

Channel Extension Strategies: The Crucial Roles of Internal Capabilities and Customer Lock-In

Jochen Binder, Dennis Herhausen, Nicolas Pernet and Marcus Schögel

Abstract

This study addresses the important but yet unresolved question of how firms can create competitive advantage from their multichannel marketing strategy. More specifically, the authors investigate the antecedents of channel extension strategies and their performance implications. Results from an empirical study including top managers from 308 firms indicate that in addition to environmental factors, a firm's channel expansion is directly related to its strategic channel management capability, and that this capability is more important in turbulent environments. Furthermore the study reveals that firms need an appropriate customer lock-in strategy to benefit from addition of novel channel types or traditional channel expansion.

Key words

Multichannel Management, Channel Extension Strategies, Strategic Channel Mmanagement Capability, Customer Lock-In, Competitive Advantage

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1 Introduction

There is ample empirical evidence that more and more firms radically reorganize and extend their distribution channels (Neslin et al. 2006). The emergence of the Internet, for example, has pushed many established companies to expand their multichannel systems and to develop e-commerce strategies (Geyskens/Gielens/Dekimpe 2002). Furthermore, changing customer needs have resulted in more complex buying patterns and the use of multiple channels (Verhoef/Neslin/Vroomen 2007). Thus, the key question is not whether multiple channels should be utilized, but rather how and to what amount. Within the process of strategic channel extension firms face the important but yet unresolved question how they can "[...] *create competitive advantage from a multichannel marketing strategy*" (Neslin/Shankar 2009). Adding channels poses a considerable investment for firms. Therefore, a channel extension strategy should be aimed at increasing market performance. Given this challenge, research to date is surprisingly quiet on two important aspects regarding channel extension strategies.

First, existing research has not detailed the capabilities which help firms to optimize their multichannel strategy more thoroughly. Current studies have emphasized that environmental developments and competition drive a firm's channel extension strategy (Neslin/Shankar 2009) while knowledge on the particular resources which are necessary for successful multichannel management are still scarce (Zhang et al. 2010). We address this shortfall by investigating the capabilities for strategic channel management and determining their crucial role for firms, i.e. being able to add innovative channels and expand traditional routes to market.

Second, the contingency factors under which channel extension strategies lead to higher overall market performance are also not well understood. While some results indicate that multichannel efforts might be a way for firms to differentiate themselves on the market and establish a competitive advantage, other findings suggest that these efforts could very well be a route to a high cost prisoner's dilemma (Neslin/Shankar 2009). We address this issue by introducing a firm's lock-in strategy as an important contingency factor and investigating how two different types of channel lock-in, economic and relational switching costs, contribute to market success depending on a firm's specific channel extension strategy.

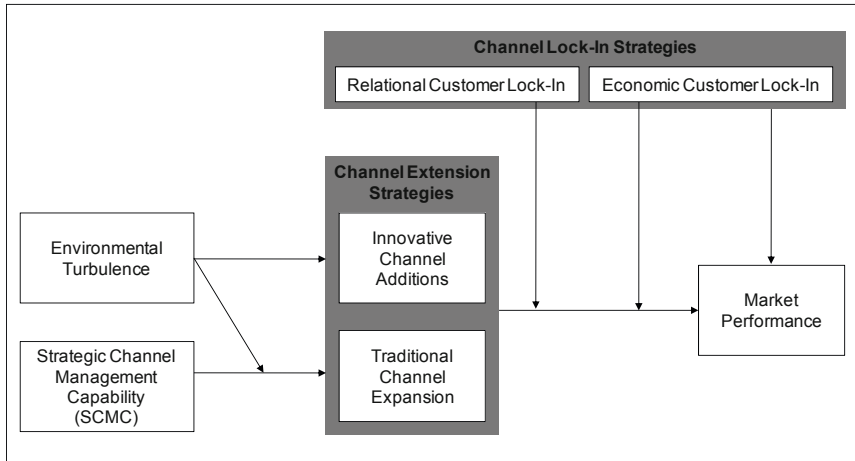
2 Conceptual Background and Research Hypotheses

2.1 Theoretical Background

The focus of this paper lies on assessing the drivers and consequences of channel extension strategies in firms' distribution systems. We assess the internal and external antecedents for the addition of innovative channels and the extension of the existing routes to market. External turbulence as well as strategic management capabilities concerning the distribution system

lead to an increasing number of traditional channels and the introduction of new channel formats. This channel increase potentially leads to higher firm market performance. However, the success of channel extension strategies might depend on how well firms manage to bind their customers to the channel system. Therefore, customer lock-in strategies are likely to moderate the effect of channel extension on market performance. Figure 1 displays the conceptual model of our work that will be detailed in the following.

Figure 1: Conceptual Model



The explanation of differences in competitive advantage (e.g. performance in the market) with respect to different degrees and qualities of resources (e.g. channel management capability) is a central contribution to marketing strategy (Day 1994; Hunt/Morgan 1995). Hence, our research builds on the resource-based view of the firm (Barney 1991). The resource-based view sees the firm's enduring competitive advantage related to the firm's possession of unique, inimitable resources and capabilities, created over time through complex interactions among the firm's resources, and based on developing, carrying, and exchanging information (Teece/Pisano/Shuen 1997). In search of theoretical support for channel management capabilities of a firm, we follow Bettinger (1989), who claimed that attitude towards change - which is a central aspect of a firm's channel management capability - is an important element of a firm's culture, and Grant (2005) who posits that culture elements are part of a firm's resources. Following the resource-based view, a firm's internal capabilities influence the decision whether and how to develop its multichannel system (Jindal et al. 2007). The management chooses the strategy which best fits the available resources and the firm's capabilities and which are most likely to help the company achieve a competitive advantage (Grant 1991).

These capabilities may be crucial given that Coughlan et al. (2006) stress that even in a (seemingly) ideal distribution system firms should continuously be focused on improvements that provide additional value for their customers.

