

Redefining the market: A treatise on exchange and shared understanding

Marketing Theory

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Abstract

Marketing executives operate in increasingly complex marketplaces characterized by global competition, accelerating sustainability concerns, and an increased focus on innovation. This complexity risks a fragmentation of thought more severe than that which Theodore Levitt discussed in his seminal article on marketing myopia. Indeed, we've become *market myopic* as a discipline and lost focus on the generalities that apply to markets and exchange more broadly. Our goal is to provide a description of the modern marketplace that allows us to re-envision this complexity as a symptom of a more general phenomenon. We do this by arguing that market complexity can (and should) be understood as a consequence of the circular relationship between exchange and shared understanding. We then show how this relationship can be expressed in simple terms using vectors to symbolize the degree to which this understanding is shared across actors and the rate at which this “shared-ness” is changing in time. The resulting model allows us to cast the variety and variability of the complex modern marketplace as a symptom of shared understanding dynamics. This, in turn, helps us move beyond the morass of contextual idiosyncrasy and toward a more parsimonious description of the market.

Keywords

Exchange theory, institutional theory, markets, market system dynamics, shared understanding

Reibstein et al. (2009: 1) observe that marketing executives operate in an “ambiguous, uncertain, fast-changing, and complex marketplace”—a statement echoed by a growing chorus of marketing scholars (see, e.g., Achrol and Kotler, 1999, 2012; Webster and Lusch, 2013). This rising complexity produces a fragmentation of thought akin to that which Levitt (1960) discussed in his

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seminal article on marketing myopia. Indeed, we've become *market myopic* as a discipline and lost focus on the generalities that apply to markets and exchange more broadly (Venkatesh and Peñaloza, 2006; Webster and Lusch, 2013).

This fragmentation is apparent in the multifarious uses of the term “market” within our discipline. While many define markets by product (e.g., the smartphone market), place (e.g., the Chinese market), or a segment of the population (e.g., the teenage market), others view markets as something broader—something that encompasses a variety of complex social interactions (Nenonen et al., 2014; Peñaloza and Venkatesh, 2006; Venkatesh et al., 2006). For most research agendas, this ambiguity is harmless. However, for those interested in understanding market constitution and change (cf. Giesler and Thompson, 2016; Humphreys, 2010; Rosa et al., 1999), this disciplinary deficit hinders the advancement of marketing theory and, more specifically, any progress toward an integrated theory of the market.

Others within the discipline have also called for a more robust conceptualization of the market (see, e.g., Venkatesh and Peñaloza, 2006; Webster and Lusch, 2013) and a variety of approaches have surfaced as a result. Indeed, Mele et al. (2015:102) offer a review of the research to date, but note that despite substantial progress, the “variety, as well as the variability, of markets . . . [still] need to be addressed.” Underpinning their assertion is a recognition that most market definitions struggle to account for the circular relationship between exchange and expectation. Exchange (of goods, services, ideas, etc.) leads to a shared understanding of “the market” and its operation. The resulting institutional context (i.e., product categories, behavioral norms, etc.) then governs subsequent exchange behavior. As such, a “market” (viewed as a noun) is indissoluble from the processes (i.e., “market” as a verb) that create it—a conflict described by Araujo (2007: 216) as the “tension between markets as institutional frameworks and markets as loci of practices.”

Nonetheless, a preference for this fundamentally dynamic view of the market is evinced by a growing stream of research on market system dynamics (Dolbec and Fischer, 2015; Giesler, 2008; Giesler and Thompson, 2016; Giesler and Fischer, 2017). This emerging literature emphasizes the co-constitution of reality (Humphreys, 2010; Kotler, 1986; Siebert and Anastasia, 2012)—a perspective that acknowledges the power of marketplace actors to affect the context within which exchange occurs. For example, Dolbec and Fischer (2015) show how engaged fashion consumers redefine the categories that represent desirable marketplace behavior. Such definitions are important because they provide the cognitive basis used to evaluate new value propositions (Meyers-Levy and Tybout, 1989). Consider, for instance, the introduction of the minivan. According to Rosa et al. (1999), the development of this market (and others like it) depends on the stability of supportive sociocognitive structures like a vehicle's category. These structures comprise broadly diffused cognitive schemas (see, e.g., Suchman, 1995) and can be thought of in simple terms as the shared understanding among market actors. In the literature on market system dynamics, a market emerges when actors “come to certain shared understandings of what is being exchanged and why” (Humphreys, 2010: 2).

