

# RSM Insight

Management Knowledge

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ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

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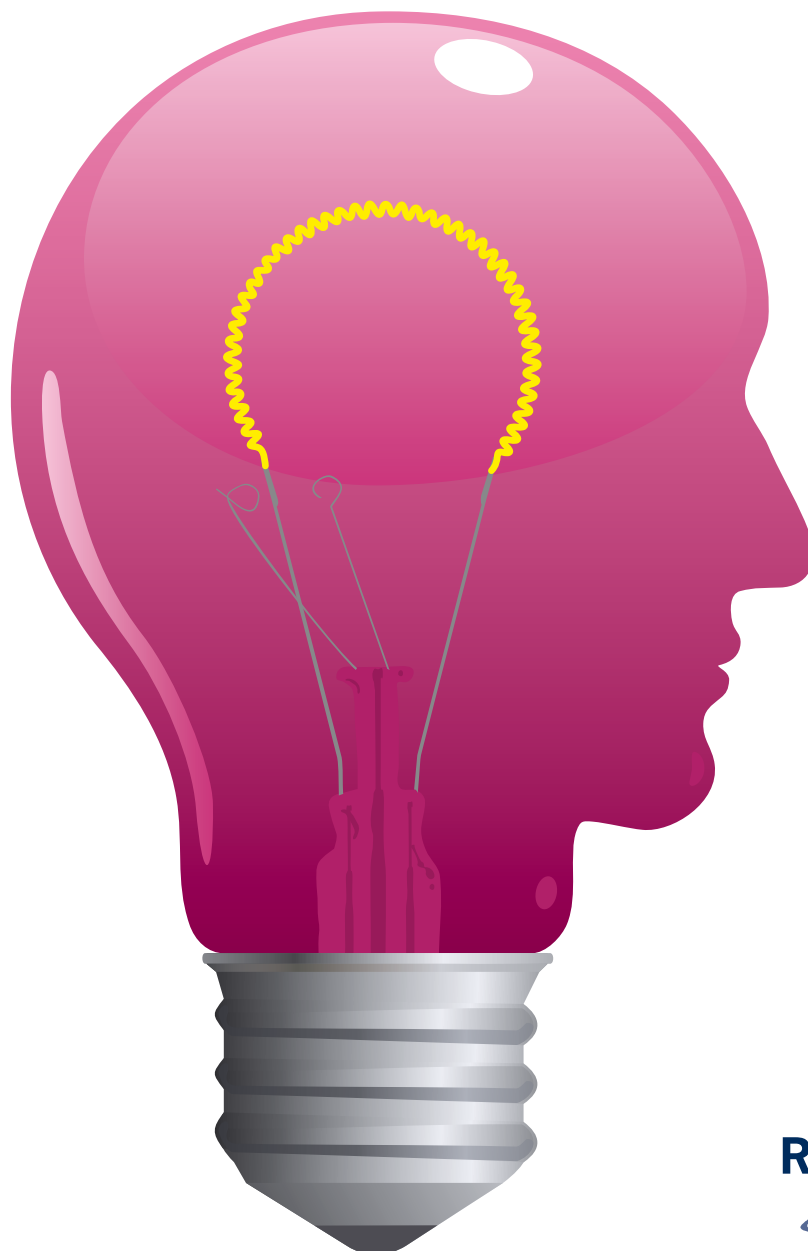
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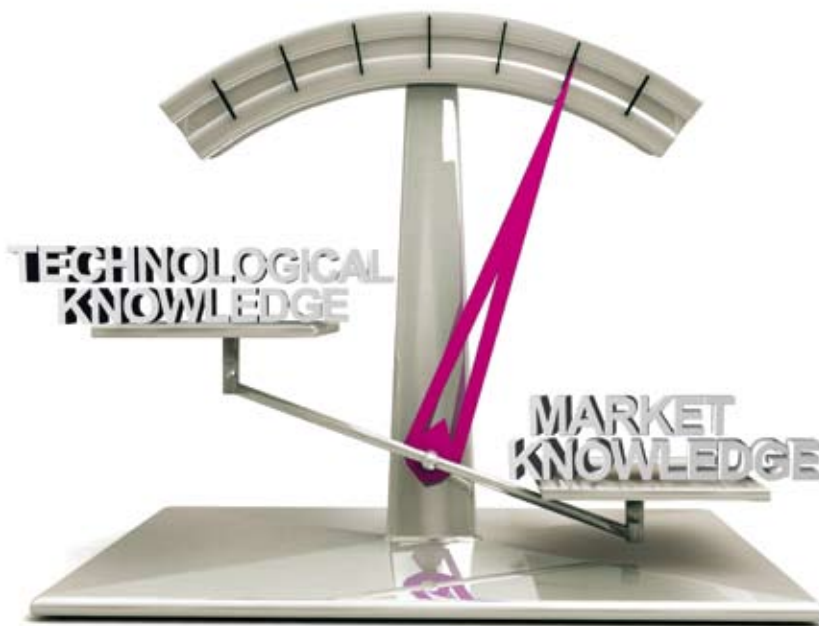
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# Why innovative business development projects fail

by Henk W. Volberda, Frans A. J. Van Den Bosch and J. Henri Burgers

**In today's fast-paced, knowledge-based environments, companies need to develop new business opportunities continuously in order to take advantage of technological and market changes.**



However, the managerial and organisational structures of most firms are primarily structured towards exploitation activities such as the refinement of products and processes. As these structures do not adequately support the requirements for exploring new business opportunities

to maximum effect, managers therefore increasingly use projects to create new revenue channels.