More specifically, research has identified two generic types of change: *incremental* and *fundamental* change (e.g. Tushman/O'Reilly 2006; Walker/Armenakis/Bernerth 2007). In the context of multichannel management, fundamental change describes *innovative channel additions*, defined as the introduction and addition of channel formats which are new to the firm and not yet well established in the industry. An example is the introduction of the first mobile WAP-banking service offered by the Finnish bank MeritaNordbanken Group in 2000. *Traditional channel expansion* is defined as intensifying existing or adding additional distribution channels that are new for the firm but well established in the industry. An example is the opening of Tupperware outlet stores in malls and shopping centers. The opening of a Tupperware store, e.g. in a mall, means adding a channel that is new for the company (Tupperware has not yet had gained experience in selling their products through physical outlets). However, for customers and the industry, this channel is not new since storage, containment and preparation products for the kitchen have traditionally been sold through stores. Following the reasoning above, channel extension strategies may either include innovative channels that are relatively new to the specific market or traditional channels which are well established in the industry.

2.2 Antecedents of Channel Extension Strategies

If the interpretation of the environment as well as resources and capabilities influence decision makers' strategic actions in the distributional context, the question becomes relevant, which factors are decisive for successfully managing the distribution system. It is straightforward to assume that more than one capability or resource is involved the process of strategic channel management. Amit/Schoemaker (1993, p. 35) support this notion by stating that "*capabilities, [...] refer to a firm's capacity to deploy resources, usually in combination, using organizational processes, to effect a desired end*". This multiplicity of factors strongly suggests that the strategic capability to manage the distribution system is a multidimensional construct comprising different facets of capabilities. We denote all factors that act together to comprise a firm's ability to manage multiple channels as its *strategic channel management capability (SCMC)*. To the best of our knowledge, no such conceptualization which explicitly explains the capability to manage multiple channels has been developed to date.

In order to discover which managerial capabilities help an organization achieve superior multichannel performance, we conducted nine in-depth, personal semi-structured telephone interviews. We recruited participants from our own university contacts and relied on informants

who are particularly knowledgeable about this topic: All interviewed managers lead or actively participate in strategic initiatives to extend the existing channel system of their firm. We clearly indicated that our interview partners give their answers with respect to their channel management issues. Our sample includes firms with business area ranging from grocery retail to pharmacy and financial services in Switzerland. We also were engaged in three subsequent workshops with executives of three multinational companies regarding their multichannel strategy improvement process. The interviews followed a semi structured format in which we used an initial set of prepared questions to guide the interview, supplemented with specific follow-up questions based on each informant's individual responses. We selected this approach because it is among the most amenable qualitative techniques to mixed-method research (Creswell 2009). The four general questions that guided the interviews were as follows: (1) Please identify the currently most important external and internal influences and challenges concerning the distribution system of your firm; (2) What strategies or programs are in place to tackle these challenges; and (3) How does your company generate knowledge concerning the developments that are related to your firm's channel system.

We then collected critical incidents from the interviews and workshops describing a firm's SCMC, defined as a firm's ability to detect distribution-related external changes and adapt its channel system in order to achieve competitive advantage. The incidents we derived from the interviews and the workshops are all specifically related to channel management issues. The first author grouped these incidents in four distinct dimensions, and the other authors regrouped the incidents independently and confirmed a four-dimensional view on SCMC. More specifically, our findings suggest that a firm's SCMC is determined by (1) openness towards changes within the distribution system, (2) the generation of market knowledge concerning distributional developments, (3) strategic flexibility in order to adapt the multichannel system, and (4) an opportunity-oriented perception of external changes with respect to distribution channels. Sample incidents and managerial statements are displayed in Table 1. Please note that all managerial statements have been collected in German and were translated by the authors.

Table 1: The Four Dimensions of Strategic Channel Management Capability

Dimension	Sample Incidents	Example for Managerial Statements
Openness towards channel change within the distribution system	<ul style="list-style-type: none"> ▪ Open mindset towards channel innovation ▪ Willingness to experiment with new and innovative channels 	<ul style="list-style-type: none"> ▪ "Being engaged in innovating distribution channels needs out-of-the-box thinking." ▪ "Pilot projects can only be implemented when our sales responsables are willing to cooperate."
Generation of market knowledge concerning distributional developments	<ul style="list-style-type: none"> ▪ Generate market knowledge concerning competitors channel activities ▪ Generate market knowledge concerning customers' channel behavior ▪ Generate market knowledge concerning new technologies which are relevant for the distribution. 	<ul style="list-style-type: none"> ▪ "We are constantly monitoring the distribution activities of our competitors in order to keep track." ▪ "Customer needs are changing so quickly that we do not know how and where we will sell our products in 10 years." ▪ "Are we missing out if we do not develop mobile marketing strategies?"
Strategic flexibility in order to adapt the multichannel system	<ul style="list-style-type: none"> ▪ Quickly reacting to the introduction of new channels by competitors. ▪ Quickly reacting to changes in customer channel needs. ▪ Quickly reacting to changes in technological possibilities concerning the routes to market. 	<ul style="list-style-type: none"> ▪ "The competition has intensified. Most of our competitors are already using the Internet." ▪ "Concerning our customers we need to be able to fish where the fish are." ▪ "Technology has made great strides in the past few years. We have to keep up."
Opportunity-oriented perception of external change with respect to distribution management	<ul style="list-style-type: none"> ▪ Opportunity orientation of top management with respect to distribution activities. 	<ul style="list-style-type: none"> ▪ "We have not measured it, but we strongly believe that by improving our Internet presence we will generate offline sales, as well."

Management's openness towards channel change is an integral part for a firm to alter its existing channel system. Strategic actions can only be realized if managers are willing to implement new strategies (Barr/Stimpert/Huff 1992). Managers' openness towards channel change is therefore a central element of channel extension strategies. The *generation of market knowledge* comprises the successful and efficient gathering of information regarding technological, customer-related, and competitor-related developments in the distribution context (Damodaran 2008). This is essential for firms in order to develop and implement successful new strategies. Furthermore, a high degree of *strategic flexibility* - the capability of being able to quickly react to customer-, competitor- or technology-related developments - allows for the timely implementation of these strategies (Johnson et al. 2003). Finally, managers are more likely to implement strategic changes if they have the tendency to interpret environmental developments in an optimistic and opportunity-oriented manner (Sitkin/Weingart 1995). *Opportunity-oriented perception of external change* comprises this specific managerial predisposition.

