

Incremental Channel Development for New Product Introduction: A Comprehensive Framework from Real Option Approach

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Abstract

This paper explains why and how a firm formulates its strategy of incremental channel development for its new products from the perspectives of real option value, incorporated with the conventional views of resource-based view, transaction cost economics and network embeddedness. This study defines *incremental channel development* as a series of sequentially staged growth options, and examines its determinants and moderating factors. This study proposes that various sources of uncertainties (i.e. demand, technology and competition) will affect the value of real options and lead to an incremental build-up of channel involvement. This study also integrate RO, resource-based views (RBV) and transaction cost economics (TCE) to explain how a firm's capabilities, asset specificity and network embeddedness moderate the involvement and the pace of incremental channel development of new products. A firm's marketing capabilities, channel network embeddedness and perceived asset specificity with its collaborating channel partners will moderate the impact of option value on incremental channel development. The implications of this paper are also provided.

Keywords: Incremental Channel Development, Real Options, Resource-Based Views, Transaction Costs Economics, Network embeddedness.

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