

## New Product Announcements and Stock Prices

The stock market reaction to a product-innovation announcement is, on average, approximately .5% abnormal return (return over and above the expected stock return for the announcing firm).

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<i>Evidence base</i>	1,101 <i>Wall Street Journal</i> new product announcements, 105 product announcements in the Predicast F&S Index database, and 5,481 announcements from Factiva, Lexis Nexis, and company websites
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<i>Managerial implications</i>	All else equal, the market value of firms increases following the announcement of introduction of a new product. This generalization does not suggest that any incremental innovation is a positive net present value project. Rather, new products that are significant enough to warrant a press release by the parent firm are, on average, viewed by investors as increasing the future cash flows of the firm. While abnormal returns to announcements of new products in high tech industries have typically been shown to be higher than .5%, studies across multiple industries (Chaney, Devinney, and Winer 1991; Sood and Tellis 2009) have consistently demonstrated positive abnormal returns following such announcements.
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<i>References</i>	<p>Chaney, Paul K., Timothy M. Devinney, and Russell S. Winer (1991), "The Impact of New Product Introductions on the Market Value of Firms." <i>Journal of Business</i> 64 (4), 573–610</p> <p>Lee, Hun, Ken G. Smith, Curtis M. Grimm, and August Schomburg (2000), "Timing, Order and Durability of New Product Advantages with Imitation." <i>Strategic Management Journal</i> 21 (1), 23–30</p> <p>Sood, Ashish, and Gerard J. Tellis (2009), "Do Innovations Really Pay Off? Total Stock Market Returns to Innovation." <i>Marketing Science</i>, forthcoming</p>
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