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Firm Value Creation Through Major Channel Expansions: Evidence from an Event Study in the United States, Germany, and China

Although changes to the channel system are among a firm's most critical decisions, prior research has neglected to examine the impact of channel expansions on firm value. This article investigates whether a firm's announcement of an increase in distribution intensity or the establishment of a new channel influences firm value. The authors also consider the moderating role of context-specific firm, market, and channel strategy contingencies. They test their hypotheses with an event study of 240 announcements of major channel expansions in the United States, Germany, and China. The results indicate that channel expansions affect firm value (i.e., through abnormal stock returns). However, the two types of channel expansions affect firm value differently. Whereas the establishment of a new channel positively influences firm value, reactions to an increase in distribution intensity are highly contingent. For example, firms operating in exceedingly turbulent or competitive markets experience firm value reductions in response to an increase in distribution intensity. Notably, the same two environmental contingencies enhance firm value when the firm establishes a new channel.

Keywords: marketing channels, distribution intensity, event study, marketing and firm value

Channel expansions are among a firm's most important marketing actions because they have a long-term impact on firm performance and are largely irreversible (Chu, Chintagunta, and Vilcassim 2007). In particular, a firm's channel system is associated with considerable costs. In many industries, channel costs—including personnel, information technology, and dealer provisions—account for a large share of the firm's total expenditures. For example, channel costs amount to approximately 10% in the automotive industry and up to 28% in the pharmaceutical industry (Daimler 2013; Pfizer 2013). In the United States alone, firms invested $800 billion in their direct sales forces (Zoltners, Sinha, and Lorimer 2008).

In addition, the firm's channel system is one of its key assets and can constitute a sustainable competitive advantage (Purohit 1997; Wallace, Johnson, and Umesh 2009). For example, customers of a firm that offers multiple channels can select the channel that provides optimal channel functions (Tyagi 2004). Moreover, a differentiated channel system enhances the firm's ability to cope with increasingly dynamic and competitive markets (Neslin et al. 2006; Van Bruggen et al. 2010).

However, empirical marketing research has remained largely silent on the market value of channel measures (Frazier 1999). Although research has linked other marketing actions to firm value, such as advertising spending, product launches, and price promotions, it has provided few insights into channel actions. In particular, "the relationship between channel strategy and market valuation is ... under-researched" (Srinivasan and Hanssens 2009, p. 307).

Table 1 reflects the current state of research in this area; specifically, it shows that research on the outcomes of having a greater variety of channels is scarce and findings on performance consequences are conflicting (Coelho, Easingwood, and Coelho 2003; Easingwood and Storey 1996; Srinivasan 2006). Notably, only two studies link the addition of an Internet channel to firm value. Employing a sample from Taiwan, Cheng et al. (2007) show that the addition of an electronic channel increases financial service firms' cumulative abnormal returns, economic value added, and market value added. Geyskens, Gielens, and Dekimpe (2002) find that, on average, Internet channel investments constitute positive net present value investments. However,

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TABLE 1

Studies Focusing on Performance Outcomes of a Firm's Distribution Intensity and Number of Channels

Author	Data	Outcomes of Channel Design	Distribution Intensity	Number of Channels	Contingency Factors	Cross-Industry	Cross-Country
Bucklin, Siddarth, and Silva-Risso (2008)	Power Information Network on new and used car purchases in the United States	Higher distribution intensity increases the probability that customers choose the firm's new car but decreases channel partner profits.	✓	—	—	—	—
Reibstein and Farris (1995)	Supermarket scanner data for 12 product categories	The relationship between distribution intensity and unit sales is convex.	✓	—	—	—	—
Vanhonacker, Mahajan, and Bronnenberg (2000)	U.S. grocery data from the ready-to-drink tea category	The positive effect of increases of distribution intensity is restricted to the early growth stage.	✓	—	—	—	—
Cheng et al. (2007)	Announcements of an e-channel addition of 32 Taiwanese financial service firms	Internet channel addition announcements increase cumulative abnormal returns as well as economic and market value.	—	✓	—	—	—
Coelho, Easingwood, and Coelho (2003)	62 U.K.-based financial services organizations	Offering multiple channels increases sales but decreases the firm's profitability.	—	✓	—	—	—
Easingwood and Storey (1996)	153 new financial products sold in a varying number of channels	Product performance, sales, and profitability are greater when the product is sold in a higher number of channels.	—	✓	—	—	—
Geyskens, Gielens, and Dekimpe (2002)	Announcement of an Internet channel addition of 98 newspapers	Adding an Internet channel is positively linked to investor reactions. This relationship is contingent on the timing of market entry, channel power, advertisement, and existing channels.	—	✓	✓	—	—
Srinivasan (2006)	55 publicly listed U.S. restaurant chains for the period 1992–2002	Contingent relationship between dual distribution structure and firm value depending on the market segment.	—	—	✓	—	—
This article	240 channel expansions in China, Germany, and the United States across industries	Establishment of a new channel is positively linked to investor reactions. Industry turbulence and competitive intensity strengthen this relationship, but firm efficiency and addition of a concurrent channel weaken this relationship. Investor reactions to an increase in distribution intensity are negatively moderated by industry turbulence, and competitive intensity is negatively and positively moderated by firms' market share and international expansion.	✓	✓	✓	✓	✓

Notes: ✓ examined in the study, — not examined in the study.

the direction and magnitude of firm value creation or destruction depends on firm-, strategy-, and market-related contingencies.

Although increases in distribution intensity constitute a frequent approach to channel expansion, as Table 1 shows, previous empirical research has focused on determinants and has not yet explored performance outcomes (Fein and Anderson 1997; Frazier and Lassar 1996). In addition, the limited findings on performance outcomes are fragmented and varied: increasing the level of a firm's distribution intensity is related to both increased firm market share and decreased profits of indirect channel entities (Bucklin, Siddarth, and Silva-Risso 2008; Reibstein and Farris 1995; Vanhonacker, Mahajan, and Bronnenberg 2000). Therefore, this study addresses a managerially important yet largely neglected question: How do channel expansions affect firm value?[1]

Following Van Bruggen et al. (2010), we conceptualize two basic options for a firm aiming to expand its channel system: a firm may (1) increase distribution intensity or (2) establish a new channel. A channel is a set of internal or external channel entities (e.g., stores, salespeople, Internet shops) that facilitate the movement of goods and services from the point of production to the point of sale to customers (Levy and Weitz 2009). Each channel offers a certain configuration of functions in terms of customer service, spatial convenience, provision of information, product variety, and waiting and delivery time (Coughlan et al. 2008). We first consider an increase in distribution intensity, which refers to an expansion of the number of channel entities within an existing channel at a particular level of an existing channel (e.g., wholesalers or retailers; Bucklin, Siddarth, and Silva-Risso 2008; Frazier and Lassar 1996). For example, in 2010, Volkswagen doubled the number of dealers in China from 1,300 to 2,600. Second, we consider the establishment of a new channel, which refers to the addition of a new channel to the firm's existing channel system (Geyskens, Gielens, and Dekimpe 2002). Each channel is a well-defined process through which customers can select, purchase, and receive a product or service, and each comes with a specific level of service outputs, search convenience, and costs for customers (Jindal et al. 2007; Rangaswamy and Van Bruggen 2005). For example, in 1997, Avon launched a direct Internet channel to become the first beauty company to sell its products online.

We theoretically link firm value to these two channel expansions by elaborating on supply-side and demand-side value-creation mechanisms. However, we do not expect that these channel expansions affect firm value equally across firms and markets. Therefore, we integrate a set of firm, market, and channel expansion strategy contingency factors into the conceptual framework.

To test the hypotheses empirically, we conduct an event study of 240 announcements of major channel expansions of U.S., German, and Chinese firms from 2000 to 2010. We specify a multinomial selection model to account for potential selection bias (Bourguignon, Fournier, and Gurgand 2007). The results demonstrate that, ceteris paribus, the establishment of a new channel has a positive impact on firm value. However, reactions to an increase in distribution intensity are highly contingent. For example, in response to an increase in distribution intensity, firm value is reduced for firms operating in turbulent markets, whereas firm value is created for firms with high market share. Moreover, firm value creation in response to the establishment of a new channel is less positive for highly efficient firms but more positive for firms in highly competitive markets. These findings provide three major contributions to the existing literature.

First, although previous studies have examined the impact of Internet channels on firm value (Cheng et al. 2007; Geyskens, Gielens, and Dekimpe 2002), the insights from our investigation are more generalizable than those of prior research because we consider the establishment of various types of channels. In addition, this study links an increase in distribution intensity to firms' market valuation. Prior research has neglected channel expansions through increased distribution intensity, although they constitute 48% of the expansions in our sample. Our study's results demonstrate that firms' market value reacts differently to the two types of channel expansions; thus, we conclude that both researchers and managers must distinguish the types of expansions and attend to their differing performance implications.

Second, we augment the contingency perspective of the marketing–finance interface, in that the results demonstrate that the link between channel expansions and firm value is not equal across firms, markets, and channel strategies. Thus, further research on channel actions should consider the highly contingent nature of channel expansions. Moreover, our findings help managers understand how they should expand the channel system within their specific firm and market context to increase firm value. We also offer advice to managers regarding how they should shape the channel expansion strategy.

Third, owing to the study's cross-country, cross-industry research design, the insights gained from the empirical analysis are largely generalizable. The results complement insights from prior research focusing on particular industries (e.g., newspapers, financial service industries; Cheng et al. 2007; Geyskens, Gielens, and Dekimpe 2002).

The Value-Creation Potential of Channel Expansions

Changes in a firm's market value in response to a channel expansion (i.e., abnormal stock returns) reflect the anticipated changes in the firm's future expected cash flows resulting from this channel expansion (Pauwels et al. 2004).

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[1]This study does not focus on channel contractions. Although studying channel contractions may be a promising research avenue, identifying announcements of channel contractions is empirically challenging because neither firms nor the business press tend to report such channel design actions. For example, from 2000 to 2010, we identified 240 announcements of channel expansions compared with only 13 announcements of channel reductions. Nevertheless, we report initial findings on these 13 contractions in the "Discussion" section. We thank an anonymous reviewer for pointing out this issue.

To theoretically link such channel expansions to firm value, we outline how investors may perceive value-creation mechanisms on the supply side (i.e., the firm) and the demand side (i.e., the firm's customers) (Geyskens, Gielens, and Dekimpe 2002).

Supply-Side Mechanisms

Regarding the supply side, we consider three mechanisms through which channel expansions may create value. First, channel expansions may change intrachannel competition, which is the level of competition between channel entities within a certain channel. For example, when a firm uses various department stores, how fiercely do the stores compete against one another? We expect that stronger intrachannel competition may benefit the firm because it reduces the channel members' bargaining power and pricing autonomy and, thus, the threat of double marginalization (Ingene and Parry 2007; Padmanabhan and Png 1997).[2] However, increasing intrachannel competition may also have value-destroying effects as a result of lower cost efficiency and potential channel conflict caused by sales entities' cannibalization and free riding (Dutta, Heide, and Bergen 1999; Ganesan et al. 2009; Sa Vinhas and Anderson 2005).

