

Strategic market planning

How marketing channel strategies can be used to understand and boost intangible firm values

Marketing channels are integral to an organization that wants to be competitive. They create both tangible value (sales and profits) and intangible value (assets embedded in channel relationships) for an organization. Yet the value of a marketing channel is based both on the amount of value it creates as well as the ultimate value appropriated by an organization. Therefore, value appropriation strategies are necessary to be developed alongside value creation within marketing channels.

Value appropriation is the capture of full economic value of a commodity by an organization or consumer. Yet ownership of an asset or resource does not guarantee the capture of any rents or profits. This poses an issue for organizations as marketing channels largely create intangible value. Therefore, strategies are needed in order to gain full value out of these. Such value can be captured using two mechanisms:

1. profit appropriation – extraction of profit created in channels. These are typically created in the distribution process, and an isolating mechanism can be used to limit competitors from imitating innovative channel strategy; and
2. and resource appropriation – using channels for multiple business purposes. This can be achieved through reconfiguring and appropriating intangible channel resources for non-distribution purposes.

These two mechanisms form value appropriation. Profit appropriation can enhance cash flows and accelerate revenue streams. Resource appropriation can reduce amount of working capital required for similar resources.

Appropriation in practice

Value appropriation strategies are divided into two: channel integration and channel compression. They are both involved in channel planning decisions and have a direct effect upon value appropriation. Channel integration and channel compression are typically seen in the contract, which stands as a device of profit appropriation and utilization of channel resources. Channel integration can be seen in the form of forward vertical integration in channels. This allows a firm to get the ownership and control rights of a channel. This allows competition to be isolated away from innovation. This in turn boost potential profitability, as only the controlling organization can gain benefit from the channel. This means that the organization can realize resource appropriation. Channel compression appears as a reduction of channel layers for a flat distribution system. This is often achieved by restraining multi-unit agreements and the associated distributor owned outlets. Channel compression can also come in the form of

restraining expansion across territories. This can boost the bargaining power of an organization.

There are three factors that can impact value appropriation: channel reputation, advertising effort, and industry competition. Channel reputation has the potential to alter distributors' behavior, either for the better or worse. A strong channel reputation can boost profits by improving an organization's bargaining power. Weak channel reputation signifies an organization that is struggling and can therefore be taken advantage of. A strong advertising effort can boost profits by improving exposure, boosting distributor efforts, as well as bringing in revenue itself via distributors paying royalties. Industry competition benefits the profits of distributors and limits the power of vertical compression. Competition boosts innovation, which in turn can lead to greater revenue. However, the expense of staying competitive, and the costs of failure, mean a competitive industry can pose a significant risk to an organization.

Figuring out the strategy

Kang *et al.* (2018) considered the following hypotheses, including the outcome:

- H1.* Vertical integration in channels is positively related to intangible firm value (supported);
- H2.* The scope of channel compression is positively related to intangible firm value (not supported);
- H3.* The continuity of channel compression is positively related to intangible firm value (not supported);
- H4.* Channel integration has stronger influence on intangible firm value in the firms with lower channel reputation (supported);
- H5.* Channel integration has stronger influence on intangible firm value in the firms with greater advertising effort (supported);
- H6.* The scope of channel compression has stronger influence on intangible firm value in the firms with greater advertising effort (supported); and
- H7.* And the scope of channel compression has stronger influence on intangible firm value in the less competitive industries (supported).

From the results it can be expected that channel strategies that focus on either profit or resource appropriation should gain a higher value. Channel integration is also seen as a valid strategy for driving intangible organization value. Channel compression does not have such a clear-cut effect and depends largely on the market environment. Critically, strategies need to be adopted that best fit an organization's internal and external resources. There is a significant link between advertising effort and value appropriation strategies in channels which can increase intangible value. For organizations with fewer market-based assets there can be benefit derived from channel vertical integration, but not where the industry is highly competitive. It is therefore important for managers involved with strategic planning and marketing channels to consider value appropriation. Doing so may give a competitive edge that

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can add a little more protection to an organization in the increasingly competitive global marketplace.

Comment

The review is based on 'The effects of value appropriation strategies in channels on intangible firm value' innovation strategy and industry context' by Kang *et al.* (2018), published in the *Journal of Business & Industrial Marketing*.

Keywords:

Value appropriation,
Marketing channels,
Channel integration,
Channel compression,
Franchise,
Intangible firm value

Reference

Kang, J., Brashear-Alejandro, T., Asare, A.K. and Chen, S. (2018), "The effects of value appropriation strategies in channels on intangible firm value", *Journal of Business & Industrial Marketing*, Vol. 33 No. 2, pp. 208-219.

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