

Booz, Allen, and Hamilton's New Product Process

LEARNING OBJECTIVES

After examining this chapter, readers will have the ability to:

- Recognize the importance of nonprofit entities engaging in new product development as a means of ensuring enduring growth and prosperity.
- Understand associated barriers to new product development that complicate such initiatives.
- Appreciate the value provided by Booz, Allen, and Hamilton's New Product Process, guiding new product development activities from strategy development and idea generation through commercialization.

INTRODUCTION

Given that all products possess limited life spans, nonprofit executives must continually seek to develop new product offerings that will ensure long-term growth and prosperity. These new products, of course, do not automatically appear in the marketplace. Instead, they result from labor intensive, expensive, and bureaucratic efforts that eventually lead to market entry. Operating plans must be devised; logos must be designed and

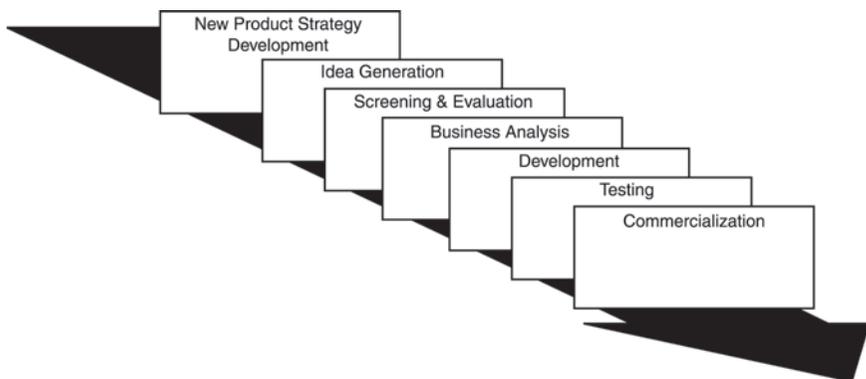
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developed; corporations must be formed; building and operating permits must be acquired; property, plant, and equipment must be obtained; and so on, with each of these activities having associated costs. Even if market entry is attained, there are no guarantees of success, as indicated by the high incidence of new product failure.

In addition to the effort, expense, and bureaucracy associated with new product development, nonprofit entities face yet another concern. Every time new products are introduced to the market, these organizations place their reputations in jeopardy. New products that are poorly developed can be quite damaging to existing offerings, providing an additional incentive for nonprofit organizations to work diligently to ensure new product success.

MINIMIZING RISK

Although risk is inherent in new product development, it can be lessened by adopting a systematic framework for managing new product activities. One such framework for managing new product activities was developed by the management consulting firm of Booz, Allen, and Hamilton (currently known as Booz & Company). Illustrated in Figure 2-1, Booz, Allen, and Hamilton's New Product Process divides new product development into seven sequential stages: new product strategy development,



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FIGURE 2-1 Booz, Allen, and Hamilton's New Product Process

idea generation, screening and evaluation, business analysis, development, testing, and commercialization. These stages are explained as follows.

STAGE 1: NEW PRODUCT STRATEGY DEVELOPMENT

Booz, Allen, and Hamilton's New Product Process begins with the development of new product strategies. Here, nonprofit executives lay the foundation for the new product process by reviewing missions and associated objectives, identifying roles that new products might play in satisfying given directives. This information clarifies the strategic requirements for new products and provides a point of reference for subsequent new product development stages.