Second, we consider interchannel competition, which occurs when a firm offers its products across several channels that compete against one another. Thus, it refers to the level of competition between channel entities across channels. For example, in selling a Sony Music DVD, how fierce is the competition between department stores and Internet channels such as Amazon.com? Strong interchannel competition may benefit the firm by increasing its power relative to its channel entities and by encouraging greater channel efficiency through competitive pressure (Etgar 1979). However, it may also destroy value by decreasing the level of cooperation and information sharing between the firm and its channel entities as a result of channel conflict (Ganesan et al. 2009). Such negative consequences may be especially pronounced when the firm's direct channels compete with independent indirect channels because the indirect channels may suspect the firm of siphoning off their margin. Moreover, customers could destroy value through free-riding behavior because they may use the services of a premium channel while buying through a discount channel (Sa Vinhas and Anderson 2005).

Third, because transaction costs can be up to 35% of total costs, we consider how channel expansions may affect a firm's transaction costs (Butler et al. 1997; North 1990). Transaction costs are all costs associated with governance of exchange partners in the sales system (Hennart 1993; Klein, Frazier, and Roth 1990). We consider the following five types of channel transaction costs (Dyer and Chu 2003): search costs, contracting costs, bargaining costs, monitoring costs, and enforcement/safeguard costs. Search costs involve gathering information to identify and evaluate potential channel entities (Brynjolfsson, Hu, and Simester 2011). Contracting costs arise in negotiating an agreement with channel entities (Dyer and Chu 2003), and bargaining costs are expenditures incurred in the renegotiation of contracts to incorporate changes (Dahlstrom and Nygaard 1999). Monitoring costs result from efforts to monitor whether the channel entities fulfill their agreed-on channel functions (Dyer 1997). Enforcement or safeguard costs occur in ensuring a channel entity's compliance with an agreement, in sanctioning channel entities that deviate from agreements, and in responding to communication and coordination failures with channel entities (Klein and Leffler 1981). We expect that channel expansions increase or decrease certain transaction costs.

Fourth, we consider how channel expansions may affect a firm's production costs. Production costs include the direct costs of producing and delivering a product or service and reflect differences in scale or production capability (Poppo and Zenger 1998). Channel expansions may enable a firm to spread fixed costs across a larger volume of business, thus realizing economies of scale. Moreover, channel expansions may enable a firm to increase the levels of specialization in its sales system, which may also lead to economies of scale (Klein, Frazier, and Roth 1990).

Demand-Side Mechanisms

Regarding demand-side value-creating mechanisms; first, channel expansions enlarge a firm's market coverage by enabling the firm to target additional customer segments or geographical regions (Quelch and Klein 1996). Second, channel expansions may add to the level and variety of channel functions that a firm provides to customers, helping the firm better meet the needs of different customer segments and thus generate additional demand (Purohit and Staelin 1994; Sharma and Mehrotra 2007). For example, whereas more intense distribution may offer wider availability to nearby customers, a newly established channel may provide a higher service level in terms of product variety and thus attract additional customers or increase the purchase amount and purchase frequency of existing customers (Ansari, Mela, and Neslin 2008; Kumar and Venkatesan 2005).

How Do Channel Expansions Influence Abnormal Returns?

Increase in Distribution Intensity

Figure 1 depicts the conceptual framework, which focuses on the two basic modes of channel expansion—an increase in distribution intensity and the establishment of a new channel. An increase in distribution intensity refers to an expansion of the number of channel entities at a particular level within an existing channel, such as wholesalers or

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[2]Intra- and interchannel competition are types of intrabrand competition, which is the competition between the channel entities of a given good (Rey and Stieglitz 1995). We thank an anonymous reviewer for suggesting that we draw on this line of reasoning. Double marginalization occurs when a manufacturer and its sales partner independently maximize their profit margins in a Stackelberg game, leading to suboptimal price setting. Specifically, the price for the good is higher and sales volume is lower than in a vertically integrated channel, leading to lower production and consumption rents (Chiang, Chhajed, and Hess 2003).

FIGURE 1
Conceptual Framework

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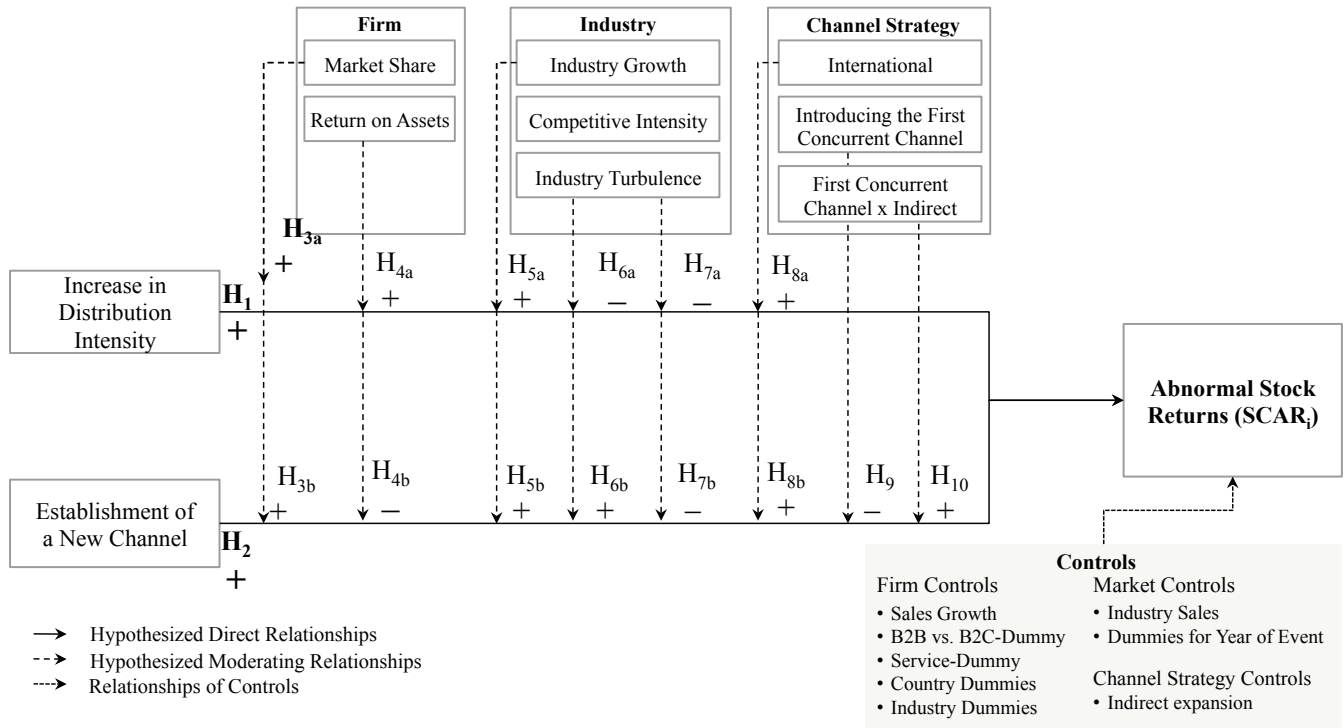
retailers (Bucklin, Siddarth, and Silva-Risso 2008; Coughlan and Lal 1992). An illustrative example is Hewlett-Packard's 2008 rollout of 7,500 additional retail partner stores across 1,000 major cities in Asia-Pacific to increase its customer reach (Chia and Teo 2008).

An increase in distribution intensity heightens intrachannel competition because a greater number of sales entities compete for the channel's customers. This competition may lead to a lower cost efficiency caused by increasing cannibalization of the sales entities (Deleersnyder et al. 2002). In addition, channel conflict may increase due to greater free-riding behavior of sales entities on sales services (Dutta, Heide, and Bergen 1999; Ganesan et al. 2009; Sa Vinhas and Anderson 2005), resulting in higher transaction costs for safeguarding, adapting, and evaluating appropriate channel behavior. However, greater intrachannel competition may also be beneficial because the firm's channel entities' bargaining power and pricing autonomy decrease and reduce the level of double marginalization, which is detrimental for the firm's profits and market share (Ingene and Parry 2007; Padmanabhan and Png 1997). Furthermore, increasing the distribution intensity of a channel may raise the channel's total sales volume, leading to economies of scale in terms of production costs per unit of exchange and a greater brand awareness for the customers (Dyer 2002; Yoo, Donthu, and Lee 2000). Moreover, transaction costs can be lowered: the firm does not need to establish new monitoring systems, design new contracts, or create new enforcement mechanisms because it is introducing

new channel entities on an already well-known playing field.

Regarding demand-side effects, the firm achieves greater market coverage by increasing distribution intensity. Thus, it can heighten customer demand simply by reaching a greater proportion of the market (Bucklin, Siddarth, and Silva-Risso 2008; Reibstein and Farris 1995). Moreover, for certain customers, the physical distance to the firm's channel entities shrinks, which enhances the perceived convenience of the channel, thus attracting more potential customers or leading to more frequent sales. Weighing both positive and negative value-creation mechanisms, we hypothesize the following:

H_1: An increase in distribution intensity is positively related to firm value.

Establishment of a New Channel

The establishment of a new channel refers to the addition of a new set of internal or external channel entities to the firm's existing channel system, such as its own retail stores or an external Internet shop. By increasing the number of channels, a firm offers a greater variety of channels (Van Bruggen et al. 2010). A firm adds new channels because each channel provides a certain customer value from its specific level of channel functions. For example, in 2010, in addition to maintaining its own specialized telecommunication stores, China Unicom began selling its telecommunication services in consumer electronics retail stores such as Suning. The consumer electronics channel offers a lower

level of customer service than China Unicom's stores but carries a wider product variety and broader assortment, enabling customers to purchase different kinds of electronic products and related services in one store. We expect that the establishment of a new channel creates value as a result of increased interchannel competition, because channels compete against one another by offering similar firm products. To stay competitive, channels can either increase their operational efficiency to offer lower prices or increase service levels to surpass other channels through differentiation. Both strategies benefit the firm because its channels become either more efficient or more differentiated, boosting customer demand for the firm's products (Chiang, Chhajed, and Hess 2003; Etgar 1979). Moreover, we expect that increasing interchannel competition reduces the firm's bargaining, monitoring, and enforcement transaction costs because it limits channel entities' potential to act opportunistically, as the firm and its customers become less dependent on a specific channel (Ingene and Parry 2000).

