

# STRATEGIC PRODUCT MANAGEMENT

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# Frequent product management problems

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- Thinking too tactically about product management and marketing
- Too small a budget
- Unreasonable project time lines
- Risky product development projects
- Conflicting information from customers and prospects
- Dealing with a superior competitive offering
- Internal conflict about what the product should look like
- Insufficient marketing and sales attention
- Opinionated senior management
- Nasty surprises from competitors or the economic environment

# Introduction

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- Product management means different things to different people
- So, how do you succeed if your stakeholders have different expectations?
  - ▣ You can't deliver apples if your stakeholders are expecting oranges
- You need a strategic perspective on your job and how to succeed both in terms of your product success and your personal success

# Stakeholders are

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- The people, groups and outside players who can help or prevent you implementing your product strategy
- Examples:
  - ▣ Venture capitalists and boards of directors
  - ▣ Bosses with incentives tied to performance
  - ▣ Unreasonable people (technical description: “a--holes”\*)
  - ▣ Distributors, VARs, consultants, etc.
  - ▣ Different classes of users
  - ▣ Internal experts
  - ▣ Departments upon whom you are dependent
  - ▣ Press and reviewers
  - ▣ Technology consulting firms, e.g. Gartner


# How to think about stakeholders

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- How do they frame the issues of product management?
- What minimal activities and outcomes must you deliver?
  - ▣ Satisfiers
- What will they reward you for, the more that you produce?
  - ▣ Drivers
- Where is the upper limit of outcomes beyond which performance is damaging to you, to the company, to the stakeholder?
- What contingent events must you plan for?
  - ▣ What are your stakeholders' tolerances for risk and different levels of outcomes?
  - ▣ What timelines are they on?

# Resolving resource allocation issues

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	Satisfiers	Drivers
Casual users		
Heavy users		
Developers		
Venture capitalists/BofD		
CEO		
VP Sales		
Media		
Distributors		
Banks		

# Dealing with stakeholder conflict

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- Model 1: The Big Stick
  - ▣ Enlist a senior decision maker
- Model 2: Facilitated Planning Session
  - ▣ Use a neutral but knowledgeable facilitator to force priority setting and consensus on next steps
- Model 3: Reframe the Problem With New Data
  - ▣ Invest in data to reframe the problem
- Model 4: Test and Reframe
  - ▣ Use iterative test strategy to build consensus on what works
    - For market
    - For product development
    - For customer service

# Shifts in product development

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- In the past
  - High development cost and barriers to entry
  - Few software choices and high prices
  - Availability and first to market often all that was necessary
  - Generalized products
  - Few business model variations
- Today
  - Development cost is often incremental
  - Explosion of choice and low prices
  - Marketing expenditures, share of mind, PR, positioning, design and quality more important
  - The Zeitgeist problem
  - Niche products
  - Competition based upon business model and legal rights or different competitive paradigms



# Example of proliferation of competitive choices and business models

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Business model	Purchase	Rental	Subscription	Advertising based	Sponsored
Books					
Music					
Video					
Software					
Services					

# Example of legal rights that can be bundled or unbundled with business model

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- Quality, e.g. with video or audio books
- Number of devices, e.g. with cable, music or video
- Back-up and cloud storage, e.g. Amazon, Google, Apple iCloud, Norton Zone
- Resale and inheritance rights
- Access across multiple devices, e.g. tablets, phones, computers, game machines
- Bundling of services and software, e.g. MS-Office, cellular voice and data plans
- Upgrade rights, e.g. CD + MP3 download, DVD and Blu-ray, next generation upgrade (Windows 7 to 8 in 2012)

# Examples of framings

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- Lean startups
- Proof of concept vs. cost of growing business
- Selective overinvestment in key features
- Pareto functionality
- Crossing the chasm
- Sustaining innovation vs. disruptive innovation
- Experiment vs. core
- Incremental product line extension
- Installed base marketing strategy
- Platform redesign
- Value of fast to market
- Value of quality
- Value of platform vs. other sources of value creation
- Segmentation change
- Value transformation: product, service, solution, experience
- Business model transformation
- Stepping out of the comfort zone
- Single period profitability, multi-period profitability, relationship profitability, value of users vs. buyers

