

Labeling is a key to success of software company innovations, research suggests

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Companies in the software industry, where novel ideas are prized, use linguistic tactics to develop new labels for their innovations to stay ahead of competitors. Using language to signal that something is "new and

different" is an important tool for success, University of California, Davis, research suggests.

Category innovation during a study period from 1990 to 2002 included words and phrases such as "platform" and "[supply chain management](#)"—market categories that are now established.

"There is an association between companies that use category innovation and their likelihood to IPO, suggesting category innovation is part of successful firm strategies," said Elizabeth George Pontikes of the UC Davis Graduate School of Management, who is the author of the study.

The article, "Category Innovation in the Software Industry, 1990-2002," was published in *Strategic Management Journal* in January. Pontikes looked at more than 400 labels used in news releases about innovations by more than 4,000 different software [firms](#) over 12 years. Researchers also interviewed 12 executives and [venture capitalists](#) in the [software industry](#).

Category innovation, as defined in the study, is a practice that involves firms claiming a new category label to describe the market they are in. A firm may do this to differentiate from rivals, or to try to become a market leader or even a "category king."

One executive interviewed for the study described the "tag management" label, for example, as something that "wasn't super innovative, but it was labeling it ... so it was strategic the way we were thinking about it."

The research found that 75% of the labels analyzed when they were new only had one or two firms using them in the first two years, when it is traditionally difficult to determine if [innovations](#) even have a nascent market. Those [labels](#) don't gain traction until the second year of innovation, the research showed.

Firms sometimes engage in category innovation by borrowing and recasting a little-known term or are unaware another firm had claimed the label, Pontikes said.

More information: Elizabeth George Pontikes, Category innovation in the software industry: 1990–2002, *Strategic Management Journal* (2022). DOI: [10.1002/smj.3383](https://doi.org/10.1002/smj.3383)

Provided by UC Davis

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