Regarding demand-side effects, an important result of the establishment of a new channel is the increase in the variety of channels. Thus, the firm may be able to attract additional customers who demand channel functions the firm's channel system did not previously provide. For example, some customer segments prefer using Internet channels to shopping in department stores. With a wider variety of channels, customers have more flexibility to select the most convenient channel, thus raising their perceived channel service level (Ansari, Mela, and Neslin 2008). In addition, research based on scanner data suggests that customers buying from multiple firm channels are more loyal, spend more money, and are more profitable (Kumar and Venkatesan 2005; Neslin et al. 2006). Therefore, we posit the following:

H_2: The establishment of a new channel is positively related to firm value.

How Do Contingency Factors Influence the Value Creation of Channel Expansions?

In line with transaction cost and contingency theory as well as insights from prior literature, we expect that the relationship between channel expansions and firm value is contingent on firm, market, and channel expansion strategy factors (Geyskens, Gielens, and Dekimpe 2002; Shervani, Frazier, and Challagalla 2007). Figure 1 depicts these moderating hypotheses. In this section, we define each contingency factor, justify its relevance, and develop moderating hypotheses.

Firm Characteristics

A firm's potential to generate value for shareholders depends on its market position and its ability to leverage its assets (Hall 1992; Srivastava, Shervani, and Fahey 1998). We focus on market share because it reflects the firm's market position. In addition, we consider the firm's return on assets (ROA) because it captures the firm's operating per-

formance and has a significant impact on the firm's stock market evaluation (Barber and Lyon 1996; Yermack 1996). We expect that these firm contingencies may also influence the value creation of channel expansions.

Market share. Market share is defined as the firm's sales revenues relative to total industry sales revenues (Tuli, Bharadwaj, and Kohli 2010). We include market share as a moderator because prior research has demonstrated that a firm with greater market share is more efficient in transforming its market-based assets into future cash flows (Gruca and Rego 2005) and is more powerful relative to its channel entities (Jacobson and Aaker 1985). Therefore, we expect that the benefits of increased intra- and interchannel competition due to channel expansion measures are even more pronounced for such firms.

Furthermore, we expect that channel expansion–related transaction costs are lower for a firm with greater market share. Such firms face lower search costs when finding indirect channel entities open to listing the firm's powerful brand (Frazier and Lassar 1996). Because job seekers typically consider firms with large market share more appealing, recruiting employees for the firm's direct channels is also less costly (DelVecchio et al. 2007). In addition, a firm with greater market share faces lower bargaining costs when expanding its channels because the firm can draw on its market power during negotiations with potential channel entities. The firm can also rely on its market power to encourage the channel entities' compliance with agreements (Payan and McFarland 2005), thus reducing enforcement costs by limiting opportunistic and free-riding behavior (Ailawadi, Borrin, and Farris 1995; Shervani, Frazier, and Challagalla 2007).

Finally, we expect firms with greater market share to incur lower production costs because they are able to spread fixed selling costs over a larger volume of business, enabling them to achieve greater economies of scale (Buzzell, Gale, and Sultan 1975). Therefore,

H_3: Firms with greater market share generate more firm value by (a) increasing distribution intensity and (b) establishing a new channel than do firms with a low market share.

ROA. A firm's ROA refers to its ability to generate high operating returns relative to its assets (Zou and Cavusgil 2002). Firms with a higher ROA have specific resources and processes for appropriating greater value from market-based assets (Hitt and Ireland 1985). Therefore, investors may consider a firm's past operating performance a good indicator of the expected value of channel expansions (Reddy, Holak, and Bhat 1994).

In line with transaction cost theory, we expect that a firm with a high ROA benefits from an increase in distribution intensity. Because the firm has a proven capability to leverage its assets efficiently, it may also be expected to increase its distribution intensity by realizing favorable production costs. Employing efficient existing resources and processes also implies lower setup and implementation costs in terms of search, contracting, bargaining, and monitoring costs (Chaney, Devinney, and Winer 1991; David and Han 2004).

In contrast, we expect that a firm's ROA negatively affects the positive relationship between the establishment of a new channel and firm value. To establish a new channel, a firm must employ new types of sales entities and processes, which hinders its potential to build on existing resources and processes and thus limits the realization of economies of scale (Bain 1956). Instead, the firm must set up new and different processes and build up new resources or recombine existing ones. Thus, the firm needs to invest in additional assets. Accordingly, firms with a high ROA risk forfeiting their operating performance and thus decreasing firm value (Hitt and Ireland 1984; Snow and Hrebiniak 1980). In addition, the firm must find, contract for, and monitor new types of sales entities, undermining existing efficient exchange relationships and resulting in higher transaction costs (David and Han 2004). Therefore, we propose the following hypothesis:

H_4: Firms with higher ROA generate (a) more firm value by increasing distribution intensity but (b) less firm value by establishing a new channel than do firms with lower ROA.

Market Characteristics

We expect that the value creation of a firm's channel expansion depends on the expansion's fit with the firm's task-related environment. Thus, we include three market characteristics that prior research has established as conceptualizing a firm's task-related environment: industry growth, industry turbulence, and competitive intensity (Fang, Palmatier, and Steenkamp 2008).

Industry growth. "Industry growth" refers to the rate of demand growth within a specific industry (Bahadir, Baradwaj, and Srivastava 2008) and "plays a central role in virtually all strategic marketing models developed in the past 30 years" (Bharadwaj, Clark, and Kulviwat 2005, p. 347). We argue that in growing markets, both an increase in distribution intensity and the establishment of a new channel suffer less from the drawbacks of intra- and interchannel competition. In contrast to mature markets, generating additional demand for the firm less likely cannibalizes other existing channels' or channel entities' sales volume (Dwyer and Oh 1987). Therefore, the firm faces lower channel conflict and, consequently, lower transaction costs for safeguarding, adapting, and evaluating appropriate channel behavior. Furthermore, channel expansions may be more valuable in growing markets because it is easier to gain market share and increased experience will lead to production cost advantages (Aaker and Day 1986).

In growing markets, a firm can also benefit from the demand-side effects of channel expansions because growing markets offer more potential new customers and customer segments (Datta, Guthrie, and Wright 2005; Mehra 1996). Furthermore, customers' price sensitivity tends to be lower in such markets, enabling the firm to capture more profitable customers with its channel expansions (Aaker and Day 1986). Thus:

H_5: In markets with high growth, firms generate more firm value by (a) increasing distribution intensity and (b) establishing a new channel than firms in markets with low growth.

Competitive intensity. "Competitive intensity" refers to the degree to which a firm faces competition in a market (Morgan and Rego 2009). Market concentration is often used as an indicator of competitive intensity. In high market concentration, a few large firms dominate the market, which implies low competitive intensity (Fang, Palmatier, and Grewal 2011). We expect competitive intensity to be an important contingency because it is a central determinant of a firm's profits and also increases the relevance of market-related firm actions for firm value creation (Kirca, Jayachandran, and Bearden 2005).

Regarding an increase in distribution intensity, the firm faces greater transaction costs when competitive intensity is high. Specifically, the firm must invest in additional safeguarding and monitoring because its channel entities depend less on the specific firm and are more likely to act opportunistically (Dutta, Heide, and Bergen 1999). In addition, the firm must increase its monitoring efforts and pay higher premiums to ensure its channel entities' compliance, which leads to higher bargaining, monitoring, and enforcement costs (Dahlstrom and Nygaard 1999; Giroud and Mueller 2010). Thus, we expect firms in highly competitive markets to generate less firm value by increasing distribution intensity than firms in less competitive markets.

In contrast, we expect that establishing a new channel is more beneficial under conditions of high competitive intensity. By adding a new channel, the firm differentiates its channel system, enhances customer loyalty, and strengthens its market power relative to its customers and channel entities. These effects are even more important for the firm when it faces fierce competition because customers and channel entities can choose from among a plurality of alternative firms (Ansari, Mela, and Neslin 2008; Shervani, Frazier, and Challagalla 2007). By differentiating its offerings through the establishment of a new channel, a firm can counteract strong competition because it becomes less vulnerable to the threats of competitive intensity. Thus:

H_6: In highly competitive markets, firms generate (a) less firm value by increasing distribution intensity but (b) more firm value by establishing a new channel than firms in less competitive markets.

Industry turbulence. "Industry turbulence" describes the extent to which customer demand in a certain industry changes rapidly and unpredictably (Fang, Palmatier, and Grewal 2011). In turbulent industries, current and future customer needs and demand levels are difficult to predict (Nath and Mahajan 2011). Because rapid and unforeseen changes amplify information asymmetry between a firm and its channel entities, the firm must strengthen its monitoring and enforcement efforts to avoid opportunistic behavior, such as sharing false information on customer demand or price levels. The need for these efforts makes channel expansions more costly (Crosno and Dahlstrom 2008; Frazier et al. 2009).

Moreover, channel expansions may fail to capture additional customer demand because customers' channel-related needs and preferences can change rapidly. Thus, the firm has more difficulty predicting which new channel it should establish or in which region it should increase its distribu-

tion intensity, heightening the threat of a potentially costly and nearly irreversible wrong decision. Thus, we predict the following:

> H7: In highly turbulent markets, firms generate less firm value by (a) increasing distribution intensity and (b) establishing a new channel than firms in less turbulent markets.

Channel Expansion Strategy

We expect that the value creation of channel expansions also depends on the firm's strategic choices as to how it conducts such an alteration of its channel system. In particular, we focus on two central decisions derived from prior literature. The first is the firm's decision regarding whether the expansion is international or national. This contingency is important because the firm's transaction and production costs and its market coverage vary between national and international markets (Hsu and Boggs 2003; Steenkamp and Geyskens 2012). The second decision is whether to establish a first direct or indirect concurrent channel relative to the existing channels in the firm's channel system (Sa Vinhas and Anderson 2005). We account for this factor because transaction cost–related channel design research has suggested that decisions regarding the structure of the sales system (direct-only or indirect-only vs. hybrid) could alter transaction costs associated with channel design expansion (David and Han 2004).

International channel expansion. In terms of regional scope, a channel expansion can be either international or national (Anderson and Coughlan 1987). We define an international channel expansion as an expansion outside the firm's home-country market, leading to an incremental increase of the firm's internationalization. The firm's internationalization is defined as the firm's share of international sales (Sullivan 1994). Although expanding channels internationally may have detrimental effects if the greater complexity associated with international expansion exceeds management capabilities of coordinating activities across many different countries, we expect that, in general, increasing internationalization of sales enhances firm value (Geringer, Beamish, and Da Costa 1989).

With respect to demand-side value-creation mechanisms, an international channel expansion enlarges the firm's market coverage by allowing a firm to target additional customer segments or geographical regions (Quelch and Klein 1996). Thus, internationalization can diversify the firm's revenue stream, as the revenues in different countries follow potentially differing business cycles. The firm becomes less vulnerable to local demand and sales volatility, thereby lowering its business risk and creating firm value (Hsu and Boggs 2003; Kim, Hwang, and Burgers 1993). Thus, we posit the following:

> H8: Firms in an international market generate more firm value by (a) increasing distribution intensity and (b) establishing a new channel than do firms in national markets.