STAGE 2: IDEA GENERATION

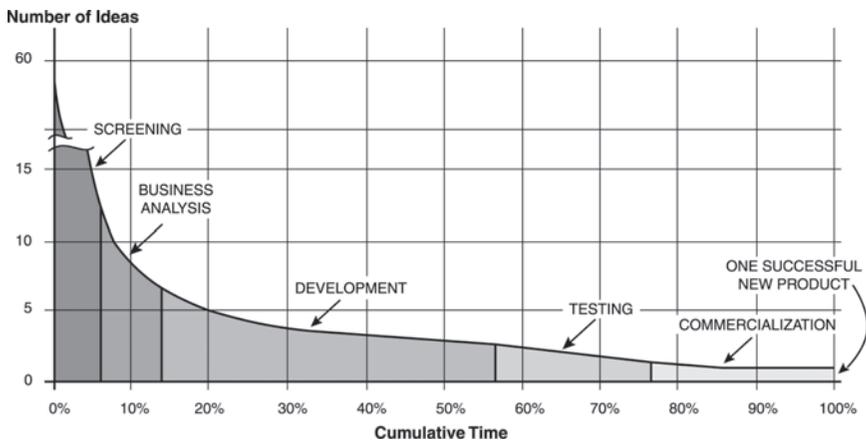
During the idea generation stage, nonprofit executives search for product ideas that are compatible with the goals and objectives determined in the preceding stage. The idea generation stage usually begins by conducting a self-assessment to determine the product categories that are of primary interest. When areas of interest have been determined, nonprofit executives scan the environment in search of growth opportunities. Ideas should actively be solicited from any potential idea source, including employees, customers, and vendors. The ultimate purpose of the idea generation stage is to produce a wealth of ideas. Every idea should be welcomed and initially considered on a "can do" basis.

STAGE 3: SCREENING AND EVALUATION

The screening and evaluation stage involves the analysis all the ideas gathered during the idea generation stage to determine which discoveries should be further investigated. Here, each idea should be envisioned as a product in the market where it can be evaluated on its potential contribution to given entities. Through screening and evaluation, nonprofit executives seek to narrow down the number of ideas generated during the preceding stage by focusing only on those that offer the greatest potential.

During this stage, new product ideas decrease; however, the expenses associated with new product development increase—a trend that

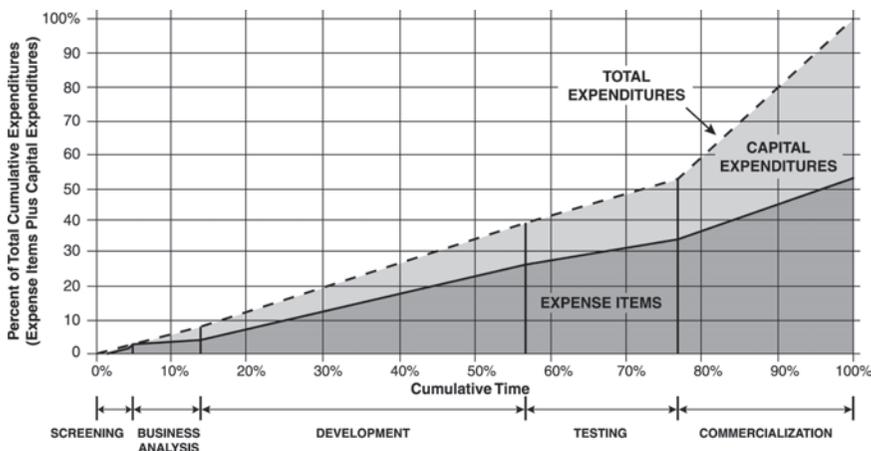
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FIGURE 2-2 Mortality of New Product Ideas

continues through the remaining stages of the new product process, as indicated in Figures 2-2 and 2-3, respectively. Organizations can only afford to develop those ideas that possess the greatest potential for success in the market. The most promising ideas proceed to the business analysis stage, and all others are eliminated.



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FIGURE 2-3 Cumulative New Product Expenditures

STAGE 4: BUSINESS ANALYSIS

During the business analysis stage, the most promising product ideas are subjected to intense scrutiny to determine their potential for translation into viable offerings. Hypothetical business plans that identify product attributes, barriers to entry, current and potential competitors, target markets, market growth information, financial projections, promotional methods, and so on are created for these offerings in an effort to formulate preliminary recommendations. Successful product ideas graduate to the development stage.

STAGE 5: DEVELOPMENT

During the development stage, product ideas that have successfully met the scrutiny forwarded during prior stages are translated into actual product offerings. For goods, development involves the actual physical assembly of the offerings. For services, development involves the assembly of all components required for the services to be offered, such as office space, equipment, operating permits, and personnel. During this stage, product offerings may go through many alterations—a common occurrence when on-paper ideas are translated into real-world offerings. Alterations continue through the remaining stages of the new product process as goods and services are readied for the market.

