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# UNIT 12 ORGANISING FOR PRODUCT DEVELOPMENT

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## Objectives

After going through this unit you should be able to:

- Describe patterns of responsibility allocation for new products
- Discuss the organisational arrangements made to facilitate new product development
- Justify the setting up of new product development units
- Suggest alternative organisational patterns for new product development.

## Structure

- 12.1 Introduction
- 12.2 Setting Responsibility for New Product Development
- 12.3 Structural Units for New Product Development
- 12.4 Function of the New Product Development Units
- 12.5 Summary
- 12.6 Self-Assessment Questions
- 12.7 Further Readings

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## 12.1 INTRODUCTION

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Since planning and coordinating new product development activities involve almost every area in an organization to ensure that new product development effort is properly coordinated, it is essential that special organisational arrangements are developed around the day-to-day chores needed to keep the operations moving smoothly and successfully. Managers in each functional area such as marketing, manufacturing, and finance, therefore concentrate on meeting immediate objectives and solving current problems. Despite the fact that the future is important, current problems easily blot the future from view. But the long-range survival of the firm requires that new products be developed.

The Booz, Allen, and Hamilton study of new product introductions suggests that the organizations which encounter the greatest success in new product introductions are the ones that have given the greatest care to organizing for developing those products."

Setting up an organizational form for new product development involves the following related questions:

- 1). Who is to be responsible for new product development?
- 2). What are the tasks to be accomplished?
- 3). How are the tasks to be accomplished?

In other words, organizing for new product development implies establishing responsibility for varying out new product development, and, also creating special structure(s) to handle such an activity -- along with the functions to be performed by new product units.

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## 12.2 SETTING RESPONSIBILITY FOR NEW PRODUCT DEVELOPMENT

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Responsibility for developing new product can be set at the corporate level, the divisional level, or the operating level.

\* *New Products Management for the 1980s*, (NY: Booz, Allen, and Hamilton, Inc., 1982), pp. 17-22



## New Product Development at the Corporate Level

Involvement of the top management in new product development depends upon the importance that has been assigned to new products in the overall plan. Corporate level new product department is feasible and appropriate when the objective is to develop markets or products that are not in the firm's normal lines of business and when the outputs of various divisions have similar technologies and markets.

The nature of a company's business (and its future business) conditions the top management support. A company that is slow to change has innovation playing only a minor role in its performance and therefore, delegates new product development to lower level executives. On the other hand, a fast changing industry's firm, for example, electronics and chemicals, depends on innovation for competitive advantages and has high-level executives concerned with new product development.

Operating divisions normally neglect development into unfamiliar fields for they fall outside traditional spheres of business. Divisions seldom allocate funds to venture into brave new worlds: Unless the task is assumed at the corporate level, such opportunities would be missed.

Figure 1 is one of the possible ways to depict an organization with responsibility for new product development lying at the corporate level.

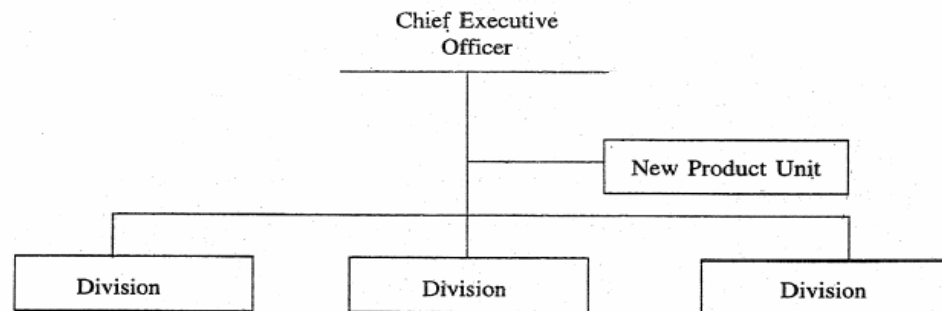


Figure 1

There are both advantages and disadvantages of having new product development responsibility set at the corporate level.

### Advantages

- 1). Greater effectiveness and control of innovative activities - Centralized research units are usually larger than the scattered, decentralized units attached to divisional operations, and the larger size permits hiring of a more specialized, technical staff well equipped to handle a wider range of problems.
- 2). Insulation from the daily pressures and crisis atmosphere - Reporting directly to the CEO, the new product unit has a direct line of communication to top management and the benefit of status. Its closeness to the source of corporate power keeps it protected from the routine burdens and crisis that infect operating personnel.