Introducing the first concurrent channel. When establishing a new channel, a firm can decide to set up a concurrent channel if its channel system in a certain market previously consisted of only direct or indirect channels. In that

case, a concurrent channel is a new channel that is either the first direct or the first indirect channel in a firm's channel system in a specific geographical sales region (i.e., market).[3] For example, in 2006, Lenovo set up its first indirect channel in addition to its previously direct-only sales channels in India. We focus on this issue because this "phenomenon is poorly understood, even though it has been growing rapidly" (Sa Vinhas and Anderson 2005, p. 507).

Introducing a new concurrent channel results in a new type of interchannel competition. Before introduction of a new channel, the channel system consists of either direct-only or indirect-only channels. After introduction of a new channel, the established channels must compete against the concurrent channel for market share, raising a strong risk of cannibalization (Deleersnyder et al. 2002). Moreover, direct and indirect channels compete for the distribution of the channel margin for the first time. This competition imposes the risk of severe and destructive channel conflict because indirect channel entities "may suspect the supplier of creating a tilted playing field that is designed to favor its employees" (Sa Vinhas and Anderson 2005, p. 508). This suspicion may ruin cooperative relationships and lead to lower overall channel margins (Bergen, Dutta, and Walker 1992; Jindal et al. 2007).

The introduction of a concurrent channel also affects the level of transaction costs. For example, the firm has to introduce complex remuneration schemes for its internal and external channel entities to ensure that they fulfill their specific channel functions. Moreover, because relationship quality may deteriorate, monitoring costs for avoiding opportunistic behavior of channel entities are likely to increase (Heide and John 1992; Wathne and Heide 2000). Finally, the firm faces higher enforcement costs because it must pay margin premiums for its channel entities to safeguard against short-term opportunistic behavior (Dahlstrom and Nygaard 1999). These enforcement costs may increase not only for the new channel entities but also for established channel entities (Antia and Frazier 2001). Thus, we hypothesize the following:

> H9: Firms generate less firm value by establishing a new channel that is concurrent to the previous channels.

Indirect establishment of a concurrent channel. Moreover, we expect that the value creation derived from establishing a concurrent channel depends on whether this new channel is the first direct or the first indirect channel—an issue that strongly concerns managers. For example, until 2010, Procter & Gamble's channel system consisted of only indirect channels. The firm decided in January 2010 to sell its brands directly to U.S. consumers through its own online store, the "P&G e-store," a step that reflected a fundamental departure from its prior indirect-only sales channel system. The chief executive officer of Procter & Gamble, Bob

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[3]This moderator applies only for the establishment of a new channel. Distribution intensity is always increased within existing direct or indirect channels. Channels are defined as concurrent when an own channel and independent channels transact in the same geography and sell the same products (Sa Vinhas and Anderson 2005, p. 507).

McDonald, stated, "We want to be where customers want to shop" (Birchall 2010).

We expect that investors perceive introduction of an indirect concurrent channel less negatively than that of a direct channel because introduction of a direct concurrent channel causes several problems. For example, when a firm establishes a first direct concurrent channel, it must accommodate the existing indirect channel entities because the new direct channel may cannibalize them. Thus, previous agreements may become obsolete and sales targets, compensation schemes, and channel service levels renegotiated, resulting in high contracting and bargaining costs. Such renegotiations are more costly for indirect channels. Contracts with direct channel entities can be adapted more easily, whereas gaining compliance of indirect channels is costly and complex (Gilliland 2004).

Moreover, members of indirect channels may perceive the introduction of a direct concurrent channel as a threat to their business. This perception may decrease their compliance and erode the overall relationship quality. For example, a Forrester Research analyst commented on Procter & Gamble's introduction of a concurrent direct online channel by saying, "With P&G's marketing muscle, online and brick-and-mortar retailers are understandably concerned" (Silverstein 2010, p. 1). Such concerns of indirect channel entities require the firm to incur higher enforcement costs to regain the compliance of its indirect channel members (Gilliland, Bello, and Gundlach 2010; Heide 1994). Finally, when the firm introduces an indirect concurrent channel, potential costs of channel failure and resulting elimination decrease because the firm can more easily eliminate external (i.e., indirect) channel entities than close down internal channel entities because of potential organizational path dependencies (Sydow, Schreyögg, and Koch 2009). Thus:

> H_{10}: Firms destroy less firm value by establishing a first indirect concurrent channel instead of a first direct concurrent channel.

Controls

In line with prior strategy and transaction cost economics research, we control for additional firm- and market-related factors. We control for the firm's sales growth because channel expansions may be more valuable for rapidly growing firms. Sales growth refers to the growth rate of the firm's sales (Shervani, Frazier, and Challagalla 2007). Because reactions to channel expansions may differ between industrial and consumer-oriented firms, we control for whether the firm has a business-to-business (B2B, vs. business-to-consumer [B2C]) focus. Similarly, we control for whether the firm has a service (vs. product) focus (Morgan and Rego 2009). Regarding market characteristics, we control for industry size because investors may perceive channel expansion as more beneficial in large markets. Industry size refers to the total sales volume in the focal industry (Karuna 2007). Finally, we control for further country-, industry-, and year-specific influences by including dummies for country (reference category: Germany), industry (reference category: energy), and year (reference category: 2000).

Methodology

Data Collection

To analyze the relationships between channel expansions and abnormal stock returns, we compiled a sample of the announcements of such events from ad hoc disclosures, press releases, and articles obtained from the LexisNexis and Factiva databases. We focused on firms that are listed in the U.S. S&P 500; the German DAX, MDAX, SDAX, and TecDAX indexes; and the Chinese CSI 300.

We then coded whether the event constituted an increase in distribution intensity or the establishment of a new channel, whether the firm expanded internationally, whether the firm expanded through direct or indirect channels, and whether the firm introduced a first concurrent channel. Two academic raters conducted the coding procedure (for the conceptual definitions, coding guidelines, and coding examples they were instructed to use, see Appendix A). For this purpose, the coders first read and coded 50 channel expansion announcements and then discussed the results. The two coders showed a high intercoder reliability of 90% in terms of Krippendorff's alpha (Hayes and Krippendorff 2007). Inconsistent codings were resolved by discussion between the research team and the two coders.

Then, because our research focus is on the channel system of manufacturers, we excluded events associated with retailers. We also eliminated events that could not be unequivocally attributed to a certain date and those for which a possible confounding event occurred within 20 days of the announcement of the channel expansion (McWilliams and Siegel 1997). Confounding events include all stock splits and structural stock changes, damage suits, product recalls, dividends, executive changes, joint venture announcements, merger and acquisition activities, and earnings announcements of the firms in the sample that we could find in LexisNexis or Factiva for this respective time window.

Finally, we eliminated events of minor relevance for the firm's channel system (Joshi and Hanssens 2009). The two coders rated both the strategic relevance and the operational relevance of each event on a five-point Likert-type scale (1 = "very low," and 5 = "very high"). We removed events that were rated very low on both dimensions because we do not believe that such minor channel expansions affect firm value. Examples of minor channel expansions include Apple's opening of a second flagship store in Shanghai in 2010 and BMW's addition of 20 dealerships to the already existing 650 dealerships in Germany in 2005. The final sample consisted of 87 U.S. firm announcements, 110 German firm announcements, and 43 Chinese firm announcements.

Dependent Variable

The dependent variable is the firm's abnormal stock returns calculated by the market model, which is superior to the capital asset pricing model in cross-national event studies (Campbell, Cowan, and Salotti 2010). We gathered information on firm and market stock returns from the Center for Research in Security Prices for the U.S. companies and from Datastream for the firms listed in China and Germany. For the estimation, we used daily data on stock market

returns for each firm during a 250-trading-day period ending 15 days before the event date:

$$(1) \qquad E(R_{it}) = \alpha_i + \beta_i R_{mt} + \varepsilon_{it},$$

where $E(R_{it})$ denotes the expected daily returns for firm i on day t if the event had not taken place, R_{mt} denotes the daily returns of the respective market index in the home market (S&P 500, German DAX indexes, and CSI 300), α_i and β_i are firm-specific parameters, and ε_{it} is the i.i.d. normally distributed error term (Brown and Warner 1985).

We used the estimates obtained from this model to predict the daily abnormal returns for each firm for the event days, AR_{it}. Here, R_{it} signifies the actual daily returns, and $E(R_{it})$ represents the model estimates. AR_{it} provides an unbiased estimate of the future earnings generated by the event and is a random variable with a zero mean (Fama 1970; Gielens et al. 2008):

$$(2) \qquad AR_{it} = R_{it} - E(R_{it}) = R_{it} - (\alpha_i + \beta_i R_{mt} + \varepsilon_{it}).$$

Next, we had to determine an appropriate event window $[t_1, t_2]$ that is long enough to ensure the dissemination of information regarding the channel expansion announcement (Swaminathan and Moorman 2009). Therefore, we calculated abnormal returns for alternative event periods, each ranging from t_1 to t_2 to $CAR_i[-t_1, t_2]$:

$$(3) \qquad CAR_i[-t_1, t_2] = \sum_{t=-t_1}^{t_2} AR_{it}.$$

Assuming efficient information processing of the press announcements, "an event window should be as short as possible" (McWilliams and Siegel 1997, p. 636), which suggests an event window that encompasses only the specific trading day of the announcement. However, analysis of press announcements should especially consider that information has likely been disseminated to the market the day before the specific trading day (MacKinlay 1997). Thus, the day before the press announcement would be the relevant event day. To address this issue, the general practice is to expand the event window to the day before the announcement day (Agrawal and Kamakura 1995; Brown and Warner 1985; Wiles and Danielova 2009).

In addition to this theoretical consideration, we also validate the event window empirically, following established procedures (Agrawal and Kamakura 1995; Geyskens, Gielens, and Dekimpe 2002). We calculated the cumulative average abnormal returns of the firms in our sample (N) for various event windows ($CAAR_i$) (t_1 = seven days before the announcement, and t_2 = seven days after the announcement) and tested the significance of these various event windows using the t-test of Brown and Warner (1985) and the generalized sign z-test (Cowan 1992):

$$(4) \qquad CAAR_i[t_1, t_2] = \sum_{i=1}^{n} \frac{CAR_i[t_1, t_2]}{n}.$$

To test our hypotheses, we standardized the cumulated abnormal returns ($SCAR_i$) using the standard deviation of abnormal returns over the estimation window to correct for the firms' differences in variance in the daily closing prices (Aktas, Bodt, and Cousin 2007; Gielens et al. 2008; Raassens, Wuyts, and Geyskens 2012).