A key aspect of New Business Development (NBD) projects is the management of knowledge. Radical innovations require new technological knowledge and new market knowledge

while incremental innovations use and leverage existing technological and market knowledge. Based on our research<sup>1</sup>, we find that project success is more likely when the balance between technological knowledge and market knowledge is properly addressed.

We had the opportunity to explore in detail the success and failure rates of NBD's within a large, multinational corporation - the domestic appliances and personal care division of Koninklijke Philips Electronics. This is the division that developed the Senseo coffee brewing system with Sara Lee, and it has been one of their most successful projects.

However, whilst this was a clear triumph, other projects were quite the opposite. The project failure rate was a genuine and troublesome problem for the organisation. In return for unprecedented access to their projects we sought to address a question of great importance to Philips: how can the company improve the success rate of its innovation projects?

We knew from the outset that the problem did not lie with technological knowledge, as the company is unquestionably very advanced. Our analysis, based on detailed study of eight NBD's, showed that the key cause for concern was where market knowledge was new to the firm (Fig 1)

We learned that the business ►

# Why innovative business development projects fail (continued)

by Henk W. Volberda, Frans A. J. Van Den Bosch and J. Henri Burgers

strategy of Philips, a highly skilled engineering company, revolved around a belief that as soon as a product had been developed and tested, it should be launched. This showed us that the company seriously underestimated the necessity and value of developing market knowledge before pushing a product onto the market.

Many project managers reinforced this view. They complained that whilst support was given for developing new products technologically, as soon as an NBD project neared completion it was expected to be profitable within two years. Why was this? Because these projects fell under the aegis of business unit managers, and their ultimate remit is to turn a profit.

As Fig 1 shows, the failure rate of NBD's is at its highest when the market knowledge is new to the firm. Success for the organisation came more readily when the radical innovation needed only to be applied to the technical knowledge, and existing, trusted marketing approaches, distribution channels and business model could be used.

The caveat here is that radical innovation should not be restricted to the development of the product alone. It should just as importantly be about innovation in market knowledge. Whilst this applied to Philips, it is also a valuable lesson applicable to every

Fig. 1

		Market knowledge	
		<i>New-to-the-firm</i>	<i>Existing-in-the-firm</i>
Technological knowledge	<i>New-to-the-firm</i>	<b>Skin</b> (failed) <b>Health</b> (failed) <b>Oral</b> (succes) <b>Cook</b> (failed)	<b>Hair</b> (succes) <b>Fem</b> (succes)
	<i>Existing-in-the-firm</i>	<b>Drink</b> (succes) <b>Air</b> (failed)	Outside scope of this research

company pinning its commercial hopes on NBD project success.

For instance, the Senseo product was a radical innovation because the company had to develop a new business model in which profit is not made through sales of the product, the coffee maker, but via sales of the coffee pads used by the machine.

So, the company had to develop with its alliance partner, in this case Sara Lee, a new business and profit sharing model. Whilst the product was indeed innovative, it was the marketing approach that was

radically innovative.

If companies are allocating valuable time and resources on developing new products, and placing these into new markets, it makes sense that companies should also experiment, develop and innovate within these new markets. The goal should be to find the best ways to position, market, sell and distribute that product. The development of the market is just as crucial to success as the development of the product, and so a constraint of two years, as was the case with Philips, proves to be unreasonable.

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Project autonomy is another important factor in NBD success. If innovation is required in market knowledge then the project should be given greater autonomy. Ideally it will be separated from the main business line. The NBD project should have its own resources, for example, fully dedicated marketing and R&D teams. Of course, the autonomy is not permanent. The idea being that the NBD project becomes a money-spinner and as such is integrated back into the fold.

with it so did the innovation rate. When business unit managers only focus on short-term targets, the so-called key performance indicators, then they are not willing to invest in innovation projects that may also succeed but over a longer period of time than the existing profit-motivated structures allow. To encourage this innovation from within, and to increase the ratio of successful NBD projects, organisations should invest in suitably structured incentives that consider the longer view.

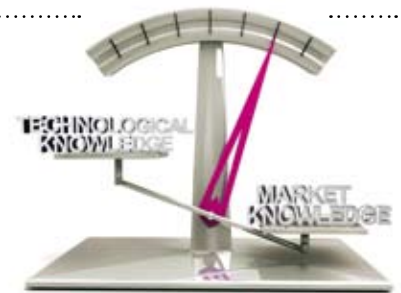
*“Radical innovation should not be restricted to the development of the product alone.”*

It is worth pointing out that the failed Philips NBD projects were given some autonomy, but only for the evolution of the technical knowledge needed to create the product. That autonomy should have extended to the development of innovations in new market knowledge. In addition, more time should have been allocated to these NBD projects, with the completion criteria being set after market introduction and not before.

A knock-on effect within Philips, a consequence of NBD project failure, was that profitability decreased and

As a direct result of our case studies, Philips reassessed the function and purpose of new business development managers and units. Now, as soon as they believe that radical new innovations can be developed, they are hived off from the main business unit, an autonomous project is established, and without the previous constraints.

With the newly invigorated approach in place, Philips has successfully increased sales turnover from innovative new business development projects. ■



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<sup>1</sup> ‘Why new business development projects fail: coping with the differences of technological versus market knowledge.’ Long Range Planning, Vol 41, Number 1, February 2008.