# For a product manager, success means:

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- Getting many things right
  - Revenues, products, reviews
  - Internal support for the product
  - Product design
  - Product development
  - Distribution
  - Marketing messaging and positioning
    - Perceptions of momentum in the market place
    - Recognition of value created
    - Understanding of relative performance over competition
  - Third party assessments (social, consultants, word of mouth)
  - Sales activity
  - Support
- **Not overinvesting** in activities where a minimal level of performance is acceptable

# What makes a new product successful?

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- Research suggests that the strongest predictor of new product success is
  - ▣ Offering a differentiated high value product
- Value
  - ▣ Varies by segment, so you need to understand segment needs
- Major cause of failure
  - ▣ Inadequate market research and knowledge of customers

# What makes a company successful?

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- If faced with a choice between “better” and “cheaper”, choose better \*
- Growing revenues matters more than growing profits
- Vs.
- Christensen disruption or Blue Ocean strategies
  - ▣ Less but acceptable performance that opens up a new group of buyers

\* Source: Raynor, Michael and Ahmed, Mumtaz:  
The Three Rules: How Exceptional Companies Think, Portfolio, 2013

# If you have an existing product

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- You need to know:
  - ▣ Who is buying your product
  - ▣ Who are the heavy users
  - ▣ Who are the non-users
  - ▣ What kind of net promoter score do you have
  - ▣ How usage varies by country
  - ▣ Performance relative to competitors
  - ▣ Rate of competitor innovation
  - ▣ Reputation and ecosystem performance
  - ▣ Internal team, resources and stakeholder commitment

# Why the product manager matters

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- Major comparison of US and Japanese auto industries in 90s
- Japanese companies producing high quality products and taking less time to develop products
- Product management differences seemed key:
  - ▣ Japanese product managers were senior and given high degrees of autonomy and authority. They were mini-CEOs.
  - ▣ US product managers were more coordinating in role and had less seniority and power



# The Wayne Gretzky talent

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- As a hockey player, he maintained, he was good because he skated to where the puck would be, not where it was currently
- A product manager in a high tech industry must be like Wayne Gretzky for three reasons:
  - ▣ Consumers are transformed by the use of technology products, causing their expectations to change
  - ▣ Technology improves over time
  - ▣ Competitors introduce new features

# Global innovation

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- In many markets, the US is not likely to be the leading edge source of innovation. Examples:
  - ▣ **Chinese modular building practices.** China is building housing for 300M Chinese and operating at a scale equivalent to the entire US cumulative housing stock
  - ▣ **Automobile innovation.** No speed limit markets in German encourage better high speed engineering. Product liability issues slow innovation in US in e.g. sensors and self-driving cars. Higher gas prices incent more innovation in Japan and Europe.
  - ▣ **Medical services delivery.** Product liability issues in US and lower available government budgets in developing countries will encourage lower cost delivery processes and technologies.
- Research says that new product innovation based upon global innovation do better

# Top Innovation Ecosystems

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1. Silicon Valley
2. Tel Aviv
3. Los Angeles
4. Seattle
5. New York City
6. Boston
7. London
8. Toronto
9. Vancouver
10. Chicago
11. Paris
12. Sydney
13. Sao Paulo
14. Moscow
15. Berlin
16. Waterloo (Canada)
17. Singapore
18. Melbourne
19. Bangalore
20. Santiago

Source: Startup Genome. (Asia underrepresented in survey)

# Moore's Law assumption

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- If one were to characterize Silicon Valley product management strategies, most fall into two categories:
  1. Riding a technology curve such as Moore's Law
    - Implications: costs are dropping, performance is improving, so by virtue of supply and demand, the market will grow
    - Lower cost per unit and higher performance enable new applications
    - Examples: telecom transport and fiber optics, software, processors, flash memory and hard drives
  2. Putting activities on the Internet and using self service to drive down costs

# Example of different value propositions

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- Perfectly Clear, a Calgary based photo software company
- Key benefit: one click photo optimization with post optimization fine-tuning
  - ▣ PC-based version: \$199.00
  - ▣ Mobile phone version: \$1.99
  - ▣ Industrial strength model for printing operations: Negotiable, but presumably higher price in \$000s+ range for larger retailers.

