

Maximizing the value of innovation through strategic product management

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Successfully creating, commercializing and realizing value from innovation is challenging. Most new product and service innovations either fail to earn a positive return on investment at all, or fail to realize their full economic potential.

There are many reasons for this, but in our experience, the single most common point of success or failure for most new ventures is product management. Product management is typically the least understood discipline in a new venture, yet paradoxically it is the central discipline driving value from innovation.

In this article, we will explain:

- The key disciplines needed to commercialize innovation.
- An overview of the product management discipline and its central role in an innovation-based venture.
- How product management maximizes the value of the innovation.

Key disciplines needed to commercialize innovation

Ventures based on product or service innovations face many challenges, and need to accomplish many things. To do so, ventures need to develop expertise in seven disciplines, each of which plays a critical role in launching, growing and realizing value from the innovation:

Product management – as detailed below, the key role of product management is to identify the market opportunity, define the product and business model to capture that opportunity, and guide and support the other disciplines in executing that vision.

General management – the primary role of general management is to attract and manage the venture's core stakeholders. The most important stakeholders groups are typically the *management team*, the *investors* (whether internal corporate investment or external venture investment) and *strategic partners* – alliances, joint ventures, mergers and others.

Engineering – the primary role of engineering is to design and continually evolve the innovation's core technology, product and / or service.

Operations – the core role of operations is to source, build and deliver the product or service to customers, provide ongoing support to customers, and to ensure a positive customer experience.

Marketing – the role of marketing is build market awareness and credibility for the venture and its innovation, and to stimulate prospective customer interest and enquiries.

Sales – the role of sales is win and grow customers, by helping interested prospects move through their buying cycles.

Support – the role of the support disciplines (finance, IT, HR, legal, administration) is to enable all other disciplines to operate effectively.

As noted above, of these seven disciplines, the one that is typically least understood, yet with the biggest potential to create value, is product management.

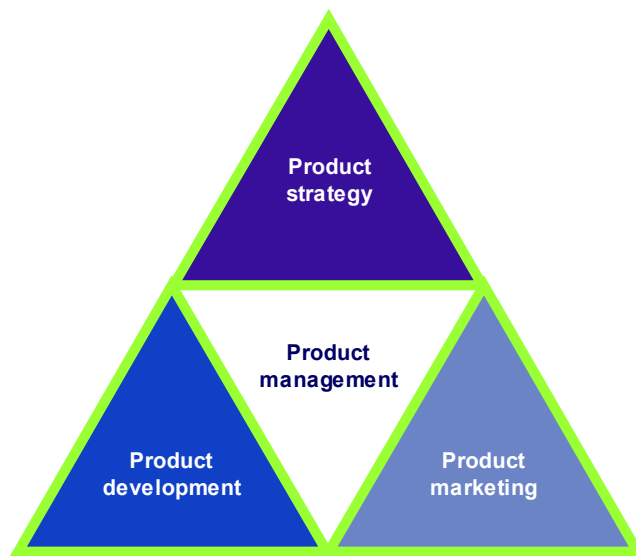
Note that we make a clear distinction between product management and general management in an innovation-based venture. In our view, product management should be responsible for the vision and business model driving the venture, whereas general management should be responsible for attracting, managing and driving results from the core stakeholders in the venture based on that vision and business model.

Overview of the product management discipline

However, for many ventures, product management is a weakness, not a strength. Common issues include the following:

- There is a lack of understanding of the true nature of product management as a holistic, strategic discipline.
- Product management is only partially implemented and key elements are missing, most commonly insufficient external, market analysis and a lack of true cross-functional coordination and collaboration.
- Product management responsibilities are unclear and are distributed amongst different people, with no one leading the discipline other than the CEO.
- Product management responsibilities are carried out in a sub-optimal way by people with little professional training or experience in the discipline.
- Product management is regarded as a mid-level, tactical function, frequently either an engineering project manager role or a product marketer supporting sales.

We believe that product management should be the central, strategic discipline driving innovation across the lifecycle, from idea to launch and full realization of value. Encompassing both strategic and tactical elements, product management both guides and enables the other disciplines to deliver optimal results. The product management discipline comprises three core roles:



Product strategy

Product strategy focuses on planning and managing the product business model over its lifecycle. The main components of the product business model are:

- *Product market definition* – defining the target markets and customers, the urgent customer needs to address, and the total solution needed to meet those needs better than competing solutions. This includes defining both market and product roadmaps laying out how the innovation will be commercialized over time.
- *Business system definition* – how the product or service will be developed, marketed, sold and delivered. This includes both defining the key internal functional disciplines and models needed, as well as identifying external partners in one or more parts of the business system.
- *Economic model* – how the innovation will make money, including funding, investment, revenue, costs and cash flow.

