

From Tool to Dynamic Capability: How Generative AI Reshapes Digital Marketing Strategy and Sustains Competitive Advantage

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Abstract

The widespread adoption of Generative Artificial Intelligence (GenAI) is significantly transforming digital marketing practices across a range of industries. Despite this rapid development, existing studies have predominantly approached GenAI as a tactical tool rather than recognizing it as a strategic organizational capability. Building on Dynamic Capability Theory (Teece, 2007; Helfat & Peteraf, 2003), this qualitative research investigates how organizations convert GenAI from a functional resource into a strategic capability that supports long-term competitive advantage. To explore this transformation, a multiple-case study was carried out involving 18 B2C culinary firms that have integrated GenAI into their digital marketing activities. By applying the Gioia methodology (Gioia et al., 2013), the study uncovers a four-stage capability development process: AI Sensing, AI Seizing, AI Transforming, and the Institutionalization of AI-enabled Value Co-Creation. The findings reveal that sustainable competitive advantage does not stem solely from the adoption of technology, but from the extent to which GenAI is embedded within organizational processes through structured human-AI collaboration and effective governance systems. This study therefore conceptualizes Generative AI Capability as a socio-technical dynamic capability and contributes to the extension of Dynamic Capability Theory within the context of AI-driven marketing strategy.

Keywords: generative AI, digital marketing, dynamic capabilities, competitive advantage, value co-creation.

INTRODUCTION

Generative Artificial Intelligence (GenAI) has become a significant driver of change in digital marketing, allowing organizations to streamline content generation, offer highly personalized customer interactions, and produce data-driven predictions that improve strategic decision-making (Grewal et al., 2025; Gupta et al., 2021; Reinartz et al., 2019). More than simply enhancing efficiency, GenAI has the capacity to transform how businesses engage with customers, utilize data, and create value. However, although its application in practice is expanding rapidly, scholarly understanding remains limited and fragmented, especially in explaining how GenAI evolves from a technological instrument into a strategic capability that can sustain competitive advantage over time (Barney, 1991). This issue is particularly important because technologies are often easy to imitate, meaning that adoption alone rarely leads to long-term differentiation (Porter, 1985). As a result, companies must integrate GenAI deeply into their strategic activities, internal processes, and organizational routines.

Dynamic Capability Theory offers a relevant perspective to understand this transformation. It argues that firms can achieve sustainable competitive advantage by developing capabilities that allow them to sense changes in the environment, seize emerging opportunities, and continuously transform their resource base in response to market dynamics (Teece, 2007; Eisenhardt & Martin, 2000). Within digital marketing, GenAI can strengthen sensing capabilities by processing large-scale consumer data in real time, enhance seizing capabilities through faster and more adaptive campaign execution, and support transformation by enabling ongoing learning and strategic adjustment.

Despite these potentials, current research has not yet sufficiently clarified the role of GenAI in shaping and coordinating these dynamic capabilities, particularly in the digital marketing domain. Much of the existing literature emphasizes technical aspects rather than focusing on how AI is strategically embedded within organizations. Consequently, there is still a lack of comprehensive understanding of how GenAI can function not merely as a tool, but as a key driver of dynamic capabilities that contribute to long-term organizational performance.

Accordingly, this study seeks to answer the following research question: How does Generative Artificial Intelligence facilitate the development of dynamic capabilities in digital marketing, and how does this process contribute to sustaining competitive advantage? In what ways does Generative AI move beyond its role as a technological tool to become a dynamic organizational capability that transforms digital marketing strategies and supports long-term competitive advantage? This question highlights the importance of examining GenAI not only from a functional perspective, but also as a strategic asset that reshapes how firms compete in fast-changing, data-driven environments.

To explore this issue, the study employs a qualitative multiple-case study design involving 18 B2C culinary businesses that have adopted GenAI in their digital marketing activities. These firms were intentionally selected due to their active use of GenAI in areas such as content development, customer interaction, and data-informed decision-making. By analyzing multiple cases, the research seeks to generate in-depth and context-specific insights into how organizations implement and adapt GenAI within their distinct business settings.

