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Rational software

Becoming value driven.

Focusing on what matters most

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Executive summary

Organizations are under constant pressure to increase revenues, cut costs and improve efficiencies, all while juggling demands like more regulations, more competition and reduced headcount. It is little wonder that business news is filled with stories about corporate setbacks incurred by these pressures; today's executives are constantly balancing these stressors with their shareholder and customer needs.

Regardless of your role in your organization, you understand that your fundamental objective is to maximize the delivery of value to your organization by maximizing the value you deliver to your customer. Many approaches exist that teach you how to become customer driven, market driven or sales driven, but few remember to focus on delivering value. Too many times, organizations get lost making the "machine" more efficient, and they forget why the machine is operating in the first place.

To maximize revenue, the organization must deliver value exactly when it is needed in the market to those that place the highest value on it. Becoming value driven requires a continual assessment of how value can be increased through the optimization of products, services and projects that your organization delivers while maintaining the perspectives of an internal and external stakeholder.

Using six key constructs, organizations can focus on the common sense elements of delivering value. These key concepts are assessment, alignment, achievability, accessibility, agility and accountability. Any one of these core elements can help an organization focus more on value, but together these six key ideas strengthen each other and make it possible for your organization to focus on becoming value driven.

A value-driven world

Your world has changed. Many industries have picked up on it, but not all have noticed the significant changes in their customers. The world and the consumer have become much more value driven in their decision making. The affluence and relative peace that have existed for most of the world over the last 50 years have changed the way many markets are functioning. As they have matured, they are no longer focused on survival, basic needs or lowest cost. Instead, these markets are focused on value. They are concerned about the value a product delivers, the value that they possess as a result of a decision or the value that may come from a particular purchase. Value is no longer just a financial issue. The customers that are served by our products and services place value on intangible qualities as well. In fact, intangibles create a price premium for a product in many commoditized markets.

The goal of product development is the delivery of value on two critical fronts: value to the customer and value to the business. Understanding how a market values various qualities is a core question that marketing teams have wrestled with for years. Once these qualities are identified, they should be used to drive the product development process. But before we enter into that discussion, we must first define what a product is.

The definition of a product

While the traditional definition of a product is similar to the definition of merchandise, for the purposes of this paper, we are going to think of products as the artifact or result of someone's work or effort. By this definition, a traditional product is captured, along with a service delivered by a business or a project within an IT organization. All of these products are things, tangible or intangible, that are created by one party and delivered to another party. Everything can be looked at as a product that must deliver something of value.

Understanding value

Value to the customer

If the product delivers value to the intended market, it will also generate value for the business. By understanding the value to the customer across a wide range of qualities, such as usability, perception and cost, products that hit the mark can be developed.

Even in organizations that are defined as market or customer driven, there are disconnects. These occur between the source and product development because of the differences in the language being used, the large number of people through which the information must flow or the political agendas of decision makers.

In fact, there is an entire industry focused on closing the distance between the original source of the requirement and the person who will develop the product. While this is definitely a valuable effort, the focus on making sure that the scope of the defined product remains aligned to the most valuable qualities for the target market or customer cannot be lost.

Value to the business

Without value to the business, there is no understandable reason for developing a product. Again, value is more than a simple financial value. Many products have been introduced to give the perception that an organization is concerned about or becoming involved in a specific market (which helps drive financial value for the company while the product itself may not actually deliver much value). A good example of this is found in new or emerging markets, where companies offer products tailored to meet perceived needs.

Most product companies have an extensive cost and benefit analysis built into the decision making and ideation processes for their products, while services and IT organizations do not consistently have these processes in place. In many organizations, recent efforts have been focused on governance initiatives that have become undirected policing initiatives rather than being focused on their ultimate goal—protecting shareholder value.

Mature markets and companies typically have a more consistent approach to financial planning and valuation. The unfortunate aspect of this is that planning is often not communicated to the team and rarely considers the value to a customer or market for a particular requirement. Financial analysis is done at an aggregate level and does not consider the tradeoffs that could be taken with scope if the financial value was known at more incremental levels. Accessibility to customer value could make financial planning a much more efficient and productive exercise.

Product companies, especially those in hyper-competitive industries, have learned that a quick response to market changes can make them winners and help their product demand a premium. These organizations have learned how to take advantage of their agility. Moreover, they are able to leverage this agility in their decision making, scoping, development and messaging. The net effect is that this all leads to their ability to respond to their markets and focus on those things that are most valued by their markets.