# There's more than one way to skin a cat other than segmentation

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- Different types of innovation
  - ▣ Process innovation, e.g. Dell
  - ▣ Product innovation, e.g. Apple
  - ▣ Business model innovation, e.g. Netflix, Adobe Creative Suite subscription model, Salesforce.com
  - ▣ Combinatorial innovation, e.g. e-books with cloud storage (product, value, technology innovation)

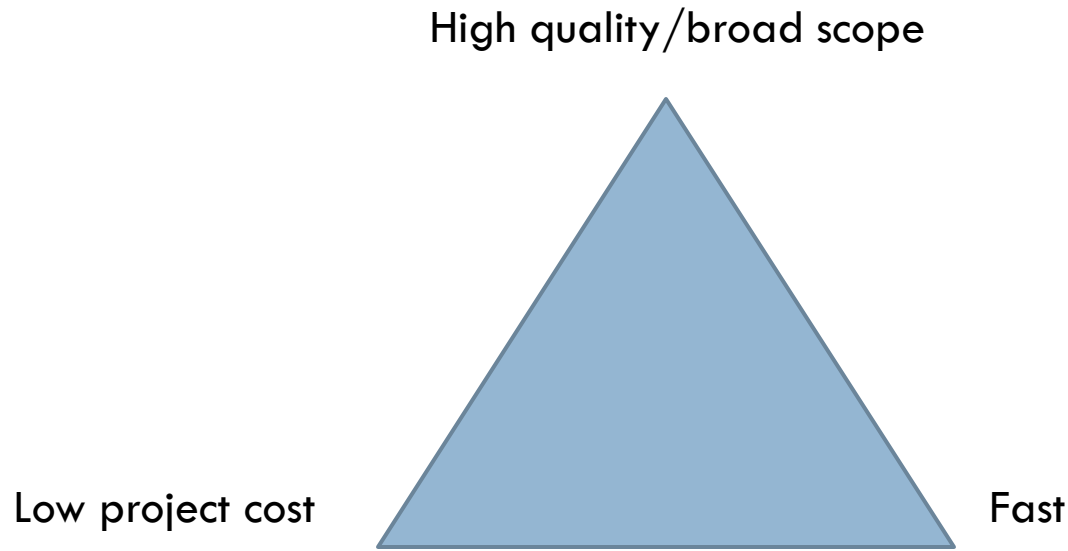
# Drivers of cost advantage

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- Experience curves
- Time based competition
- Scale
- Network effects
- Complexity
- Scope
- Capacity utilization

# Only 2 out of 3 are possible

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- A fast project with low project cost is likely not to be very capable or of high quality.
- A fast project with high quality is likely to be expensive.
- A low project cost with high quality will not be a fast project



# Achieving all 3 is sometimes possible

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- But it means thinking outside the box
- Examples:
  - ▣ Paradigm shift
  - ▣ Disruptive strategy
  - ▣ Persona driven innovation
  - ▣ Business model shift
  - ▣ Technology shift
- Radical change increases the need for internal support and perhaps a portfolio approach to product management

# Capabilities maturity model (CMM)

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Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
<p>Heroic efforts. High uncertainty about skills needs and time to develop</p>	<p>Limited competencies Some rules of thumb about simpler product development Still high uncertainty about novel or first time features Some understanding of market</p>	<p>Generally high competencies Many rules of thumb about simpler product development Better understanding of market</p>	<p>Predictable product development processes. Good understand of evolving customer needs.</p>	<p>Optimization of product development and marketing tested at high level of sophistication</p>
<p>Typical problems: Wrong skills Unpredictable delivery Over-budget High error rate Platform capabilities weak</p>	<p>Typical problems: Scaling and performance Missing emerging user needs Overconfidence about skills and budget Unrealistic senior mgt. expectations</p>	<p>Typical problems: Failure to address platform shortfalls. Loss of team members to other teams</p>	<p>Typical problems: As “mature” product, resources and passion may be in short supply. Incremental innovation pursued.</p>	<p>Typical problems: Company may have difficulty responding to process innovation, business model innovation or disruptive competitors</p>