The data collection process includes in-depth interviews with key stakeholders, such as marketing managers, business owners, and digital strategists along with document analysis and observation of digital marketing practices. This approach enables a detailed understanding of how GenAI is embedded into organizational processes and how it contributes to the development of sensing, seizing, and transforming capabilities. Through a comparative cross-case analysis, the study aims to uncover patterns and variations in how firms leverage GenAI to improve strategic flexibility and responsiveness. Ultimately, this research intends to explain how GenAI develops into a dynamic capability that not only enhances marketing performance but also strengthens sustainable competitive advantage in the digital landscape.

METHOD

This research adopted a qualitative multiple-case study design to explore how Generative Artificial Intelligence (GenAI) is integrated into digital marketing practices and develops into an organizational capability. A multiple-case approach was considered appropriate because it allows comparisons across organizations operating under different conditions while retaining the contextual richness of each case (Eisenhardt, 1989; Yin, 2018). Cases were selected through purposive sampling. The study involved 18 business-to-consumer (B2C) culinary firms, including restaurants, cafés, bakery businesses, beverage outlets, and cloud kitchens. The participating firms represented different business sizes,

ranging from small and medium-sized enterprises to established regional brands. All firms had used GenAI in their digital marketing activities for at least twelve months. This criterion ensured that participants had sufficient experience to describe not only the initial adoption of GenAI but also its integration into routine marketing activities and strategic decision-making.

The culinary industry was chosen because of its strong dependence on customer interaction and digital communication. Competition within this sector is increasingly influenced by social media, online food delivery platforms, and digital customer engagement, making it an appropriate setting for examining the strategic role of GenAI. In addition, culinary firms typically operate in dynamic market conditions where customer preferences change rapidly, requiring businesses to continuously adapt their marketing strategies. Data were gathered from 34 semi-structured interviews with business owners, marketing managers, and digital marketing specialists. Interview data were complemented by company documents, digital marketing materials, AI-generated promotional content, and direct observations of marketing activities. Combining several sources of evidence allowed the findings to be examined from different perspectives and strengthened the consistency of the interpretation.

The analysis followed the Gioia methodology (Gioia et al., 2013). Interview transcripts were first coded using participants' own expressions to generate first-order concepts. Similar concepts were then grouped into second-order themes before being synthesized into aggregate dimensions that formed the basis of the proposed conceptual model. Coding and data collection proceeded simultaneously, allowing emerging interpretations to be continuously compared across cases. Data collection was concluded when additional interviews no longer contributed new concepts or substantially altered the relationships among the emerging themes. At this stage, the analytical framework was considered sufficiently stable to explain how GenAI evolves from a technological tool into a dynamic organizational capability.

To strengthen the validity and depth of the findings, data were collected from multiple sources. These included 34 semi-structured interviews with key stakeholders, such as business owners, marketing managers, and digital strategists, aimed at capturing their experiences and perspectives on the use of GenAI. In addition, the study examined strategic documents, observed marketing workflows, and analyzed AI-generated outputs, such as digital content and campaign materials. This combination of data sources provided a comprehensive and well-rounded understanding of how GenAI is integrated into organizational practices.

The analysis was conducted using the Gioia methodology (Gioia et al., 2013), which offers a structured and rigorous framework for qualitative research. The process began by identifying first-order concepts based on the participants' own expressions and viewpoints. These were then organized into second-order themes that represent more abstract and theoretically informed interpretations. Finally, the themes were synthesized into aggregate dimensions that capture the key patterns emerging from the data. This iterative coding process continued until theoretical saturation was achieved, indicating that no additional significant insights were being generated and that the conceptual framework was firmly grounded in the empirical evidence.

RESULT AND DISCUSSION

This study introduces a four-stage developmental process model to explain how Generative Artificial Intelligence (GenAI) progresses from a technical tool into a dynamic organizational capability that underpins sustained competitive advantage.

First, AI Sensing

At the early stage, firms shift from using GenAI for simple experimentation toward leveraging it for strategic awareness. Instead of focusing solely on task automation, organizations begin to treat AI-generated outputs, such as consumer insights, behavioral data, and trend forecasts, as valuable indicators of market dynamics. This enables firms to better detect opportunities and anticipate shifts in customer needs, strengthening their responsiveness in rapidly changing environments.

