

MASTER

Front end management of business development at DiversProducts B.V. (name fictitious) :
possibilities for improvements!

Koudenburg, M.M.

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Front end management of Business Development
at DiversProducts B.V.
(name fictitious)

Possibilities for improvements!
Summary

**NIET
UITLEENBAAR**

University of Technology Eindhoven
Faculty of Technology Management

Profile of Organizational structuring & Innovation management

Prof.dr.ir. J.E.van Aken (TUE)
Prof.dr. H.W.C.van der Hart (TUE)

DiversProducts B.V.
(Name fictitious due to secrecy agreements)

M.M.Koudenburg
Bergen op Zoom
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Abstract

This report describes the improvement project executed at one of the marketing departments at DiversProducts B.V. This investigation resulted in an improvement strategy consisting on the one hand of the implementation of a redesigned Front End or Headquarters ¹ part of the process for developing business, and on the other hand of the creation of awareness of the characteristics of New Business Development with its related risks and uncertainties. Through this combination of on the one hand professionalizing 'their' Marketing process (which is not really 'their' process as we will see but more a crossfunctional process), improving the organizational context through awareness of the challenges of New Business Development, Marketing should be able to improve its credibility and position in the company. At the same time DiversProducts B.V. should regain an important long(er) term growth developing organization in Marketing and its networks.

¹ The front end part mainly being carried out by Headquarters people, though interaction and input with fieldpeople being crucial

Management Summary

Introduction

From March 1998 till October 1999 a graduation project was executed at DiversProduct B.V., an successful international and diversified concern operating in several businesses. The company culture is strong and pervasive, focuses on short term and mainly financial success, and has an impact on the organization and culture of the various divisions. In a specific division, DiversProducts, which is also an international and diversified business, complaints rose about marketing projects not measuring up to the expectations as stated at the outset of the projects. This caused the initiation of this investigation and improvement project. DiversProducts, which formed the context for the assignment produces raw materials and is as such an upstream entity in the valuechain. Marketing projects at DiversProducts can be characterized as projects aimed at developing new business through the development of new applications for their raw materials. These activities are executed with external business partners (OEM's and transformers). These are more downstream entities in the valuechain and as such are closer to the actual enduser. The information taken from the intake interview has led to the following preliminary problem statement in the following paragraph.

Orientation

During the orientation phase an extensive preinvestigation was executed. Aim of the orientation phase was to get a better view of the problemsituation and what the problem really was. Starting point was the following preliminary problem statement.

Preliminary problem situation:

An extensive number of market development projects at DiversProducts fail in realizing their project goals. Consequences are the liquidation of relatively mature marketing projects which often already incurred a significant amount of costs, underachievement of marketing projects (in terms of project goals) which are allowed to be developed further and a changing attitude (more risk aversive) towards engagement in new projects.

Preliminary problem definition:

The management of DiversProducts acknowledges that a substantial part of the market development projects in this department underachieve and that this incurs avoidable costs. This situation has to be improved.

Preliminary assignment:

1. Determine causes of success or failure of marketing projects at DiversProducts
2. Develop a process by which the expected value of the marketing projects at DiversProducts in terms of their project goals is improved

As the problemsituation at hand could be characterized as complex, the choice was made to go through an extensive orientation phase. This complexity was due to marketing projects actually being innovation or product development projects with related characteristics, a lot of people contributing to these projects and a complex organizational setting in which marketing has to perform.