### Disadvantages

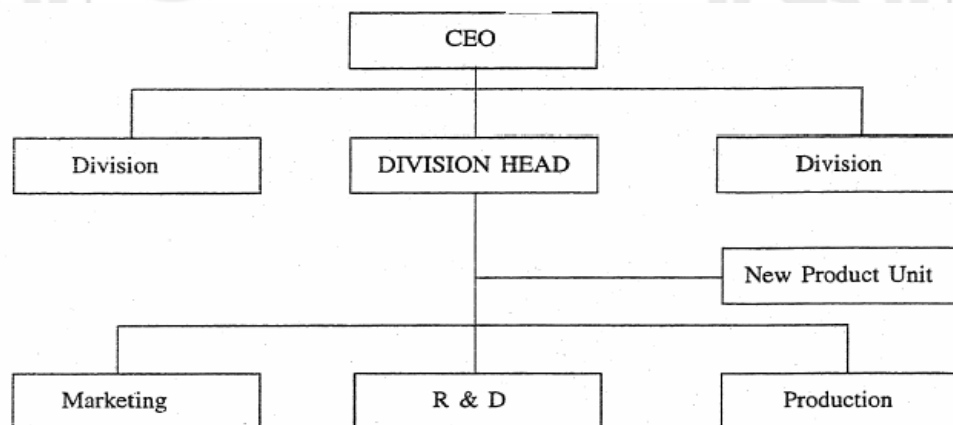
- 1). No response to the urgencies of the market place - Its isolation from the commotion and turbulence of operations makes the corporate level new product unit unresponsive to the immediate needs of the market. A request for all possible haste can easily be shrugged off as frantic behaviour of nervous salesmen.
- 2). Organizational and spatial separation - The Comparative isolation of the corporate level new product unit from operational divisions makes it necessary to integrate differentiated structures.

## New Product Development at the Divisional Level

Divisional level responsibility for new product development is most likely when operating units have highly differentiated product lines.



Compared to the centralized approach, the divisional level effort makes new product development more attuned to the exigencies of business. An organization with new product -development responsibility at the divisional level is diagrammed in Figure 2.



**Figure 2**

As in Figure 1, here also the new product unit is conceived of as a staff function and it normally reports to the divisional head. This arrangement is deemed most appropriate when new product development is likely to demand relatively large budgets with prolonged periods of development.

A new product development unit at the divisional level in many ways enjoys the parallel problems as the ones at the corporate level.

### Advantages

- 1). The new product development effort is set apart from the day-to-day activities of operations. Yet its connections with the turns and changes of, current business may be strongly intimate.
- 2). The job is only an arm's length away from top management which aids the integrative process and gives direction to the division.

### Disadvantages

- 1). Separated from the operating level, the new product unit might be looked upon as comprised of elitists and dreamers; which is likely to cause friction between the developmental and functional levels.
- 2). Another difficulty possible is the contention that new product development is only a part of the firm's total product management and new products account for only a portion of the firm's products and markets; then, why elevate new product development to a position of pre-eminence

### New Product Development at the Operating Level

Responsibility for new product development lodged anywhere, below the divisional level becomes associated with operational activity. A division usually contains many departments capable of managing the development of new products. Therefore, the assigning of responsibility, for new product development actually is the task of choosing one of the departments for developing new products. Thus, the placement of responsibility for new product development tends to be dependent upon the existing organizational structure.

The new product development at operating level is largely dependent upon how a division produces and distributes its existing products for these are the basic tasks of a division and new products must adjust to them. Therefore, there are two options (1) assign responsibility for new product development to one of the functional departments, say, marketing, or (2) assign it to product manager.



This is quite different from giving responsibility to a unit at the corporate or divisional level for they don't have basic functions that can accommodate new product development and new structures have to be created; whereas, at the operating level, the changes occur only in the way an operational unit functions.

**Activity 1**

Assume a firm with two product lines having four products each. What alternatives are available to the firm in terms of locating the new product responsibility?

