessible to more people and let them enjoy the sports]	Adaptation of the retail concept to the local context; Empowerment of the store managers; Integration of Chinese cultures into the company culture; Promotion of the local managers Creation of the new concepts	world...” “We disposed production bases in 17 countries.” “We had 1000 partner production companies and 2100 logistics partners spread over 40 platforms in 13 countries.” “We didn’t copy the mode of ‘purchase of the land and build the own stores’ in China. But considering the special conditions, we took the way of leasing the site; “In 2006 we adjusted the business development strategy...focused on the internal team building and began to build the Chinese-style company culture.” “As the big differences in varied zones in China, we gradually worked out three shop modes...The third mode is to cooperate with local government to build the sport theme park...This mode is the new creation...”	from home to host market) - New innovations for the local market (development of promotion to make sport accessible to more local people and let them enjoy the sports with the local managers) Value created for the enterprise (Yes) - Alliance with the local stakeholders (low cost of purchasing as more than 70% products sold at the local stores are made in China; establishing the long relationship with more than 300 Chinese suppliers) - New innovations for the local market (generating store traffic by building the sport theme park with local government)
Parkson	From [middle- and upper-income consumers] to [middle- and upper-income, young and contemporary consumers]	From [lifestyle collections of merchandise in a contemporary ambience] to [a wide range of internationally renowned brands, fashion and lifestyle products]	Sharing the purchasing channel with the group for the international branded products; Sharing the experience and expertise of the management; Transfer of the retail format Gradually test the retail concept to adapt to the fragmented Chinese market; Adoption of the new way to cooperate with the suppliers; Finding the financing solution in the local institutional context; Cooperation with the local service providers and	“...we have some international channels, such as the cosmetic products, nearly all the international brand cooperated with us... They were familiar with us in South-Asia market...It’s the same in Chinese market...” “I think our advantage in China is that our experience of operation on the department store for a long time in South-Asian market...” “We had also the supermarket in the base level within the department store. We used this mode everywhere, in Malaysia as well as in Vietnam...” “In July we opened the first flagship shop in shop of Cartier in China. The flagship of the branded shop in shop is more attractive than the small one. If it will be successful in Beijing, the next step it will be rolled out in Shanghai and then in the other coastal cities.” “In China it was better than other countries.	Value created for the local consumers (Yes): - Sharing the resources within the group (a wide range of internationally renowned brands available due to international purchasing via the sourcing channel of the group) Value created for the enterprise (Yes) - New innovations for the local market (reducing the cost of inventory by developing new type of cooperation with suppliers, renting counter rather than direct purchasing; reducing the cost of logistic by building the e-Supply chain with local service provider)