When it comes to change within the distribution system, the practice of multichannel marketing has experienced a tremendous growth whose end is not yet foreseeable (Neslin/Shankar 2009). There is vast empirical evidence that the predominant strategy has been the addition of

additional routes to market and to expand the number of employed distribution channels (e.g. Coughlan et al. 2006; Keller 2010). Hence, previous research strongly suggests that firms with a high SCMC are better able to add innovative channels as well as expand traditional channels (for an overview see Zhang et al. 2010). Our qualitative investigations resulted in familiar findings. Channel additions - especially when it comes to electronic distribution possibilities - have been heavily discussed in the firms observed. It is also noteworthy that in these companies, the new channels hardly ever replace the existing routes to market but act as additions to enhance the channel portfolio. We therefore hypothesize that:

Hypothesis 1_{a+b}: A firm's SCMC is positively associated with (a) addition of novel channel types and (b) traditional channel expansion.

Previous studies support that technological, competitive and customer-related factors influence a firm's channel extension strategy (e.g. Jindal et al. 2007; Van Bruggen et al. 2010; Vinhas/Anderson 2005). In particular, technological progress and changing customer needs influence channel preference and lead to new multichannel possibilities for managers (Rangan/Menezes/Maier 1992). At the same time, a high degree of competition increases the pressure for firms to differentiate themselves with their distribution channels (Coelho/Easingwood 2005). We combine the three dimensions technological developments, changing customer needs, and competitive intensity and define *environmental turbulence* as the rate of technological change, the rate of change of the composition of customers and their preferences, and the degree of the competitive actions undertaken by the market players (Lee/Grewal 2004). Since environmental turbulence puts pressure on firms to adapt to these developments and to increase their routes to market, we hypothesize that:

Hypothesis 2_{a+b}: Environmental turbulence is positively associated with (a) addition of novel channel types and (b) traditional channel expansion.

Organizations of all sorts have to cope with external, economic and technological environments that are very often changing faster than the organization itself (Schwarz/Shulman 2007). As a consequence, external volatility increases the pressure for firms to adjust and remodel the (distributional) structures. Strategic change offers the potential to help organizational entities such as firms develop and adapt to new situations in order to increase strategic fit. Therefore, when environmental turbulence is high, it is even more essential that firms constantly align their distribution strategies and improve their channel systems (Kabadayi/Eyuboglu/Thomas 2007). In such environments unique resources needed to be a successful multichannel firm become more crucial (Zhang et al. 2010). As firms with a high SCMC are better equipped to quickly respond to external developments than firms with low

SCMC, we expect that environmental turbulence strengthens the relationship between a firm's level of SCMC and its implementation of channel extension strategies:

Hypothesis 3_{a+b}: Environmental turbulence positively moderates the association between SCMC and (a) addition of novel channel types and (b) traditional channel expansion.

2.3 Consequences of Channel Extension Strategies

Existing research has emphasized that customers are one of the driving factors for firms' decisions to increase their routes to market (e.g. Wheeler/Hirsh 1999). Whether the availability of multiple distribution options has led to increased customer expectations (Kumar 2010), or whether growing customer demand for wider availability and pervasive product and service availability has triggered the increase of channel variety (Jindal et al. 2007), today customers have gotten accustomed, use and even expect different customer touchpoints from retailers and manufacturers. Previous research also suggests that firms which employ multiple channels may create synergies between their routes to market and provide better convenience and a higher service level for their clients (Verhoef/Neslin/Vroomen 2007). Hence, firms that do not employ multiple channels risk lagging behind in their value provision. Customers perceive the addition of new channels or the intensification of the existing channel system as valuable enhancement of the overall service output, which in turn will positively influence customer satisfaction and loyalty (Wallace/Giese/Johnson 2004). Hence, by extending the channel system to react on changing customer needs and market characteristics, a firm creates a higher customer value of its multichannel system (e.g. DoubleClick 2004; Myers/Pickersgill/Van Metre 2004; Neslin et al. 2006). Furthermore, it has been widely approved in previous studies that the average multichannel customer is more valuable than a single channel customer due to higher spending (e.g. Ansari/Mela/Neslin 2008; Kumar/Venkatesan 2005; Thomas/Sullivan 2005). In a recent study, Avery et al. (2012) show that in the long run the introduction of a new retail store channel increases the sales within the channel system. Hence, with an insufficient extension of its channel system, a firm might miss out on a significant share of possible business.

However, the extent of the positive effect of channel additions and extensions also depends on various internal and external factors. Previous research reveals that multichannel systems make their greatest contributions to firm performance when their structures are properly aligned with their firms' overall strategies and with environmental conditions (e.g. Kabadayi/Eyuboglu/Thomas 2007). Specifically, in the short run, new a new channel is likely to induce channel conflicts and cannibalization effects between the existing and new routes to market, which might in some cases even counterbalance the effect on market performance (Rosenbloom 2007; Webb/Hogan 2002).

Taking into account the restrictions mentioned above, we follow previous research findings on channel synergies and multichannel customer expectations and assume that a firm's decision to extend its number of routes to market increases its performance in the market:

Hypothesis 4_{a+b}: (a) Addition of novel channel types and (b) traditional channel expansion are both positively associated with a firm's market performance.

