Should You Preannounce Your Innovation?

By Hubert Gatignon , The Claude Janssen Chaired Professor of Business Administration at INSEAD

Before telling the world about their innovation-in-progress, companies should carefully weigh the costs and benefits.

As a company nears completion on what it hopes will be a major innovation, its leaders will likely feel tugged in two distinctly opposite directions. On one side, there will be the strong temptation to crow about their impending accomplishment, on the other a perhaps-judicious inclination to secrecy.

A wise strategist would weigh the choice carefully. Preannouncements can have a significant impact on the value of the firm - for example, on its stock price - and on its long-term market penetration. Knowing whether and how to preannounce is one of the essential competencies for long-term innovation, as detailed in my new book ***Making Innovation Last*** (co-authored with David Gotteland and Christophe Haon of Grenoble Ecole de Management).

Risks vs. benefits

Besides seizing bragging rights, there are strategic reasons for announcing products or services that may not be market-ready for months or years. Firms preannounce to customers to (1) stimulate demand for the innovation, (2) access the most efficient distribution systems, and (3) build a favorable reputation for being an innovative firm. Academic research has focused mainly on demand stimulation.

By raising consumers' prior-to-launch expectations even a modest amount - especially when those expectations are low to begin with - preannouncements have been shown to boost penetration rates. This boost is still discernible after an innovation has been on the market for ten years.

However, the potential benefit of preannouncements needs to be considered against **four main risks** isolated by researchers: (1) competitive reactions, (2) cannibalisation of existing products, (3) inability to deliver preannounced product specifications on time, and (4) antitrust concerns. Risks 1 and 3 have received the most attention from researchers.

Competitive reactions

Lifting the veil of secrecy can be dangerous in that it gives catch-up time to competitors. The likelihood of serious response is, on the whole, higher when the preannouncing firm is seen to be pushing aggressively into rival turf. It may surprise you to learn, for example, that preannouncements are also more likely to provoke retaliation in industries with high patent protections and in high-growth markets, i.e. in arenas where companies should feel that they are on relatively solid footing. No matter how supposedly secure their position, firms will tend to answer forcefully to perceived threats within areas where they have made strong commitments.

The form of response can vary depending on context. Where patent protections run high, for instance, competitors may react with marketing mix variables rather than products, because the patent protections reduce the benefits of launching new products.

Inability to deliver

The research around preannouncements is nearly unanimous on at least one point: You really don't want to end up missing a preannounced release date, thus delivering what is known as "vaporware". This is frequently true even when the date was a deliberate fake-out meant to pre-empt competition.

Sending false signals or “bluffs” to competitors is a dubious trick that sometimes works. It is more likely to be effective in markets where information is expensive, and getting at the truth can be difficult. Big companies, however, don’t often bluff because of the risks involved: In addition to competitive reactions, feigning firms may face antitrust actions, as signalling the innovation to competitors may be seen as a form of collusion. You could also wind up unwittingly faking out potential buyers, causing them to postpone their purchase to get a better product or service.

But unintentional vaporware may be even more common (**a 2001 study** of the software industry found that more than half of the product delays surveyed were not intentional) than the underhand variety, not to mention costly. One study found that delay announcements negatively affected stock returns by more than five percent in nearly 30 percent of observed cases.

So you want to preannounce…

If a firm resolves to preannounce, the strategizing shouldn’t stop there. Designing an effective preannouncement requires at least two complementary decisions:

· *Timing of the preannouncement:* A preannouncement can occur any time after the alpha test of the innovation, varying from a few days to several months. According to **a 2011 study**, firms should preannounce early when (1) the preannouncement would create pent-up demand, (2) the market share of the existing product is low, (3) the quality of the new product is high, (4) the profit margin of the new product is high, and (5) the firm expects its competitor to preannounce early.

· *Content of the preannouncement:* There is evidence that the language used in preannouncements can influence new product success. Timing and content should be in sync, as firms that preannounce first face higher trial resistance from consumers. Early preannouncements may be more successful if they emphatically downplay the risk to consumers of adopting the new product. Conversely, late announcers have the luxury of being able to refer to customers’ reactions to existing products, and can use their preannouncements to emphasise the relative advantages of their forthcoming innovation.

Conclusion

Although some studies posit that preannouncements may not be beneficial, the loose consensus among researchers is that under certain conditions preannouncements benefit the firm. It is also important to remember that the benefits are not guaranteed to last—one study noted **no net effect** on monthly stock returns from preannouncements. Moreover, the rapt anticipation generated by preannouncements may backfire if you aren’t able to deliver. Once you preannounce, the game is yours to lose.

Hubert Gatignon *is the Claude Janssen Chaired Professor of Business Administration at INSEAD.*

Follow INSEAD Knowledge on ***Twitter*** *and* ***Facebook***

Find article at

https://knowledge.insead.edu/strategy/should-you-preannounce-your-innovation

---

About the author(s)

Hubert Gatignon is an Emeritus Professor of Marketing and the Claude Janssen Chaired Professor of Business Administration, Emeritus at INSEAD.