			local companies	<p>We jointly operated with some suppliers who rented our counters. We didn't charge of the purchasing and the stock. We did only the brand management.”</p> <p>“We are the first retail joint venture who could list in Hong Kong Stock market.”</p> <p>“Beijing Future Inc. helped us to build e-supply chain based on the extranet.”</p> <p>“Each Spring festival days, we organize the special events, such as Chinese commodities week with China National Arts and Crafts (Group).”</p>	
Lane Crawford	From [Premium consumers] to [Premium consumers]	From [Unique products-mix and store design; specialized services] to [Unique products-mix and store designs; Specialized and privileged services]	<p>Centralization of procurement; Transfer of the store concept to host country</p> <p>Creation of the local identification of the store brand</p>	<p>“We did global sourcing by our international buyers who are the prominent participants in European fashion shows.”</p> <p>“As for the store concept, we hope our clients have the same shopping experience regardless at our shops in Hong Kong or in Beijing.”</p> <p>“In fact, while we opened the stores in any cities, we didn't highlight that we are a brand from Hong Kong, we promoted our store in Harbin as a Harbin local high-end positioning department store. It's also in Shanghai and in Hangzhou. We want to make our consumers feel our store is a member of local culture.”</p>	<p>Value created for the local consumer (No)</p> <ul style="list-style-type: none"> - Exiting the gap between the value expectation of the target client (the status factor in possessing well-known international brands) and the value proposition of the company (a unique designer collection, albeit, not so-well known European designers)
Auchan	From [Majority people] to [Middle class]	From [wide selection, service] to [Low price, quality of products]	<p>Centralization of purchase; Standardization of selection of supplier, control of quality and store layout design, merchandising; Application of the same incentive system</p> <p>Changes of private label strategy; Flexible logistic solution; Promotion of local managers; Development of the service, information system with local companies; Devolution of partial decision to store manager;</p>	<p>“We tried to negotiate the contract with the suppliers at national level.”</p> <p>“The purchase of Auchan China was integrated into the Auchan global sourcing.”</p> <p>“We kept nearly the same store layout design and merchandising...”</p> <p>“Our private label products were not well developed in China, as the middle class were sensitive to the brand.”</p> <p>“The store managers had the rights of setting up retail price and decision of promotions.”</p> <p>“We worked with Grapecity for developing the order system...”</p> <p>“We developed the loyal credit card by the</p>	<p>Value created for the local consumers (Yes):</p> <ul style="list-style-type: none"> - Knowledge transferred from headquarter (quality of products guaranteed by the replication of control system of quality) <p>Value created for the enterprise (Yes)</p> <ul style="list-style-type: none"> - Sharing the resources within the group (Low cost of purchasing; big volume purchase in China under the framework of its global

				collaboration with Shenzhen development bank.”	sourcing) - Imitating the local competitors (Low cost of logistics: flexible solution by combination of 3P logistic service provider and direct delivering by suppliers)
Carrefour	From [Mass marketing] to [Urban residents]	From [Competitive price, quality of products, wide range of products food and non-food] to [low price, safety, freshness of food and adapted local products]	Multi levels suppliers’ negotiations; Disposition of global and national purchasing centers; Standardization of quality control system, information system. Development of local products; Changes of store location strategy; Training programmes and promotion system for local managers; Decomposition of organization structure & decentralization; Regular launches of local consumers survey	<p>“Our buying negotiation was organized by different levels: international, national and local”</p> <p>“Global purchase centers were established in Shanghai and Guangdong...11 buying centers across the country”</p> <p>“The local products certified according to our quality system can be sold in any stores of Carrefour over the world.”</p> <p>“We standardized the system by creation of shared service centers (SSCs).”</p> <p>“we introduced the live fish concept in China”</p> <p>“Our stores in China are located in downtown...instead...”</p> <p>“...sanitation is the important responsibilities...”</p> <p>“Each store was considered as profit center...”</p> <p>“We set the regional division level and gave the autonomy to the directors of each zone...”</p> <p>“Each year we organize the local consumer survey...”</p>	<p>Value created for the local consumers (Yes):</p> <ul style="list-style-type: none"> - Knowledge transferred from headquarter (safety and freshness of food: the best practices and expertise of food supply chain management were transferred from headquarter) - New innovations for the local market (Development of the products and services adapted to the local needs) <p>Value created for the enterprise (Yes)</p> <ul style="list-style-type: none"> - Sharing the resources within the group (Low cost of purchase: global sourcing) - Imitating the local competitors (Low cost of logistics: flexible solution and low cost of purchase: maximize the benefits from the suppliers by following the same business practices as its local peers)
Walmart	From [lower and lower-middle class] to [Middle class]	From [Low price, wide selection] to [Low price, stable quality of products]	<p>Centralization of purchase; transferring the logistic system from home country; Standardization of HR management systems</p> <p>Collaboration with local</p>	<p>“We built two procurement centers in Shenzhen and Shanghai...big volume of purchase for our global stores.”</p> <p>“Two modern distribution centers were set up in Dongguan and Tianjin.”</p> <p>“...providing the same training program..”</p> <p>“...increasing the local purchase”</p> <p>“We helped the local suppliers to improve</p>	<p>Value created for the enterprise (No)</p> <ul style="list-style-type: none"> - High cost of logistics (the efficiency of logistics were not achieved even though heavy investment on the building of modern distribution center due to the highly fragmented markets in China)