The first stage, AI Sensing, describes how the participating firms gradually expanded the role of GenAI beyond content generation toward supporting market understanding. Rather than relying solely on manual observation, firms began using AI to examine customer feedback collected from social media, online review platforms, and food delivery applications. One participating café, for instance, used GenAI to organise and summarise customer reviews, making it easier for the marketing team to identify recurring service issues and menu preferences. The information was subsequently used to adjust promotional activities and introduce products that were more closely aligned with customer expectations. Similar practices were observed across several cases, indicating that GenAI enabled firms to recognise changes in customer behaviour more efficiently and respond to market developments with greater confidence.

Second, AI Seizing

During this phase, GenAI becomes integrated into everyday marketing operations. Its use expands from isolated applications to being embedded within key activities such as campaign execution, customer interaction, and performance monitoring. A defining feature of this stage is the development of human-AI collaboration, where human expertise is combined with AI capabilities. This synergy improves the speed, accuracy, and flexibility of decision-making, allowing for AI Seizing.

Once customer insights had been identified, the participating firms focused on converting those insights into marketing actions. GenAI was commonly integrated into campaign planning, particularly in developing promotional content for social media and digital advertising. One restaurant reported using GenAI to prepare several alternatives for promotional captions before the content was reviewed by the marketing manager. Although human judgement remained central to the final decision, AI substantially shortened the content development process and allowed marketing teams to respond more quickly to current trends and customer interests. Across the cases, GenAI was viewed less as a replacement for marketing staff and more as a tool that supported faster and better-informed decisions.

Third, AI Transforming

At this point, organizations begin to realign their internal structures and processes to fully incorporate AI-driven practices. This transformation goes beyond technology adoption and includes adjustments in workflows, organizational culture, employee competencies, and governance systems. Firms may restructure teams, redesign processes, and invest in new skills to ensure that AI insights are consistently integrated into strategic decision-making. Consequently, GenAI becomes an embedded element that supports continuous innovation.

and organizational renewal.

As firms became more familiar with GenAI, its influence extended beyond marketing activities and gradually affected the way work was organised. Several participants explained that AI-generated insights were no longer handled exclusively by the marketing team but were also discussed with business owners and operational staff when planning promotional strategies. In one culinary SME, weekly marketing meetings incorporated AI-generated analyses of customer responses to evaluate previous campaigns and identify priorities for upcoming promotions. These changes illustrate that the adoption of GenAI was accompanied by adjustments in organisational routines, collaboration, and decision-making processes rather than simply the introduction of a new digital tool.

Fourth, AI-Enabled Value Co-Creation

In the most advanced stage, GenAI enables firms to co-create value with customers on an ongoing basis. Through personalized offerings, real-time engagement, and adaptive interactions, companies establish deeper and more meaningful relationships with their customers. At this level, AI functions as a critical interface between the firm and the market. The routines and capabilities built around AI-driven engagement become increasingly difficult for competitors to replicate, thereby reinforcing long-term competitive advantage.

AI-Enabled Value Co-Creation. The final stage reflects how GenAI contributed to creating value together with customers through more personalised digital interactions. Instead of delivering the same promotional messages to all customers, several firms adapted their communication based on customer preferences identified through AI-assisted analysis. One beverage business, for example, developed different promotional content for returning customers and first-time buyers, allowing the firm to communicate more effectively with each customer segment. Participants also noted that more relevant and timely communication encouraged stronger customer engagement and improved responses to digital marketing campaigns. These observations indicate that the strategic value of GenAI lies not only in improving marketing efficiency but also in strengthening long-term relationships with customers through more customer-oriented digital marketing practices.

Overall, these four stages demonstrate that GenAI evolves into a dynamic capability only when it is deeply integrated into organization-wide routines and practices. It is this comprehensive embedding rather than mere usage that allows firms to continuously sense changes, seize opportunities, and transform their operations, ultimately sustaining their competitive position over time.

P1. Generative AI as a Sensing Capability

Generative AI functions as a sensing capability when organizations develop the interpretative skills needed to derive strategic insights from AI-generated outputs. Instead of viewing these outputs as purely technical results, firms must be able to interpret and translate them into meaningful market intelligence. This requires a combination of managerial expertise, analytical ability, and contextual understanding to recognize patterns, identify trends, and anticipate customer behavior. In the absence of such interpretative competence, AI remains limited to a supporting role; however, when these capabilities are present, it becomes a key driver of strategic awareness.