2.4 Lock-In and Channel Extension Strategies

Customer lock-in is a key concept for creating stronger customer channel retention within a system of multiple distribution channels (Verhoef/Neslin/Vroomen 2007). Firms typically achieve customer lock-in by implementing different types of switching costs. More specifically, Burnham/Frels/Mahajan (2003) differentiate between procedural, relational and financial switching costs. While procedural switching costs only occur between alternative channels (e.g. setup and learning costs), firms may actively use relational and financial switching costs to lock-in customers in specific channels. While the former involves costs that arise from a close emotional tie in terms of e.g., personal relationships or brand preference, the latter refers to the loss of financial resources or other (non-emotional) benefits. Therefore the underlying factors of customer lock-in can be classified as either *economic* or *relational* in nature. Customer lock-in can also occur in a specific channel (e.g. Ansari/Mela/Neslin 2008; Montoya-Weiss/Voss/Grewal 2003). One example for an economic channel lock-in is the channel specific discounts from Apple. While they apply for customers shopping via iTunes, customers shopping in other channels (e.g. Apple brand stores or retail stores) are not able to benefit. An example for a relational channel lock-in is the personal help hotline from multichannel retailer Land's End. This personal help service is only available for online customers and not for customers of the stationary or mail-order channel. In general, if firms succeed in creating customer lock-in in their own channels, they may benefit from stronger customer retention and eventually higher market performance (Verhoef/Neslin/Vroomen 2007; Zhang et al. 2010). Hence, we hypothesize that:

Hypothesis 5_{a+b}: (a) Economic customer lock-in and (b) relational customer lock-in are both positively associated with a firm's market performance.

More specifically, customer lock-in is especially important to ensure the profitability of channel extension. Only if a sufficient number of customers will be using a new channel for a certain time, the accumulating costs of introducing this channel will be counterbalanced by higher market performance. Thus, adding new channels or extending the existing channel system is potentially more successful if a company not only succeeds in acquiring new customers by increasing its number of routes to market, but also manages to establish a lasting relationship

with these customers (Verhoef/Donkers 2005). Moreover, if firms manage to lock in new customer with potential network effects in new channels (Shapiro/Varian 1999), channel extension strategies will most likely be coupled with higher customer retention and eventually higher firm performance. The same holds true for other kinds of first-mover advantages which benefit from consumer lock-in effects (Kerin/Varadarajan/Peterson 1992). In addition to network and first-mover advantages, acquiring customers is typically more costly than keeping customers (e.g. Thomas 2001). Thus, investments in additional distribution channels are likely to be more profitable and yield a higher impact on a firm's market performance if the resulting customer tenure is high (Bolton/Lemon/Verhoef 2004). Both economic customer lock-in and relational customer lock-in may be used to create customer loyalty (Burnham/Frels/Mahajan 2003). We therefore conclude that:

Hypothesis 6_{a+b}: Economic lock-in strategies positively moderate the association between (a) addition of novel channel types and (b) traditional channel expansion and market performance.

Hypothesis 7_{a+b}: Relational lock-in strategies positively moderate the association between (a) addition of novel channel types and (b) traditional channel expansion and market performance.

3 Data Collection and Measurement

3.1 Data Collection and Sample

The goal of our study is to assess the scope and the possibility to create competitive advantage from channel extension strategies. Channel change and proliferation of routes to market are not specific to certain industries. During our qualitative enquiry it became clear, that channel-related opportunities and risks for firms result from changes of the environment as well as changes of the distribution channels themselves regardless of the industry. Therefore, in order to test our hypotheses on a broad empirical basis, primary data was collected among companies comprising the industries of consumer goods, industrial products, as well as trade and service companies in the Swiss market. The units of analysis are strategic business units within firms or (if no specialization into different business units exists) entire firms. We selected firms with more than 50 employees since small enterprises tend to have smaller customer bases. This makes multichannel activities less relevant for this type of business. Given our focus on strategic channel development, the survey was mailed to each business unit's or firm's executive responsible for the distribution strategy.

Based on these restrictions, 3,511 firms were identified for the Swiss market in cooperation with a commercial address provider. Due to financial restrictions, it was not possible to send the survey to all firms. Therefore 2,200 firm addresses were selected randomly. We additionally used existing university contacts. After applying the exact same restrictions we identified e-mail addresses from 980 additional informants. After checking for duplicate addresses, we purchased 2,006 mail addresses from the commercial provider to obtain a combined sample of 2,986 firms. Data collection was conducted via a standardized written questionnaire for the 2,006 mail addresses as well as a web survey for the 980 e-mail contacts. The questions and the structure of the web survey were identical to the written survey. 116 questionnaires were undeliverable due to address or e-mail problems. Thus our net sample includes 2,870 firms. After a follow-up, we received 324 completed surveys. Following the approach by Armstrong/Overton (1977), we tested for *nonresponse bias* by ordering the responses with respect to the return date and subsequently dividing our dataset into three equally sized groups. Then, we compared the means of the indicators contained in our survey between the early respondent group and the group consisting of late respondents using t-tests. The results revealed no significant differences between early and late respondents on main survey constructs and key demographics. This suggests that nonresponse bias is unlikely to be present in our dataset. Information on the composition of the final sample appears in Table 2. Our sample covers a broad range of firms in terms of industry, annual revenues, and business unit size.

Table 2: Sample Composition

A. Industries	%
Consumer Goods	38
Industrial Goods	18
Services	43
No Answer	1
B. Business Unit Size	%
< 50 Employees	3
50 - 199 Employees	52
200 - 499 Employees	12
500 - 1000 Employees	7
1000 - 5000 Employees	12
> 5000 Employees	14
C. Position	%
CEO	34
Business Area Manager	15
Sales / Marketing Director	35
Director Sales Channel Management	4
Team Leader Marketing and Sales	10
Other	2

3.2 Scale Development of Strategic Channel Management Capability

The qualitative analysis of SCMC revealed four sub dimensions: (1) openness towards changes within the distribution system, (2) the generation of market knowledge, (3) strategic flexibility in order to adapt the multichannel system, and (4) an opportunity-oriented perception of external changes. Therefore, we conceptualized SCMC as a second order construct consisting of these underlying sub dimensions. In order to determine whether the relationship between the first order constructs and the SCMC is formative or reflective in nature we used the decision rules developed by Jarvis/MacKenzie/Podsakoff (2003). These criteria suggest that SCMC should be conceptualized as a reflective second order construct. In the following we will describe the operationalization of the first order measurement models as well as the reflective second order construct SCMC. Whenever possible, we used existing measures adapted to the multichannel context. Except for addition of novel channel types and traditional channel expansions all items were measured using seven point Likert scales.