Independent Variables

We obtained information about the firm- and market-related moderators and control variables from Compustat and press releases. Appendix B provides an overview of the data sources and measures of the study. As we previously described, the channel expansions and the channel strategy-related moderators are coded according to firms' announcements and press releases. Appendix A provides exemplary quotes and the resulting coding.

We calculate the firm's market share as the firm's sales relative to total industry sales, whereby industry sales are measured as the cumulative sales at the firm's four-digit Standard Industrial Classification (SIC) code level (Tuli, Bharadwaj, and Kohli 2010). We measure ROA as the firm's earnings before extraordinary items in relation to its total assets (Rego, Billet, and Morgan 2009). Industry growth is the average three-year sales growth of the industry at the four-digit SIC code level (Bahadir, Bharadwaj, and Srivastava 2008). Competitive intensity is the inverse Herfindahl–Hirschman index for industry concentration at the four-digit SIC code level (Tuli, Bharadwaj, and Kohli 2010). Industry turbulence is the ratio of the standard deviation of sales to the average sales growth within the industry over the three years preceding the event (Srinivasan, Lilien, and Sridhar 2011). As previously noted, we coded the channel expansion strategy variables according to the press releases. Indirect channel expansion is a binary variable coded as 1 if the firm conducts the channel expansion through external channel entities. International expansion is a binary variable coded as 1 if the firm conducts the channel expansion outside its home market. Accordingly, introduction of a concurrent channel is a binary variable coded as 1 if the firm established the first direct or the first indirect channel in a firm's channel system.

Controls

We computed the firm's sales growth as the natural logarithm of the difference in sales between the year of the event and the year before the event (Tuli, Bharadwaj, and Kohli 2010). Market size is the total sales volume within the firm's four-digit SIC code (Karuna 2007). We coded a binary variable as 1 to indicate a firm's focus on B2B (vs. B2C) and to indicate whether the firm focuses on services (vs. products) according to the firm's four-digit SIC code (Bahadir, Bharadwaj, and Srivastava 2008; Morgan and Rego 2009). Furthermore, we included binary variables that indicate whether the firm is listed in the United States or China. Finally, we included ten dummy variables for the event year and seven industry dummies based on SIC classification, for which the food industry serves as the reference category (Barth, Cram, and Nelson 2001). Table 2 shows the descriptive statistics and correlations of the variables.

TABLE 2
Descriptives and Correlations

Variable	M	SD	Min	Max	1a	1b	2	3	4	5	6	7	8	9	10	11	12	13	14
1a. SCAR (−1, 0)	.15	1.63	−6.05	10.73															
1b. CAR (%) (−1, 0)	.46	3.13	−8.88	14.41	.89*														
2. Market share	.1	.11	.0002	.69	.07	.06													
3. ROA	.06	.11	−.66	.25	−.12	−.08	.01												
4. Industry growth	.05	.16	−.44	.49	−.06	.00	−.02	.02											
5. Competitive intensity	.92	.07	.001	.66	−.08	−.05	.25*	−.01	−.11*										
6. Industry turbulence	2.73	6.3	.215	35.27	.22*	.16*	−.01	.00	−.28*	.01									
7. International	.41		.00	1	.06	.05	−.12	.12	−.09	.04	−.05								
8. Concurrent channel	.13		.00	1	.07	.09	−.03	.00	.01	−.06	−.08	.05							
9. Sales growth (ln)	.1	.16	−.52	.62	−.12	−.08	−.02	.00	.00	−.02	−.01	.14*	−.04						
10. Market size (in billions of U.S. dollars)	442.84	644.06	.01	4844.05	.00	−.02	−.07*	.01	.16*	−.36*	−.13*	.1	−.05	.02					
11. Indirect channel	.48		.00	1	−.09	−.06	.07	−.02	.05	.06	.01	−.16*	.01	−.09	.05				
12. B2B	.29		.00	1	−.02	−.06	−.15*	−.03	.03	.06*	−.01	.25*	−.08	−.04*	−.42*	−.02			
13. Service	.5		.00	1	.02	.01	.01	−.02	−.02	−.25*	−.11*	−.24*	−.1	.01	.27*	−.04	−.36*		
14. United States	.36		.00	1	.00	.01	.33*	−.03	.1	.18*	.02	−.38*	.13*	−.13*	−.24*	.27*	−.11	.13*	
15. China	.18		.00	1	.04	.03	−.27*	.04	−.05	−.12	.07	−.05	.02	.11	.08	−.08	−.09	−.01	−.35*

*$p < .05$ (one-tailed tests).

Model Specification

Selection model. Firms might have relevant private information that is not fully known to the market but that influences their decision to conduct a channel expansion (Li and Prabhala 2006). However, we can observe changes in firm value only for those firms that actually announce channel expansions. To incorporate and control for a firm's unobservable private information, we control for a potential self-selection bias by specifying a multinomial logistic selection model (Bourguignon, Fournier, and Gurgand 2007).

Therefore, we constructed a matched sample portfolio consisting of publicly listed firms that have not conducted a channel expansion (or have not announced it). We selected firms that operate in the specific firm's four-digit SIC code industry and that have a similar market capitalization (±20%; Purnanandam and Swaminathan 2004). Every firm's choice not to conduct a channel expansion (channel expansion$_i$ = 0), to increase its distribution intensity (channel expansion$_i$ = 1), or to establish a new channel (channel expansion$_i$ = 2) can then be explained as a function ($\gamma'W_i$) of the firm attributes, market conditions, controls, and an error term u_i:

$$(5) \qquad \text{Channel expansion}_i = \gamma'W_i + u_i.$$

Because the two types of channel expansions are mutually exclusive, we do not need to allow for correlated choices and can specify a multinomial logit selection model (Bourguignon, Fournier, and Gurgand 2007; Dubin and McFadden 1984). In addition to the variables from the main model, we include firm size and firm financial leverage because these variables may determine the firm's decision. They capture the firm's financial resources and might be a good proxy for the firm's propensity to invest in channel expansions (Chandy and Tellis 2000; Cohen and Klepper 1996).[4]

We used the predicted conditional probabilities φ_i for each choice given the conditional probabilities of all other choices ($1 - \varphi_i$) to calculate the inverse Mills ratios λ_1 for an increase in distribution intensity and λ_2 for the establishment of a new channel (Dubin and McFadden 1984). We subsequently include the inverse Mills ratios λ_1 and λ_2 into the second-stage models to control for selection bias and derive unbiased parameter estimates (Li and Prabhala 2006). Table W1 in the Web Appendix shows the results of the estimation of the selection model.

Second-stage models. To test the hypotheses of the relationships between channel expansions and firm value, we specify the following separate regressions in which the index i denotes the specific event:

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[4]Firm size and firm financial leverage do not significantly influence abnormal stock returns of an increase in distribution intensity or the establishment of a new channel when included in the second-stage models.

(6) Increase in Distribution Intensity:

$$SCAR_i[-t_1, t_2] = \beta_0 + \beta_1(\text{Market Share}_i) + \beta_2(\text{ROA}_i)$$
$$+ \beta_3(\text{Industry Growth}_i)$$
$$+ \beta_4(\text{Competitive Intensity}_i)$$
$$+ \beta_5(\text{Industry Turbulence}_i)$$
$$+ \beta_6(\text{International Channel Expansion}_i)$$
$$+ \beta_7(\text{Sales Growth}_i) + \beta_8(\text{Market Size}_i)$$
$$+ \beta_9(\text{Indirect Channel Expansion}_i) + \beta_{10}(\text{B2B}_i)$$
$$+ \beta_{11}(\text{Service}_i) + \beta_{12}(\text{China}) + \beta_{13}(\text{U.S.})$$
$$+ \text{Year Dummies} + \text{Industry Dummies}$$
$$+ \beta_{14}\lambda_{1i} + \varepsilon_i, \text{ and}$$

(7) Establishment of a New Channel:

$$SCAR_i[-t_1, t_2] = \beta_{15} + \beta_{16}(\text{Market Share}_i)$$
$$+ \beta_{17}(\text{ROA}_i) + \beta_{18}(\text{Industry Growth}_i)$$
$$+ \beta_{19}(\text{Competitive Intensity}_i)$$
$$+ \beta_{20}(\text{Industry Turbulence}_i)$$
$$+ \beta_{21}(\text{International Channel Expansion}_i)$$
$$+ \beta_{22}(\text{Introduction of Concurrent Channel}_i)$$
$$+ \beta_{23}(\text{Indirect Channel Expansion}_i$$
$$\times \text{Establishment of a Concurrent Channel}_i)$$
$$+ \beta_{24}(\text{Sales Growth}_i) + \beta_{25}(\text{Market Size}_i)$$
$$+ \beta_{26}(\text{Indirect Channel Expansion}_i) + \beta_{27}(\text{B2B}_i)$$
$$+ \beta_{28}(\text{Service}_i) + \beta_{29}(\text{China}_i) + \beta_{30}(\text{U.S.}_i)$$
$$+ \text{Year Dummies} + \text{Industry Dummies}$$
$$+ \beta_{31}\lambda_{2i} + \varepsilon_i.$$

Results

Do Channel Expansions Influence Abnormal Returns?

Analysis of the daily abnormal returns for 15 days around the event, as depicted in Figure 2 (see also Figure W1 in the Web Appendix), reveals that the day before the announcement and the event day exhibit significant stock market reactions (Swaminathan and Moorman 2009; Tellis and Johnson 2007). Consistent with previous event studies, we selected the event window with the most significant t-test and z-test statistic (Chaney, Devinney, and Winer 1991; Raassens, Wuyt, and Geyskens 2012; Swaminathan and Moorman 2009): the event day and the day before the announcement $CAR_i[-1, 0]$ (see Table 3).