This sociocognitive approach to market constitution is receptive to, and inclusive of, the circular relationship between exchange and shared understanding. In the research cited above, for instance, engaged market actors define the meaning of product categories (Dolbec and Fischer, 2015) that in turn define the nature of exchange (Rosa et al., 1999). In other words, stated more succinctly, “the process produces an outcome, which shapes the process” (Mele et al., 2015: 107). Nevertheless, researchers typically focus their efforts on either the process or the outcome, leaving us bereft of theory that addresses both within a unified conceptualization of the market (Mele et al., 2015; Webster and Lusch, 2013).

Our goal is to provide a description of the modern marketplace that allows us to re-envision both market outcomes (i.e., market-as-noun) and market processes (i.e., market-as-verb) as artifacts of a more general phenomenon (MacInnis, 2011). To achieve this goal, we first characterize markets as constituted by shared understanding. Given this characterization, we can describe market outcomes using the degree to which this understanding is shared across actors, and market processes using the rate at which this “shared-ness” is changing in time. In so doing, we show how the rather general phenomenon of shared understanding offers a surprisingly rich framework for theorizing the interplay between process and outcome. We demonstrate this capability using our framework to extend complementary market conceptualizations in a way that accounts for both market scope and the rate of change. The range of markets that can be described by this extension addresses the “variety [and] . . . variability” condition of Mele et al., (2015) and moves us one step closer to understanding the “complex marketplace” described by Reibstein et al. (2009).

In the sections that follow, we gradually build a case for our proposed framework beginning with a review of the exchange concept in marketing. We do this to show how (and why) marketing scholars have shifted their view of exchange from something that happens within a (static) market, to something that both shapes and is shaped by the market (i.e., both process *and* outcome). We then introduce a more formal version of our markets-as-shared-understanding framework and show how it can be used to describe a surprisingly diverse number of market states. We conclude with a discussion of our contribution in relation to complementary market conceptualizations and offer some propositions that can guide further research.

Development of the exchange concept in marketing

In 1965, Wroe Alderson laid the foundation for exchange as the focus of marketing with his “law of exchange” (Alderson, 1965)—a contribution that stimulated substantial interest in a broader view of marketing (Kotler and Levy, 1969; Kotler, 1972). Soon thereafter, a consensus emerged that the exchange concept was crucial to any complete understanding of marketing as a science (Bagozzi, 1974, 1975, 1978; Houston and Gassenheimer, 1987). This was a bold departure from the mind-set in the 1930s, when prominent organizations such as the National Association of Marketing Teachers and the subsequent American Marketing Association (AMA) defined marketing as “business activities involved in the flow of goods and services from production to consumption” (AMA, 1937; Lusch, 2007).

In 1985, nearly 50 years after its initial definition, the AMA revised its definition of marketing to include the exchange of goods, services, and ideas. This new definition squarely put the focus of marketing on exchange. With renewed focus, the discipline legitimized what Bagozzi (1974: 39) had observed a decade earlier: “Marketing is a general function of universal applicability. It is the discipline of exchange behavior, and it deals with problems related to this behavior.” Indeed, Bagozzi further speculated that the exchange concept might serve as a basis for “the elusive ‘general theory of marketing.’” Nonetheless, exchange has yet to provide sufficient structure for the discipline (Achrol and Kotler, 2012; Houston and Gassenheimer, 1987; Houston et al., 1992).

Rational exchange

As originally conceived in marketing, the exchange concept describes conditions necessary for the voluntary transfer of items with objective economic value between two actors (Alderson, 1965; Houston et al., 1992). The elements of exchange are typically physical objects, and the motivation for transfer is based on an object’s potential contribution to each actor’s existing assortment, which

Alderson (1965) describes as “increased potency.” Because each actor has a unique assortment of objects to begin with, an exchange can be mutually beneficial by virtue of the value the exchanged object contributes to each actor’s assortment.