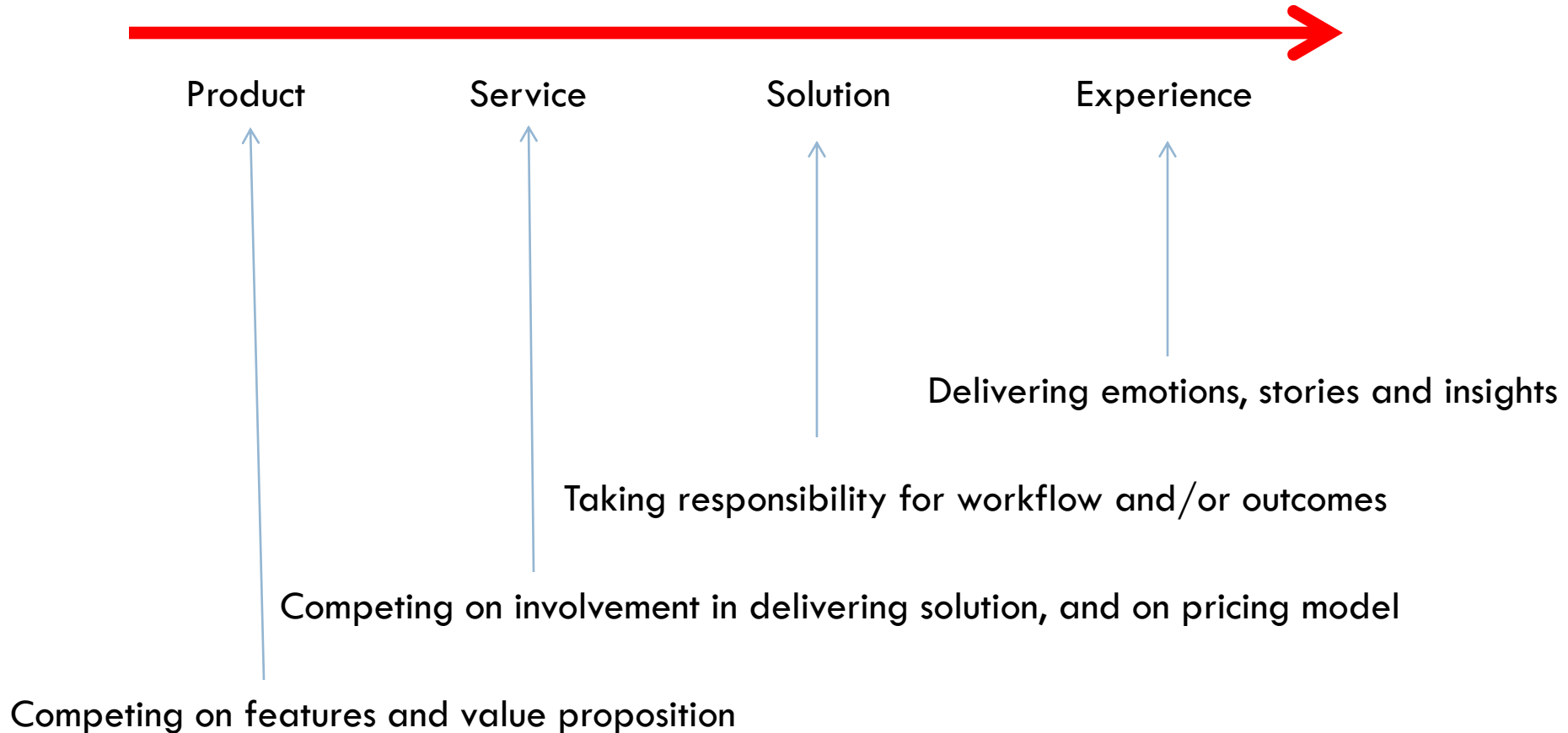
# Portfolio management

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- Types of product management investment
  - ▣ Logical incremental sustaining innovation
  - ▣ Adjacent innovation
  - ▣ Disruptive innovation
  - ▣ Experiments
  - ▣ Shifting along the curve from product to service to solution to experience
- It's important to frame these projects differently and not be trapped by the same evaluative frameworks or budgets

# Evolving value propositions

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# The routinizing curve

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First time project

Low number of projects: heuristics/rules of thumb developed, some reuse

Percentage of reuse approaches 50%.