			suppliers; Adaptation of retail concept to local consumers' habits; Promotion of local managers	their products..." "We changed the store layout design...wider aisles and smaller checkout counters... changed the assortment...huge quantities of perishable products...provided local added value service...digital photo developing service, free shuttle bus..."	
B&Q	From [Everyday DIYer, project initiator, trade professional] to [New middle class and trade men]	From [Convenience, low price, stylish and enjoyment in DIY] to [Good quality and service]	Transfer of the private label products from home country; Centralization of purchase; Adoption of the similar HR management system; Centralization of financing management; Knowledge sharing within the group Collaboration with local suppliers; recruitment and promotion of local talents; Adaptation of information system; Collaboration of the local institutions Creation of the new retail concept	"We tested the private label products imported from outside and then started to find the local sourcing." "We benefited the advantage of big volume of purchase from HQ." "We launched also the fast track programme, modeled on a similar scheme at B&Q UK, in which high-potential managers..." "We financed together... we shared the experiences and best practices within group..." "...developed exclusive products with local suppliers..." "...integrated the logistic system of local suppliers into our own..." "We gradually updated the information system according to the local business development." "We worked together with Greenpeace for raising the awareness of the importance of sustainable wood." "We piloted the new concept 'convenience store' for home improvement products..."	Value created for the consumer (No) - The value proposition of good quality and service was not justified by its commercial offering. Comparing to the local small decoration companies its services are less convenient but much higher prices.
Ikea	From [Majority of people] to [Young people (28-35 years old) in big cities who are more inclined towards	From [Low price, quality, a wide range of stylish, well designed functional products] to [Stylish and N. European lifestyle products, affordable price, &sustainability]	Standardization of products; Centralization of procurement; Diffusion of company culture within group; Adoption of the same loyal programme Development of the local suppliers; Adaptation of retail concept; Promotion of local managers;	"There are very limited special designs for Chinese consumers." "...invested 20 million USD to build the production bases in Dalian... massive production process to reduce the cost..." "The adaptation didn't hinder our keeping the specificities of our company culture..." "We launched also the Ikea family card..." "...find more Chinese suppliers...80% of merchandises in stores of Ikea China are made	Value created for the consumer (No) - Unique design and modern lifestyle brand image generated the store traffic but low conversation rate because of low ratio of quality/price (price is relatively too high).

	western concept			in China.” “...big showroom, special products presentation way addressing at Chinese consumers’ habits.” “We changed the store location strategy and opened the stores in downtown areas.”	
Metro	From [50% business customers (HoReCa and small stores) and 50% retail customers] to [40% business customers and 60% retail customers]	From [low price, high quality and tailor made service] to [Professional global solution, quality and convenience]	Replication of private label strategy; Centralization of purchase; Standardization of system of supply and logistic; Transfer of the retailer concept and information system; Adoption of the same CRM system Training local managers; Collaboration with local suppliers; Adaptation of retail concept	“We started private label products in China since 2003 concerning 3500 references within 27 food/non food categories and 6 core brands.” “We adopted also the high quality control system (HACCP) in China...” “We kept the essential elements of our concept...one stop shopping, limited SKUs, combination of store and warehouse...” “We disposed one training center in Shanghai” “We directly established the strategic long relationship with 5-10 agricultural cooperatives or producing bases...” “At the beginning we transferred our concept & then gradually modified...now..the delivering service...”	Value created for the local consumers (Yes): - Knowledge transferred from headquarter (quality: replication of same quality control system in China; professional global solution: adoption of the same CRM system as in headquarter) - New innovations for the local market (Convenience: Development of the products and services adapted to the local needs) Value created for the enterprise (Yes) - Knowledge transferred from headquarter (Low cost: adoption of the advanced supply and logistics system in China from headquarter)
Zara	From [mother (inexpensive value) and her daughter (trendy)] to [20-30 years old, high sensible to the fashion without the ability to	From [instant fashion, low price] to [latest design similar as international first line brand, European brand, affordable price and scarcity (limited amt)]	Centralization of design, production, procurement and logistic; Standardization of the retail concept Investment on the local learning; Collaboration with local service providers; Adaptation of the information system; Modification of retail concept	“...transportation from the distribution center in Spain to China needs 48-72 hours...” “We spent 11 years for learning the Chinese market before opening the first store.” “We partially externalized the information system management to the local company.” “We changed the information system structure for adapting to the Chinese market.” “We set up a little higher price in China than...”	Value created for the local consumers (Yes) - Brand image (the latest design similar as the international first-line brand, European brand) - Knowledge transferred from headquarter (Scarcity: replication of retail concept in China from headquarter) Value created for the enterprise (Yes) - Sharing the resources within the group (low cost of