Despite its substantial impact within the discipline, this early view of exchange did not address the broader set of contexts considered relevant to marketing, such as supply chains and exchange systems. For Bagozzi (1975), this limitation was a major barrier to the advancement of marketing theory and served as the impetus for his adaptation of a taxonomy from social exchange theory (see, e.g., Emerson, 1976; Lévi-Strauss, 1969) as a way to organize discussion around the full set of behaviors relevant to marketing scholarship. His taxonomy identifies three forms of exchange—restricted, generalized, and complex—that differ in the number of actors involved and the direction in which elements flow between actors.

In restricted exchange, one actor gives to and receives from exactly one other actor. An exchange of money for some good or service is characteristic of restricted exchange; however, barter is also a form of restricted exchange, as it is a process in which a good or service is exchanged for a different good or service. Indeed, most exchanges studied by marketing scholars at the time of Bagozzi’s (1975) writing were restricted. In contrast, generalized and complex exchanges involve three or more actors. In generalized exchange, “each actor gives to another but receives from someone other than to whom he gave.” Complex exchange comprises a system of both restricted and generalized exchanges “organized by an interconnecting web of relationships” (Bagozzi, 1975: 33).

With the exception of brief references to Alderson’s (1965) “law of exchange” and Coleman’s (1972) systems of social exchange, Bagozzi (1975) left the conditions driving exchange to future researchers. For instance, Blalock and Wilken (1979) supplement Alderson’s (1965) potency argument with five additional preconditions. These include the claim that actors are goal seeking and able to anticipate the consequences of their actions. Kotler (1984) offers five more preconditions including that each party is capable of communication and believes it appropriate to deal with the other party. These preconditions help to clarify Bagozzi’s (1975) vision for the exchange concept in ways that secure its relevance to marketing. Kotler’s (1984) arguments also demonstrate some prescience in the acknowledgement of “belief” and “appropriateness” as key motivators. However, scholars’ application of these preconditions to the exchange concept did little to evolve the theory beyond neoclassical depictions of rational action (Houston et al., 1992).

Relational exchange

The typical assumption that rational actors have complete information about available alternatives—an assumption originally linked to the exchange concept by Alderson and Martin (1965) and noted by Bagozzi (1975)—became particularly troubling after a host of empirical observations suggested that social actors’ preferences were too “sticky” (i.e., irrational), given the range of objectively superior economic alternatives. For instance, the same exchange partners were chosen repeatedly despite cheaper alternatives in the marketplace (Arndt, 1979; Macneil, 1980).

This insight shifted the focus of exchange to what we now call relationship marketing (Berry, 1983; Ford, 1980). Unlike arms-length transactions, relational exchange stems from previous agreements. Relational exchange generally lasts longer and reflects an ongoing process in which anticipated conflicts of interest are counterbalanced by trust and efforts at unity (Dwyer et al., 1987; Macneil, 1980). Essentially, actors sacrifice short-term gains because they trust that the relationship will payoff in the long run.

In the Bagozzi (1975) taxonomy, relational exchange is a type of generalized exchange, because it often describes at least part of what occurs in the typical supply chain of more than two actors (Dwyer et al., 1987). However, even two-actor relational exchange (while absent from Bagozzi's (1975) analysis) can be viewed as a special case of generalized exchange if the exchange takes place over time as when actor A gives to actor B at time 1 and actor B reciprocates at time 2. Importantly, the glue that binds these chains of reciprocity is composed largely of social constructs such as trust and loyalty (Lusch and Brown, 1996).

Institutional exchange

Despite broad acknowledgement that constructs such as trust and loyalty are inherently social, the literature on relationship marketing does not typically address how these constructs emerge or how they affect exchange outside of a given relationship dyad. For instance, consider the notion of trust. In many settings, trust earned in one relational exchange builds reputation that can be deployed in a future relational exchange, perhaps with a different actor. When trust is provided by one actor and used by a second actor in a reciprocal exchange with a third, the exchange falls under Bagozzi's (1975) complex exchange classification. More importantly, however, the fact that trust can serve as an asset beyond its generating relationship requires some level of agreement in the marketplace about the meaning of trustworthiness. An actor's reputation in a given domain can influence future exchanges only if others understand—and largely agree upon—what constitutes trustworthy behavior.