The approach for the orientation phase was as follows:

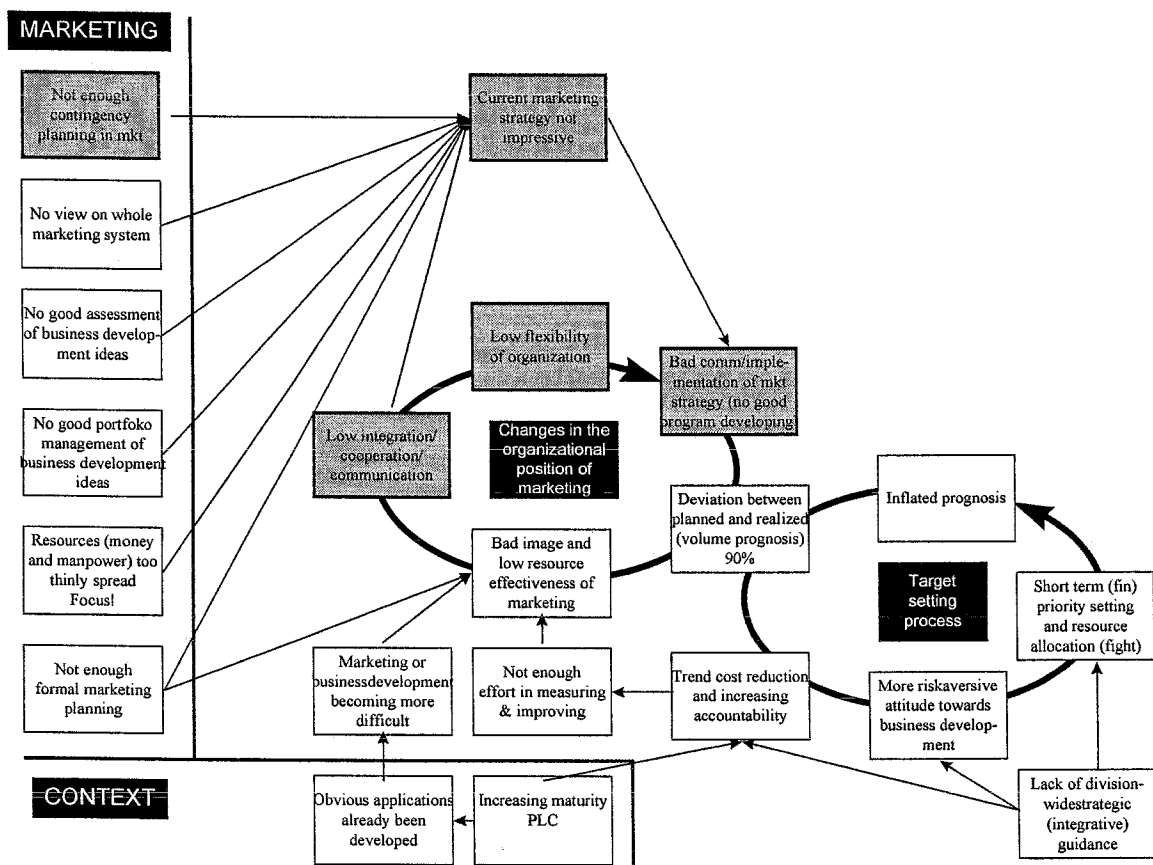
- First a stakeholder analysis in application development to identify most interesting respondents. This stakeholder analysis indicated a lot of departments outside Marketing participating in application development like Product Management, Sales, Technology and Finance. So to arrive at a better picture of the problem at hand, interviews should be conducted with a crossfunctional selection of people from these disciplines to collect the opinions about the functioning of

Marketing. The chosen people were selected from various disciplines and all levels and separated in two groups, "in- and outside marketing".

- Interviews with members of each group were held. This was done by half structured interviews and a questionnaire based on the Marketing Effectiveness Rating Instrument by Kotler. The half structured interview was conducted with the respondents with main focus on the following questions:
 - ⇒ What is the function of Marketing in DiversProducts?
 - ⇒ How well does Marketing perform with respect to this function?
 - ⇒ What indicates this performance?
 - ⇒ What influences this performance?
- Analysis and synthesis
- Report and work out

Results

It is beyond the scope of a management summary to illustrate all issues found. But an overview of the issues found and its expected relationships can be found in the causal diagram below. In this diagram two cyclic processes can be observed which are mainly in play in the organizational context. These issues are reported to have a detrimental effect on the crossfunctional collaboration which is essential for New Business Development. The first illustrates the changes in the organizational position of marketing and the second describes the impact of organizational culture and short term focus on the way people make their plans for projects.