With respect to the event window from $t_1 = -1$ to $t_2 = 0$, the announcement of a channel expansion on average indicates positive abnormal stock returns of .46% ($p < .01$). After eliminating the 1st and 99th percentiles, the results remain significant (Luo and Bhattacharya 2009). Moreover,

FIGURE 2
Daily Average Abnormal Returns and Cumulated Abnormal Returns for the 15 Days Surrounding a Channel Expansion Measure

A: Daily Average Abnormal Returns (AAR$_i$)

B: Cumulated Average Abnormal Returns (CAAR$_i$)
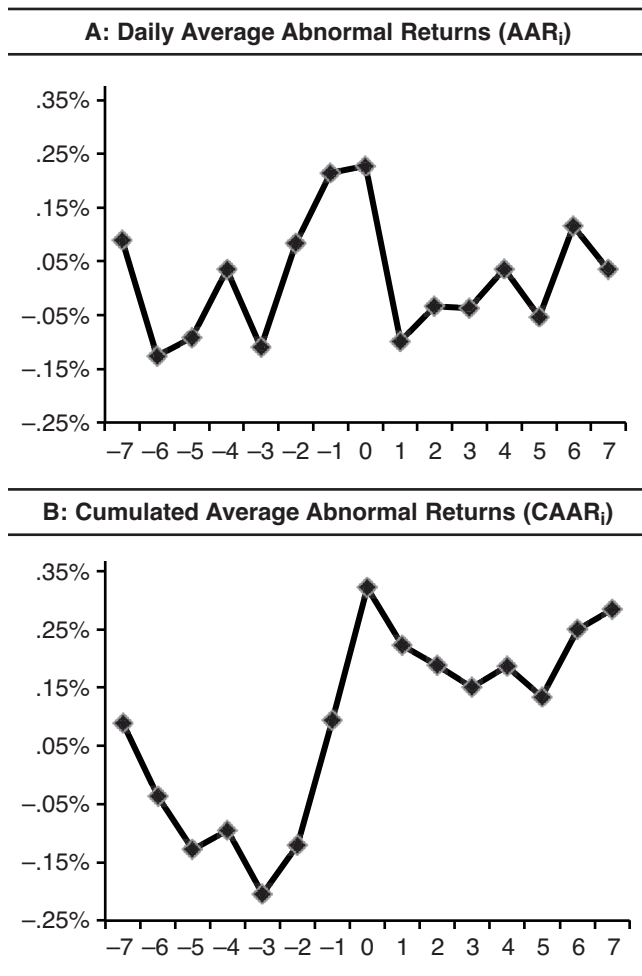
Notes: This figure presents the daily firm abnormal returns before and after the alliance announcement. Day 0 corresponds to the event day (i.e., the day on which the channel expansion was announced).

TABLE 3
Abnormal Stock Returns

A: AAR$_t$

Event Day	Observations	M	SD	t-Value	Generalized Sign Z
−7	240	.09%	.022	.62	−.38
−6	240	−.13%	.022	−.89	−1.59
−5	240	−.09%	.024	−.60	−.68
−4	240	.03%	.023	.23	−.10
−3	240	−.11%	.024	−.70	−2.84**
−2	240	.08%	.021	.61	.35
−1	*240*	*.22%*	*.023*	*1.49**	*.45*
0	*240*	*.24%*	*.026*	*1.46**	*.94*
1	240	−.10%	.021	−.74	−.82
2	240	−.03%	.025	−.22	−.27
3	240	−.04%	.024	−.24	−.83
4	240	.04%	.032	.18	.28
5	240	−.05%	.023	−.36	−1.24
6	240	.15%	.024	.93	1.26
7	240	.04%	.023	.23	.43

B: CAAR[−t$_1$, t$_2$]

Event Window	M	SD	t-Value	Generalized Sign Z
−7 to +7 days	.31%	.0059	.55	1.01
−6 to +6 days	.20%	.0052	.40	.78
−5 to +5 days	.19%	.0048	.38	.75
−4 to +4 days	.31%	.0042	.78	.73
−3 to +3 days	.21%	.0055	.60	.41
−3 to +2 days	.25%	.0053	.74	.89
−2 to +3 days	.35%	.0047	1.22	1.14
−2 to +2 days	.39%	.0046	1.66**	1.60
−1 to +2 days	.36%	.0040	1.17	1.14
−2 to +1 days	.44%	.0043	1.73**	1.50
−1 to +1 days	.36%	.0036	1.58*	1.07
0 to +2 days	.31%	.0028	1.11	1.47
−1 to 0 days	*.46%*	*.0031*	*2.27***	*1.91***
0 to +1 days	.12%	.0033	.59	.77
Event day	.24%	.0026	1.46*	.92

*$p < .10$.
**$p < .05$.
Notes: We computed the significance of the generalized sign Z statistic using a two-tailed test; t-tests were based on Brown and Warner (1985); selected event window is in italics.

we estimated a pooled regression of the abnormal returns on the number of trading days since the announcement. This estimation shows no significant drift (i.e., slope coefficient: $p = .52$), indicating that the initial positive evaluation is not merely a short-term reaction that is corrected in the subsequent weeks (Geykens, Gielens, and Dekimpe 2002; Gielens et al. 2008).

Notably, value creation differs according to the type of channel expansion. On average, the establishment of a new channel positively affects firm value (CAAR(−1, 0) = .72%; $p < .01$), in support of H$_2$. In contrast, the announcement of an increase in distribution intensity does not show an unambiguously positive or negative value creation (CAAR(−1, 0) = .12%; not significant [n.s.]). Thus, the results do not support H$_1$, which states that an increase in distribution intensity is positively linked to a firm's market valuation. However, an increase in distribution intensity does not lead to no change in firm value; rather, it leads to both strong positive and strong negative reactions. Specifically, for 58 firms in the

sample, we find positive abnormal stock returns of 2.21% on average, and for 52 firms, we find negative abnormal returns of –2.21% on average. Thus, the capital market does not equivocally react to an increase in distribution intensity. This finding substantiates the potential importance of contingency factors that may explain this differing value creation of an increase in distribution intensity.

How Do Contingency Factors Influence the Value Creation of Channel Expansions?

We estimate the influence of contingency factors in two separate regression models. Table 4 shows the results, which lend support to H$_{3a}$, indicating that the value creation of an increase in distribution intensity is more positive when the firm has a greater market share ($\beta_1 = 9.86$, $p < .01$). However, we do not find support for H$_{3b}$, which states that the establishment of a new channel is more valuable for

TABLE 4
Results

Dependent Variable: Abnormal Stock Returns[a]	Increase in Distribution Intensity			Establishment of a New Channel		
	Direction of Hypothesis	β	SE	Direction of Hypothesis	β	SE
Intercept		−1.99	(2.66)		.27	(1.63)
Firm Characteristics						
Market share	+	9.86**	(3.08)	+	.42	(1.95)
ROA	+	−2.45	(2.28)	−	−4.56**	(1.74)
Market Characteristics						
Industry growth	+	−2.17	(1.64)	+	.40	(1.70)
Competitive intensity	−	−14.69**	(3.66)	+	6.64**	(2.79)
Industry turbulence	−	−.22*	(.10)	−	.08**	(.02)
Channel Expansion Strategy						
International	+	2.26**	(.70)	+	.79*	(.38)
Concurrent channel				−	−1.28*	(.56)
Concurrent channel × Indirect channel				+	2.27**	(.73)
Selection Model						
Lambda		.63**	(.23)		.05	(.12)
Controls						
Sales growth		−1.92	(1.83)		−1.74*	(.90)
Market size		−.00	(.00)		.00*	(.00)
Indirect channel		.29	(.53)		−.83*	(.36)
B2B		−.40	(.70)		−.35	(.51)
Service		−.47	(1.09)		.56	(.83)
China		1.67*	(.79)		.38	(.54)
United States		.66	(.69)		.63	(.43)
Industry dummies[b]		Included			Included	
Year dummies[c]		Included			Included	
Observations		110			130	
R-square		.51			.48	
Adjusted R-square		.32			.29	
F		2.66**			2.57**	

*$p < .05$.
**$p < .01$.
[a]Event window: −1 day through 0 days.
[b]Industry dummies include food, textiles, pharmaceuticals, durables, computers, transportation, finance, and others.
[c]Year dummies for 2000 (reference category) through 2010.
Notes: One-tailed tests of significance.

firms with greater market share ($\beta_{16} = .42$, n.s.). Regarding the moderating role of ROA, the results do not confirm H$_{4a}$ ($\beta_2 = -2.45$, n.s.) but lend support to H$_{4b}$ ($\beta_{17} = -4.56$, $p < .01$). Thus, for more efficient firms, the value created by establishing a new channel is weaker, whereas no such moderating relationship exists for an increase in distribution intensity.

With respect to market characteristics, we must reject H$_{5a}$ and H$_{5b}$ because we could not confirm a moderating role of industry growth for either type of channel expansion ($\beta_3 = -2.17$, n.s.; $\beta_{18} = .40$, n.s.). With regard to the moderating effect of competitive intensity, we find evidence that firm value reacts more negatively to an increase in distribution intensity when competitive intensity is higher, in support of H$_{6a}$ ($\beta_4 = -14.69$, $p < .01$). In contrast, firm value reacts more positively to the establishment of a new channel when competitive intensity is higher, lending support to H$_{6b}$ ($\beta_{19} = 6.64$, $p < .01$). With regard to industry turbulence, we find support for H$_{7a}$ ($\beta_5 = -.22$, $p < .05$) because

industry turbulence negatively affects the value creation of an increase of distribution intensity. In contrast to H$_{7b}$, which states that industry turbulence negatively moderates the relationship between establishment of a new channel and firm value, the coefficient is positive and significant ($\beta_{20} = .08$, $p < .01$), indicating that such a channel expansion creates additional value in highly turbulent markets.

Regarding channel expansion strategy, we find support for H$_{8a}$ ($\beta_6 = 2.26$, $p < .01$) and H$_{8b}$ ($\beta_{21} = .79$, $p < .05$) because an increase in distribution intensity and the establishment of a new channel affect firm value more positively when executed internationally. Regarding the firm's choice to introduce a concurrent channel, the results support H$_9$. Thus, the introduction of such a concurrent channel negatively influences abnormal stock returns in reaction to the establishment of a new channel ($\beta_{22} = -1.28$, $p < .01$). Finally, we find support for H$_{10}$ because the introduction of a concurrent channel is more positive when the firm carries it out through indirect channel entities ($\beta_{23} = 2.27$, $p < .05$).

Regarding the value creation of the establishment of a new channel, the coefficients of the controls are significant for sales growth (β_{24} = –1.19, p < .05). market size (β_{25} = .00, p < .05), and an indirect channel expansion (β_{26} = –.83, p < .05). However, we expected a positive relationship between sales growth and firm value creation. A potential explanation for this counterintuitive finding is that if a firm is already experiencing strong sales growth, new channels may not be necessary. Establishing new channels while the firm is already showing strong growth may even undermine the efficiency of existing channels. The country dummies show only a significant reaction for an increase in distribution intensity in China (β_{11} = 1.62, p < .05). Finally, regarding industry and year dummies, only the binary variable coded as 1 for pharmaceutical industries is significant and negatively related to firm value for an increase in distribution intensity ($\beta_{Pharmaceuticals}$ = –3.38, p < .05).

Validation Analyses

To further increase confidence in the results, we conducted various robustness checks. We detail these checks in the following subsections.

Alternative specification of the selection model. We specified a multinomial selection model that reflects the firm's decision to conduct no channel expansion, to increase distribution intensity, or to establish a new channel. However, we specified a nested (three-stage) selection model (Heckman 1979) to demonstrate an alternative decision structure. Specifically, the first stage models the firm's binary decision of whether to carry out a channel expansion. The second stage subsequently models the firm's binary decision of which channel expansion to conduct (i.e., an increase in distribution intensity vs. the establishment of a new channel). Finally, the two third-stage models separately estimate our main model for the two types of channel expansions. Table W2 in the Web Appendix shows that for all parameters related to the hypotheses, the results remain stable.

