Process and product management
White paper
June 2009

Rational software

Value-driven product management.

Six keys to product success

*Michael Lester, Senior Product Marketing Manager,
Product & Portfolio Management, IBM*

Contents

Executive summary

How do we make product success more predictable?

Few things are more critical to the success of a company than its new product launches. For example, an Aberdeen Group report indicates that the majority of companies command at least 11 percent higher margins on products that have been on the market for less than two years, with almost a quarter realizing margin advantages of 50 percent or higher for new products. Yet product success is difficult to achieve. Several analyst surveys have determined that between 50 and 70 percent of new product launches fail.

A successful product delivers value to its customers and revenue to the business that creates it. But to ensure value and revenue, product managers must define their target customer segment and understand its needs. To develop a product that delivers value in relation to the cost of development, product managers must also understand the value of different product features to different customers. By providing the right features to the right group of customers at the right time, a product can create value and revenue.

Value-driven product management is a repeatable process based on industry best practices that uses subjective and objective criteria to deliver successful products. This paper explains how assessment, alignment, achievability, accessibility, agility and accountability, the six key concepts of value-driven product management, can be applied to create a repeatable process for developing successful products.

Highlights

Once you've defined your company's or product's market, divide the market segments by requirements and analyze the value of each segment.

Six keys to being value-driven

Assessment

Clearly understanding the needs and requirements of customers is critical to developing successful products. The first step in product marketing is usually to define the market served by your company or product lines. The market should then be divided into segments of customers with similar requirements. The next step is to analyze the value that the various segments place on different product properties in order to define a product that will meet their needs.

Stakeholders such as customers, prospects, sales, product marketing and engineering should be asked to provide input, such as requests for enhancements, defect reports, market analysis, warranty data and call reports, to help better define the target market's needs. Wherever possible, this information should be converted into metrics that will answer questions such as:

- *What type of customer is asking for this particular feature?*
- *How large is this customer segment?*

As you define potential products, you should quantify the benefits to the customer, such as improvements in the performance of the customer's own product, and cost and time savings. Then look at the value each potential product can provide to your business in the form of revenues, profits and market share among others. By netting the value of future cash flows with the investment needed to develop a new product, financial analysis using discounted cash flows can provide insight into whether or not you should proceed with the new product.

Highlights

Financial analysis using discounted cash flows can provide insight into whether or not you should proceed with a new product. Additionally, make sure you quantify potential risks to assess their acceptability.

The price point of the product and time at which it is introduced contribute to its value. For example, you may be able to identify a substantial market for a product that delivers 80 percent of competitive products' capabilities at 50 percent of their price. Or perhaps there is a market for a product that delivers 120 percent of competitive product's capabilities at 150 percent of the price. A product that satisfies fewer customers than a competitive product but is released earlier can also be successful in certain situations.

Finally, you should try to estimate the risks involved in each potential initiative. Risk factors that should be considered include shifts in the market, changes in the economic climate, potential problems with the technology or with suppliers, the actions of competitors and the availability of substitutes. These risks should also be quantified and a scorecard used to assess their acceptability.

Alignment

The goals for a product or a mix of products should be defined in the context of and evaluated based on their alignment with the overall goals of the product line or business. The scope of the defined product should be closely aligned to the qualities most valued by the target market. Those items in the product definition that are not aligned should be removed from the scope or at least given lower priority so that resources can be devoted to items that are aligned. As famed management guru Peter Drucker said, "There is no loss to the customer by eliminating activities that do not add value."

Product portfolio analysis is the umbrella term for analyzing a product or a line of products from a marketing perspective. This tool can be used to identify the strengths, weaknesses, threats and opportunities in the product portfolio, as well as the gaps in the portfolio that create business threats or opportunities.

Highlights

Product portfolio analysis also provides an effective tool for communicating goals across the many groups involved in product delivery. Goals that are aligned with delivering value to the customer and business should be clearly communicated throughout the entire organization. When engineers and marketers understand the goals for a product and how they are connected to specific requirement items, they are better able to prioritize their time and other resources. Every member of the team can then focus on delivering value through their activities and will naturally eliminate those things that do not add value.

Making information accessible to everyone involved with the product lifecycle is critical to value-driven product management.

Achievability

From the time a product is first considered until it is delivered, its achievability should be continually evaluated against the goals for the product, product line and business. Planning should be aimed at developing the right features, cost and delivery schedule for each product. Value-driven companies re-evaluate their product portfolio and development pipeline on a regular basis to transfer resources from low- to high-value products. As new products enter the pipeline, they should be evaluated against existing and proposed product ideas. Evaluate multiple mixes of initiatives to determine which one provides the maximum value to the business.

Human and financial resources should be focused on those ideas that deliver the most value to the customer and the business. It is important to continually look at whether or not the product or mix of products can be delivered within the right time frame and at the right cost. Is the initiative or mix of initiatives achievable with the available resources? Plan for the most critical and the

Highlights

Bringing information from marketing, engineering and finance together in a single repository provides all members of the team with the information they need.

most constrained resources first. When resource constraints are encountered, provide resources first to the highest-value products.

Accessibility

Making information accessible to everyone involved with the product lifecycle is critical to value-driven product management. Too often, each group involved in the initiative creates their own repository of information that is hidden from other participants. An information portal for the product team can provide a single source of the truth. The portal should provide the ability to view the entire product portfolio, analyze specific product lines and drill down to the details of individual products. Role-based dashboards can enable stakeholders, including customers and prospects, to prioritize product attributes.

