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Consumption Downgrade and Low-End Disruptive Innovation: Driving Mechanisms, Practical Paths and Impact Effects from a Global Perspective

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Abstract

Driven by macroeconomic fluctuations, changes in household income expectations, and shifts in consumption values, "consumption downgrading" has become a prominent feature of China's consumer market, forcing enterprises to pursue innovation. Disruptive innovation offers a viable path for enterprises to achieve breakthroughs; however, existing research has not systematically explored the intrinsic correlation between the two. This study reviews relevant literature, clarifies their relationship and mechanism of action, proposes three pathways of disruptive innovation, identifies the dual impact of consumption downgrading thereon, and ultimately concludes that the two form a complex interactive mechanism through mediating variables such as perceived value. This research fills a gap in the existing literature and provides practical guidance.

Keywords

consumption downgrading, disruptive innovation, perceived value, cost leadership, innovation path

1. Introduction

In recent years, driven by macroeconomic fluctuations, changes in household income expectations, and shifts in consumption values, "consumption downgrading" has become a prominent feature of China's consumer market. Consumer behavior has become increasingly rational, with priority given to cost-performance ratio, practicality, and the core functions of products. Against this backdrop, enterprises are confronted with increasingly severe challenges: rising price sensitivity among consumers has rendered traditional marketing and competitive approaches ineffective, while fierce homogeneous competition has forced firms to abandon traditional business models and seek innovative development instead.

Disruptive innovation is characterized by entering the market at a low cost and meeting underserved marginal demands, providing a viable path for enterprises to break through amid consumption downgrading. However, existing studies often treat consumption downgrading and disruptive innovation as independent topics, lacking a systematic exploration of their intrinsic correlation and interactive mechanisms. Therefore, how consumption downgrading shapes the development direction of disruptive innovation and how enterprises should adjust their innovation strategies accordingly have become key questions that urgently need to be answered.

By reviewing relevant literature, this study clarifies the theoretical and practical connections between consumption downgrading and disruptive innovation, identifies the key influencing variables and mechanisms underlying their interaction, and proposes actionable innovation pathways for enterprises.

Theoretically, this study seeks to fill the research gap in the interdisciplinary field of consumption transition and innovation management, and enrich the localized application of disruptive innovation theory in the Chinese context. Practically, it provides targeted guidance for Chinese enterprises, especially small and medium-sized enterprises, in formulating adaptive innovation strategies against the backdrop of consumption downgrading.

By analyzing the interaction between demand-side consumption changes and supply-side innovation behavior, this study helps academics and practitioners gain a more comprehensive understanding of the evolutionary laws of China's consumer market in transition and the strategic adjustment directions of enterprises.

2. Theoretical Foundation

2.1 Disruptive Innovation Theory

The theory of disruptive innovation was first proposed by Clayton Christensen in 1997, which distinguishes between sustaining innovation and disruptive innovation. Sustaining innovation aims to optimize product performance for existing high-end markets, whereas disruptive innovation initially targets low-end or emerging markets with simple, convenient, and cost-effective products, then gradually penetrates the high-end market and ultimately replaces the original industry leaders.

The core logic of disruptive innovation—“low-end entry, demand orientation”—is highly consistent with consumers’ demand for cost-performance in the era of consumption downgrading. In the context of consumption downgrading, the coexistence of excessive high-end performance in mainstream markets and insufficient functionality in low-end markets provides a natural breeding ground for disruptive innovation.

2.2 Perceived Value Theory

According to the theory of perceived value, consumers’ purchase decisions result from a trade-off between perceived benefits and perceived costs. In the context of consumption downgrading, price, as the primary perceived cost, carries significantly increased weight, and consumers’ demand expectations have shifted toward practicality and functionality. Therefore, for enterprises to achieve successful disruptive innovation, they must enhance consumers’ perceived value, strengthen cost control capabilities, and precisely meet consumers’ core functional needs. The reconstruction of perceived value serves as the key psychological mechanism linking the trend of consumption downgrading with enterprises’ innovation behavior.

2.3 Cost Leadership Strategy

Cost leadership is one of the core pillars of Porter’s competitive strategies. Its essence lies in achieving the lowest cost position in the industry by optimizing the value chain and improving operational efficiency.

In markets affected by consumption downgrading, cost leadership is not only a foundation for enterprise survival but also a critical support for driving disruptive innovation. Only with strong cost control capabilities can firms maintain high cost-performance ratios while investing in innovation, thereby avoiding the vicious cycle of “low price, low quality.” A cost leadership strategy provides the necessary resource security and price competitive space for disruptive innovation.

3. Literature Review

In recent years, driven by macroeconomic volatility, changing household income expectations, and shifting consumption values, “consumption downgrade” has emerged as a salient feature of China’s consumer market

[1]. Consumers have increasingly shifted toward rational consumption that prioritizes cost-effectiveness, practicality, and the core functionality of products [2–4]. Under such circumstances, enterprises face mounting challenges: rising price sensitivity among consumers has rendered traditional marketing and competitive approaches ineffective, while fierce homogeneous competition has forced firms to pursue innovation rather than rely on conventional business models [3].