Getting the product market definition right is probably the single biggest driver of value in the whole venture. The difference between focusing on a large, unmet need with a compelling, superior solution, and offering an unexciting product to a small market with no compelling needs, cannot be over-stated. The former will create good returns even with mediocre execution, while the latter will soak up huge amounts of investment for a long period of time without ever really succeeding. The large majority of problems with innovation and new ventures – excessive funding needs, lengthy time-to-market, lengthy sales cycles, slow rate of market traction, poor valuation – are a result of poor product market definition.

The business system definition is also very important. Many ventures try to commercialize innovation using an inappropriate business system, because it reflects their prior experience, not the needs of this venture. So for example, they follow a “not invented here” mentality and try to build everything in-house, when technology or IP is available externally at much lower cost and time-to-market; or they try to build a direct sales force when a web-based and licensing model would be far more value creating.

Naturally, the economic model is also of central importance, to ensure all opportunities and risks are considered from the beginning, and to ensure that product market strategy and business system put in place to execute on that strategy deliver optimal financial results.

The primary responsibilities within product strategy include:

- In-depth market analysis, including customer research, competitive analysis and market eco-system analysis.
- Internal collaboration to lead the cross-functional team in defining the right solutions to meet the identified market needs.
- Internal and external collaboration, communication and management to ensure the implementation and execution of the product business model across its lifecycle.

The main “client” discipline for product strategy is general management. By creating a powerful and value-creating product business model, product management enables general management to attract the right caliber of executives, secure the right amounts of funding, and build the optimal network of alliances and strategic partnerships for the venture.

Product development

Product development focuses on building and delivering products as efficiently as possible. The primary responsibilities of the product development role comprise:

- Developing clear and detailed “whole” product definitions – the total set of product features and benefits, together with target product economics (selling prices, costs and margins).
- Working with the engineering discipline (including research, design, development and testing) to ensure products are designed and developed to meet requirements.

- Defining the customer experience desired for customers to purchase, receive, install and maintain the product.
- Working with the operations discipline (sourcing, production, delivery, support, billing) to design and implement processes that deliver the desired customer experience.

The product development role is critical to managing a number of common challenges:

- Reducing product complexity and production, delivery and support costs.
- Minimizing re-work due to unclear or incorrect product features.
- Eliminating time and money spent on unnecessary features and functionality.
- Ensuring rapid market acceptance through continual customer input during development.
- Ensuring operational needs are considered in parallel with product design and development.
- Ensuring the totality of the product and customer experience fully realizes the product vision and strategy.

Product marketing

Product marketing focuses on attracting and winning customers as effectively as possible. The primary responsibilities of the product marketing role comprise:

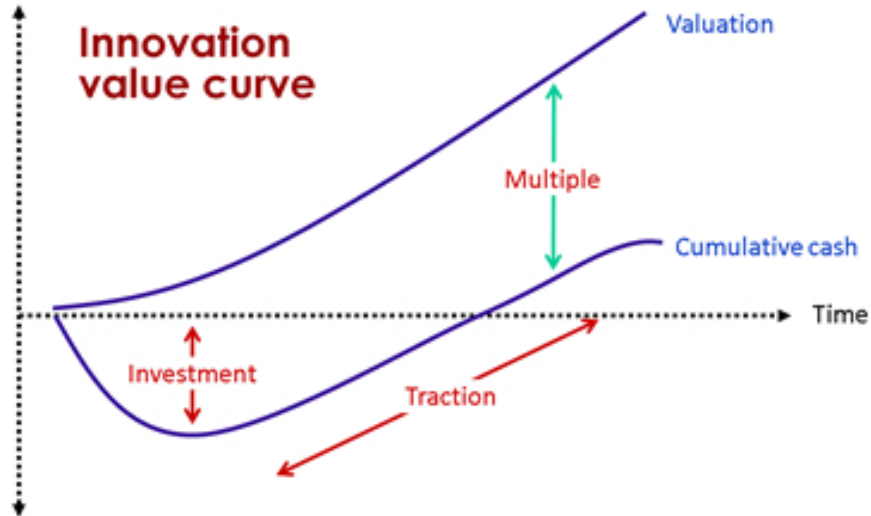
- Clearly defining the target markets, customers, needs and buying cycles, and working with both the marketing and sales disciplines to ensure there is complete consistency and focus on the target market.
- Developing the product's core messaging – value proposition, elevator pitch, detailed product descriptions, product presentations and demonstrations, white papers and case studies.
- Working with marketing to provide subject matter expertise, content and input for marketing communications programs such as web site and collateral design, media and analyst relations, direct marketing, trade shows and conferences.
- Working with sales on customer presentations, developing proposals and tailoring deals to win business.