Bringing information from marketing, engineering and finance together in a single repository provides all members of the team with the information they need to plan product releases that optimize value. The ideal product portal should increase visibility of requirements, market information, cost data and other project- and organization-related information. Financial analysis should be presented at a level granular enough that tradeoffs between different feature sets, prices and delivery dates can be evaluated during the development process.

Centralization expedites the collection and delivery of information. Sales can provide information on what customers are buying and what they are asking for. Support can provide information on what problems or complaints are being received on existing products. Marketing can provide information

Highlights

The most successful companies are usually those that plan for change and react quickly and effectively.

on what the market is looking for and where it is headed. Engineering can provide information on detailed systems requirements and alternative design specifications. Manufacturing can provide information on the cost of producing various alternatives.

Agility

Many companies have invested in product development technologies that improve the agility and speed of the engineering portion of the product lifecycle. But accelerating product development won't help the business if the market has changed to the point that the existing product specifications are no longer relevant. For this reason, it is important to connect information from sales, marketing and finance at the front end of the product development process to engineering to ensure that the entire product development process is on track and course corrections can be easily made.

An integrated approach to product management makes it possible for new market data, competitive information or cost figures to quickly reach decision-makers throughout the organization. If the market, technology or the economy changes, the ability to visualize prioritized requirements and compare them to all of the available product information enables decision-makers to quickly get the initiative back on track.

The most successful companies are usually those that plan for change and react quickly and effectively. The Aberdeen Group Product Portfolio Management Benchmark Report states that leading performers in product portfolio management have more timely data. These companies can pull together the required information for their portfolio analysis rapidly, which results in more timely decisions with less resource overhead.

Highlights

Make sure your plan for your scope to increase during the development process as you receive and incorporate feedback from stakeholders.

To deliver critical product features to the market as planned, it helps to build buffers into the scope, schedules and resources. Allowances should also be made for scope to be added during the development process as feedback on the initiative is received from stakeholders.

Accountability

Chances are that if you are selecting someone to help you on an important project, you would prefer a person who is willing to accept responsibility for his or her own actions. Likewise, accountability helps an organization take the final step toward being value-driven. Continual feedback should be captured during the development process to ensure that the initiative delivers value to the customer and the business. Costs and schedules must be continually monitored so that any potential problems can be identified quickly.

When a project exceeds its projected budget or schedule, the information in the product portal can be used to re-evaluate the product initiative based on the goals, requirements, cost and schedule. The earlier that deviations from the plan are identified, the greater the probability that the initiative will meet its goals. If this is not possible, then resources can be reallocated to a higher value project.

The process outlined here utilizes objective and subjective data to make decisions based on well-defined criteria. After the initiative is concluded, the data and decision-making criteria can be evaluated based on the results of the product launch. This information can be used to fine-tune the process to help improve future initiatives.

Highlights

Organizations with superior portfolio management do a much better job of meeting targets for revenue, cost, product development cost, quality and time-to-market.

Benefits of Product Management

In Aberdeen Group's Product Portfolio Benchmark Report, Jim Brown, vice president Global Product Innovation and Engineering, states, "One of the greatest challenges facing companies today is how to properly value product opportunities and make objective portfolio management decisions. Our benchmark research indicates that to improve product profitability, companies should measure product value and portfolio performance on a frequent basis, spanning both portfolio planning and product development execution processes. Best-in-class companies are using more technology for managing product portfolios and achieving an average of at least 11 percent higher margins on products that have been on the market for less than two years. Furthermore, almost a quarter of these companies are realizing margin advantages of 50 percent or higher."

The Aberdeen Group's Product Portfolio Benchmark Report shows that organizations with superior portfolio management do a much better job of meeting targets for revenue, cost, product development cost, quality and time-to-market. Analysis by Aberdeen shows that best-in-class companies meeting product development targets:

- *Achieve higher profit margins from their newer products than other companies.*
- *Execute product portfolio management strategies 64 percent more frequently than poorer performing, laggard companies.*
- *Are two times more likely than their lower-performing peers to have been pursuing product portfolio management for more than two years.*
- *Have higher levels of adoption of their product development processes, with more than 80 percent reporting adoption of product innovation processes by more than half of their intended users.*

Highlights

Aberdeen recommends that organizations improve product portfolio management and product profitability by evaluating their processes and enabling technology to:

- *Ensure that common, objective criteria are used to value, select and manage portfolio processes and direct portfolio decisions.*
- *Standardize portfolio processes and expand their use to a larger percentage of those involved in the product innovation process.*
- *Coordinate portfolio management across the enterprise*
- *Measure product value and portfolio performance on a frequent basis, spanning both portfolio planning and product development execution processes.*
- *Look for enabling technology that can help deliver standard best practices and enable product portfolio management.*

The Aberdeen Group reports organizations can improve their product portfolio management and profitability by using objective criteria, standardizing processes and investing in technology that will help them deliver best practices.

Conclusion

This paper has explained the concept of value-driven product management and how it can help you create successful products. With value-driven product management, you:

- *Assess the needs and requirements of your customers.*
- *Align your mix of products with customers' needs and the needs of your business.*
- *Continually evaluate your mix of initiatives to ensure their achievability.*
- *Capture information and make it accessible to the entire product development team.*
- *Maintain the agility to rapidly adapt to changing circumstances.*
- *Track and account for the results of every initiative.*

Highlights

With these best practices, you can deliver products that provide the most overall value to your customers and your business in relation to the costs of development.

For more information

To learn more about value-driven product management, please contact your IBM representative or IBM Business Partner, or visit the following Web site:
ibm.com /software/rational

RAW14112-USEN-01