Openness towards changes within the distribution system is a key concept in a firm's ability to manage its channels. The more open managers are towards changes the more inclined they tend to be to make strategic changes and react to external threats. We measured openness towards changes within the distribution system using the construct attitude towards change developed by Musteen/Barker/Baeten (2006) and specifically asked the key informants to answer with respect to their firm's distribution system. All four indicators of the construct were measured on a scale with the endpoints defined as "I totally disagree" and "I totally agree". High values indicate an open attitude towards distributional change while low values indicate a more conservative attitude towards altering the channel system. The measurement model shows a high level of internal consistency with regard to Cronbach's Alpha ($\alpha = 0.82$), as well as composite reliability (CR = 0.71).

The *generation of market knowledge* depicts the managerial ability to analyze (a) customer channel choice behavior, (b) the behavior of competitors and their activities, as well as (c) technological developments and their effects on distribution on a systematic and continuous basis (Coughlan et al. 2006). The operationalization of the construct is based on the scale *intelligence generation* developed by Jaworski/Kohli (1993). The original construct was adapted concerning the distribution aspect of the managerial activities. After eliminating three indicators due to low explained variability the measurement model produces acceptable results ($\alpha = 0.76$, CR = 0.68).

Strategic flexibility reflects flexible processes and slack resources within the firm which are crucial for the identification of courses of action (Johnson et al. 2003). Therefore, the operationalization of strategic flexibility is focused on the flexibility of strategic distribution planning processes. The construct was measured by adapting the scale *strategic flexibility* devel-

oped by Zahra et al. (2008). Managers were asked to rate the flexibility of their firm's distributional processes in order to react to a set of environmental changes on a scale comprising the end points "not flexible at all" and "very flexible". Overall, the measurement model produces good results in terms of internal consistency ($\alpha = 0.86$, CR = 0.83).

Risk perception describes how individuals assess the riskiness of a situation in terms of the degree of situational uncertainty, how controllable that uncertainty is and the degree of confidence in these individual estimates (Baird/Thomas 1985). An important influence on a manager's risk perception is whether the problem is formulated in a positive or negative way (Sitkin/Weingart 1995). Hence, the decision makers' perception of the environmental situation influences the choice and the nature of their strategic reactions in its entirety. Therefore we adopted the reflective *risk perception* scale introduced by Sitkin/Weingart (1995) to operationalize *management's opportunity-oriented perception* to reflect the context of this study. This measurement model shows a high level of internal consistency ($\alpha = 0.90$, CR = 0.85).

In order to assess whether it is justified to specify SCMC as a second order construct, we first conducted an exploratory factor analysis using the indicators of all underlying constructs. We obtained a four factor solution reflecting the postulated factor structure (Kaiser-Meyer Olkin Criterium = 0.859). In a second step, a confirmatory factor analysis was used to assess the proposed factor structure. The results show that the measures of Cronbach's Alpha and composite reliabilities of the four underlying constructs are well above the suggested threshold of 0.70 and 0.60. The overall model fit is acceptable with GFI = 0.944, CFI = 0.922, AGFI = 0.889, and RMSE = 0.069. In a third step, the discriminant validity, i.e. the variance shared between different constructs, was evaluated for all first order constructs. To test discriminant validity Fornell/Larcker (1981) suggest a comparison between the average variance extracted (AVE) for each factor and the variance shared between the constructs. Based on this analysis the discriminant validity of the measures appears to be satisfactory: All shared variances are below the AVE of the respective construct (Fornell/Larcker 1981). In a fourth step, the *target coefficient* (T) developed by Marsh/Hocevar (1985) was used to assess how effectively the higher-order factor SCMC explains the overall measurement model. This target coefficient relates the fit of a first order structure (represented by its chi-square value) to the fit of the corresponding second order factor structure. The target coefficient calculated from our model has a value of 0.899 which is very close to the ideal value of 1. Therefore, the higher order model provides an adequate fit and we conclude that it is justified to specify SCMC as a second order construct.

3.3 Measurement and Scale Reliability

External turbulence was defined as a formative second order construct comprising the three dimensions market turbulence, technological turbulence and competitive intensity. In order to conceptualize these three dimensions we followed the approach of Jaworski/Kohli (1993) and adopted the reflective scales for the distributional context of this study. All three measurement constructs show satisfactory levels of internal consistency: *market turbulence* ($\alpha = 0.84$, CR = 0.76), *technological turbulence* ($\alpha = 0.89$, CR = 0.83), and *competitive intensity* ($\alpha = 0.74$, CR = 0.58). To measure *economic customer lock-in* we used a scale developed by Ping (1993) containing items concerning the financial-, effort-, and time-related switching costs ($\alpha = 0.87$, CR = 0.84). *Relational customer lock-in* was conceptualized with the scale provided by Emerson/Grimm (1999) which centers on the management's efforts in increasing customer satisfaction and establishing a high-quality relationship with their customers ($\alpha = 0.83$, CR = 0.76). To measure *market performance* we used the scale developed by Homburg/Hoyer/Fassnacht (2002) and adjusted the measures to relate to the strategic context of this study. Decision makers were asked to rate their overall company/business unit performance compared to their competitors for monetary and customer related performance figures such as e.g. market share and customer satisfaction ($\alpha = 0.73$, CR = 0.64).