North (1990) was perhaps the first to codify the relationship between exchange and shared understanding into a coherent theoretical framework. In what we now refer to as institutional theory, North (1990: 3) defines institutions as “the humanly devised constraints that shape human interaction.” These constraints can be formal (like a rule or a law) or informal (like norms and conventions). Formal rules are often enforced by sanctioned entities (like a police force), whereas informal rules are enforced through social and economic pressure.

Although North (1990) was largely focused on the way in which institutions constrain behavior, notable extensions to his work have argued that institutions are also enabling (see, e.g., Edvardsson et al., 2014 or Vargo and Lusch, 2016, for an application of these concepts in marketing). Others still have categorized institutions by type. The most influential of these typologies was popularized by Scott (1995) in his discussion of the regulatory, normative, and cognitive pillars of institutional theory. The regulatory pillar references formal rules such as laws and policy. The normative pillar consists of norms and values, and the cognitive pillar references actors' perceptions of reality.

Numerous discussions of the three pillars can be found elsewhere (see Scott, 2008, as a point of departure), and so we do not repeat them here, except to argue that behavior—and exchange behavior in particular—is shaped by actors' beliefs and expectations regardless of the type of constraining (or enabling) institution. For example, many individuals adhere to official regulations because of the expectation they will be penalized if they do not. Others comply with industry norms such as wearing a suit to work because they believe it is expected by their colleagues. Still others may consider purchasing a minivan because they expect certain features from vehicles in the product category.

All institutions are therefore “cognitive,” insofar as their effect depends on actors' beliefs and expectations. Following the work of Humphreys (2010), we use the phrase “shared understanding” to reference the beliefs and expectations common to a set of actors but note that others have variously used terms such as sociocognitive structures (e.g., Rosa et al., 1999), broadly diffused

schema (Suchman, 1995), or shared representations (e.g., Loasby, 1999) in reference to the same phenomenon. Nonetheless, the power of an institution is apparent only when many actors share the same (or similar) set of understandings. That is, an institution can only be referred to as such if it shapes the behavior of many individuals in a similar manner, and this only happens if those individuals have a broadly shared understanding of how to behave.

Vector markets

Using the interpretation of institutions developed thus far, we can start to unpack the relationship between exchange and shared understanding that complicates so many existing conceptualizations of the market (Araujo, 2007; Mele et al., 2015). However, to do so, we must take a fairly broad view of exchange—one that includes not just exchange of goods and services for money but also the exchange of ideas through discourse, and even the exchange of information that occurs when observing the behavior of others. Armed with this broadened view, it becomes a simple exercise to imagine the circular relationship between exchange and shared understanding.

To illustrate, consider a recent college graduate who chooses to purchase a suit for a job interview. The value of the suit depends on the interviewer's belief (tacit or otherwise) that a suit is appropriate attire. The college graduate is willing to engage in the original exchange because most of the interviewers in this hypothetical community also believe a suit is the proper attire for interviewees. If the first interview does not result in a job offer, the recent graduate can use the suit in subsequent interviews. Moreover, the fact that every interviewee wears a suit reinforces the belief among interviewers that suits are indeed the appropriate attire for interviewees.

It is also possible (and perhaps likely) for exchange to destabilize the status quo. For instance, talented but non-conforming entrepreneurs in Silicon Valley effectively changed the dress code for an industry. Observations of (and perhaps conversations with) successful entrepreneurs wearing jeans changed the beliefs of enough individuals that suit wearing is now anathema to many technology workers. Exchange is driven by a shared understanding of the suit-wearing practice, and this understanding is reinforced (or weakened) by those who wear suits (or jeans) at work.

In marketing, we have a number of studies that document the construction (and destruction) of shared understanding via exchange (see, e.g., Dolbec and Fischer, 2015; Humphreys, 2010; Rosa et al., 1999). However, by adopting the sociocognitive view of exchange proffered in this work, we implicitly acknowledge that variation in shared understanding is the foundation of market constitution. Thus, the claim that shared understanding shapes exchange behavior is insufficient. It is also insufficient to claim that exchange (via discourse, observation, etc.) drives shared understanding. We also need to address how much shared understanding exists at a given point in time, how quickly it is changing, and in which direction.