Alternative event windows. To test whether the results are robust across alternative event windows, we reestimated the models for four event windows that show significant abnormal returns to channel expansions, specifically, CAAR(0) = .24% (p < .05), CAAR(–1, 0) = .46% (p < .01), CAAR(–2, 1) = .44% (p < .01), and CAAR(–2, 2) = .39% (p < .01). Table W3 in the Web Appendix indicates that for 42 of the 48 parameters related to the hypotheses, the results remain stable in terms of direction and significance.

Alternative calculations of abnormal returns. To test whether the results remain stable for alternative calculations of the abnormal stock returns, we reestimated the models with abnormal returns calculated by the Scholes–Williams method to adjust for potential beta biases resulting from trading and price adjustment delays (McInish and Wood 1986; Scholes and Williams 1977). Moreover, we reestimated the models with unstandardized abnormal stock returns as the dependent variable (Swaminathan and Moorman 2009; Wiles and Danielova 2009). Table W2 in the Web Appendix indicates that for 27 of the 32 parameters

related to the hypotheses, the results remain stable in terms of direction and significance.

Multiple firm observations. Because several firms in the sample are represented with more than one event, we reestimated the models and clustered the observations at the firm level. Table W2 in the Web Appendix shows that for 15 of the 16 parameters related to the hypotheses, the results remain stable in terms of direction and significance.

Results using robust regression. Because the ordinary least squares estimates may be sensitive to outlying observations, we also applied an M-estimator to verify the robustness of our findings (Hettmansperger and Sheather 1992; Western 1995). Our model contains several dummy variables, so we used the robust Huber M regression. This estimator downweights observations with large residuals and thus provides robust model estimations (Huber 1972; Mahajan, Sharma, and Wind 1984). As an additional test, we removed observations with Cook's D values larger than 1 and reestimated the models. As Table W4 in the Web Appendix shows, 29 of the 32 model parameters related to the hypotheses remain stable in terms of direction and significance.

Potential nonlinear effect of distribution intensity. As we previously mentioned, increasing distribution intensity creates both up- and downsides by increasing intrachannel competition. Therefore, one might argue that an optimum level of distribution intensity exists (i.e., an inverted U-shaped relationship).[5] Increasing distribution intensity may backfire after a certain level because cannibalization of the sales entities and channel conflict become increasingly destructive and outweigh positive value-creation mechanisms. To examine this issue, we reestimated a model accounting for the linear and quadratic terms of the extent of the increase in distribution intensity. "Extent of increase of distribution intensity" refers to the strategic magnitude of the increase in sales entities within a given channel relative to the existing level of distribution intensity in this channel. It was rated on a five-point Likert scale by two independent coders, with an intercoder reliability of 85%. The results, shown in Table W5 in the Web Appendix, do not reveal significant effects for the quadratic term, thus lending no support for a nonlinear effect of extent of increase in distribution intensity on firm value.

Long-term abnormal returns. We calculated buy-and-hold abnormal returns relative to a country-level market index (China, the United States, and Germany) and relative to a matched firm portfolio for the events in the sample. We matched a firm from the same four-digit SIC classification by choosing the one with the most similar market capitalization (Loughran and Ritter 2012). Moreover, we calculated abnormal calendar-time portfolio returns compared with the respective market index returns (i.e., CSI 300, S&P 500, DAX, MDAX, SDAX, and TecDAX). We calculated the measures for one-year (250 trading days), two-year (500 trading days), and three-year time windows (750 trading days). Because the time window of our sample extends to

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[5] We thank the area editor and two anonymous *JM* reviewers for this valuable observation.

2010, returns for a five-year time window would not be available for the events until 2008. As prior researchers have recommended (Jacobson and Mizik 2009; Megginson, Morgan, and Nail 2004), we eliminated firms from the computer and software industries because these industries are known to show long-term returns due to market anomalies; we also eliminated firms that experienced major capital structure changes that may constitute long-term confounding events such as recapitalizations or major security issuances. As Table W6 in the Web Appendix shows, the three time windows contain no significant returns as measured by buy-and-hold abnormal returns. Furthermore, as Table W7 in the Web Appendix reveals, the three time windows contain no significant abnormal returns as measured by calendar-time portfolio returns except for the establishment of a new channel in the two- and three-year time windows. We conclude that the efficient market hypothesis holds to a substantial degree in our study because the two significant results may be artifacts of the known biases of long-term returns, such as listing bias, rebalancing bias, and skewness bias (Barber and Lyon 1997).

Value creation per country. We also analyzed the cumulated abnormal returns of both channel expansions for each country. Because the total sample is split into six subsamples, the significance tests provide lower statistical power. Nevertheless, as Table W8 in the Web Appendix shows, the abnormal stock returns for the establishment of a new channel are consistently higher than those for an increase in distribution intensity. In addition, the establishment of a new channel shows positive abnormal returns throughout all three countries, whereas an increase in distribution intensity exhibits both positive and negative cumulated abnormal returns.

Furthermore, we tested the model regarding multicollinearity, heteroskedasticity, and omitted variables. The variance inflation factors of the variables do not exceed a value of 4, equivalent to a tolerance level of .25 (O'Brian 2007). The tests of Breusch and Pagan (1979) and Cook and Weisberg (1983) indicate no problems with heteroskedasticity. Finally, the regression specification error test showed no problems with omitted variables (Ramsey 1969).

Discussion

Theoretical Implications

This investigation contributes to the literature in several ways. First, the "relationship between channel strategy and market valuation is ... under-researched" (Srinivasan and Hanssens 2009, p. 307), and this study enriches research at the marketing–finance interface. We provide further evidence for the assumption that "on average, the opening of new distribution channels is positively related to firm value" (Srinivasan and Hanssens 2009, p. 307). Although that conclusion is based on evidence from Internet channel additions (Geyskens, Gielens, and Dekimpe 2002), we provide evidence that this finding is more generalizable. Specifically, our results indicate that firm value reacts to the establishment of various new channels, such as retail shops, Internet channels, or a new sales force.

Second, prior research on the market value of channel actions has focused on the establishment of new channels. We augment this research by investigating an increase in distribution intensity. Specifically, this investigation is the first empirical study to link an increase in distribution intensity to market value. This association is important because 48% of the channel expansions in our sample constitute increases in distribution intensity. Such a high percentage provides substantial evidence that such channel actions are as common as the establishment of a new channel. By linking an increase in distribution intensity to firm value, we add to previous research on the performance consequences of increasing a firm's distribution intensity, which has focused on outcomes such as customer choice or sales (Bucklin, Siddarth, and Silva-Risso 2008). Notably, our results demonstrate that although an increase in distribution intensity affects firm value, no net positive or negative reaction occurs. Instead, investor reactions depend to a great extent on contingency factors, a result similar to findings on new product announcements (Sorescu, Shankar, and Kushwaha 2007). This result relates to the third contribution, the insights provided by the tests of the moderating hypotheses.

Specifically, the contingency factors incorporated in this study affect the value creation of channel expansions according to three different patterns. The decision to expand internationally moderates value creation of both types of channel expansion in a similar pattern because firm value reacts more positively to both an increase in distribution intensity and the establishment of a new channel. This finding contradicts the conventional wisdom of transaction cost theory, which has emphasized the uncertainty of international expansions (Yang, Su, and Fam 2012). Instead, our result is in line with research that emphasizes the higher growth opportunities of international channel expansions and, furthermore, indicates that capital markets value such international expansions (Lu and Beamisch 2006).

However, certain contingency factors have differing implications for the two types of channel expansions. Although firms in highly turbulent and competitive markets benefit less from an increase in distribution intensity, such market conditions lead to a higher value creation from the establishment of a new channel. The latter result underscores previous findings that establishing multiple ties with customers (i.e., using a greater variety of channels) is particularly valuable in highly competitive markets and can reduce the negative outcomes of volatile markets (Tuli, Bharadwaj, and Kohli 2010; Ulaga and Eggert 2006).

Notably, the positive moderating role of industry turbulence regarding the establishment of a new channel is a counterintuitive result because we hypothesized a negative moderation. We argued that in markets characterized by high customer-induced turbulence, it is more costly to establish a new channel because of increased monitoring and enforcement costs and higher customer-related uncertainty. However, our results indicate that establishing a new channel creates value by allowing the firm to spread risk across more channels, which may be especially beneficial in volatile markets. Previous research has similarly sug-

gested that firms cope with industry turbulence by introducing new products (Baker and Sinkula 2005).

In addition, some contingency factors are relevant to only one type of channel expansion. For example, firms with a high market share also benefit from an increase in distribution intensity, which supports the finding that channel expansions are more beneficial for powerful firms (Geyskens, Gielens, and Dekimpe 2002). However, we find no support for an interaction of market share for the establishment of a new channel.

Moreover, more efficient firms benefit less from the establishment of a new channel. This finding mirrors previous findings that firms with greater product diversification might face agency problems, leading to higher administrative costs and undermining firm efficiency (Hoechle et al. 2012). Therefore, further research could fruitfully investigate the impact on firm value of increasing channel-related coordination costs.

Finally, one survey-based study reveals that a concurrent channel structure increases destructive competition (Sa Vinhas and Anderson 2005). We emphasize this negative consequence by showing that the introduction of such a channel structure destroys firm value. Introducing a concurrent channel may decrease channel coordination and voluntary information sharing while fostering interchannel conflict (Ganesan et al. 2009). From a customer perspective, weak channel coordination increases the risk of purchasing suboptimal products as a result of inconsistent promises between direct and indirect channels (Wang, Gal-Or, and Chatterjee 2009). Furthermore, if one channel promises a higher customer value for a specific product or service than another channel actually delivers, customers may perceive the value proposition of the firm as inconsistent. We find first evidence for a remedy against these detrimental consequences. Specifically, our results indicate that introducing a concurrent channel through indirect channel entities reduces its negative impact because it may mitigate some of the associated risks.

In summary, we believe that this study provides generalizable results because the analysis is based on cross-industry data from three of the world's largest mature and emerging economies and controls for a variety of factors related to firms' market valuation. Therefore, this study extends prior research on channel actions, which has focused on single-industry and single-country samples.

Managerial Implications

Determining the return on channel investment has been called "the most-cited, single key challenge in channel management" (Valos 2008, p. 246). The current study has several implications for this managerial challenge. First, we raise managers' awareness that the capital market pays close attention to channel design actions and explore how such actions influence the firm's market valuation. Because the firm's stock price, ceteris paribus, shows inconsistent reactions to a firm's increase in distribution intensity, managers need to be cognizant of the value gains and losses inherent in this channel action. Our findings show that managers should consider the firm's strengths and its market

environment when contemplating an increase in distribution intensity. For example, firms with a high market share and firms that increase distribution intensity internationally can expect to gain from such a channel expansion. In contrast, in highly competitive as well as turbulent markets, an increase in distribution intensity is likely to be harmful for the firm's market valuation.

