NARTI Annual Doctoral Conference 'Dream, Plan, Achieve: Researching to Make a Difference'

Paper Title:
Stock Market Reaction to Preannouncements and New Product Introduction Delays: Evidence from the S&P 500 Index

Research Area:
3. Marketing/Operations & Supply Chain

Key Words:
New Product Introduction Delays, Stock Returns, Preannouncements

Purpose:
Public companies often pre-announce new products to excite investors and inflate their stock prices (Su & Rao, 2010). However, all-too-often new products are late to market. This can be due to a number of factors, including overly ambitious schedules, product complexity and supply chain issues (Vickery et al., 2016). It is already known that new product introduction delays can result in an erosion of stock prices for companies, with some researchers finding a 5.25% reduction (Hendricks & Singhal, 1997). However, less is understood about how preannouncements and new product introduction delays work together to impact stock price.

This quantitative research aims to investigate whether new product introductions which experience a delay experience more negative stock returns if they were previously preannounced via a short-term event study. Then, factors which moderate this impact are explored, such as firm profitability, using a cross-sectional multiple regression analysis.

Theoretical Background:
Signalling theory helps to explain how firms send messages to the market about actions such as preannouncements of new product introductions and delays (Hendricks & Singhal, 1997). In this research context, preannouncements are perceived as positive signals, intended to hype up new products and get investors excited (Su & Rao, 1997). Whereas, new product introduction delays are negative signals about the postponement of a product coming to the market. Therefore, it is expected that investors would react positively to preannouncements and negatively to new product introduction delays. However, symmetry of these two types of reaction, positive and negative, is uncertain. Therefore, also considering prospect theory helps to understand how investors can react asymmetrically to positive and negative signals.

Methodology:
The research context uses LexisNexis News to identify a sample of 195 new product introduction delays from the S&P 500 index, alongside their 95 corresponding preannouncements. By taking this approach of first identifying delays, the focus of the research, and then identifying preannouncements of the same products, the research is able to make a direct apple-and-apple comparison of stock market reaction to new product introduction delays which were preannounced. The market model is used to measure abnormal returns around the event, i.e., over a three-day event window from one day before to one day after the event, to show the actual impact on the companies (Ding et al., 2018). As this assumes the efficient market hypothesis, it is commonplace in event studies to focus on the first announcement of the event.

Utilised in many event studies (Hendricks & Singhal, 1997; Xiong et al., 2021), a cross-sectional multiple regression model is then constructed to investigate dimensions such as profitability, measured as return on assets (ROA) lagged 1 year before the event date, which moderate the relationship between new product preannouncements and delays and stock returns; controlling for key variables, including firm size, liquidity, days of inventory and industry. Robustness tests of different event windows and estimation models are used to check for consistency of results and eliminate alternative explanations.

Main Findings:
Overall, it is found that stock markets react negatively and significantly to new product introduction delays but not statistically significantly to preannouncements of new products. Specifically, preannouncements cause

a 0.52% increase in stock price but this is not found to be statistically significant. For delays, a -0.98% reduction in market value is observed across the three day event window, statistically significant at the 0.01 level.

For the cross-sectional regression results, it is found that firms with higher profitability experience more negative stock returns, significant at the 0.05 level. Further analyses will explore additional dimensions and interaction affects will also be investigated.

Potential Contribution:

This research contributes to the literature on the impact of new product introduction delays on stock returns by examining the consequences when a product has previously been preannounced (Hendricks & Singhal, 1997; Su & Rao, 2010). Organisations are under pressure to maximise shareholder wealth so understanding the impact of their decision to preannounce a new product when it is known that many products continue to be delayed is vital. Furthermore, understanding how dimensions such as profitability can moderate this relationship is critical in developing informed ways of addressing delays and related decision-making.

In practice, organisations should be aware that their decision to preannounce a new product may have an impact on their stock returns if the product is later delayed. This is important because many products still experience delays, despite research on addressing delays (Li & Graves, 2010). Therefore, this research is important in developing methods of resolving delays.

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