Supplier configurable product

User configurable product, probably requires training

Self-configuring products

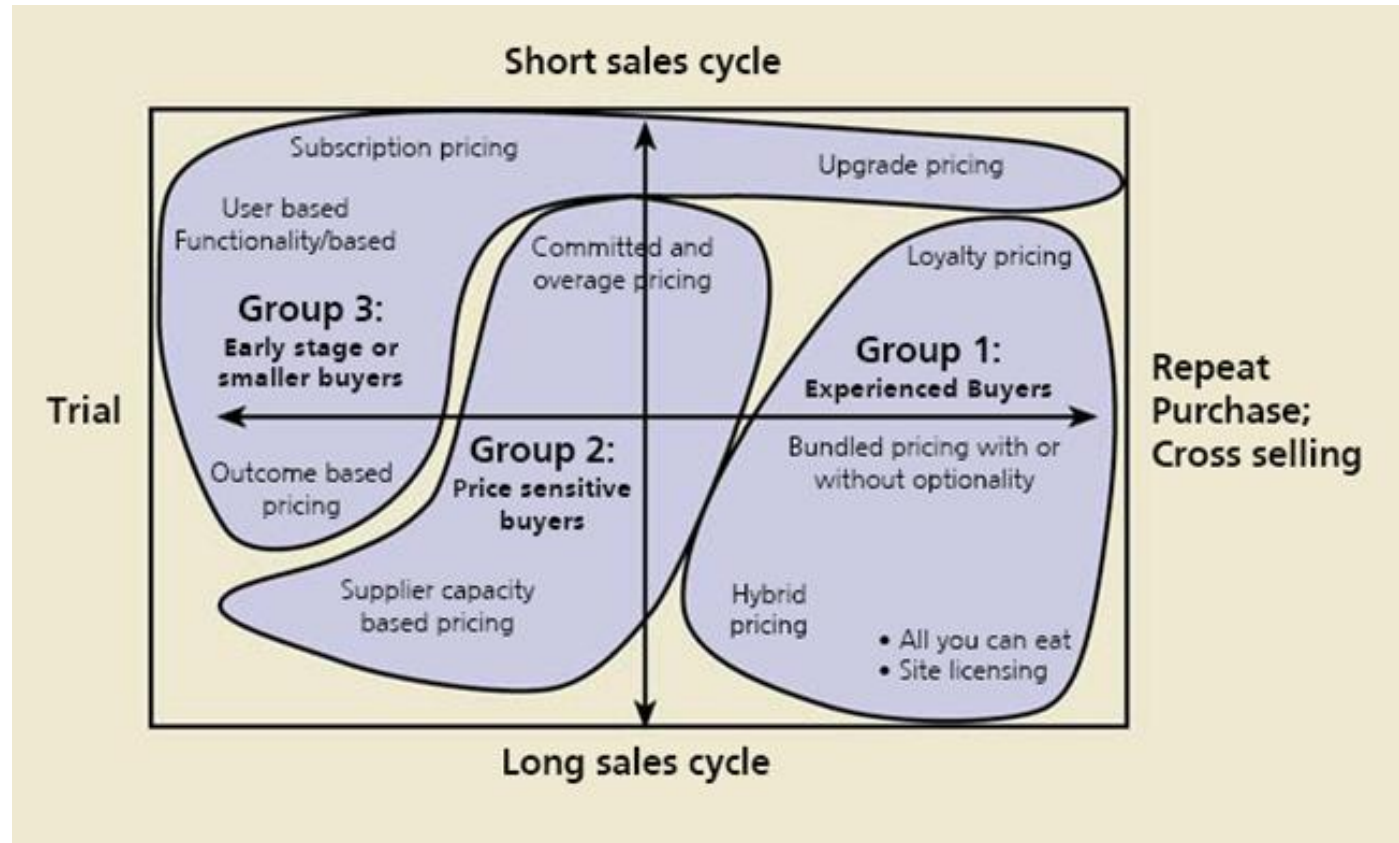
# Pricing strategies

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- Riding the experience curve
  - ▣ Price where your costs are today vs. price where you costs will be and use your lower price to get to that point on the curve
  - ▣ Creaming vs. skimming: high price for initial users with high need for product, then drop prices once you have crossed the chasm
- Freemium model
  - ▣ Initial users are a prospect pool acquired at low cost
  - ▣ The actual business is based upon conversion of non-paying customers to a paying status

# Pricing models vary based upon your product management goals

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Reference: Simonetto, Michael and Davidson, Alistair: Pricing strategy and execution: an overlooked way to increase revenues and profits, Strategy & Leadership magazine and Deloitte, 2005

# The value implications of rapid development and fast iteration

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- Case 1:
  - ▣ One year development cycles
  - ▣ Value proposition improvement in each cycle: 25%
- Case 2
  - ▣ Three month development cycles
  - ▣ Value proposition improvement in each cycle: 10%
- At end of five years:
  - ▣ Case 1:  $1.0 \times (1.25^{**} 4) = 2.44$
  - ▣ Case 2:  $1.0 \times (1.10^{**} 11) = 2.85$
  - ▣ But key point is that there have been more opportunities to understand the customer usage and experience and perhaps modify the roadmap



# Segmentation strategies

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- Reverse segmentation
  - ▣ One product that can service multiple segments
- Increased segmentation
  - ▣ Tailored products, services and solutions targeted to different segments
  - ▣ Demographics, psychographics, infographics, persona based
- Bundling
  - ▣ Superior value from greater share of wallet
  - ▣ Recognition of lower value of less used benefits
- Business model and pricing changes
  - ▣ Purchase vs. lease
  - ▣ Pick and choose functionality with optional upgrades and bundling