We address these concerns by arguing that a given market can be sufficiently characterized using only the distribution of actors' cognitive schemas (i.e., shared understanding) and the speed at which this distribution is changing. Given this characterization, the universe of possible markets is constrained by the end points of a hypothetical continuum. At one end of the spectrum, in what we call an Alpha market, actors are completely different in their understanding of the marketplace; at the other end, what we term a Beta market, actors are completely alike. Any particular market, thus exists as a vector on the Alpha–Beta continuum—between a market with no shared understanding (Alpha) and the one with completely shared understanding (Beta). The tail of the vector indicates the current level of shared understanding. The vector's size indicates the velocity of change, and its direction indicates whether shared understanding is increasing or decreasing. Thus,

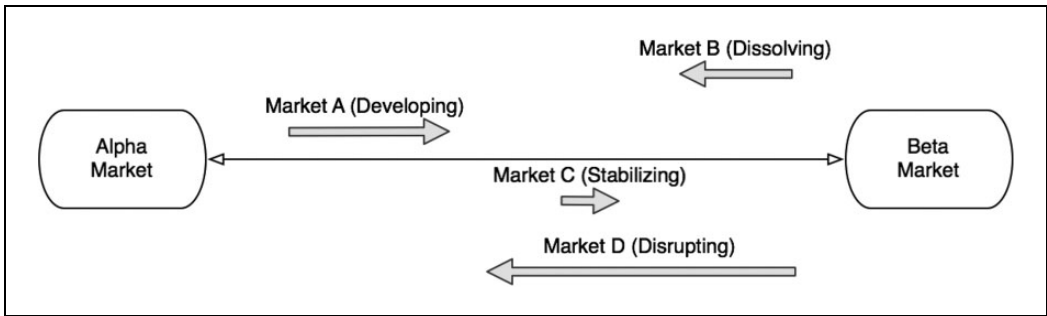


Figure 1. Graphical depiction of the continuum between an Alpha market (no shared understanding) and a Beta market (completely shared understanding).

both outcome (i.e., the current level of shared understanding) and process (i.e., the magnitude and direction of change) can be depicted simultaneously.

Figure 1 illustrates a variety of markets that could exist between these two extremes. For instance, market A in Figure 1 is a rapidly developing market akin to that which accompanied the introduction of the iPhone in 2007. When Apple's product was first launched, understanding of the technology, benefits, and features of a smartphone was low. However, this understanding spread rapidly, and market participants now take for granted the general characteristics of smartphones. Indeed, convergence is so high that it can be difficult to distinguish between current market offerings. Nevertheless, shared understanding is always vulnerable to erosion, and the present state of the smartphone market is perhaps best represented by market D in Figure 1. As new value propositions (e.g., smart watches and Internet-enabled appliances) grow in popularity, agreement is waning regarding the purpose and value of a smartphone.

In the subsequent section, we discuss the theoretical contributions of the vector market framework in relation to complementary market conceptualizations. This discussion leads to three propositions that summarize our model and guide further research.

Discussion

Our work answers recent calls by Kjellberg et al. (2012), Webster and Lusch (2013), and others, for a more robust conceptualization of the market. In particular, we confront the need for theory that can address the rising complexity that is characteristic of the modern marketplace (Reibstein et al., 2009). We do this by arguing that market complexity can (and should) be understood as a consequence of the circular relationship between exchange and shared understanding. We then show how this relationship can be expressed in simple terms using vectors to symbolize the dynamics of shared understanding. The resulting model portrays market complexity as a symptom of a more general phenomenon. This in turn allows us to move beyond the morass of contextual idiosyncrasy and toward a more parsimonious description of the market.

Propositions

The relationship between exchange and expectation has always been present in the marketplace; however, new technologies, such as the Internet and cell phones, have greatly increased the scope and rate of exchange and in turn the variety and variability of market expectations. Thus, what was

once a slow process suitable to “static” depictions of the market is now a source of constant and diverse change. This realization has led many scholars to seek theories that address this dynamism and the potential for conflict that arises from our use of the term “market” as both static noun and dynamic verb (Araujo, 2007).