If you look back 20 years, very few of the successful innovators in the 1980s are still regarded as the successful innovators of today. One could say this is because markets have changed; therefore, the companies that would be included obviously changed. But you could also look at this phenomena and understand that those companies lost sight of the things that were most valued by their customers and the markets they served. Why are there no railroad companies in the airline business? Why isn't there an innovative, complete transportation company? Will today's leading energy companies still be leaders two decades from now when their industry has changed? Only time will tell, but adopting a value-driven approach can help get you to where you want to be.

The six keys to becoming value driven

There are six key ways for your organization to become value driven:

- *Assessment*
- *Alignment*
- *Achievability*
- *Accessibility*
- *Agility*
- *Accountability*

The following sections describe each of these key ways in further detail.

Assessment

A core foundational element to becoming value driven is its first key idea: assessment. For value to be a destination, what value is and is not must be assessed. As an organization, it is important to define your critical markets. You can consider your markets in the traditional sense of industry segments, geography or any demographic collection that is relevant to you. With an understanding of which markets you serve, the next step is to capture and consider the demographic information of that market.

With an understanding of what makes each market unique, you can then move on to investigating what makes that market "tick." This is critical because, while the demographic information is useful, it does not necessarily give you an understanding of that market's pleasure and pain points.

Many successful product planners come from the market that they serve, and they are successful because they have been open-minded about what makes the market tick. Of course, just as many have failed because they thought that they knew better than the market regarding what was important, which explains why it is so important to stay in touch with what the market values and what it is going to value tomorrow.

Portfolio analysis should be used to help identify the strengths, weaknesses, threats and opportunities of your existing products, as well as the gaps between products that can create new business opportunities. It should be complemented by needs analysis, which is an ongoing process for identifying and structuring both your internal ideas and the market's needs for your current and future products. The next crucial step, value analysis, analyzes how important these needs and expectations are to your various customers. Customer value analysis involves appraisal and prioritization of needs by customers. Internal value analysis assesses needs from your company's perspective.

This is your goal for assessment: to gain an understanding of what your market values today and, ultimately, what it is going to value tomorrow. Start planning for what it will value tomorrow now so that you can maximize your opportunity when it arrives.

Alignment

When you board an aircraft and take off for your destination, you rarely fly in a straight line to your destination. The same is true for many product plans. Sometimes this is intentional as you shift focus from one fading market opportunity toward a new and more vibrant opportunity, but in most cases, it is due to the fact that the original destination was not used as a guide.

When you start crafting a new product, you are filled with a lot of passion and excitement. You are willing to spend countless hours devoted to the product, but somehow over time, the product wanders from its original intent in the interest of meeting short-term goals. To succeed, those short-term goals may be immensely important, but you should make sure that they are pointed in a direction that can still deliver you, your company and your product to the right destination, just as your flight, which is not always pointed directly toward your destination.

When defining goals for a product business, product line or an individual product, it is important to define goals and objectives within the context of the larger target. For example, the goals of a new product should be aligned to the overall goals of the product line or product business. The product business should be aligned to a particular business objective. With this alignment, every product builds on previous product strengths within the organization, and each additional product serves as a strong foundation for future products.

To stay aligned, every item, from product requirements and up, should be checked against your goals. Those items that are not aligned should be removed from scope or, at the least, given a lower priority, so that those items that can be aligned can be given the appropriate level of attention they deserve. Understandably, there are times when nonaligned items must be included to meet short-term revenue targets or regulatory issues. These, too, are aligned because revenue generation and regulatory compliance are clearly represented in your corporate goals.

Alignment is also an effective communication tool across the many groups involved with product delivery. Communicating low-level details may be too difficult to share with all stakeholders, but communicating "over the horizon" goals makes it easier for others to make decisions about their part of the product. When engineers know what the goals are for a product, they can better understand why particular requirements are more important than others, and they are less likely to impose their own priorities.

Achievability

When you start a new business, you are full of dreams and aspirations for your business. It is no surprise that when a new product begins its lifecycle, you are filled with dreams for the product. Unfortunately, not all dreams are achievable. This is sometimes due to our own shortcomings, but often it is due to the typical constraints that surround product development. Some limitations include time and human and financial resources to make the dream a reality.

Once you have an understanding of your market through assessment and an understanding of how all the pieces fit together in the big picture, it is important to check all of the pieces to make sure that they are achievable. This is the first of many reality checks that must happen, and this check should happen several times throughout a product's lifecycle.