STAGE 6: TESTING

Testing seeks to validate earlier projections associated with new offerings through experimentation. Here, new products are readied for market entry by conducting trials to determine marketplace suitability, with the nature of the testing being dependent on the characteristics of the particular products under development and the markets sought.

Because of their tangibility, goods are particularly well suited for laboratory testing and test marketing—a practice where nonprofit executives directly or indirectly seek consumer feedback regarding their new products. For example, an antismoking foundation preparing a comic book targeting the youth that emphasizes the need to abstain from the use of cigarettes and other tobacco products would subject this product to intensive testing to ensure that it communicates the desired messages effectively. Counselors, antismoking advocates, educators, researchers, and graphic artists would

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be consulted to ensure message content and effectiveness. This foundation would also be likely to test market this publication, permitting both parents and their children to read review copies of the comic book prior to its market-wide release in exchange for their feedback.

Like their tangible counterparts, services can also be tested and test marketed, albeit in a different manner. Certainly, prior to its grand opening, a planetarium would undergo an intensive battery of tests to ensure that equipment is working properly, that necessary supplies are available, that employees understand their duties and responsibilities, and so on. The planetarium might even decide to engage in test marketing by inviting a group of consumers to visit the establishment, view a particular show, and provide feedback on the experience.

The feedback generated through testing provides nonprofit executives with yet another opportunity to ready their products for entry into the marketplace. After any necessary alterations have been made, products are ready for commercialization.

STAGE 7: COMMERCIALIZATION

Commercialization involves the full-scale market introduction of newly developed products. As new products enter the market, ongoing customer feedback should actively be sought to ensure that products meet and, ideally, exceed customer expectations. Any new product “bugs” that are identified should quickly be remedied. Aside from ensuring a trouble-free marketplace introduction, nonprofit executives must carefully monitor competitor reactions to their new product offerings, taking steps when necessary to counteract competitive responses.

RISK AND FAILURE

Risk is an inherent part of new product development where new product failures routinely outnumber successes. Indeed, new product difficulties are prevalent across all industries and sectors. These failures are caused by a variety of factors, as illustrated in Table 2-1.

Despite these risks, nonprofit entities must engage in the new product process if they wish to endure and prosper. Only through the adoption of a systematic framework for managing new product activities can nonprofit

Table 2-1 Causes of New Product Failure

1. Market/marketing failure

- Small size of the potential market
- No clear product differentiation
- Poor positioning
- Misunderstanding of customer needs
- Lack of channel support
- Competitive response

2. Financial failure

- Low return on investment

3. Timing failure

- Late in the market
- Too early—market not yet developed

4. Technical failure

- Product did not work
- Bad design

5. Organizational failure

- Poor fit with the organizational culture
- Lack of organizational support

6. Environmental failure

- Government regulations
 - Macroeconomic factors
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executives minimize associated risks and increase their chances of developing new goods and services that achieve success in the marketplace.

SUMMARY

Booz, Allen, and Hamilton's New Product Process serves as a useful guide for new product development. Its seven sequential stages—new product strategy development, idea generation, screening and evaluation, business analysis, development, testing, and commercialization—provide invaluable guidance to nonprofit executives seeking to develop new products in a comprehensive and orderly fashion.

EXERCISES

1. Provide a detailed account profiling Booz, Allen, and Hamilton's New Product Process, identifying and explaining each of its seven steps, accompanied by an appropriate illustration. Discuss the rigors of new product development as they impact the nonprofit sector. Share your thoughts on the degree to which modern nonprofit organizations follow a systematic new product development process, such as that offered by Booz, Allen, and Hamilton.
2. Contact a local nonprofit entity and arrange an informational interview with its top executive to learn about the organization's new product development practices. Specifically request information about the trials and tribulations associated with any recent or historic product launches. Present Booz, Allen, and Hamilton's New Product Process to this executive and ask about the degree to which his or her organization follows such a process. Report your findings in detail.

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