The holistic conceptualization proffered by Mele et al. (2015) approaches this problem in a manner similar to the current work. The authors embrace market multiplicity as a core tenet and argue that any given market can be understood as the intersection of four noun- and verb-based themes. These include market representations, market entities, market sensemaking and market performing as the two noun- and two verb-based themes, respectively. Market sensemaking and performing lead to market representations and entities, and vice versa. The authors (p. 108) illustrate the relationships between themes as follows:

... representations (for example, the discourse generates a metaphor, that many actors share) guide the performing of practices through which entities are framed (for example, the resource integration involves an ecosystem of actors), and this process of sense-making is produced.

In the authors’ model, a market process such as discourse (sensemaking) or resource integration (performance) leads to beliefs (representations) about how to behave and who (entities) should be considered part of the market. These representations and entities then shape subsequent performance and sensemaking, and so on. By beginning an investigation (arbitrarily) at one of the authors’ four themes, it is possible to achieve a holistic view of the market by following a path around the implied circle.

The subtleties of this conceptualization and the four-themed typology should not be taken for granted. Indeed, meaningful differences exist between, for instance, market performance and sensemaking via discourse. However, the authors’ themes are also similar but in a more general sense. Simply, market sensemaking and performance can be construed as exchange, and market entities and representations can be construed as shared understanding.

To illustrate, consider a process that begins with discourse concerning a new type of vehicle. Actors exchange ideas, and over time, a shared representation of the minivan category emerges. This shared representation subsequently shapes the manner in which a variety of market actors (e.g., manufacturers, advertisers, news outlets, sales personnel, etc.) perform their roles, which in turn helps actors determine the entities that should be considered part of the minivan market. The processes that produce an outcome involve exchange, and the outcomes that shape the processes involve shared understanding. By using only two concepts (instead of four), our framework offers a more parsimonious description of the market, albeit at the expense of some nuance.

Nevertheless, the concepts of exchange and shared understanding are unified by the recognition that one is fully dependent on the other. Exchanges between actors create and destroy the shared understanding that facilitates exchange in the first place. This relationship is so intertwined that any description of the market that ignores either construct is necessarily incomplete. Exchange is possible because of the current state of shared understanding, but the state of shared understanding is transient because of exchange. Proposition 1 captures this sentiment with a broad-based definition of the market.

Proposition 1: Markets are transient loci of exchange potential defined by the degree of shared understanding across actors and the manner in which this understanding is changing in time.

Although Proposition 1 provides a way to conceptualize markets in a general sense, our model can address more than just the circular relationship between exchange and shared understanding. By placing the tail of a given market vector on a hypothetical continuum, we also provide a simple way in which to characterize the exact level of shared understanding in the marketplace at a given point in time. Often researchers use terms such as “nascent” or “incoherent” to describe markets in their early stages and terms such as “mature” or “developed” to describe markets in their later stages. The vector-market nomenclature adds a degree of specificity to these discussions—actors in Alpha markets may not agree on much, whereas a Beta market signifies a great deal of shared understanding.

Our framework also provides a simple means to characterize market dynamics. At any given point in time, a market is either gaining or declining in shared understanding. The magnitude and direction of the vector gives us a way to describe how quickly a market is changing and whether it is developing or dissolving. Although existing conceptualizations of the market tend to highlight market development (e.g., Edvardsson et al., 2014; Humphreys, 2010), our framework is direction agnostic and thus allows scholars to classify markets that are both growing and declining. Moreover, the size of the vectors allows for some indication of the rate at which this change is happening. Some markets develop rapidly (cell phones), while others tend to grow slowly (space travel). Still others may stabilize at a given level of shared understanding (workplace fashion) or oscillate back and forth (street fashion). Nevertheless, vector markets allow us to describe a surprisingly rich landscape using a relatively simple model, and identifying the three components of a vector market (degree, direction, and velocity of shared understanding) is tantamount to a complete description of a particular market at a given point in time.

Proposition 2: A market is identified by assessing the degree of shared understanding across actors and the manner in which this understanding is changing in time.