The first process is finds its roots in the organizational culture of DIVERSPRODUCT B.V. which is very short term financially focused and is taking cost out actions due to its products coming in a more mature stage of the product life cycle. This leads other departments focusing on less long term and less riskier activities to question the merits of New Business Development and think they are merely depressing short term profits. So Marketing/New Business Development has a bad image and is

regarded to be low on resource effectiveness. This attitude in itself is enough to cause low integration, cooperation and communication between departments. These three are needed to be flexible enough to react to developments in the markets, communicate and implement an effective marketing strategy or program. Offcourse Marketing/New Business Development is planning enough results in the form of New Business. The poor marketing strategy communication and implementation leads to a big gap between the results planned and finally realized.

The second process (the target setting process) seems to accelerates this effect. Due to the gap between planned and realized the budget for developing new business is reduced and people are getting more riskaverse towards new developments. This causes even more short term (financial) priority setting and related resource allocation. As people have to 'bid up' for arriving at the needed resources for their projects, they inflate their prognosis of the size of the opportunity. By this approach the company is treating New Business Development as Sales which it is not due to a different timeconstant and risklevel. Offcourse such an inflated prognosis leads the gap between planned and realized to be even bigger.

Besides these important issues in the organizational context, the results indicated there was room for improvement in NBD activities especially in the front end (Headquarters) part of the process. In summary the following issues were reported:

- ⇒ The front end process being unclear
- ⇒ A disconnection between the HQ and field results
- ⇒ Not enough formal marketing planning
- ⇒ Marketing resources being too thinly spread
- ⇒ No good portfolio management of development ideas and projects
- ⇒ No good assessment of business development ideas
- ⇒ No view on whole marketing system or valuechain being taken
- ⇒ Not enough contingency thinking in marketing

So main conclusions from the orientation phase were:

- ⇒ The organizational setting of the company is less than optimal for NBD/application development or innovation mainly through unrealistic or unclear objectives for these kind of activities.
- ⇒ The phases prior to the current process for developing business (which is customer/application specific) are a major area of improvement.

In depth investigation phase

Based on the analysis of the orientation phase results the following problem situation was derived and agreed upon. First the final problem situation, overall improvement project objective and deliverables will be described. Then the investigation approach will be outlined.

Problem situation:

In the problem situation two major points have to be distinguished. The first point to be noted is that the operating context of Marketing (DiversProducts) is short term sales and financially focused. Marketing's function is to grow DiversProducts B.V.'s business by developing applications with external customers, making it's activities of a product development or innovation type. This kind of activities are commonly known as being of very high risk due to the many unknowns in the process and a totally different timeconstant of the process when compared with sales. Due to the way DiversProducts B.V. is organized, specifically organizing resource allocation around 'fight' and the reported financial focus, ideas/opportunities are treated as investments on which the payback time is very short and proposals are expected to be in a salesvolume and price to be realized. By this approach DiversProducts B.V. treats Business Development not as innovation activities with related characteristics but as some kind of sales. So the organizational context leads to unrealistic

expectations of New Business Development. This point gives rise to the development of improvement proposals for realistic expectations for New Business Development (deliverable 2).

The second point (within the ability of Marketing to change) relates to the quality of the Marketing HQ activities for which there seems to be room for improvement. Both points lead to serious deviation between plans and forecasts, related negative image and little cooperation of other departments. This is giving rise to the major part of the assignment (deliverable 2); development of improvement proposals for the Fuzzy Front End (FFE) of the process for developing business.

Being part of the investigation approach, an analysis of four projects on known successfactors should provide interesting information to be used in the redesign. This brings us to the first deliverable (deliverable 1); the analysis of four New Business Development (NBD) projects of Marketing on known successfactors in New Business Development.

Overall improvement project objective:

To develop an improvement strategy for the management of the front-end of the process for developing business at DiversProduct B.V. Marketing.