As a strategy characterized by low-cost market entry and the satisfaction of underserved marginal demand, disruptive innovation offers a promising route for enterprises to break through amid consumption downgrade. However, existing research tends to treat consumption downgrade and disruptive innovation as separate topics, with limited systematic exploration of their intrinsic linkage and interactive mechanism. Thus, how consumption downgrade shapes disruptive innovation and how enterprises should adjust their innovation strategies accordingly remain critical questions to be addressed.

This study reviews the relevant literature to clarify the theoretical and practical relationship between consumption downgrade and disruptive innovation, identify key influencing variables and mechanisms, and propose actionable innovation pathways for enterprises. Theoretically, this research seeks to bridge the research gap in the interdisciplinary field of consumption transition and innovation management, and enrich the localized application of disruptive innovation theory in the Chinese context. Practically, it provides targeted guidance for Chinese enterprises, especially small and medium-sized enterprises, to formulate adaptive innovation strategies under consumption downgrade. By examining the interplay between demand-side consumption changes and supply-side innovation behavior, this study contributes to a more comprehensive understanding of market evolution and strategic adjustment in China’s transitional consumer market.

3.1 Research on Consumption Downgrade

The theory of disruptive innovation was first introduced by Clayton Christensen in 1997, who distinguished between sustaining innovation and disruptive innovation. Sustaining innovation aims to improve products for existing high-end markets, whereas disruptive innovation initially targets low-end or emerging segments with simple, convenient, and affordable offerings, then gradually moves upstream and eventually displaces incumbent leaders. Its core logic—low-end entry and demand orientation—aligns closely with consumer demand for cost-effectiveness in the era of consumption downgrade [5].

3.2 Research on Disruptive Innovation

According to perceived value theory, consumers’ purchasing decisions reflect a trade-off between perceived benefits and perceived sacrifices. Under consumption downgrade, price, as the primary perceived sacrifice, carries greater weight, while consumer expectations shift toward practicality and functionality [2–3]. Therefore, to achieve successful disruptive innovation, enterprises must enhance consumer perceived value, strengthen cost control, and satisfy core functional needs.

3.3 Research on Cost Leadership

Cost leadership, a key pillar of Porter’s competitive strategies, centers on value chain optimization and operational efficiency to achieve the lowest cost position in the industry [6]. In markets affected by consumption downgrade, cost leadership serves as the foundation of survival and a critical enabler of disruptive innovation. Only with strong cost-control capabilities can firms maintain affordable prices while investing in innovation, thereby avoiding the vicious cycle of “low price, low quality.”

3.4 Research Gap and Problem Formulation

Domestic scholarly discussions of consumption downgrade have evolved in recent years. Its connotation has shifted from an “absolute decline in consumption power” to a rational restructuring of consumption patterns and attitudes. Scholars generally agree that consumption downgrade does not imply shrinking aggregate consumption, but rather a voluntary shift away from unnecessary brand premiums and conspicuous consumption toward cost-effective and practical consumption [1–3]. Major driving forces include weakened income expectations amid economic uncertainty, rising living costs due to aging and low fertility, and greater rationality fueled by improved information transparency enabled by digital technologies [7].

Corporate responses to consumption downgrade have largely focused on incremental adjustments, such as streamlining product portfolios, launching low-priced sub-brands, and optimizing supply chains to cut costs and stabilize prices [6]. However, such measures remain largely defensive, aimed at retaining market share rather than generating new growth through proactive innovation.

International research on disruptive innovation is well-established, with investigations into its drivers from organizational, technological, and ecosystem perspectives. Studies highlight the importance of ambidextrous capabilities, big data analytics, and inter-organizational collaboration in facilitating disruptive innovation [8–10]. In terms of implementation pathways, disruptive innovation is commonly divided into technological disruption and business model disruption. The former relies on breakthrough technologies, while the latter creates value by restructuring supply chains, channels, or profit models—a particularly relevant approach in the digital economy era.

Within the Chinese context, disruptive innovation is often reflected in latecomer firms achieving rapid growth through business model innovation. Pinduoduo's social group-buying model, for example, successfully targeted low-tier markets overlooked by mainstream enterprises [11-13]. Such practices have provided rich indigenous cases for theoretical development.

Despite being prominent research themes, consumption downgrade and disruptive innovation have rarely been studied in an integrated framework. Existing literature displays a clear disconnect: scholars examining consumption downgrade focus on consumer behavior and incremental firm responses, while those investigating disruptive innovation seldom incorporate consumption downgrade as a critical contextual factor.

4. The Dual Impact of Consumption Downgrade on Disruptive Innovation

The impact of consumption downgrading on disruptive innovation is not unilaterally linear, but exhibits a significant "dual effect," encompassing both positive drivers on the market opportunity side and negative constraints on the resource side.

