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Battle of the Retail Channels: How Product Selection and Geography Drive Cross-Channel Competition (p. 1755)
Erik Brynjolfsson, Yu (Jeffrey) Hu, Mohammad S. Rahman

How do Internet retailers compete with brick-and-mortar retailers? How does this competition vary across different products? Internet retailers are deeply concerned about the competition with local retailers and vice versa. This paper measures the strength of the competition that Internet retailers face from local stores and shows how it varies across products with varying levels of consumer search costs. Interestingly, niche products sold by Internet retailers are largely immune to competition from brick-and-mortar retailers, whereas competition is much more intense for popular products. This research points out that Internet retailers that pursue a "niche" strategy can be almost immune from competing with local stores. Furthermore, Internet retailers should vary their promotional strategies and product offerings based on geographic locations of consumers.

Inference from Streaks in Random Outcomes: Experimental Evidence on Beliefs in Regime Shifting and the Law of Small Numbers (p. 1766)
Elena Asparouhova, Michael Hertzel, Michael Lemmon

How do behavioral biases affect predictions of future performance? This question is important to managers who rely on forecasts of future outcomes in making decisions. Using experimental data and a simulation analysis with behavioral-based decision models, we examine how individuals make forecasts when confronted with random data. Our results show two types of errors: individuals are too likely to predict reversals in performance after observing short streaks of good or bad outcomes and too likely to predict continuation after observing longer streaks. Understanding the judgment errors we study may help keep managers from making these mistakes in their own forecasts and adjusting the forecasts they receive from others.

Implications of Expected Changes in the Seller's Price in Name-Your-Own-Price Auctions (p. 1783)
Scott Fay, Juliano Laran

Name-your-own-price (NYOP) websites such as Priceline change their product prices frequently. We find that a consumer's expectation about how frequently the price changes may influence whether the consumer will place a low bid hoping that the price has gone down as compared to previous occasions. Furthermore, expectations of change may increase satisfaction levels. These findings suggest that retailers using the NYOP format need to account for how changes to the threshold price will affect both short-term and long-term profits. In particular, refraining from changing one's price threshold may boost short-term revenues, but such a policy may, over time, result in declining sales and profit because customers are less likely to return to the retailer's website.

Volatility Spreads and Expected Stock Returns (p. 1797)
Turan G. Bali, Armen Hovakimian

Volatility is central to optimal portfolio selection, derivative pricing, and financial risk management. We investigate whether the realized and implied volatilities of individual stocks can predict the cross-sectional variation in expected stock returns. Although the levels of volatilities from the physical and risk-neutral distributions cannot predict future returns, there is a significant relation between volatility spreads and expected stock returns. Our analyses indicate a negative and significant relation between expected returns and the realized-implied volatility spread that can be viewed as a proxy for volatility risk. The results also provide evidence for a significantly positive link between expected returns and the call-put options' implied volatility spread that can be considered as a proxy for jump risk.

Composition of Electricity Generation Portfolios, Pivotal Dynamics, and Market Prices (p. 1813)
Albert Banal-Estañol, Augusto Rupérez Micola

Some electricity generators are technologically diversified and own nuclear plants on the base load as well as high-cost thermal units. Others are specialists, focusing on only one technology. What is the effect of technological diversification on wholesale electricity prices? In this paper, we find that the relationship is mediated by the market supply-to-demand ratio. In low-demand cases, diversification moves the market to a situation with fewer pivotal plants, and that leads to more competition and lower prices. In high-demand cases, there are more pivotal plants when firms are diversified, leading to implicit coordination and higher prices. Our paper advances the state of managerial decision making through the application of innovative simulation techniques to an electricity market setting and helps clarify the interaction between technology and pivotal dynamics. Thus, academics, energy firms, and regulatory bodies could benefit from our contribution.

The Silver Lining Effect: Formal Analysis and Experiments (p. 1832)
Peter Jarnebrant, Olivier Toubia, Eric Johnson

"I have some good news and some bad news." Information about such mixed outcomes may be communicated in several ways. We asked how people's choice behavior changes when they are presented with such information in two ways: as an integrated whole versus two segregated pieces. Imagine, for instance, an investor receiving a mutual fund statement showing only an aggregate loss of $95 versus one seeing a loss of $100 and a gain of $5—the total loss remains exactly the same, but how will the customers' future investments vary? Does this change when the segregated gain is larger, say $50? We formulated an analytical model of economic behavior, which makes three predictions that we tested in two experiments. As we predicted, the smaller the positive amount, and the larger the negative one, the better people like to have the information presented in separate parts rather than summed together. Interestingly, there are also measurable individual characteristics that let us predict which kind of presentation a particular person will prefer. Managers should pay close attention to the way information is presented to customers; significant changes in behavior may be induced by adapting the presentation in quite subtle ways according to the specifics of the application and to the characteristics of the customer.

Swift and Smart: The Moderating Effects of Technological Capabilities on the Market Pioneering–Firm Survival Relationship (p. 1842)
April M. Franco, MB Sarkar, Rajshree Agarwal, Raj Echambadi

Managers have often received conflicting evidence and advice from academics regarding whether pioneering new markets provides advantages or disadvantages. Our paper revisits this issue in the context of industries that are fast paced in terms of changes in technological and demand conditions. The managerial implications of our findings include (a) that managers cannot rely on legacy-based advantages of early entry in a preceding generation and that sustained pioneering, or responding to emerging product generations, is critical to remaining relevant in a changing environment; and (b) that market creation efforts need to be complemented by technological capabilities. Our research thus points toward the importance of the R&D–marketing nexus. Given that competitive advantage is increasingly resident in organizations that have a dual focus in keeping up with both the technological and the market pioneering frontier, our research highlights the importance of resource allocation in both activities. In the context of new-product development, although it may seem intuitive that in fast-paced industries moving early has benefits, even if a product is not well developed, our research offers this warning: Even in markets with short product life cycles, trading away product performance in favor of going to market early may hurt a firm.

A Matter of Balance: Specialization, Task Variety, and Individual Learning in a Software Maintenance Environment (p. 1861)
Sriram Narayanan, Sridhar Balasubramanian, Jayashankar M. Swaminathan

Much is known about how task specialization contributes to learning. Much less is known about how exposure to task variety drives learning. We analyze engineer work records in a software maintenance environment to address this knowledge gap. First, we find that, while employees can learn from task variety, overexposure to variety impedes learning. Therefore, managers must control employee exposure to task variety. Second, the best learning occurs when employees strike a balance between intensive specialization in one or two distinct tasks and a shallow exposure to numerous, distinct tasks. Employees must have a sufficiently deep exposure to new tasks so that the new knowledge is internalized and can be applied to other tasks. Third, short-term productivity drops when employees work on new tasks. Therefore, exposure to task variety must be scheduled when peak productivity is not required. We also examine how the productivity of team members is impacted by the entry of new team members and the exit of existing members. Our findings suggest that managers must focus on reducing the impact of both entry and exit of members in teams and pay special attention to situations where team members with a wide variety of experience exit.

Valuing Modularity as a Real Option (p. 1877)
Andrea Gamba, Nicola Fusari,

Modularization is an important force in the development of complex systems, and modularity itself is at the base of their management. Baldwin and Clark (2000) singled out a set of prototypical situations in the modularization process. We propose a stochastic framework and a numerical method based on Monte Carlo simulation that can be useful to evaluate the prototypical situations from a financial viewpoint using real options theory. We show with a set of examples how the general approach that we propose can be used to single out the most important value drivers in the modularization process.