We also provide managers with guidance as to when they should consider establishing a new channel. The findings suggest that, in general, a firm benefits from expanding the variety of its routes to market. New channels enable a firm to address existing customers more efficiently and even to gain new customers. In addition, new and different channels can create beneficial horizontal competition among the channels and force them to enhance their service offerings. Establishing a new channel is even more beneficial in highly competitive and turbulent markets. In contrast, managers of highly efficient firms should be more cautious because those firms face a greater risk of forfeiting their efficiency, resulting in a lower market valuation. Moreover, managers must be particularly careful when introducing a concurrent channel because detrimental channel conflicts may result, especially when instituting the first direct channel. This finding is of high relevance because many firms today are considering whether to serve their customers directly by launching Internet channels.

Second, our results provide managers with information on optimizing capital market communication. For example, our results indicate that stock market reactions depend on the characteristics of the firm, the channel expansion strategy, and the market. Thus, managers may explicitly state how their channel expansions fit their specific firm and market situation and how they arrive at their decisions to conduct a channel expansion with a certain strategy. Therefore, by understanding the value-enhancing and value-destroying mechanisms of channel expansions, managers may be able to convince analysts of the value of their firm's channel expansions (Sorescu, Shankar, and Kuswaha 2007).

Limitations and Further Research

This study and the interpretation of the results must be considered in light of various general and specific limitations, some of which suggest possible avenues for further research. First, we use firm value as the outcome variable. Although firm value is a generally accepted performance measure (Chatterjee, Richardson, and Zmud 2001), systemic biases may underlie such reactions. Thus, further research might employ other outcome metrics for channel expansions, such as changes in cash flow levels or the volatility of cash flows.

Second, we explicitly focus on major strategic channel expansions because firms often announce minor channel expansions to generate short-term publicity for their sales outlets rather than to generate additional firm value. Accordingly, such minor expansions may constitute a communication measure. However, future studies might also consider such minor channel expansions (Capron and Pristre 2002).

This study substantiates the importance of channel-related actions for firm value, but further research might investigate channel actions other than expansion, such as channel reductions and channel deletions, because "research is needed on channel deletions as well" (Srinivasan and Hanssens 2009, p. 307). However, the identification of channel contractions will present a major empirical challenge because neither firms nor the business press tend to report such actions. For example, as we mentioned previously, in the empirical research for this study, we identified 240 announcements of major channel expansions but only 13 announcements of major channel contractions between 2000 and 2010. An analysis of these 13 announcements reveals that in the event window interval of [–1, 0], these channel contractions show cumulated negative average abnormal returns of –1.22%. These returns do not significantly differ from zero. However, this finding should be interpreted with caution because of the small sample size and the resulting low power of the t-test. Such channel actions warrant further research.

In addition, future studies should build on the contingent nature of the value creation of channel expansions. Although this study accounts for central context-specific firm-, market-, and channel-related strategy contingencies, further important moderators may be of central interest for managerial decisions. For example, regarding firm capabilities, the firm management's know-how and experience, the firm's channel-tracking capabilities, or the installed channel incentive systems may affect the outcomes of channel expansions (Gilliland 2004; Wallace, Johnson, and Umesh 2009). Such aspects may also be worthwhile to include when scrutinizing the issue of managers' ability to mitigate the drawbacks of the introduction of a concurrent channel (Sa Vinhas and Anderson 2005). Furthermore, a firm's underlying motives for a channel expansion—such as reacting to competitors' actions, proactively driving the market, reacting to changing customer buying preferences, increasing sales capacity, or fostering growth in specific regions—may affect value creation and would be fruitful areas of research for future studies. In addition, characteristics of the channel partners' environment (e.g., specialized investments, performance ambiguity, external uncertainty) and the power relationship between the firms (e.g., heavy dependence on indirect channel partners, channel partners' bargaining power) might be important boundary conditions.

Finally, further research could examine potential saturation points and boundary conditions of channel systems. Presumably, at high distribution intensity and with a large number of employed sales channels and the potential drawbacks of inter- and intrachannel competition (e.g., cannibalization, channel conflict, channel-related coordination), the costs may outweigh the benefits.

APPENDIX A
Coding Examples

Event	Announcement Quote	Exemplary Moderators
Increase in distribution intensity	"Lenovo Group, the largest Chinese PC manufacturer, will establish 700 more distributor stores in India by the end of this year, thus raising the number of its stores in the country from the existing 300 stores to 1,000 stores. The 1,000 Lenovo stores will target the common consumers as well as the small- and medium-sized enterprises in the urban areas of India, according to Mr. Advani. The Chinese PC giant is providing its Indian channel partners with training on Lenovo products and relevant technologies in order to enhance their service ability" (*China Industry Daily News* 2006).	International expansion (Chinese firm); indirect channel expansion
Increase in distribution intensity	"German car maker Volkswagen AG (ETR:VOW) plans to double the size of its dealership network in China in the coming years to help it meet its ambitious sales target in the country, the company's sales head told a German newspaper. VW, Europe's biggest car maker, would double the number of its dealers to 2,600, sales head today Christian Klingler told daily *Handelsblatt*" (Highbeam.com 2010).	International expansion (German firm); indirect channel expansion
Establishment of a new channel	"The Insurance [PingAn] today announced to open a new store on Tao.com (http://pingan.mall.taobao.com/), integrating all insurance processes into the online shop. Users can complete insurance processes by learning about information of insurance, filling in related personal information, filing orders and paying for premium online. The online insurance model is expected to develop as a necessary one in the future, attributed to its features, including convenient, flexible and [highly] effective. According to Ping An Insurance, the strategic partnership with Taobao.com represents a major step of the company to grow its Internet businesses" (*Chinese Business News* 2010).[a]	National expansion (Chinese firm); indirect channel expansion
Establishment of a new channel	"The maker of Tide detergent, Pampers diapers and Gillette shavers is taking hundreds of its popular consumer products directly to shoppers through a new Web site. The 'eStore' Procter & Gamble Co. is testing could put it in direct competition with some of its biggest customers, major traditional and online retailers. But the site's leaders say it is a consumer research 'lab' and retailers will benefit from its findings on how shoppers respond online and in stores to store promotions and other factors. 'We're creating this giant sandbox for the brands to play in,' said Mark Layton, chief executive of PFSweb, which will run the new site. To get the consumers who actually buy those brands to play along, P&G will	National (U.S. firm); direct channel expansion; introduction of a concurrent channel

Event	Announcement Quote	Exemplary Moderators
	advertise the site—and hope the convenience of shopping online and the special offers at the site draw customers. Procter & Gamble is the world's largest consumer products maker. P&G wouldn't say whether the eStore's prices will beat those in stores or on Web sites that that also sell competitors' products, like Amazon.com. But shipping initially will be at a flat rate of $5" (Sewell 2010).	
Establishment of a new channel	"Dell plans to begin selling desktop PCs in Wal-Mart Stores in the next few weeks, the first move in a major departure from its decades-long sales strategy. Wal-Mart plans to sell the Dimension E521 in more than 3,000 retail locations in the United States, Samir Bhavnani, research director at Current Analysis West, told CNET News.com" (Musil 2007).	National (U.S. firm); indirect channel expansion; introduction of a concurrent channel

aTaobao Marketplace is a Chinese-language marketplace similar to Amazon.com or eBay.com that primarily caters to consumers in mainland China, Hong Kong, and Taiwan. With more than 370 million registered users at the end of 2010, Taobao.com is the undisputed market leader in mainland China.

APPENDIX B
Measurement

Variable	Description	Source(s)	Exemplary Literature
Abnormal stock returns	Differences between the expected returns and the actual returns through a given event window calculated with the market model (ordinary least squares and Scholes–Williams)	Center for Research in Security Prices and Datastream	Raassens, Wuyts, and Geyskens (2012)
Channel Expansions			
Increase in distribution intensity	Increase of the number of channel entities within an existing channel	LexisNexis and Factiva	Bucklin, Siddarth, and Silva-Risso (2008)
Establishment of a new channel	Addition of a new type of channel to the firm's existing channel system	LexisNexis and Factiva	Geyskens, Gielens, and Dekimpe (2002)
Moderators			
Market share	Firm's sales relative to total industry sales (four-digit SIC code)	Compustat	Tuli, Bharadwaj, and Kohli (2010)
ROA	Earnings before extraordinary items in relation to total assets	Compustat	Rego, Billet, and Morgan (2009)
Industry growth	Average three-year sales growth of the industry (four-digit SIC code)	Compustat	Bahadir, Bharadwaj, and Srivastava (2008)
Competitive intensity	Inverse Herfindahl–Hirschman index for industry concentration within the (four-digit) SIC code	Compustat	Luo, Homburg, and Wieseke (2010)
Industry turbulence	Coefficient of variation in sales of the firm's industry (standard deviation of sales in relation to average sales growth within the industry over three years)	Compustat	Srinivasan, Lilien, and Sridhar (2011)
International channel expansion	Dummy for international (1) or national (0) sales expansion	LexisNexis and Factiva	Anderson and Coughlan (1987)
Introducing the first concurrent channel	Dummy for the establishment of a new channel that is the first direct or the first indirect channel in a firm's channel system serving one target market	LexisNexis and Factiva	Sa Vinhas and Anderson (2005)
Firm-Level Controls			
Sales growth	Logarithm of the firm's sales in t divided by sales in t − 1	Compustat	Tuli, Baradwaj, and Kohli (2010)
Market size	Total sales volume within the SIC code (four digits)	Compustat	Karuna (2007)
Indirect channel expansion	Dummy for indirect (1) or direct (0) sales expansion	LexisNexis and Factiva	Shervani, Frazier, and Challagalla (2007)
China	Country dummy for company from China (reference category: Germany)	Compustat	
United States	Country dummy for company from the United States (reference category: Germany)	Compustat	
Service firm	Dummy for service-focused company (1) or product-focused company (0)	Compustat	Srinivasan, Lilien, and Sridhar (2011)

Variable	Description	Source(s)	Exemplary Literature
B2B firm	Dummy for B2B company (1) or B2C company (0)	Compustat	Srinivasan, Lilien, and Sridhar (2011)
Event year	Dummy for 2000–2010 (reference category: 2000)	LexisNexis and Factiva	
Industry dummies	Dummy variables according to the four-digit SIC code	Compustat	Barth, Cram, and Nelson (2001)
Selection Model Variables			
Financial leverage	Long-term debt in relation to total assets	Compustat	Luo, Homburg, and Wieseke (2010)
Firm size	Log of total assets	Compustat	Rego, Billett, and Morgan (2009)

Notes: N.A. = not applicable.

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