When an idea is first considered, you should evaluate its achievability at the macro level by checking to see how well it aligns with your strategic goals. A high-level estimate for time, costs and benefits should be made, and the estimate should be revised and made more granular as you begin to develop the product.

If you have ever participated in an exercise where you are asked to fit a set of large, medium and small rocks into a container, it is obvious that you should not layer them one on top of each other. Rather, you should add the large rocks, then the medium rocks in the spaces between and finally the small rocks to fill in the remaining gaps. When considering achievability, the same process should be used, with the highest priority and best investments going in first, followed by the next set and so on as resources are allocated to them until an achievable set is defined.

A fundamental business principle is that the opportunity cost of any investment (product) is the cost of the things we will not do. At any point during the lifecycle, if another product comes along that is a higher priority or can provide better benefit, it should be given the right-of-way and allowed to have the critical resources needed to make it successful. Too many companies are afraid to "kill" a product in development once it has started, and in the end, it strangles their competitive capabilities.

As new ideas enter the pipeline, they should be evaluated against all of the existing and proposed product ideas, and only the best ones should be given the human and financial resources needed to make them successful. Just as you do in managing your personal financial portfolio, successful value-driven companies perform this evaluation on a regular schedule so they can evaluate all product investments and rebalance their portfolio to maximize return on investment.

Accessibility

Making information accessible is the fourth key to becoming value driven. It is arguably the most critical of these core principles. For a person involved in the product lifecycle to make any decisions, he or she needs to have access to information that helps him or her understand the value of the product portfolio, including each product and each product's requirements. Without this information, lobbying, politics and personal agendas will rule the day and negatively impact the product's ability to succeed.

Many organizations address this issue by using product teams and committees to communicate. Others use information portals that provide realtime visibility to product information. Regardless of the technique used to provide accessibility, it will help your organization to embrace a value-driven approach. With accessibility, an understanding of how each piece of the puzzle fits together to maximize value is possible. Without it, value can easily be overrun.

Too often, each group involved in the process creates its own repository of information that it keeps to itself. Sales teams know what information is needed to close a deal, and they keep it in their customer databases. Support teams understand where the problems exist and what irritates their customers; they keep that information in their problem tracking system. Marketing understands what the market wants, how to reach it and where the market is headed. This knowledge is contained in its market research and competitive intelligence. Engineering keeps its detailed system requirements and project plans in its solutions of choice. Imagine that each system is the side of a cube representing your market. From your perspective on one side of the cube, you are looking at a two-dimensional square. You have no idea what is on the other side, but there can be no dispute that it would be useful to know that you were looking at a cube, rather than a simple square. By bringing all of the different teams and systems together, true accessibility is possible, and your organization will have a much better understanding of the market.

Agility

Who wants to be less agile or less responsive to their markets? Nobody. How often do companies accidentally become less agile? A lot more than you might think. Why are small companies so much more successful at changing course with the market than many larger companies? Agility can be attributed to a number of factors, but it helps to think about the problem from a simple perspective.

Historians say that the Titanic sank because the decision makers had poor information; the ship was blinded by her captain's belief that he understood ocean and weather conditions better than other ships in the area. The ship's crew was unable to avoid icebergs quickly due to propeller issues. How many product failures can you identify that share similar characteristics?

Many organizations have adopted new product development techniques that introduce more agility and speed to the engineering portion of the product lifecycle without taking the time to consider the fact that they are steaming through an ice floe at full speed. Product companies need to make the appropriate investment in connecting market value and an understanding of the market to the front end of their process. By doing this, they verify that their course is a good one and that it is being taken at the right pace. After all, being too early to market can be just as disastrous as being late.

For your company to be more agile, that is, more responsive to your markets, you need to spend time conducting intelligence gathering in the market. Speaking with customers, visiting with customers and prospects, collecting details on why a product is winning and losing, and understanding the competitive market are all critical to becoming value driven. Without them, the agility is a pointless business efficiency exercise.

Successfully taking on more agile approaches depends on those development practices being closely connected to an understanding of the market, and it is the primary reason for taking on these approaches. An agile approach is not designed to create less documentation and introduce anarchy (although many on the engineering side view it as an exercise in liberty from detailed requirements definition and management).

Accountability

The final key to becoming value driven is accountability. Without accountability, your organization cannot make the final step toward being value driven. With it, organizations focus on the real results that make a difference instead of actions that keep the organization busy. When one demands that results are aligned with value, the entire organization will focus on delivering value through its activities, and those things that do not add value to products and services are naturally eliminated.

