

# New product announcements as market signals: A content analysis in the DRAM chip industry

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## Abstract

New-product announcements (NPAs) have considerable effects on competitors in industrial markets. Several studies have shown that the perceived threat caused by an NPA may trigger severe competitive reactions. Yet, it is still unclear how the perception of threat by competitors is related to the specific content of the announcement.

This study explores the actual content of NPAs observed in a particular market. This is done through a multi-year content analysis of new-product announcements in the DRAM memory chip industry. The study analyzes patterns in the occurrence of attributes and demonstrates how firm strategy affects NPA content. Findings from this study provide important insights for managers about the design of NPAs. It also triggers further research on the use of NPAs in competitive industrial markets.

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## 1. Introduction

Announcing products ahead of market launch is common practice in many industries. Products as diverse as automobiles, movies, software and detergents are usually announced before actual market introduction. New-product announcements (NPAs) are used to inform and thereby influence stakeholders in the market. Advantages of preannouncing include: build-up of customer base (Moehrle, 1995), keeping potential customers from buying competitive products (Bayus, Jain, & Rao, 2001; Greenleaf & Lehmann, 1995), securing distribution channels (Wind & Mahajan, 1987), securing supplier support (Robertson, 1993), and satisfying the information needs of financial analysts (Koku, Jagpal, & Viswanath, 1997). There are many examples of how (early) announcement of a new product can influence product introductions. Consider, for instance, the development of a

new generation of so-called super-Jumbo jets by Boeing versus Airbus. Boeing announced its Boeing 747-500 (600 seats) project already back in 1986, ten years before the foreseen introduction in the mid-1990s (Financial Times 220886). This early announcement was intended to test customer interest and potential cooperation with financial and technical partners. These kinds of mega projects are known to be highly reliant on the availability of financial support from among others the government and on investments and technical innovations by suppliers of components. The early announcement by Boeing caused widespread media attention in the airline industry. However, due to the attention for big aircraft, a few years later, competitor Airbus announced the development of a super-Jumbo as well, the A3XX, now the Airbus 380 (up to 850 seats) aircraft. At the same time Boeing changed its view on the development of the airline market. They envisioned a trend of using smaller, twin-engined aircraft for fragmented direct point-to-point services instead of using Jumbo jets on long-range routes. The 747-500 project was terminated ten years after its first announcement. Airbus went through with its Airbus 380

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project which is expected to be flying by mid 2006. If the market for big aircraft does develop the way Airbus assumes, Airbus will be the single big player in that segment.

This example shows that there are also downsides to the use of NPAs. One of the main disadvantages of preannouncing is that the NPA provides competitors with early information about the new product. Based on this information rivals can prepare competitive reactions. Also, potential customers may adapt their buying plans. The possible negative effects of preannouncements in the form of competitive reactions and disruption of customer demand can be illustrated with the example of the announcement of the Palm m500 PDA. In March 2001, Handspring, Palm's main competitor in the Personal Digital Assistant (PDA) market, announced the Handspring Visor Edge. Palm, as the market leader, feared for its innovative reputation and responded by preannouncing (ahead of plan) the Palm m500 one week later, months before actual introduction. In the period between the announcement of the m500 and its market introduction demand for the existing high-end model, the Palm V×, dropped dramatically. Customers stopped buying the "old" Palm V× in anticipation of the new m500. Distributors were left with oversupplies of the old product. Prices of the Palm V× had to be cut. This in turn resulted in a price war with Handspring. The early announcement of the m500 in combination with a general slowing of demand in the PDA market had catastrophic results. Both Palm and Handspring reported losses as a result of the price wars. Both firms lost over 80% of their stock market value in the following six months. Palm's (unit) market share<sup>1</sup> shrank from 71% to 58% during 2001. (Source: NPD Intellect. [www.npdtechworld.com](http://www.npdtechworld.com)).

### 1.1. Purpose of this study

The potential positive and negative effects of NPAs imply that from a managerial point of view it is important to carefully decide on the use of NPAs and to assess how the content of new-product announcements may influence perceptions of competitors and subsequent reactions in the market. Correspondingly, the aim of the current study is to explore in-depth the use and content of actual new-product announcements in a particular market—in this study, the DRAM chip market. This provides us with new information about the various ways of use of NPAs and content styles that are used in practice. It also provides the basis for research regarding the effect of NPA content on the perception of, and competitive reaction to, new-product announcements.

## 2. Literature

Within the field of marketing strategy research, competitive behavior, the aggregate of actions and reactions of competitors, plays a central role (Varadarajan & Yayachandran, 1999). The interdependence of competitors within an

industry implies that the outcome of an action initiated by one firm will be contingent on the reaction of rival firms. Literature in the field of marketing has recognized that both actions and announcements can influence competitive behavior (Moore, 1992). Earlier research has identified market signals as instruments that influence competitive behavior (Heil & Robertson, 1991; Porter, 1980).

We define a New-Product Announcement (NPA) as: "a formal and deliberate communication by a firm regarding the prospective market-introduction of a new product by this firm".

Thus NPAs represent market signals to competitors. But how do NPA attributes (such as marketing mix information mentioned in the announcement) influence the evaluation of the NPA by competitors? Since the inclusion of newsrooms with (archived) NPAs on corporate websites has become standard practice, it is easier than ever for rival firms to collect and analyze each other's product announcements. As a consequence NPAs play a bigger role in competitive interaction than before. Research shows that the competitive reactions to NPAs depends on the evaluation of the announcement in terms of, among other things, credibility, commitment, consistency, consequences, and threat (Heil & Walters, 1993; Hultink & Langerak, 2002; Robertson, Eliashberg & Rymon, 1995). Ultimately it is vital to know how such perceptions are linked to the content of the announcement itself. Consider the following NPA from Apple:

"Apple today announced Shake 2.5, the industry-leading compositing and visual effects software which has been used in the production of over a hundred motion pictures including the past five winners of the Academy Award for Best Visual Effects: *Lord of the Rings: The Fellowship of the Ring*, *Gladiator*, *The Matrix*, *What Dreams May Come* and *Titanic*. (...) "Shake is deployed facility-wide as the primary compositing software at Weta Digital" said Scott Houston, Weta Digital's CTO and long-standing Shake customer. "We couldn't have done *Lord of the Rings: The Fellowship of the Ring*, without it". (...) Shake 2.5 is scheduled to be available in August (...) for a suggested retail price of US\$4,950 with annual maintenance of US\$1,199". (Source: Announcement on the Apple newsroom website, July 22, 2002. <http://www.apple.com/pr/library/2002/jul/22shake.html>).

Reading the above NPA, one wonders what effects do attributes such as endorsement or testimonials ("We couldn't do without it") or the mentioning of a timeframe for a launch ("available in August") have on the threat perception that a competitor experiences from this announcement? Does inclusion of a timeframe for the launch and a specific price ("retail price of \$4,950") increase credibility of the announcement? What effect does perceived credibility of the announcement have on threat perception? These and other questions can only be answered after there is a clear picture of the nature of NPA content

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