4.1 Positive Driving Effect

First, consumption downgrading creates positive drivers from the perspective of market opportunities. As consumers return to rationality, market demand for "good enough" products increases, lowering the threshold for market acceptance of disruptive innovative products. Consumers no longer blindly pursue brand premium, but instead focus on the match between core functions and price, providing a broad living space for innovative products featuring cost-performance. Such demand-side changes motivate enterprises to gain market share by simplifying functions and reducing prices, accelerating the process of low-end disruption. Consumption downgrading effectively expands the target audience for low-end disruptive innovation, enabling originally marginal low-cost products to enter the mainstream vision.

4.2 Negative Constraining Effect

Second, consumption downgrading imposes negative constraints from the resource side. The overall contraction of the consumer market may lead to declining corporate revenue, which in turn compresses R&D budgets. For capital-intensive or technology-intensive disruptive innovation, tight funding chains may force enterprises to abandon long-term R&D projects and shift to incremental innovation with short-term returns. In addition, cost pressures from upstream supply chains may be transmitted to the innovation process, causing enterprises to compromise on material selection and technical processes, thereby affecting the ultimate quality of innovation. Therefore, consumption downgrading both opens market access and sets resource barriers, requiring enterprises to strike a balance amid this contradiction.

4.3 Analysis of the Mediating Mechanism

Perceived value and cost control play key mediating roles in this process. By increasing consumers' price sensitivity (perceived cost), consumption downgrading compels enterprises to optimize their cost structure (cost control), thereby reshaping the cost-performance of products (perceived value), and ultimately determining the successful implementation of disruptive innovation. This mechanism indicates that successful disruptive innovation is not merely about lowering prices, but a process of maximizing perceived value under cost constraints.

5. Differentiated Pathways of Disruptive Innovation under Consumption Downgrade

Based on the above mechanism analysis, this study proposes three differentiated pathways of disruptive innovation that enterprises can adopt in the context of consumption downgrading. Enterprises should select appropriate pathways according to their resource endowments and industry attributes.

5.1 Business Model Disruption

The first pathway is business model disruption. Instead of limiting cost reduction to the product level, enterprises should reconstruct the way value is created and captured. For example, subscription systems, sharing economy, or direct-selling models can be adopted to eliminate intermediate costs, passing the savings on to consumers. This pathway does not rely on breakthroughs in core technologies, but achieves low cost and high value through process optimization and channel restructuring, making it suitable for service-oriented or platform-based enterprises. A typical example is Pinduoduo, which has restructured the e-commerce supply chain through social group-buying, directly connecting farmers with consumers and drastically reducing circulation costs, aligning with the demand for cost-performance under consumption downgrading.

5.2 Technological Simplification

The second pathway is technological simplification innovation. In response to consumers' high sensitivity to core functions, enterprises can adopt a "subtractive innovation" strategy, eliminating redundant, non-core high-performance features and focusing on improving the stability and practicality of key functions. Through modular design and standardized production, manufacturing costs are substantially reduced, bringing product prices within the affordable range of the general public while ensuring that basic experience is not compromised. This pathway is suitable for the manufacturing and hardware product sectors. For instance, MINISO provides "low-price, high-quality" general merchandise by simplifying packaging design and optimizing supply chain procurement, satisfying consumers' practical, de-branded needs.

5.3 Low-end Market Disruption

The third pathway is low-end market disruption. Enterprises can proactively develop lower-tier markets or marginal groups neglected by mainstream competitors, establishing local advantages by seizing the market downward penetration opportunities brought by consumption downgrading. By accumulating scale effects and technical experience in low-end markets, they can gradually penetrate into medium and high-end markets. This pathway requires strong cost control capabilities and flexible market response mechanisms, making it suitable for small and medium-sized enterprises and start-ups. Many domestic mobile phone brands have precisely achieved brand upgrading from the low-end to the high-end by deeply penetrating third- and fourth-tier cities and offering high-configuration, low-price smartphones.

6. Conclusion

This study systematically explores the intrinsic relationship between consumption downgrading and low-end disruptive innovation. The findings indicate that consumption downgrading influences enterprises' innovation decisions through the dual mechanisms of perceived value enhancement and cost constraints. Although resource constraints pose challenges, the rise of rational consumption demand provides a new market window for disruptive innovation. Enterprises should abandon the mindset of pure low-price competition and instead achieve high-quality disruptive innovation through differentiated pathways such as business model reconstruction, technological simplification, and low-end market entry.

The theoretical contribution of this study lies in integrating consumption transition theory with innovation management theory, enriching the localized interpretation of disruptive innovation in the Chinese context. The practical implication is that Chinese enterprises should not passively shrink in the face of consumption downgrading, but actively leverage this trend to optimize cost structures and precisely match user needs. This study has certain limitations, as it is mainly based on theoretical deduction. Future research may adopt multi-case comparisons or large-sample empirical analysis to further verify the heterogeneity of innovation pathways across industries during consumption downgrading cycles, providing more refined evidence for policy-making and corporate strategy.

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Conflicts of Interest

The authors declare no conflict of interest.

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