This rich classificatory scheme can also provide a platform for the discussion of marketing strategy. We know, for instance, that value propositions need to adapt as markets grow and mature (Peres et al., 2010). However, we suggest that this type of prescription can benefit from consideration of all three dimensions of a vector market—the degree, direction, and velocity of shared understanding. Today’s complex markets are diverse—they exist in a variety of forms but without the equivalent body of research or concomitant marketing strategy, leaving managers unable to reconcile the idiosyncrasies of their current situation with extant models.

For instance, there is a paucity of research on the delegitimation process (Giesler and Fischer, 2017), which can be described using the vector-market nomenclature as a rapidly dissolving Beta market. Alpha markets in which actors maintain a stable level of disagreement receive even less attention. Markets that regularly oscillate between Alpha and Beta (e.g., fashion markets) could also benefit from greater attention (Dolbec and Fischer, 2015; Yoganarasimhan, 2017). Nevertheless, we propose that the success of a given value proposition will depend on its fit with all three dimensions of the vector describing a target market.

Proposition 3: The success of a value proposition depends on the degree of shared understanding across actors and the manner in which this understanding is changing in time.

Directions for further research

In a colloquial sense, a market can be thought of as the intersection of mental models that society creates to facilitate exchange with strangers (Weingarden, 2017)—a locus of exchange potential. The current work is an effort to formalize this sentiment in an abstract model of the market. However, all models are by definition summaries of reality, and their limitations can provide opportunities for further research.

One such limitation is the need for a theoretically consistent view of market scope. In our model, the degree of shared understanding is represented by the tail of a vector on the Alpha–Beta continuum. This, we suggest, is a reasonable way to think about market scope. Indeed, Mele et al. (2015: 106) make a similar claim in their description of market entities. However, there is a potential tautology in both descriptions if we allow for shared understanding to define the participants who share the understanding.

To escape this tautology, one needs to describe the range of potential participants a priori; however, it is not clear how best to accomplish this task. For instance, many actors joined the smartphone market as it grew. Others may have left or focused on something else entirely. One potential approach is to consider all entities that might participate in the future. Another is to pick a reasonable set of entities for a given research context. Depending on how this decision is made, the calibration of shared understanding will change. This does not necessarily diminish the usefulness of our model for a given context, but it does burden researchers with an additional step. Future research could explore different principled approaches to making this choice.

Nevertheless, once an acceptable boundary is determined, it is possible to explore how the shared understanding in one market could affect another. For instance, the same market actor may provide a bridge between contexts if they both are an avid reader of science fiction (market one) and own a smartphone (market two). Or consider the individuals and organizations that bridge upstream and downstream markets in a value chain. Given this potential overlap, it is natural to ask how the degree, direction, and velocity of shared understanding in one market might affect another.

Another avenue for future research stems from our use of vector size to characterize the rate of exchange. In the strictest sense, a vector market is simply a depiction of understanding dynamics—at a given point in time, shared understanding is increasing, decreasing, or staying the same. Thus, a skeptic might justifiably ask whether exchange is really part of the model. However, if we consider the indissolubility of process and outcome as a core tenet of valid market conceptualizations (Araujo, 2007; Mele et al., 2015), then describing the rate of change in some outcome (i.e., shared understanding) must be a sufficient characterization of process (i.e., exchange). Nonetheless, scholars are still uncovering mechanisms that drive the exchange–understanding relationship. One useful direction for future research is the study of how various types of exchange interact to shift understanding. For instance, one could ask when exchange of information via observation is more powerful than exchange via discourse or one could ask which types of shared understanding are most vulnerable to erosion. Nevertheless, we argue that any valid description of the market is tied to the relationship between exchange and shared understanding.

Market identification is yet another avenue for further research. Theoretically, one could ask, when does a “market” exist? Are there catalyzing actions or activities that signal emergence? By characterizing markets using shared understanding, there is no need to identify a market with any particular artifact (such as a physical product). Instead, detection can occur at a broader scale wherein a variety of changes transpire simultaneously.

