Chapter 11:

ASSESSING PRODUCT OPPORTUNITIES

Defining The Problem To Be Solved

Opportunities for new products exist all around us, in every market—even mature markets. This is because what is possible is always changing. New technologies are constantly emerging, competitors come and go, and new people with new talents and new ideas join your company.

The product manager must be able to quickly evaluate opportunities to decide which are promising and which are not; what looks appealing, which should be pursued, which are better left for others, and which ideas are not yet ready for productization.

In many companies, the decree comes down from above, in something akin to, "We really need to do this product." In other companies, the marketing organization determines what products are needed. And in yet others, the ideas come from engineering.

Unfortunately, too often the process of deciding whether or not to build a product is left to intuition (or worse, a large customer will offer to fund a "special," and this becomes the basis for a product effort).

Typically someone on the business side or in marketing will create some form of a Market Requirements Document (MRD) that is intended to describe the problem to be solved and usually includes a business justification. The purpose of the MRD is to describe the opportunity, not the solution—at least, that's the theory. In practice, many companies don't really do MRDs, or if they do, they're essentially attempts at product specs that are misnamed as MRDs. Even if a true MRD is done, they suffer many of the same problems as PRDs—that is, they take too long to write, they aren't read, and they often don't answer the key questions they need to address.

The result is that many product managers ignore the MRD altogether. But there's a problem with not doing anything and just jumping right into the product: it is generally a good idea to look before you leap. The challenge is to do this in a quick, lightweight, yet effective manner.

I consider the Product Opportunity Assessment an extremely important responsibility of the product manager. The purpose of a good product opportunity assessment is to either (a) prevent the company from wasting time and money on poor opportunities by ultimately proving the idea should be shelved for now, or (b) for those opportunities that are good ones, focus the team and understand what will be required to succeed and how to define that success.

Fortunately, it's really not that hard to do a useful opportunity assessment. I ask product managers to answer ten fundamental questions:

1. Exactly what problem will this solve? (value proposition)
2. For whom do we solve that problem? (target market)
3. How big is the opportunity? (market size)
4. How will we measure success? (metrics/revenue strategy)
5. What alternatives are out there now? (competitive landscape)
6. Why are we best suited to pursue this? (our differentiator)

7. Why now? (market window)

8. How will we get this product to market? (go-to-market strategy)

9. What factors are critical to success? (solution requirements)

10. Given the above, what's the recommendation? (go or no-go)

Note that none of these questions speaks to the actual solution. This is both intentional and critically important. The opportunity assessment should just discuss the problem to be solved, not the particular solution you may have in mind. The majority of your time going forward will be focused on the solution, but this is the time to think clearly and concisely about the problem you are trying to solve.

All too often what happens is that a product manager combines the problem to be solved with the solution and, when they run into difficulties with the particular solution they are pursuing, they abandon the opportunity. It's a classic example of throwing the baby out with the bathwater.

The hardest question to answer is usually the first in the opportunity assessment, the value proposition, which surprises many people because it sounds like the easiest. But ask most product managers what problem their product is intended to solve, and you usually get a rambling list of features and capabilities, rather than the a crisp, clear and compelling statement of the exact problem that's being solved.

Another difficult problem can be assessing the size of the opportunity. You can get thoughts on this from industry analysts, trade associations, your finance staff, and from your own bottom-up calculations. Just remember to be conservative and realize that not every opportunity needs to be a billion-dollar market.

The go-to-market strategy is especially important as it describes how the product will be sold, which can have very significant impact on product requirements.

The success factors, or solution requirements, refer to any special needs or requirements that were identified during the investigation. Again, we're not describing the product here, but rather making clear any dependencies or constraints. For example, if this is a product that will be sold through system integrators, then these types of partners have requirements around extensibility of the products they deliver. Similarly, there may be branding or partnership requirements.

A product organization is all about pursuing good opportunities and providing great product solutions. Opportunities for new products are everywhere, and it is important that the product manager be able to effectively evaluate new opportunities and identify those that have the most potential for their company. It is just as important that bad product ideas get identified and rejected at this stage, before significant time and money is lost chasing them. Choosing the right set of products to pursue is among the most important decisions a company will make.

It is important that the results of the product opportunity assessment be presented and discussed with senior management, and that the company make a clear decision on whether or not to pursue a product to meet this opportunity. If you do decide to proceed, you will be much better informed about what you are getting yourself into, and what it will take to succeed.

So what do you do if the CEO tells you that, like it or not, this is what we're doing, so just get to work on the product? First, realize that there are sometimes strategic reasons for doing a particular product, so you might need to pursue it even when it's unlikely to succeed in the marketplace. That said, doing a lightweight and quick product opportunity assessment is still valuable because you will become much better informed about what the product involves. It is possible that what you learn will change your CEO's opinion, but even if not at least you will have a clear understanding of your objective.