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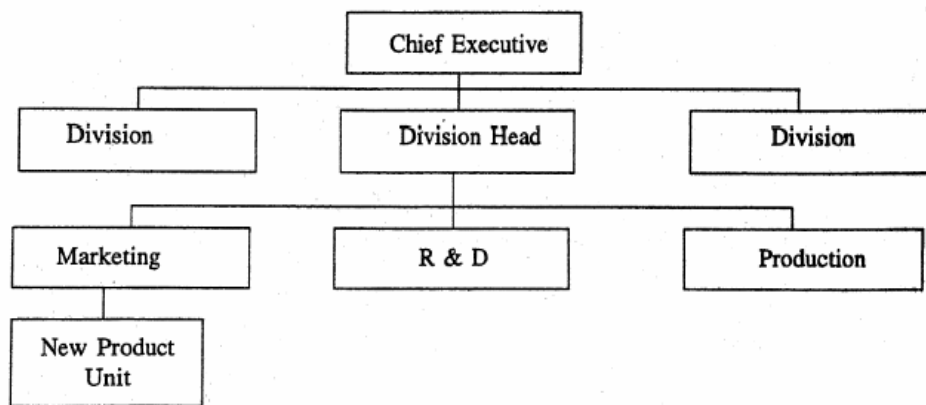
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**1) New Product Development in Functional Department**

The functional type of organization is the oldest and by far the most common. In the majority of cases, the assigning of responsibility for new product development is between marketing and research and development, with marketing being the most popular choice - as in Figure 3.



**Figure 3**

The greatest advantage in choosing marketing for new product development responsibility is that the marketing people are in a position to have the best view of trends in sales, prices, competitive actions, distribution, and services - all very important in bringing a new product to commercialization. It is the marketplace that determines the success or failure of a new product.

The choice of marketing department has other advantages also, for a new product development program depends heavily on establishing long-term relationships With distributors and agents, especially when a new product is meant for markets not serviced by the company's regular distribution outlets.

New product development in high technology fields is also greatly influenced by the components of a marketing program. Highly complex or custom-made equipment frequently requires extensive servicing - installation, maintenance, debugging, and repair. This is also true of most of the industrial products.

But what is the greatest danger in putting marketing in charge of new product development. Its short-range outlook, perhaps. Because its primary concern is present sales, the largest sales volume, neither time nor inclination may augur well for future



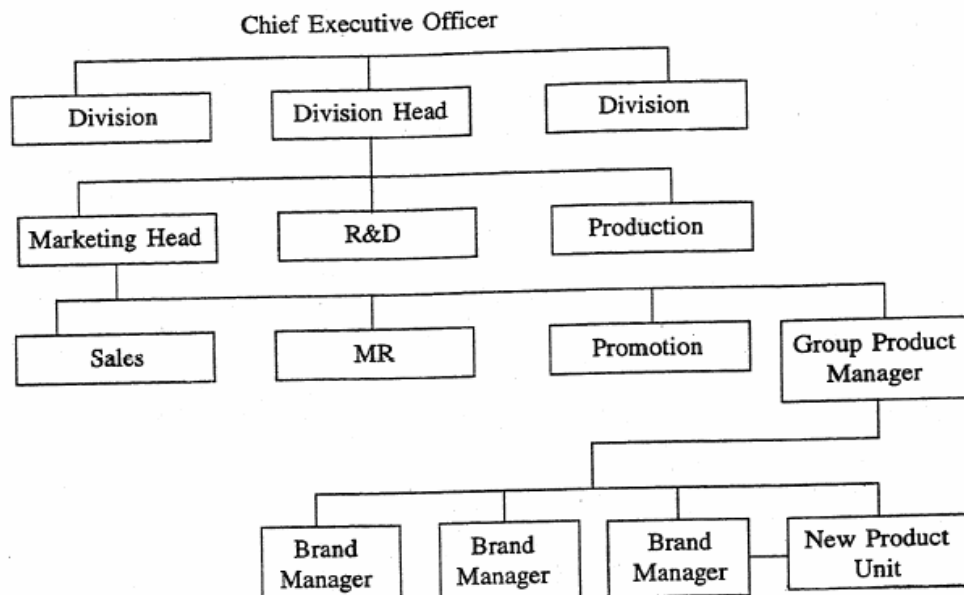


Figure 4

In cases where new products are other than modification/extensions of existing lines work may initiate elsewhere within the organization but, at some point in development, it will be turned over to a product manager.

The product manager in a consumer goods company tends to handle fewer products than his industrial counterpart. Companies with multiple brands have each brand run by a separate product manager, called brand manager (as given earlier, in case of ITC's "Classic" cigarette). The product managers may also be responsible for a product category or a group of products rather than only a brand. For example, in case of FSL (Food Specialities Ltd.), there are product manager (instant drinks - coffee; tea, etc.) and product manager (culinary products - noodles). With a slight variation in the position - designation, in Cadbury India Ltd., we have vice-president (foods - biscuits and ice creams, and vice-president (confectionery - chocolates with a marketing manager under hire.

