CHANNEL INTEGRATION IN NEW PRODUCT EXPORT: ANTECEDENTS AND PERFORMANCE CONSEQUENCES

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ABSTRACT

Although channel integration is an important topic in international marketing literature, several issues related to the topic are not fully addressed. First, mature products have received much attention in previous research and entry mode choice for new product export is not adequately examined. Second, among prior studies few explored the impact of channel integration on product market performance. Third, previous studies placed an emphasis on the effect of asset specificity on channel integration. However, their asset specificity was examined in the context of investment in service industries or general business and the findings are not readily applicable to investment in new product development in emerging industries.

This paper addresses these issues through developing a model of channel integration in new product export. It intends to achieve three objectives with the model: investigating channel choices in new product distribution in foreign markets, assessing the influence of asset specificity and organizational capability factors on channel integration, and examining the impact of channel integration and new product competitive advantage on product market performance.

Based on the literature, this paper proposes that the degree of channel integration in new product export is influenced by three factors including asset specificity, country risk, and organizational capability, and the degree of integration and new product competitive advantage exert an impact on product market performance.

Asset specificity refers to the extent to which specialized investments and skills are needed to support a transaction. In new product export, asset specificity pertains to investment in the development of a product, and the skill and proprietary technology required in the development process. High asset specificity often compels firms to seek options at the upper end of channel integration. Country risk refers to the perceived unpredictability of the political and economic environment in a host country. In export business, country risk is embedded in entry barriers, regulations governing foreign investment, and foreign business tax laws. Product competitive advantage is evaluated by the presence of product attributes such as newness, reliability, productivity, and uniqueness. These attributes provide a concrete measure of product competitiveness and differences among products on these attributes offer a direct evidence of advantage.

The hypotheses were tested using data collected from a high tech industry. The results provide evidence supporting the propositions. Specifically, product market performance is found to be determined in part by the degree of channel integration and in part by the level of new product competitive advantage. Of the two contributing factors, new product competitive advantage appears to exert a stronger impact on product performance. This finding suggests that product competitive advantage plays an essential role in enhancing product performance in export markets. Although channel integration displays a somewhat lesser role, its effect on product performance is substantial. This finding is significant because it provides evidence linking, directly, the degree of channel integration with product performance.

In regard to the relationships between the antecedents and channel integration, the results show that asset specificity influences the degree of channel integration. Apparently, as firms invest heavily in new product development for export, they intend to make choices at the upper end of channel integration that provides better control of distribution mechanism. This finding may also suggest that when firms develop products with special skills and high proprietary technology, they want to exert more control to minimize exposures to opportunistic actions by intermediaries. The results about country risk and organizational capability also offer interesting insights about the linkage between these antecedents and channel integration.