	afford the international first-line brand]				inventory: vertical integration and Supply chain highly centralized by headquarter) - Alliance with the local stakeholders (low cost of purchase: around 35% products made in Asia)
Watson's	From [18-40 years old women] to [18-35 years old, middle class women with monthly income more than 2500 RMB]	From [Convenience, a large range of products and personal, professional advices on health and beauty products and low price] to [A large range and unique private label products, shopping experience and personal and professional advices on health and beauty products]	Centralization of procurement; Transfer of the retail concept Local purchase	"We combined the global sourcing and local purchase..." "The private label concept has been well developed in our Chinese market since two years..." "Our 80% products were suppliers by local suppliers, only 20% were imported..."	Value created for the local consumers (Yes) - Knowledge transferred from headquarter (standardization of retail concept and the private label concept transferred from headquarter) Value created for the enterprise (Yes) - Alliance with the local stakeholders (low cost of purchase: 80% local purchase, private label products well developed)
Esprit	From [Top end of the mass market (women, men and kids)] to [25-40 years old, middle class]	From [quality/price and style] to [Quality of products and services, western brand]	Centralization of design, production, procurement and logistic; Adaptation of retail concept; Modification of incentive system	"All our collections were carefully selected by our design center in Germany." "We changed our concept, shop in store merchandising, rewards to the loyal clients, high quality of service..." "Our European peer paid to the employees based on the salary per hour, we considered more the commission linked to the sales performance..."	Value created for the local consumers (No) - Low quality/price ratio perceived by the local consumers
Etam	From [women aged between 25-35, young, urban and modern women] to	From [attractive and evolving offerings (the key fashion trends of the season), affordable prices] to [fashionable products and	Centralization of production and procurement Adaptation of the design and retail concept	"We outsourced all of its production, thanks to a network of partners and professional manufacturers around the world." "We offered a wide range of apparel, adapted to the different lifestyles of Chinese consumers: basic, classic, sportswear, and 'chic'."	Value created for the local consumers (Yes): - Sharing the resources within the group (fashionable products due to the centralization of production and procurement) Value created for the enterprise

	[women aged between 18-35, middle-income, seeking for the fashionable and branded apparel]	affordable prices]		“We changed our store network expansion mode from ‘independent store’ in Europe to ‘shop in shop within department stores’ in China.”	(Yes) - New innovations for the local market (reducing the cost of operation by developing a new expansion mode: shop in shop within department stores)
Sephora	From [25-45 years old women] to [25-35 years old white collar women, monthly income more than 5000 RBM Yuan]	From [A little lower price than department store, shopping experience and service] to [one stop shopping, ludic shopping experience and service	Standardization of retail concept; Centralization of training; Adaptation of retail concept; Disposition of local training center	“Everywhere we keep the same concept: open display, three categories of products: perfume, make-up and skin care, combination of self-service & consulting service ” “Our staff can learn knowledge of the products and client through e-learning in each store in the world.” “The managers in our Chinese subsidiary have been trained in our university in Paris.” “We reduced the items in the categories of perfume...” “We organize the special course for let our VIP clients learn the products knowledge and make up skills.” “We opened our beauty institute in Shanghai for training our local store staff”	Value created for the local consumers (Yes): - Knowledge transferred from headquarter (one stop shopping, ludic shopping experience: replication of retail concept in China) - New innovations for the local market (development of services adapted to the local needs) Value created for the enterprise (Yes) - Sharing the resources within the group (a wide range of brands available due to international purchasing via the sourcing channel of the group)