Finally, we used newly developed formative measures based on the channel typology and conceptualization of strategic channel change by Coelho/Easingwood (2008). Managers were directly asked to rate their firm's development concerning *addition of novel channel types* and *traditional channel expansion* within the past five years. *Addition of novel channel types* was measured using a single indicator ("new and innovative channels") on a range from one to four where one stands for no increase at all and four stands for a strong increase of the use of new and innovative channels. This method was chosen since the strategic decision of adding distribution channels is straightforward and clearly understandable. Diamantopoulos/Winklhofer (2001) point out that in such cases the use of a single indicators is justified. Furthermore, by using this approach we followed the suggestion by Venkatraman (1989) to measure strategies using a single indicator.

Since firms can expand traditional channels (i.e. channels that are not new to the market) either by increasing the number of the channels they already use, or by investing in types of distribution channels that are new to them but already well established in the market, *traditional channel expansion* was conceptualized as comprising the two strategies *distribution intensity* and *traditional direct channels* which were measured as single items for the same reasons that were described for the addition of new and innovative channels. Each of these indicators was coded on a scale from one to four. A value of four depicts a strong increase; one indicates no increase in the respective channels. An index of these two indicators was calculated by aver-

aging their values. None of the value inflation factors exceeded 1.147, indicating that multicollinearity was not a problem for the formative construct traditional channel expansion.

Since the data had been derived cross-sectionally from one source, it was necessary to check for the impact of *common method variance*. First, we employed a theoretically unrelated (marker) construct to estimate potential *common method variance* (Lindell/Whitney 2001). Namely, we included product convenience in the dataset, which is assumed to have no relationship with the market performance of the firm. To assess common method variance, we estimated the correlation between the marker variable and market performance. No statistically significant correlation between both variable was found. Second, an exploratory factor analysis of all included items revealed that if one general factor were derived, it would explain only 18% of the variance. These findings suggest that the influence of common method variance is rather low. An additional test concerning *web survey bias* was assessed by comparing the means of all indicators between managers who took part in the online survey vs. those who completed the paper and pencil survey. The results indicate that there are no significant differences between surveys completed online or offline.

4 Model Estimation and Results

We first tested the hypotheses regarding the determinants of channel extension strategies (hypotheses 1, 2 and 3) with a multivariate Tobit model (for a similar type-II approach see also Van Nierop et al. 2011). Firms can either choose to expand their distribution systems (e.g. in the form of new outlets) or decide not to increase (or in some cases even decrease) the number and intensity of routes to market. It is important to note that some firms do not extend their distribution systems in innovative and/or traditional ways, at all. For these firms we cannot observe the intensity by which they would have invested in channel extension strategies. Therefore, our variables measuring traditional or innovative channel extension are left-censored. This means that a large fraction of observations is zero (37 percent for innovative channel addition and 20 percent for traditional expansion)¹ Because we observe two strategies (addition of novel channel types and traditional channel expansion) which are potentially correlated, we choose a bivariate Tobit setting for the first part of our study. Multivariate Tobit models account for left-censoring of the dependent variables, as well as the correlation between the unobserved factors that simultaneously influence addition of novel channel types

¹ Taking into account that (a) our sample includes a relatively high percentage of small and medium-sized companies (53 percent < 199 employees), which are typically rather slow to adopt the Internet as a distribution channel (Chong/Pervan 2007; Levy/Powell/Worrall 2005; Martin 2005), and (b) the collection of our data was conducted in 2009 asking the informants to think about the channel additions of the last five years, we believe that most of the novel channel additions are very likely related to the extension into online distribution channels.

and traditional channel expansion. For each firm i we denote the intensity of extending the traditional channel system using each strategic category (traditional or innovative) c by

$$(1) \quad Y_{ic} = \begin{cases} Y_{ic}^* & \text{if } Y_{ic} > 0 \\ 0 & \text{otherwise.} \end{cases}$$

$$(2) \quad \text{where } Y_{ic}^* = \beta_c X_i + \varepsilon_{ic}$$

Vector X_i contains the dependent variables for environmental turbulence, SCMC and the control variables. Y_{ic}^* depicts a latent variable measuring a firm's extent of channel extension. If this latent variable is greater than 0, the firm engages in channel extension strategies of amount Y_{ic} . For the increase of channels this variable is positive and for the decrease of channels it takes on negative values. However, since we only observe the extent of channel extension and not e.g. the disinvestment in channels, we cannot observe the negative measures of Y_{ic}^* . Therefore, our observations Y_{ic} are truncated at 0 and since they include unmeasured disinvestments of channels. While Y_{ic}^* denotes the reported intensity of addition of novel channel types or traditional channel expansion, the multivariate error distribution ε_{ic} allows for the mutual influence of the two extension strategies. We expect contemporaneous correlation of the error terms since investments in addition of novel channel types might influence the traditional channel expansion either positively or negatively, and vice versa.

In Table 3, we provide the estimation results for the parameters of the bivariate Tobit model. The Lagrange Multiplier Test for contemporaneous correlation is significant ($\chi^2 = 7.58$, $p = 0.006$). The simultaneous estimation of the two equations is therefore justified. To evaluate the fit of the full Tobit model we used McKelvey and Zaviona's pseudo R^2 measure. Across the two strategies we obtain an average R^2 value of 0.32. We calculated three models in order to show the improvement of the log-likelihood with the addition of the hypothesized relationships. At each stage, log-likelihood improved significantly ($\chi^2 = 116.27$ for Model 2 compared to Model 1, and $\chi^2 = 7.89$ for Model 3 compared to Model 2). We find positive and significant results for environmental turbulence in the case of addition of novel channel types (*Coef.* = 0.25, $z = 7.72$) and traditional channel expansion (*Coef.* = 0.09, $z = 2.44$). SCMC also has a positive effect on innovative (*Coef.* = 0.24, $z = 5.99$) and traditional channel extension strategy (*Coef.* = 0.12, $z = 2.65$). The interaction between environmental turbulence and SCMC is also positive for both strategies. The interaction effects for innovative channel extension (*Coef.* = 0.05, $z = 1.73$) and traditional channel extension (*Coef.* = 0.09, $z = 2.51$) are both significant. Thus, all hypotheses are supported. We also included a number of control

variables in our study to control for product complexity for the end user, positive market environment (i.e. the scope of operating profitably in the current markets), channel selectivity (i.e. management's decision to sell its products and services in few exclusive channels), product type (physical products or services) and the number of complementary services that are usually sold along with the product. In the final model (Model 3) we only found significant effects of the control variables for traditional channel expansion. The complexity of the product has a weak negative effect (*Coef.* = -0.03, $z = -1.67$) and market opportunity has a strong positive effect (*Coef.* = 0.12, $z = 3.76$) on traditional channel expansion.

