

New Product Evaluation Game

Introduction

This activity is a 'game' played in groups. Although it is a fun game, it is designed to illustrate the challenges that a firm faces when it evaluates and researches a new product.

For instance, a firm could very quickly (and at little cost) evaluate a new product with very little information - but that will often result in poor, uniformed decisions. The opposite is to spend too much time (and incur significant costs) to gather lots of information - this leads to the firm being too cautious, slow to react, and quite inefficient.

In this game, each group has to decide whether or not to introduce a new product. To help them decide, they are able to buy information (at a cost). Therefore, the challenge is to determine how much information to obtain before making a launch (or not) decision.

Playing the Game

- This game uses a coin to represent the new product's success.
- A coin will be tossed a total of five times.
- If the coin is comes down 'heads' three times or more then the product will be success in the market.
- However, if the coin comes down 'tails' three times or more, then the product will fail in the marketplace.
- You can choose buy/obtain information (that is, the coin toss result) before making a FINAL launch or not launch decision.
- You buy/obtain any amount of information - that is, from no information, up to the information on all five tosses.
- Once you STOP buying research information, you need to decide yes/no to launch the product and the balance of the five coin tosses are undertaken to see if the product would be successful.

Information Costs

To obtain information from:	The TOTAL research cost is:
One coin toss	100,000
Two coin tosses	200,000
Three coin tosses	400,000
Four coin tosses	600,000
Five coin tosses	800,000

Product Development/Launch Costs

If you chose to launch the new product, the development and launch costs are a further 1,000,000 points (in addition to the research costs).

Product Profits/Returns

- Points for a successful product (at least 3/5 heads) = 2,000,000 points
- Points for a failed products (less than 3/5 heads) = 0 points

Examples of Group Decisions

Group A

- Buys first toss information (-100,000) - it's a head
- Then decides to buy second toss (-100,000) - it's a tail
- Then gets third toss information (-200,000) - head again
- Decide to develop/launch (-1,000,000)
- Coin is tossed two more times - tail, then head
- Therefore, product is successful (+2,000,000)
- = Net points for firm = **+600,000**

Group B

- Buys first toss information (-100,000) - it's a tail
- Then decides to buy second toss (-100,000) - it's a tail
- They decide to NOT develop/launch (0 points)
- = Net points for firm = **-200,000**

Scoring Sheet

Here is a scoring sheet (which can be easily done on the board). Groups can play against other groups (either in a one-on-one situation, or in an overall class competition). It is suggested that around 5 products be evaluated to reduce some of the 'luck' aspect.

(Note: Luck will play some part - just as it does in real life business.)

Product Evaluation	Round 1	Round 2	Round 3	Round 4	Round 5
Total Information Cost (if any)					
Develop/Launch Cost (if any)					
Product Successful? Yes/No					
Product Profit/Return (if any)					
Net Points for this Product Decision					
Total Accumulated Points for all Decisions =					