Overall assignment/deliverables:

1. Analysis of four New Business Development projects of Marketing on known successfactors in NBD
2. Development of improvement proposals for realistic expectations for NBD
3. Development of improvement proposals for the FFE of the process for developing business

Investigation approach

To arrive at the deliverables theory on New Product Development (NPD)/Innovation, organization and marketing can be used. First to assess several cases of New Business Development projects at DiversProducts B.V. a set of successfactors will be needed. These will be used for interviews on the specific cases (deliverable 1). Together with open interviews held with HQ Marketing personnel on the current process, this should lead to a so called "Ist model" of the current organizational context and process. This "Ist model" then can be held to specific theoretical contributions to seek for potential improvements. Finally this should result in recommendations for more realistic expectations for New Business Development at DiversProducts B.V. and for improving the HQ Marketing process at DiversProducts B.V. Marketing. The results can be found in chapter 5. An overview of the process of the investigation is given in the investigation model below.

Results/Delta analysis (differences with the situation at the outset of the improvement project)

Again it is beyond the scope of the management summary to illustrate the details of the deliverables and improvements. As its purpose is to give the main message found in the report the contributions on a high level and in terms of the deliverables will be outlined below:

1. An analysis of the four innovation projects was made and has led to insight in reasons for success or non success in DiversProducts B.V. innovation projects. Furthermore this was a field test on the usefulness of the NewProd screening model for screening innovation projects and ideas which was indicated to be valid too for ideas and applications in DiversProducts B.V. materials.

Main factors that seemed to be of influence were:

- ⇒ Project/company fit (does the application have a fit with the DiversProducts B.V. organization and competences), Product superiority and uniqueness' (does the product do better than other products and does it provide unique values)
- ⇒ Senior management support
- ⇒ Crossfunctionality
- ⇒ Communication

2. Several improvement proposals for the overall context in which NBD has to take place in DiversProducts B.V. were developed. More specific on the part of the expectations of NBD suggestions were made to make these expectations more realistic and stop treating it like short term sales. More specific suggestions for improvement include the following:

⇒ In the enterprise strategic guidance, directions for seeking opportunities and resource allocation category:

- a) Less financial focus in NBD
- b) Less fight for resources (assess value for company for decision making)
- c) Maybe focus resources more (now reported to be too thinly spread) and balance efforts in developing totally new and translating applications to other countries

⇒ In organizational culture, incentives, creativity and learning processes category:

- d) Less focus on individual measurement in this discipline, instead use group measurements to stimulate teamwork. Especially not measuring NBD on sales like objectives.
- e) Accept the fact that a lot of the front end boils down to learning processes of which the output also needs to be valued. Furthermore the development time to be dependent on the application and industry.

⇒ In operational guidance, organizing of rights & responsibilities and multifunctional cooperation category:

- f) Accept the higher risk level of the developments of new products with external business partners when the choice for NBD has been made. Key is to keep the risk in line with the size and soundness of the company and to manage the various options for business well to reduce risk. For this last purpose the process of deliverable 3 is designed.
- g) Embrace and stimulate multifunctional cooperation. The successcases analyzed report a higher level of crossfunctionality than the 'non successes'. This can be done by communicating the need for crossfunctional collaborations, stimulating by making resources available (with related riskmanagement as described in deliverable 3) and other interventions like colocation of technical or commercial people.

⇒ The personal characteristics of employees involved in NBD category:

- h) Make the assessment of the developments less dependent on the people involved at a certain moment. By use of the process of deliverable 3, one could use crossfunctional decisionmaking to make a choice from the portfolio of options for business development presented. This should also enhance commitment to the generally accepted developments. Also kill decisions should be made in the same setting.