P2. The Role of Human-AI Collaboration in Strategic Integration

The shift of Generative AI from an operational resource to a strategically embedded capability is facilitated by well-developed human-AI collaboration routines. These routines determine how human judgment and AI capabilities interact within organizational processes.

While AI offers efficiency, scalability, and advanced data analysis, human actors contribute critical thinking, creativity, and contextual insight. The effective integration of these complementary strengths enables firms to incorporate AI more deeply into their strategic activities, moving beyond basic usage toward meaningful organizational impact.

P3. Organizational Transformation as a Prerequisite

For Generative AI to develop into a dynamic capability, organizations must undertake significant changes in their structures, processes, and resource configurations. This includes redesigning workflows to incorporate AI-driven insights, enhancing employee competencies, and implementing governance systems that support the effective use of AI. In some cases, firms may also need to establish new roles or dedicated teams to manage AI initiatives. Without such organizational transformation, the strategic potential of AI cannot be fully realized, making these adjustments essential for long-term adaptability and competitiveness.

P4. Institutionalizing AI-Driven Value Co-Creation

Long-term competitive advantage is achieved when AI-enabled value co-creation practices are embedded and institutionalized within organizational routines. This involves consistently delivering personalized experiences, maintaining continuous customer engagement, and adapting offerings in real time through AI support. As these practices become ingrained in the organization, they form unique capabilities that are difficult for competitors to imitate. Over time, this institutionalization allows firms to sustain their competitive position by continuously creating and delivering value in collaboration with their customers.

This study shows that Generative Artificial Intelligence (GenAI) can develop into a socio-technical dynamic capability by combining technological systems with human expertise to enhance organizational adaptability. Rather than being limited to a functional tool, GenAI actively supports the key dimensions of dynamic capabilities sensing, seizing, and transforming by improving how firms identify market signals, respond to opportunities, and continuously adjust their resources and processes. As a result, GenAI becomes embedded within organizational routines, influencing both operational execution and strategic decision-making.

In doing so, this research contributes to the advancement of Dynamic Capability Theory by providing clearer insight into how emerging technologies, particularly GenAI, shape higher-order organizational capabilities (Teece, 2007; van de Wetering, 2025). It specifically illustrates the roles of GenAI in digital marketing strategy, including its ability to generate real-time customer insights, support flexible campaign management, and facilitate continuous value co-creation with customers. These findings position GenAI not simply as a supporting resource, but as a key element in coordinating how firms create and sustain value in dynamic market environments.

Furthermore, the study underscores that long-term competitive advantage is not achieved through the adoption of technology alone. Instead, it depends on how effectively firms orchestrate their resources, processes, and capabilities while integrating GenAI into their organizational systems. Companies that successfully align technological tools with human skills, strategic objectives, and internal routines are more likely to leverage GenAI as a sustainable source of competitive differentiation.

CONCLUSION

Generative Artificial Intelligence (GenAI) on its own does not guarantee competitive advantage. Although it can improve efficiency, enable personalization, and support data-driven decisions, these benefits are often short-lived because similar technologies are readily accessible to competitors. Therefore, adoption alone is unlikely to create lasting differentiation. A sustained competitive advantage is achieved only when GenAI is embedded within the organization as a dynamic capability. This involves more than implementation at the technical level; it requires the establishment of structured routines that integrate AI into everyday business activities. Through these routines, firms can consistently utilize AI to identify market changes, capitalize on opportunities, and adapt their operations over time.

Moreover, strong governance mechanisms are essential to ensure that AI is applied effectively and responsibly. This includes setting clear guidelines, policies, and oversight processes that align AI usage with organizational goals and ethical standards. Proper governance also helps manage risks such as data inaccuracies, algorithmic bias, and excessive dependence on automated outputs. Equally crucial is the interaction between humans and AI. By combining human insight, creativity, and contextual awareness with AI's analytical capabilities, organizations can enhance the quality of their decisions and improve strategic agility. Well-structured human-AI collaboration enables firms to fully leverage the strengths of both. In sum, GenAI becomes a source of sustained competitive advantage only when it is supported by integrated routines, effective governance, and strong human-AI collaboration, allowing it to function as a true dynamic capability within the organization.

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