The product marketing role is critical to managing a number of common challenges:

- Ensuring close coordination between sales and marketing in terms of target market and key messages.
- Enabling high response rates to marketing programs based on optimal targeting, positioning and messaging – offering real value to target customers, media contacts, analysts and conference organizers that is of high interest and meets their needs.
- Ensuring the groundwork is laid by marketing before beginning to incur high selling costs.
- Keeping sales cycle short by offering compelling solutions to urgent needs in well defined markets.
- Facilitating high sales win rates through tailoring product positioning, pricing and benefits to individual customer needs.

How product management maximizes the value of the innovation

The value of a product or service innovation can be illustrated using the following diagram:



This diagram shows the familiar innovation or product lifecycle cumulative cash curve, together with an associated valuation curve. The diagram shows that there are three core drivers of the value of an innovation: the amount and timing of *investment*, the rate of market *traction*, and the valuation *multiple*. The three product management roles described above focus on these three value drivers, and in so doing, the product management discipline becomes the central driver of innovation and venture value.

Product development: minimize investment

The primary investment associated with product and service innovations is typically in engineering and operations. Product development plays a key role in ensuring that products are designed and developed as efficiently as possible based on a clear, well-defined upfront specification. It also plays a key role in ensuring operational processes are designed and developed efficiently based on a clear set of requirements both for the product and the customer experience. In this way, the product management discipline plays a pivotal role in limiting funding requirements, increasing capital efficiency and reducing time-to-market.

Product marketing: accelerate market traction

The rate and timing of market traction – attracting and winning customers – is a direct result of the depth of market need, the ability of the product to meet that need better than all other options, and the ability of the sales and marketing team to get that message out to the right market participants (customers, channel partners, media, analysts, industry associations). Product marketing plays a key role in focusing the sales and marketing teams on the right target markets with the right messaging. It also plays a critical role in educating and winning individual customers. As such, the product management discipline is instrumental in accelerating market traction.

Product strategy: increase valuation multiple

The valuation investors assign to a venture is typically a function of both its underlying cash curve and a multiple that investors assign to that particular venture in comparison with other ventures in the same industry. Two ventures with similar cash curves may get assigned significantly different valuations primarily based on two key

factors: the core business model (market opportunity, IP, business system) and the caliber of the key stakeholders - the management team, investors and strategic partners. Product strategy is responsible for the product business model, and it is also pivotal to general management's ability to attract the right caliber of stakeholders to the venture. In this way, the product management discipline is a primary driver of the venture's cash curve and valuation multiple.

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Through true, strategic product management, ventures can transform their success and ability to create value from innovation. As the owner and champion of the venture's product vision and business model, the product management discipline should play a central role in guiding and enabling the venture's other key disciplines in maximizing the three core drivers of venture value.

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Additional reading and resources

Johnson, Mark W., Clayton M. Christensen, and Henning Kagermann. ["Reinventing Your Business Model"](#) Harvard Business Review, December 2008. (Subscription required)

In last month's HBR cover story, innovation thought leader Clayton Christensen and his co-authors address business model (re)invention. Central to BMG's product management framework, an effective business model prevents poor results by ensuring market focus, product definition, attractive economics, and optimal business system. In the article, the authors explain the elements of a successful business model and give advice on when reinvention is necessary.

Cooper, Robert G. [Winning at New Products: Accelerating the Process From Idea to Launch.](#)

Cooper's widely adopted ideas present relevant processes for strategic product management. This book is primarily aligned with the activities of the ideation and commercialization stages of the innovation lifecycle. Cooper introduces fifteen critical success factors that we have integrated into our framework.

Kahn, Kenneth B. [The PDMA Handbook of New Product Development \(Second Edition\)](#)

This comprehensive and useful anthology, produced by the Product Development and Management Association (PDMA), provides product managers with practical information for each core discipline of product management.

Tabrizi, Benham and Rick Walleigh. ["Defining Next-Generation Products: An Inside Look"](#) Harvard Business Review, November 1997. (Subscription required)

This article discusses the product strategy discipline for high tech product platforms. The authors' practical advice includes creating a roadmap that acts as a management tool that dictates product development activities and undertaking intensive, open-ended conversations with customers, prospects, and partners.

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About the authors

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