Second, we tested hypotheses 4, 5, 6 and 7 using hierarchical multiple regression analysis. The control variables were entered in the first step; the main effects of channel extension and customer lock-in strategies were added in the second step; in the last step, the four interaction terms between each channel extension and customer lock-in strategy were included. All variables involved in the interaction term were mean-centered to reduce multicollinearity. Table 4 reports the results of the regression analysis. Control variables alone explain 23% of variance (Model 1). Among them, market opportunity, fit of channel strategy and SCMC all have a positive and significant effect on a firm's performance in the market. The inclusion of the main effect explains an additional 4% of variance with significant positive effects of both lock-in strategies (Model 2). When added, the interaction terms yield a 5% increase in R^2 (Model 3). In this model, only the interaction effects of innovative channel extension and relational lock-in ($\beta = 0.16$, $t = 3.00$) and traditional channel extension and economic lock-in ($\beta = 0.19$, $t = 2.31$) have a positive and significant effect on firm success. None of the main effects are significant. Thus, only hypotheses 6_b and 7_a were supported, but we found no evidence for hypotheses 4_{a+b}, 5_{a+b}, 6_a, and 7_b. We also did not find significant effects of positive market environment, product type or industry type. Furthermore, we also controlled for the fit between the current channel strategy and the overall business strategy ($\beta = 0.31$, $t = 6.07$) and SCMC ($\beta = 0.16$, $t = 2.82$), indicating that strategic channel fit and SCMC are important prerequisites for firm performance in the market.

Table 3: Parameter Estimates for the Multivariate Tobit Model

Control Variables	Model 1			Model 2			Model 3							
	Addition of novel Channel Types	Traditional Channel Expansion		Addition of novel Channel Types	Traditional Channel Expansion		Addition of novel Channel Types	Traditional Channel Expansion						
	Coef.	z	z	Coef.	z	z	Hyp.	Coef.	z	Hyp.	Coef.	z		
Intercept	1.40	34.01 ***	0.61	15.28 ***	1.41	40.86 ***	0.61	15.80 ***	1.39	38.86 ***	0.58	14.47 ***		
Product Complexity	0.03	1.47	-0.02	-0.90	0.00	0.02	-0.03	-1.56	0.00	-0.05	-0.03	-1.67 *		
Perceived Market Opportunity	0.02	0.57	0.13	4.10 ***	-0.02	-0.59	0.12	3.74 ***	-0.02	-0.58	0.12	3.76 ***		
Channel Selectivity	-0.06	-2.76 ***	-0.05	-2.35 **	-0.02	-1.17	-0.03	-1.64	-0.02	-1.19	-0.03	-1.64		
Product Type (1 = Product, 2 = Service)	0.07	1.02	-0.07	-1.02	-0.04	-0.65	-0.11	-1.70 *	-0.04	-0.80	-0.11	-1.62		
Number of Complementary Services	-0.02	-0.70	0.03	1.19	-0.01	-0.46	0.03	1.38	-0.01	-0.49	0.03	1.34		
Main Effects														
Strategic Channel Management Capability					0.24	5.90 ***	0.11	2.52 **	H1a	0.24	5.99 ***	H1b	0.12	2.85 ***
Environmental Turbulence					0.25	7.91 ***	0.10	2.73 ***	H2a	0.25	7.72 ***	H2b	0.09	2.44 **
Interaction Effect									H3a	0.05	1.73 *	H3b	0.09	2.51 **
Environmental Turbulence * SCMC														
log likelihood														575.52
likelihood ratio test (Chi ²)														7.89 **
Wald (Chi ²)														160.97 ***
N														308

* p<0.1, ** p<0.05, *** p<0.01

Table 4: Results of Regression Analysis

	Model 1		Model 2		Model 3		
	Market Performance		Market Performance		Market Performance		
Control Variables	b	t	b	t	Hyp.	b	t
Perceived Market Opportunity	0.12	2.20 **	0.07	1.25		0.06	1.16
Fit of Channel Strategy	0.31	5.80 ***	0.31	5.83 ***		0.31	6.07 ***
Industry Type (1 = B2C, 2 = B2B)	0.06	1.07	0.04	0.81		0.03	0.53
Product Type (1 = Product, 2 = Service)	0.06	1.07	0.04	0.81		0.03	0.53
SCMC	0.28	5.34 ***	0.17	2.84 ***		0.16	2.82 ***
Main Effects							
Addition of novel Channel Types			0.06	1.03	H4a:	0.03	0.48
Traditional Channel Expansion			0.06	1.18	H4b:	0.02	0.45
Economic Lock-In Strategy			0.13	2.36 **	H5a:	-0.02	-0.25
Relational Lock-In Strategy			0.11	2.03 **	H5b:	0.14	1.61
Interaction Effects							
Innovative Additions * Economic Lock-In					H6a:	0.05	0.89
Traditional Expansion * Economic Lock-In					H6b:	0.19	2.31 **
Innovative Additions * Relational Lock-In					H7a:	0.16	3.00 ***
Traditional Expansion * Relational Lock-In					H7b:	0.00	0.04
R square	0.23		0.27			0.32	
Adjusted R square	0.22		0.25			0.29	
F	18.47 ***		12.46 ***			10.87 ***	
R square change			0.04			0.05	
Likelihood Ratio Test Chi square			16.17 ***			22.51 ***	
N	308		308			308	