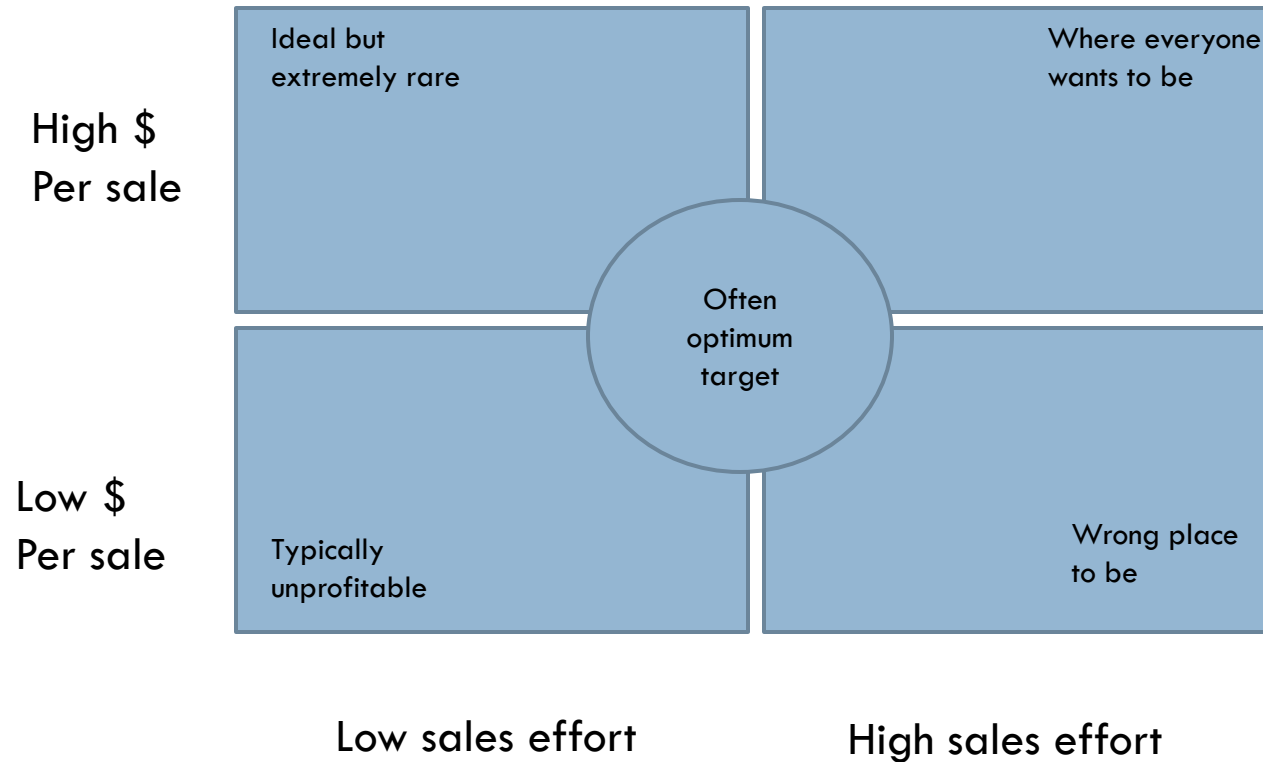
# Purchase model examples

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- Complex product purchase cycle
  - Awareness
  - Interest
  - Intent to purchase
  - Purchase
  - Time to competence
  - Time to productivity
  - Time to repeat purchase or referral
- Financial services consumer life cycle
  - Transaction enabling, e.g. credit cards, checking
  - Savings
  - Borrowing
  - Debt repayment
  - Investment

# Sprint selling

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# Stubbornness vs. persistence

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- Stubbornness is often confused with being visionary
- Pivots occur
- It's important to understand the difference between
  - ▣ stubbornness
    - (refusal to listen to market feedback), and
  - ▣ persistence
    - (learning and adjusting your strategy)
- Only deep pocketed companies can be stubborn and being stubborn is no guarantee of success

# Scenario planning

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- In an uncertain world, it's prudent to lay out several futures and test how your proposed product strategy will do
- Scenarios provide a framework for communicating with stakeholders
- Scenarios help define the triggers for contingent plans
- In other words, you need Plan A, Plan B and Plan C

# Seven product management thoughts

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1. Moving quickly matters but not at the cost of product quality
2. Differentiated high value targeted at a segment is key
3. Deep involvement with customers makes a difference
4. Conflict needs to be resolved quickly
5. Contingency plans are needed
6. Borrow widely
7. Don't commit to the impossible

# Seven product marketing thoughts

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1. If you understand your product in detail, you will have difficulty designing a messaging and positioning strategy by yourself
2. Customers don't care about your features
3. It takes an extra step to understand and quantify benefits
4. Social marketing is only worth investing in if you can measure it
5. Post sale marketing can be as important as pre-sales marketing
6. Delight matters
7. Net promoter score is a good measure of customer satisfaction

# Words of wisdom

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- “The history of information technology can be characterized as the overestimation of what can be accomplished immediately and the underestimation of the long-term consequences.”

*Paul Strassman, Information Pay-Off, 1985*



# A final thought: a new generation of strategy

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- Agent based strategies
- Business offerings that are based upon acting on behalf of the customer
  - ▣ Reference: Moriarty, Mike and Davidson, Alistair: *The Soapholder Effect: Why acting on behalf of your customer should be your next strategy*, Executive Agenda, AT Kearney, [atkearney.com](http://atkearney.com)

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