⇒ Information category:

- i) Successcases report the most extensive market and technology research in the early phases of the project. *Logically this is basic for success (here proved in practice and also acknowledged in theory)*

3. A high level redesign of the front end

at DiversProducts B.V. has been made. The process is based on the practices found in the company which are highly unstructured and on academic insights. It features riskreduction principles while trying not to kill creativity, structured resource allocation possibilities, a fit with external development processes (due to being relatively generic). Finally it is a means of communication and collaboration for disciplines involved in NBD in the company. The process should be evaluated on its merits and complemented with existing practices and DiversProducts B.V. tools. The process description includes a description of the initiation possibilities, the several phases and screening points and the rationale for this approach. A preliminary translation has been made in a QS9000 format (as requested by DiversProducts B.V.). The initiation, main phases and decision points can be summarized as follows:

⇒ INITIATION can come from:

- Strategy: after analyzing the environment, DiversProducts B.V. management indicates several industrial segments in which they expect sufficient business potential to be available

- Market: (potential) customers can come up with ideas for products (applications), product improvements, materials, processes and process improvements. This is why it is essential to get the communication between marketing and sales going again.
 - Technology: Technology can come up with specific materials (project spin off or scouting).
 - Ideas: bubble up ideas from all parties (customers, other parties in environment, marketing, sales, technology, productmanagement, technical marketing)
- ⇒ OPTION GENERATION PHASE:
- Be open and responsive to all ideas from all sides (which doesn't mean that every idea is a good one and will be developed, but react in any case)
 - Use multiple tools to generate and stimulate the generation of ideas (arious brainstorming techniques with various disciplines and customers, incentives, ideaboxes, corporate requests for proposals)
 - Use Type 3 management techniques, very loose procedures, merely stimulating the generation of ideas
- ⇒ OPTION SCREENING
- Based on potential for technical and commercial success and strategic fit (very rough assessment to weed out obvious losers. Various tools are available for doing so. A differentiation must be made between continuous/incremental innovations (productline extensions etc.) and discontinuous/breakthrough innovations which have different characteristics.
 - No use of NPV techniques due to the information at this point being way to soft to be taken seriously
- ⇒ OPTION DEVELOPMENT 1 PHASE:
- The so called seed money phase in which options which are expected to be commercially and technically viable are explored in somewhat more detail. A little money is spend on some market and technical investigation.
 - Use Type 2 management, somewhat more formal than Type 3, but not as rigid as Type 1 as used in the business case phase.
- ⇒ OPTION SCREENING
- On the basis of the additional information gathered a somewhat more informed decision can be made on the continuation of the project
 - Use a rough investment calculation technique like Payback time
- ⇒ OPTION DEVELOPMENT 2 PHASE (BUSINESS CASE PHASE):
- Product concepts (first half of the phase) are being developed and tested in the market leading to the product definition and project planning (second half of the phase) on individual application level. Before that expensive testing might be necessary so this being the first really resource consuming phase.
 - Use Type 1 management, formal, business plans, project plans, milestones, formal agreements on resources and throughput time to be spent
- ⇒ OPTION SCREENING
- Option screening in this phase is the most important one due to this being the phase which spends significant resources. Before entering the phase a suggestion for the calculation of a payback time is made. Before entering the second half of the phase (product definition and project planning phase) a different screening point is suggested with a serious NPV calculation. This is due to the product definition and project planning phase might give rise to serious test installations to convince the market of the possibilities, making the resources consumed in the project to rise steeply.

The desired situation is that this should become a company wide accepted and worked process. New Business Development should be as crossfunctional as can be, and this process should help improve this situation. Furthermore the context of DiversProducts B.V. in which NBD has to be performed should be improved according to the guidelines given in this report. Main message there is the

recognition of DiversProducts B.V. that NBD is a high risk activity and with related characteristics and performance measures. If DiversProducts B.V. wants NBD in its activities it has to acknowledge its characteristics and accept these while managing the risks by a good process.

Recommendations

The recommendations include the implementation of the suggested improvements in the context of DiversProducts B.V. with respect to NBD and the redesigned front end of the process for developing business. These two should be implemented together because the crossfunctionality of the process only comes to live when people acknowledge the merits and characteristics of New Business Development and accept those. For the implementation the outline of the implementation plan can be used as it is described in the main report. With the suggested improvements the company should regain an important growth developing organization.