standardized betas reported; * p<0.1, ** p<0.05; *** p<0.01

5 Discussion

Although extant marketing literature has emphasized the importance of multichannel management for marketing practice (e.g. Neslin et al. 2006; Neslin/Shankar 2009), the driving factors for firms to expand their routes to market have not received adequate attention. The same holds true for insights related to successful strategies for turning channel extension into market success. Therefore, the goals of our study were twofold: First we assessed whether SCMC in addition to environmental turbulence acts as driver for addition of novel channel types (i.e. adding channels that are new to the industry as well as new to customers). Thus, we exceeded previous research findings on channel change (e.g. Coelho/Easingwood 2008) and demonstrated that in addition to environmental factors, a firm's channel expansion is directly related to its SCMC. We found that environmental factors moderate the effect of SCMC on channel extension, but there was no evidence that neither the addition of innovative channels nor the expansion of traditional channels are directly related to higher market performance. These results were unexpected, however, and did not support our hypotheses that both channel extension and lock-in strategies lead to higher market performance. We conclude that the missing direct relationships between certain channel extension strategies and firm performance are due to the overwhelming importance of fit between channel extension strategy and customer lock-in type. As already mentioned, another explanation for the missing relationship between

channel extension strategies and higher firm performance might in channel cannibalization and channel conflict. Firms might need to find the proper degree of channels specific lock-in and may only excel if they clearly understand the role each channel should play in their overall multichannel strategy (Zhang et al. 2010). However, this remains a vague interpretation of our results which provides fruitful avenues for further research.

Furthermore we found that for different types of channel extension strategies, different types of customer lock-in seem to be more helpful than others. More specifically, we found positive and significant interaction effects for addition of novel channel types and relational lock-in as well as for traditional channel expansions and economic lock-in. Contrary to our expectations, addition of novel channel types do not seem to work well when firms focus on the creation of economic lock-in. A possible explanation might be that when a firm invests in innovative channels that are new to the industry, it creates a quasi monopolistic situation. In this case, the costs of switching for the customers are very high due to the lack of competitive offers. Therefore, further increasing lock-in by implementing economic loss-costs will not significantly increase customer loyalty (Burnham/Frels/Mahajan 2003). Rather, firms should focus on their brand value and reputation in order to build trust which is a prerequisite for adoption and loyalty in innovative channels (e.g. Schlosser/White/Lloyd 2006). However, this assumption cannot be answered with the results of this study. Further research projects might eventually show whether this interpretation withstands an empirical test. Our results also do not support the expected interaction effect between traditional channel expansion and relational lock-in. A possible explanation might be that firms which expand their traditional channels attract customers who tend to already have gained certain amounts of experience and expertise with these types of channels offered by competitors. Greater customer expertise, however, is associated with more well developed mental structures and elaborate decision making (Alba/Hutchinson 1987). Broad experience with an alternative provider is also likely to reduce perceptions of uniqueness of an existing provider, leading to weaker relational bonds (Bhattacharya/Rao/Glynn 1995). Therefore, it is possible that firms investing in traditional channels are more successful if they focus on creating economic lock-in.

Though our findings are suggestive, we need to acknowledge some limitations. First, we rely on survey data for our dependent and independent variables which may involve a self-serving bias. Second, we were only able to collect data from one key informant from each firm. Although we followed recommendations to improve data validity (e.g. confidentiality, incentives, clear explanation of usefulness, and tests for common method variance) and informants were well qualified, we nevertheless face the usual limitations inherent in such survey design. Third, this work is based on evidence from firms in many different businesses and inherits a cross-sectional nature. Though we made use of control variables, we cannot claim to have

identified optimal strategy combinations. Fourth, from our data we were unable to provide an overview of the nature of the new channels added by those firms which stated that they had engaged in the addition of novel channel types.

Despite these limitations, our study contributes to research by introducing and testing the concept of SCMC, as well as linking it to overall market performance. The study indicates that environmental turbulence and SCMC are both important drivers for traditional channel expansion and addition of novel channel types. We also gained first insights into the mechanisms of how the extension of the distribution system can lead to superior market success and how firms can generate a competitive advantage within multichannel management. In this context, an important result is that firm's customer lock-in strategy seems to act as contingency factor for the success of a firm's channel extension strategy. Schramm-Klein (2010) assesses the linkages between distribution channels and finds that channel integration helps shaping customers' positive attitude towards the multichannel system, which in turn eventually leads to higher customer loyalty. It would certainly be interesting for future research to analyze whether channel integration is a way to increase customer lock-in. In general, obtaining a deeper understanding of the role which customer lock-in plays for channel extension strategies, as well as to identify additional strategies that help make channel additions and expansions successful are interesting avenues for future research projects. Furthermore, we have solely focused on the addition of channels to the existing channel system. Future studies might also provide valuable findings by examining the effect of channel disinvestment or downsizing of the distribution system. The study was conducted including a wide range of different industries both from B2B and B2C realms. Our sample included firms selling products as well as services. We purposely chose this broad approach in order to explore the topic and to obtain generalizable results. However, further studies could narrow down the scope and test and further refine our findings for specific industries.

Our study yields important insights for managerial practice. The present findings stress the general relevance of channel management for firm success. First, it is not surprising that our study indicates that firms with well designed distribution channels which are in line with the overall business strategy perform significantly better in the market. However, channel management is not about achieving a steady state. As our study shows, it is equally important to constantly reassess the channel system and to be able to make the necessary changes in time. Specifically, SCMC is a valuable asset which helps firms increase their market performance significantly. Therefore practitioners might consider gaining competitive advantage through superior channel management by aligning and constantly reassessing their routes to market. However, managers should be cautious when deciding on extending their distribution system. In contrast to the current tendency towards the proliferation of distribution channels, our find-

ing suggests that a higher number of channels is not always better. Rather, our findings suggest that for channel extension strategies to be successful, it is equally important to carefully define an adequate customer lock-in strategy. If firms add innovative channels, they should complement this channel extension strategy with a relational lock-in while adding traditional channels should be complemented with an economic lock-in. By providing the appropriate customer lock-in strategy firms may benefit both from addition of novel channel types and traditional channel expansion.

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