

Is your product market strategy value-enabling or value-limiting?

“Which products should we offer to which markets?”

This simple question is one of the most important and far-reaching in business. The answer to this question is your product market strategy – the set of products and services you decide to offer, and the set of markets you decide to serve.

Central importance of product market strategy

In many ways, your product market strategy determines what it is you do as a company. Consider how much you know about these three companies and their business models from the most basic product and market descriptions:

	Company A	Company B	Company C
Product	Heavy equipment	Gardening services	Printers
Market	Large energy companies	Homeowners	Small businesses

Your product market strategy is probably the greatest driver of your financial performance and company value. Offering a very good solution to a large market with urgent, unmet needs is incomparably more valuable than pursuing a mature, competitive market with a mediocre solution. It sounds obvious, but it never ceases to amaze us how many companies we meet that talk about doing the former, but are actually doing the latter.

In addition, your product market strategy drives most of the key activities in your business, including engineering, operations, marketing, sales and service. It basically dictates what most of your people do every day, how easy or difficult it is for them to succeed, and how much all of that costs you.

For all these reasons, thinking through your product market strategy, and continuously evolving it in light of changing circumstances is a critical, central component of your overall company strategy and business model. Done correctly, your product market strategy will enable your company to maximize its potential.

Product market issues

For many innovation-driven companies however, product market strategy is value-limiting, not value-enabling. These companies evolve their product market strategies by default, rather than through proactive, systematic analysis and thought. Target markets are selected based on the background of the company founders or through historical accident, not through careful evaluation of which markets offer greatest potential. Similarly, product and service offerings are a result of early engineering and positioning decisions, some of which were made without sufficient understanding of customer needs and competitive offerings, or long term strategic considerations.

A common reason for a lack of an effective, well thought out product market strategy is that it has to be a truly cross-functional process. Most key functions in the business are directly affected by, and have strong views on, which products the company should offer to which markets. Many companies do not have the right structures and processes in place to achieve the level of cross-functional work required. Add in the egos that get involved, and past investments that loom large and must somehow be justified, and it becomes clear why so many companies struggle in this area.

The net result is that a great many of the issues that such companies confront can be traced back to problems in their product market strategies. Consider the following example issues, which can be traced to poor market strategy:

- Revenues are slow to ramp, due to a lack of urgent customer needs.
- Sales cycles are too long, due to lack of customer urgency and competitive intensity.
- With few customers in each of many markets, the company does not have a credible reputation in any one market.

Or think about the following issues stemming from inadequate product strategy:

- Customers fail to understand what the company does.
- Customers do not appreciate or want to pay for the difference between your products and your competitors.
- Engineers are struggling to build the product as defined.
- Operations is not able to deliver the customer experience required.
- Margins are poor, due to poor pricing strategy and high engineering costs.

Are you experiencing any of these issues? If you are, chances are that you are trying to address them through business system responses - throw more resource into engineering, hire more salespeople, run more marketing programs. Such efforts end up draining funding and resources, and provide "band aids", without solving the real underlying issues. Perhaps you need to look deeper, to identify the root cause of the problem – a need to overhaul your underlying product market strategy.

Two levels: product market portfolio and individual product markets

So what is product market strategy exactly? Product market strategy can be addressed at two levels: at the portfolio level – the total set of products offered and markets served – and at the individual product market level.

Product market portfolio

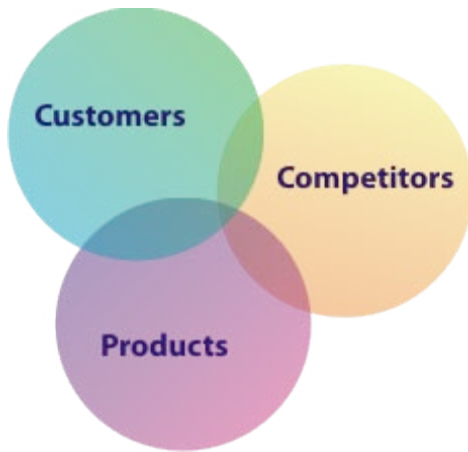


Product market strategy at the portfolio level seeks to address questions such as the following:

- What should be our total portfolio of products and markets? How should this evolve in the short, medium and long term?
- Which markets should we focus on? Which are most attractive in terms of their demand and competitive characteristics, and fit with our core capabilities?
- Which product and service categories make best sense for us? Which fit well with both our most attractive market opportunities and our core capabilities?
- Which product markets are our priorities for investment and growth? Are there products and markets we should exit? Are there opportunities to expand into new markets? What new products and services should we introduce, and when?
- How can we optimize value across our product market portfolio? Are there opportunities to create and leverage a common product platform? Are there opportunities to offer similar products to multiple markets?

Individual product markets

At the individual product market level, product market strategy can be thought of as addressing the intersection of customers, competitors and products:



Customers:

- Within the selected market, which customers should we pursue? Who has the greatest unmet need?
- What exactly are our customers' needs? What are their "core needs" - the specific issues or problems that our products and services address? What are their "buying needs" – budget, timing, authority and other requirements or limitations to making a purchase? How are these needs changing?