The greatest advantage of one brand - one manager is that a new product gets individual who devotes his/her full time to planning and coordinating the new offering. She/he would work hard to obtain a satisfactory outcome, for his/her success depends upon the brand's performance.

At the same time, the multiplication of brands and lines may force companies to hire young, inexperienced persons as product managers and, unwilling to gamble outcomes on novices, top management may de-emphasize the product manager's decision-making function. The product manager's job may become redefined as gathering information, communicating plans for approval, and monitoring performance.

In consumer goods, a product manager's greatest concerns are distribution and promotion for they constitute the means of moving goods. Whereas, the product manager for industrial goods cannot ignore technical and design features. He has to consult with engineers and technicians just as frequently as with marketing people. That is to say, in new product development, the product manager (industrial goods) is more likely to be in an intermediary position between technical and marketing divisions, and, thus, can be more effective in integrating diverse functions. This integrative role is much more necessary in industrial than in consumer goods.

A matrix form of organization is another alternative possibility in setting responsibility for new product development. This form is the result of adding marketing managers to the product management system. The marketing manager concerns himself with all products moving into the market over which his responsibility extends market such as industrial goods', consumer goods' or a geographic area. The product manager looks after the



Product distributed and promoted in all markets. Such a matrix is shown in Figure 5.

PRODUCT MANAGER	MARKETING MANAGER		
	Market 1	Market 2	Market 3
Product A			
Product B			
Product C			

Figure 5

New products can be developed and introduced by either the product manager or marketing manager. The matrix form is most effective when specific particular products or groups of products can be fitted to the different markets. Consequently, each product manager, in effect, divides responsibility with each marketing manager in a product-market segment.

The matrix form of organization lends itself to checks and balances. It seems to run on the assumption that two hands are better than one, for one always watches the other. But, at the same time, the system contains duplication of effort, conflicts of interest, problems in communication, and other general difficulties of managing.

### 12.3 STRUCTURAL UNITS FOR NEW PRODUCT DEVELOPMENT

In small companies, new product development is often handled by the existing units. There is not much change in the day-to-day functions except that the company may have more personnel and more products. But, large firms regard new product development as an on-going activity and organize specially to carry it out.

To set up the organization for new product development, the large companies either rely upon the existing functional units or create entirely new structures.

The most common organizational units, established specially for new product development, are 'new product departments', 'new product committees', 'ad hoc committees', 'venture teams', and 'task forces'.

These five formations can be differentiated on the bases of status-permanent or temporary - division, or operations.

Putting the five forms by permanency status and the responsibility level, we can have eleven possible structural units.

Only 'new product departments' and 'new product committees' are permanent in status. Also, the 'new product departments' can be at all the three responsibility levels - corporate, division and operations. But, the 'new product committees' are generally only at the corporate and division levels.

From among the temporary structural units, the 'ad hoc committees' are possible at all the three responsibility levels; the 'task forces' at the division and operations levels; and the 'venture teams' only at the corporate level. Figure 6 depicts all the eleven possible new products development units.

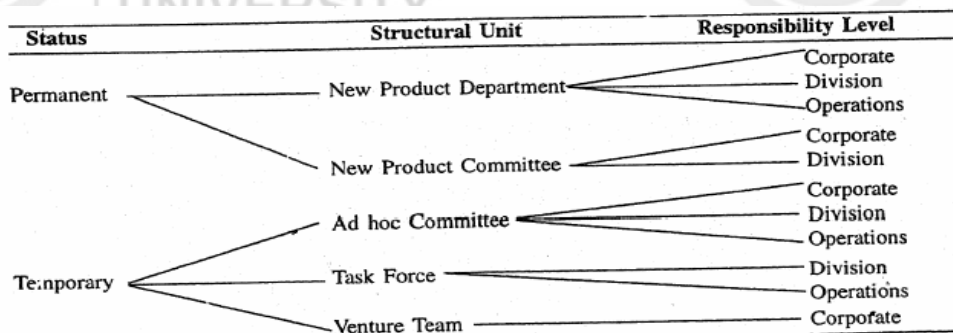


Figure 6



Each of these unit configurations is unique and can be identified by its characteristic features.

### **New Product Department**

This is a unit at either the corporate, or divisional, or operational level.

At the corporate level, this unit is positioned to serve all the divisions within the company and reports to top management. It is often the largest, single unit in the company dealing with new product development. It has a permanent, full-time staff, consisting of both technical and non-technical personnel. Firms that need a vital role of technology in their new product development efforts may attach a technical laboratory to this unit.