Regardless of the result, when someone is held accountable for the results, the purpose of the exercise should be to further strengthen an understanding of how to better improve value in the future. Company culture can often give accountability a bad reputation. Avoid thinking of accountability as finger pointing when something goes wrong and instead as a point where learning is going to be done. When something goes well (or not) there is always something that can be learned by those who are accountable, so they can focus on how better to deliver value in future efforts.

Value-driven portfolio management

The six keys to becoming value driven are at the heart of true portfolio management. The point of financial portfolio management is to optimize the return on a set of investments, as well as portfolio management for projects, products or applications. In recent years, too many portfolio management practices have been concerned with achievability, such that they are consumed by details and lose sight of their goal, to generate value by optimizing IT projects or new products.

With the six steps applied and balanced, portfolio management is refocused on assuring that the right set of projects and/or products are pushed through the development process to increase value. Too often, organizations have taken on project portfolio management and, after a few years, still have no understanding of what they should be doing. Even though they have made their project teams much more accountable and efficient, they have no idea where they are headed.

Recent research has shown that many CIOs are anxious to show how they are delivering value to the business, yet they give very little attention to understanding their markets, that is, the business side of the organization. If they were to take a few pages from product organizations to research and understand the things that are valued by their markets, they would be able to demonstrate their value much more easily.

Regardless of the contents of the portfolio, your goal is to keep your organization focused on delivering value to yourself, as well as the markets you serve. The six keys help an organization keep the focus on what is important so that it does not lose the balance it needs.

Value-driven product management

Too often product management is considered as a glorified project management role, rather than a key strategic hub in the product development process. It is product management's role to balance and synthesize the needs of the market against technical possibilities. As the hub, product managers are interacting with all parts of the business, pushing and pulling critical information for the success of their products. Unfortunately, because the role is poorly defined, it is often very tactical and does not have a mandate to understand the market.

When product management has an understanding of the value of product capabilities to the market, products are developed more efficiently because of a clear understanding of their needs and priorities. Rather than guessing, or cowing to the whims and agendas of the loudest voice in the planning meeting, value-driven product management keeps an eye on important data points to make decisions. To effectively guide a product through its lifecycle, product management must be aware of the constant changes of the markets they are serving, or could be serving, to maximize the value the products bring back to their organization.

By leveraging the six keys to becoming value driven, your product management team can ensure that it is not overwhelmed with tactical activities, and it can move toward being more strategic to guide its products toward success. When product management is able to do that, it moves toward being focused on efficiently delivering products and away from the role of glorified product management and, most important, much closer to becoming a product leader.

Value-driven project management

At the core of project management thinking is the simple concept that a tradeoff must happen between time, scope and resources. However, the typical project begins with the understanding that the date is fixed, and since resources are not changing for the better, scope must be sacrificed. Project management tools enforce this belief by focusing only on the time and resource elements of a project and neglecting scope elements entirely. Unfortunately, it is the scope that is typically the most important to the project's customer. Many are concerned with time, but only if it comes with something of value. No one will accept an on-time, on-budget project that does not deliver anything.

Unfortunately, many organizations are doing just that. Without an understanding of the value connected with the tasks, work items, activities and other elements that make up a project, how are those executing the project able to make the correct decisions on the scope? In their world, each item carries an equal weight.

Within the value-driven organization, information accessibility addresses this challenge by connecting product development teams directly with those that are capturing the value element of the scope. With alignment, the project stays focused on delivering on the core goals and objectives, and the achievability can then be considered. Within the value-driven organization, the goal of the project team is to deliver the most value possible within the constraints of time and resources. Becoming a value-driven organization may not be easy, but the results are worth it. By focusing on what matters most, your operation benefits from the new opportunities on which you can now capitalize immediately.

Conclusion

When your world is centered on the everyday tasks facing your organization, it is easy to concentrate so heavily on making your "machine" more efficient that you lose focus on why the machine is operating in the first place. Organizing your business around the six key constructs of a value-driven organization—assessment, alignment, achievability, accessibility, agility and accountability—helps you focus on the bigger picture by giving you visibility and control over how value is provided to customers. The revenues and profitability of your business depend upon maximizing the value that you deliver to your customers. Becoming a value-driven organization allows you to capitalize on your core strengths to meet and exceed your business goals.

For more information

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