Competitors:

- Who do we compete with in addressing these customer needs? What are their product market strategies?
- How do our competitors' offerings compare with ours in relation to customer needs? How are their offerings evolving?

Products:

- What should our product and service offerings comprise? What is the "whole solution" that customers require? Which part of that should we provide, and what should be provided through third parties?
- What are the specific features that we should provide that will offer real benefit to customers? Which features are not important, and should be excluded?
- Should we design and build our products entirely, use components, or resell other companies' products?

- How should we price our product and service offerings? What is the total cost to the customer? What risks do they incur in purchasing our products and services? How can we capture maximum value for our products and services, yet minimize costs and risks to the customer?
- How should our products and services be positioned relative to competitive offerings?
- What product and service offering will meet customer needs better than alternatives, and will maximize value to our company?

Formulating and implementing product market strategy

Given its central impact, formulating and implementing an optimal product market strategy is a top priority for innovation-driven companies. But as noted above, this is a difficult challenge for many. So how should you go about it?

Through extensive experience with dozens of companies over the past six years, we have evolved the following simple but powerful approach:



1. Define the urgency of reviewing your product market strategy, and the specific issues to address.

- Determine the urgency to review either your overall product market strategy, or selected product markets.
- Begin by working with your management team to identify the set of key issues your business is facing, and which of them can be traced back to questionable product or market strategy decisions.
- Using this as input, define the specific product market issues to be addressed. Use the generic portfolio and product market lists above as a starting point.

2. Form a cross-functional product market strategy team.

- Form a team with representatives from engineering, product management, operations, marketing and sales.
- Conduct a kick-off workshop to work through the issues. Identify “low hanging fruit” - immediate decisions you can make. Identify areas where additional input is required.

- Schedule regular sessions, perhaps every two weeks, for the product market strategy team to meet. Drive all product market strategy discussions to this working group.
3. **Conduct internal and external analysis to enable fact-based discussion and decision making.** Examples might include the following:
- Understand your product market economics: develop a product market matrix, showing past, current and future market size, market share, revenue and margin for each product market combination.
 - Evaluate your market options. Assess key elements of market attractiveness (depth of felt need, size, growth, competitive intensity, etc.) versus your core capabilities. Use the analysis to prioritize your target markets.
 - Conduct customer research, to truly understand both core and buying customer needs. Learn what is really important to your customers – what actually leads to a purchase decision.
 - Understand your competitors in detail, specifically your competitors' offerings, and how well they meet customer needs versus your own.
 - Summarize your current product and service offerings in terms of key benefits and positioning. Compare your offerings with customer needs and competitive offerings. Identify areas to address.
 - Explore a range of pricing options. Consider the impact of upfront payment versus an annuity model. Look at some of the recently identified "free pricing" models. Evaluate impact in terms of customer acceptance and your company's economics.
4. **Based on the above analyses, identify and evaluate product market options, and select the new strategies:**
- Summarize and synthesize your analyses into a limited set of robust, internally consistent options for both individual product markets, as well as for your total portfolio of products and markets.
 - Define your evaluation criteria, such as short term impact, long term potential, fit with core capabilities, and evaluate each option against these criteria.
 - Look for ways to harmonize and reduce the number of options, for example through timing (we'll do this now and that later), or through fitting the options into an overarching framework (these three product options could all be modules of one solution running on a common platform).
 - Make final selections of market focus and product direction.

5. Develop an implementation plan, and track and regularly review progress:

- Translate the new strategies into functional action plans: what are the implications for engineering, operations, marketing, sales and service? Define specific tasks, responsibilities and timelines.
- Establish metrics to add to your normal operational metrics so you can track implementation of the new strategies.
- Review progress frequently, and discuss implementation issues in the cross-functional product market strategy team.

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Surprisingly, despite its central importance, many companies struggle with the question of “which products should we offer to which markets?” Don’t let this deter you. Time and again, we have seen those companies who recognize and have the courage to resolve their core product or market problems experience a tangible unleashing of energy, productivity and success. The result? A transformation in your company’s ability to achieve its growth and valuation goals.

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Additional Reading

Ansoff, H. Igor. [Strategic Management](#).

Originally published in 1965, this classic book is one of the introductory texts in the field of strategic management. Ansoff also created the Product-Market Growth Matrix – a way to approach growth through existing or new products and existing or new markets.

Urbany, Joel E. and James H. Davis. "[Strategic Insight in Three Circles](#)". Harvard Business Review, November 2007. (Subscription Required)

An insightful piece that uses a Venn diagram of your company's offerings, your competitor's offerings, and your customers' (market) needs to explain how a competitive advantage can be built and sustained as it relates to product market strategy.

D'Aveni, Richard. "[Mapping Your Competitive Position](#)". Harvard Business Review, November 2007. (Subscription Required)

This article introduces the concept of a Competitive Positioning Map, which plots price and primary benefit of competing solutions over time within a defined market. This tool can be used to formulate strategies by benchmarking against rivals, dissecting competitors' strategies, and forecasting a market's future.