Table 3. The routes of business model innovations to rebuild the core logic for the case firms

Firm	Legitimatizing brand image in the local market	New innovation for the local market	Alliance with the local stakeholders	Sharing resources within the group	Transferring knowledge from headquarter	Imitating the local competitors
7-Eleven	x	x	x		x	
Decathlon		x	x		x	
Parkson		x		x		
Auchan				x	x	x
Carrefour		x		x	x	x
Metro		x			x	
Zara	x		x	x	x	
Watson's			x		x	
Etam		x		x		
Sephora		x		x	x	

Appendix

Appendix 1 Memo of strategic choices in the business model of Carrefour
France and China

1. Target clients

	France	China
Target clients	Mass Marketing	Urban residents

2. Shopper value proposition

	France	China
Shopper value	Competitive price, quality of the products; wide range of products food and non-food	Low-price, safety; freshness; adapted local products

3. Retail value chain

	France	China
Conception of products	Well-developed different types of private label products (unbranded products, better value for money, With a strong marketing and differentiation content)	Development of private label
Production	Collaboration with SME for designing the private label products. Besides price, some of the Carrefour's lines focus on quality and local specialties under labels such as Reflets de France, which offers a range of traditional recipes and products, and Escapades Gourmandes, which offers fine grocery products.	
Procurement	Big volume of purchases; direct procurement strategy (direct from manufacturer); local purchases	Multi-levels suppliers negotiations; reinforce the local purchase team; global purchase centers in Shanghai and Guangdong; 11 purchase centers established across the country; strict selection of the suppliers; strong pressure on the suppliers for squeezing their margin; cold chain management
Logistic	Usually hiring the leading third party supply chain solution provider; cross docking; centralization of distribution and warehouse management	Flexible solution
Retail concept	Everything under one roof; free car parking, high-low price strategy; providing diversified services (exp. Carrefour Voyage, Carrefour Assurance); launching "filiere quality systems" for providing quality assurance to customers; about 40% lower price of private label	Assortment (exp. live fish), store layout adapted to the local consumers' preferences; strong promotion; one stop shopping; store located in downtown

	products than branded products; strong brand recognition; stores are more easily accessible and more SKUs than other competitors; wide range of products: food and non-food; application of Category Management technique	
Human Resource	Mobilizing employees across the countries; on-site training	Local and internal promotion; training program for the local employees
Financing and accounting	Foreign-currency exposure on imported goods was generally hedged through currency-forward contracts	
Organization/structure	Strong impact of shareholder on the strategy of the company; matrix organizational structure by format and by country; store managers are given more powers than those of competitors; sharing the knowledge and experiences within the subsidiaries of the group in the world	More than 30 local partners for developing the store network in different cities and regions in China; localization of management; decentralization; store managers are given enough powers for purchase and promotion decision; each store is considered as “profit center”; Dividing the market into several zones; giving autonomy to the zone directors
Information system	Centralizing and standardizing the system by creation of shared service centers (SSCs)	Centralizing and standardizing the system by creation of shared service centers (SSCs)
Relationship with suppliers	Ranked by the supplier as the best retailer in France for promotion execution;	Organizing the training program for farmers and other fresh products suppliers; help suppliers improve the quality of products and reduce the cost
Relationship with customers	Introduction of various customer loyalty programs	Regular customer survey; launching the loyal program
Corporate Social Responsibility		Keeping the good relationship with local government (e.g. financing the training program for government officials), Investment in philanthropy (e.g. creation of the foundation to improve the education level for the less developed regions)