At the divisional level, this unit initiates and coordinates new product development for a division's product lines. It maybe a centralized unit reporting to a divisional manager (in .case when the unit itself is of a division stature), or a new products unit may be attached to each division. This unit is usually staffed with permanent, full-time managers who may fall back upon the services provided by functional areas.

At the operational level, the new product department reports to the head of a specific product group. It is usually a one-person department - a manager who usually works alone. Such a unit is most desirable when a quick response to the needs of individual product lines is required. It is closer to operations and the new product manager depends upon the functional units of the division to carry out all projects.

### **New Product Committee**

It is usually at either the corporate or divisional level. Therefore, it has a permanent status. It comprises of members from different parts of the organization who do not work full-time on new product development activity. Still, the committee has continuity *and*, at times, has responsibilities similar to those of a new product department. But, its role is advisory.

### **Ad hoc Committee**

Such units are set up to pursue specific tasks. They may exist at every level - corporate, divisional and operations. They are composed of specialists needed to manage certain aspects of new product development activity, such as brainstorming (to generate new product ideas), screening, coordinating test marketing, etc. The committee operates *on* a part-time basis. After completion of the task, it is dissolved. Thus, it is only temporary in status, and lacks continuity.

### **Task Force**

A task force is established to perform both integrative and coordinating functions. This is a special unit -of specialists which works directly with the functional areas. It exists only till the life span of a project. Thus, this unit is also temporary in status. It is usually formed at the divisional or the operational level.

### **Venture Team**

*This* structural unit, usually established at the corporate level, is a small interdisciplinary group which works full-time *on* a specific mission. It usually handles projects different from that of current product lines. When ' ventures are completed, they are a part of the operations either as new divisions or as parts. of the existing ones. The venture team is a temporary arrangement, discontinued on conclusion of venture or failure of a project.

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## **12.4 FUNCTION OF THE NEW PRODUCT DEVELOPMENT UNITS**

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Theoretically, when different types of structural units participate and share responsibility in new product development, each may look after a separate function. But, in practice, all types take part in the developmental sequence with varying extents of involvement. For





example, the following table shows that the new product department has a high involvement in the screening of new product ideas compared to a task force or venture team. Whereas, in commercialization of new product, the involvement of a venture team is as much as that of a new product department.

New Product Development Stage	New Product Department			Committee, New Product/ Ad hoc	Task Force	Venture Team
	Corporate	Divisional	Operational			
Screening	H	H,	H	M	L	L
Scheduling/ Budgeting	H	H	M	L	M	M
Product Moog	M	M	L	L	L	M
Test Marketing	N1	14	NM	L	L	L
Commercialization	M	M	M	L	L	M

H: 80% or more involvement

M: 50% to 70% involvement

L: Less than 50% involvement

### Activity 3

A) List out the various units you are familiar with or units which are close to your township. Study where the responsibility for new product development has been set in them corporate, divisional, or operational levels. Then complete the forming matrix.

Industrial Unit	New Product Development at		
	Corporate	Division	Operations

B) Now, Complete the following sentences?

- In case of industrial products, new product development responsibility is set at the .....level.
- In case of consumer non-durables, new product development responsibility is set at we .....level.
- In case of consumer durables, new product development responsibility is set at the .....level.
- In case of services, new product development responsibility is set at the .....level.



### Activity 3

Develop a table - as given in 20.4 - on the industrial units studied in, activity 3(A).

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## 12.5 SUMMARY

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New products rarely get the attention they deserve without explicit organisational arrangement and proper planning. though product ideas may occur spontaneously and anywhere, within and outside the organisation, their conversion into successful products needs a champion and organisational support.

The location of responsibility for new product development may vary from organisation to organisation both in terms of levels and units. This unit discusses the advantages and disadvantages of the different organisational arrangements for new product development and also explains the concept of product development units as an alternative to traditional organisational arrangements.

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## 12.6 SELF-ASSESSMENT QUESTIONS

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- 1). What factors determine the decision to offer new products by the marketer?
- 2). Do small firms that manufacture one or two products need to be concerned about developing and managing new products? Why or why not?
- 3). When is it more appropriate to use a marketing manager than an R&D manager for new product development?
- 4). How do skills needed to manage a new product differ from those used to manage an existing mature product?

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## 12.7 FURTHER READINGS

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Cardozo, R (1982), *Product Policy: Cases and Concepts*, Reading, Mass: Addison Westey.

Yoga J. Wind, "*Product Policy*" *Concepts, Methods, and Strategy*.