Consider the following example: For most of the 20th century, kitchens in North America were separate from dining and living rooms. Market actors viewed the kitchen as a place where food was prepared behind closed doors using functional but perhaps unattractive equipment. This widely shared view of kitchens and their use constituted a stable Beta market. Near the turn of the century, a variety of factors—including, perhaps, some purposeful marketing efforts—changed the dominant understanding of the kitchen (i.e., the market shifted toward Alpha). The introduction of attractive cabinetry, cookware, and countertops coincided with a reconfiguration of the dining area into an open floor plan. Kitchens are a public, prominently displayed feature of the modern home. Indeed, the broad adoption of this new understanding suggests that we are again approaching a Beta market.

The number and variety of forces that have shifted the shared understanding of kitchens make it difficult to assign responsibility to any given factor or set of factors. This type of emergent phenomenon often lacks a clear causal story. However, measurement of the resultant shifts in shared understanding (a harbinger of market constitution) is possible because these shifts are likely reflected in the social behavior of market actors. For instance, as shared understanding grows, the language used to describe a product or category is likely to converge on a relatively stable vocabulary that uses fewer words, each of which is imbued with greater meaning (Harmon et al., 2015). Essentially, “if the receiver can guess at missing parts of the message, then those parts which are received must, in fact, carry a meaning which refers to the missing parts and is information about those parts” (Bateson, 1972: 420). Similarly, the scope of observable behavior may begin to converge (or diverge) from some isomorphic set (DiMaggio and Powell, 1991). However, the manner in which shared understanding is detected and documented warrants further consideration.

We also see room for more discussion of the relationship between shared understanding and value creation. Viewed through the lens of service-dominant (S-D) logic, all actors are resource integrators with the potential to cocreate value with other (market) entities (Vargo and Lusch, 2004, 2008). However, cocreation requires some degree of coordination, which in turn requires some shared understanding of the institutional framework within which one is operating (Araujo, 2007; Edvardsson et al., 2014). The degree and dynamics of shared understanding are thus fundamental to this process.

For instance, scholars have looked at property rights (Haase and Kleinaltenkamp, 2011) and cultural capital (Ellway and Dean, 2016) as different manifestations of shared understanding that can facilitate the cocreation of value. Nonetheless, further exploration is warranted, especially at the lower bound of shared understanding—the point at which cocreation of value becomes possible in the first place. By looking first at the degree and dynamics of shared understanding, one can gain insight into the potential for value cocreation.

Conclusion

The abovementioned discussion identifies three broad topics where our model can offer insight: market constitution, market identification, and market opportunity. As part of this discussion, we offered three propositions that summarize these insights and highlighted the ways our model can guide future research. Table 1 provides a summary of these propositions and related research questions.

While many have called for more applied, transformative and managerial research, we propose that foundational theory is just as important if not more so. In marketing, we argue that this

Table 1. Topics, propositions, and related research questions.

Topic and proposition	Research questions
Market constitution <i>P1: Markets are transient loci of exchange potential defined by the degree of shared understanding across actors and the manner in which this understanding is changing in time.</i>	Who counts as a market actor and how do you define the boundaries of a market for a given research context? Which types of exchange (i.e., economic, discourse, observation) have the greatest impact on shared understanding? Which types of shared understanding are most vulnerable to erosion?
Market identification <i>P2: A market is identified by assessing the degree of shared understanding across actors and the manner in which this understanding is changing in time.</i>	At what point does a ‘market’ come into being? Are there catalyzing actions or activities that signal emergence? How do you measure shared understanding in a practical and rigorous manner?
Market opportunity <i>P3: The success of a value proposition depends on the degree of shared understanding across actors and the manner in which this understanding is changing in time.</i>	Is there a threshold level of shared understanding necessary for value cocreation? How do different levels of shared understanding affect the success of different types of value proposition? How might the success of a value proposition change when shared understanding is changing rapidly vs. relatively stable?

foundational theory should continue to be built around exchange and its relationship to shared understanding. We argue that with this type of foundational knowledge, the discipline can actually become more applied. Using conceptual tools such as the vector-market nomenclature, scholars and practitioners alike can begin to recognize the complexities of the modern marketplace as symptoms of a more general phenomenon: the dynamics of shared understanding.

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