Build New Or Fix Old?

I'm often asked what the right balance is between new product development and improving existing products. I suppose it's natural for companies to want to have some sort of percentage guideline, but I try to get companies to think about these investments a little differently. To me, all projects, whether a new 1.0 product, or an enhancement to an existing product, are product investments and instead of worrying about whether you're investing enough in new product lines versus existing product lines, I would rather have the team worry about investing in the best opportunities.

Expanding your product offering so that you can offer additional products to existing customers or acquire new customers can be a great thing. Improving your existing products so that they generate more revenue from your existing customers plus make it easier to get new customers can also be a great thing.

The real key is that each of these projects is a product opportunity and, as such, it's the responsibility of the product team to assess the benefits and the costs. Then it's the responsibility of the management team (see the chapter *The Product Council*) to ensure the company is pursuing the best opportunities available. This might be completely or mostly new product opportunities, particularly for new companies, or it might be mostly product improvement opportunities for a more established business. It's not a bad thing to be opportunistic when it comes to choosing your product investments.

Many times, the best product opportunities are sitting right under the company's nose. In particular, often the biggest bang for the buck comes from improving existing products that are not performing at the level they should and could be. For example, you might find that for every 100 people who explicitly begin the subscription process for your product, only 9 make it through to successful completion. You know that if you can improve that number to 18, you've essentially doubled the revenue for that product. That's a great opportunity if you can find a good solution. And the ironic thing about this type of opportunity is that it is often the most straightforward to solve. With just a bit of prototyping and user testing, you can quickly identify the issues and come up with better solutions that are often not difficult to implement.

Here's another example: you may find that you're employing hundreds of customer service staff to help your users as they struggle to configure and use your product. Improving the product's usability can significantly reduce the need for customer service staff—and that's just the cost savings. The even bigger win may be the improvement in customer satisfaction and your corresponding NPS score.

I often come into a company and look like a hero when I point out these "opportunities" and the big returns they can generate. But I think what's really going on is that there is a tendency in software companies to assume that the product is already about as good as it can be, and continued investment won't make much of a difference. Companies tend to believe that their products are inherently complex, or that a 9% conversion rate isn't bad, or that they just need to spend more on customer acquisition marketing or advertising, or that investing in customer service is just a necessary cost of doing business.

However, what's actually going on is that the product is weak, and the company is just trying to make the best of what they have.

On one level, this is just another symptom of companies under-investing in design and user experience. But more generally, the truth is that many products are poorly done and, rather than improve a product to the point where it can generate real revenue and success, many organizations view it as easier to create a new product instead. But unless they change the way they produce that new product, they're likely going to end up with yet another under-performing product in need of improvement.

Where's the Money?

Do you understand the economics of your product? Do you know your exact revenue model? Do you know the total costs of your product? Do you know how much you pay for each new customer? Do you know their lifetime value to the company? Do you know the return your product has generated for the company?

In my experience, most product managers—especially product managers with a technical background—have only a very shallow understanding of how their product (or their company) makes money. This is especially the case for those of us that came to product management from engineering.

I learned a long time ago that I could benefit a great deal from making a friend in the finance department. In every company I've ever worked at, I have asked the CFO for someone that could help me answer these questions. It always amazed me how willing these people were to help, and just how much information they had available for those who asked.

I've found that my friends in finance can help with three big things.

Understanding Your Product
Sit down with your friend and ask for help determining and evaluating the financial aspects of your product, starting with the questions I posed above. If you have partnerships, read the contracts. If you license technology, look at the agreements. Ask your friend to help you assess your product. Is it carrying its own weight? Is it a good investment for the company? What trends does your friend see? Is the product heading in the right direction?

Understanding Your Customers
While we typically have good tools for understanding how users behave on a Web site (via Web analytics), the finance department often has a wealth of additional information on the actual customers, accumulated from transaction histories, payment information, customer data, and management reporting. You both need to be sensitive about what information you can view and how you use it, but in terms of understanding your customers it can be extremely useful.

More than once I've uncovered information about my products from the financial staff that truly surprised me, and exposed fantastic opportunities. One time in particular I remember asking my friend in finance why nobody knew about one such opportunity, and he replied "Because nobody asked." Realize the life of a finance person is largely thankless, and driven by extreme deadlines ("Our quarter closes on Thursday and we're announcing earnings on Monday!"). I also have a theory that people in finance are often fairly quiet, and not the type to come to your desk advocating product opportunities. Usually, you've got to go to them.

Preparing The Business Case
You've got a great idea, but you're not sure about the business case—now what? Your friend in finance can help. You'll need to provide most of the inputs, but your friend will know how to put together the case. If it's a good case, you'll also find that having someone in finance who has studied the economics of the potential product can be a big help for you when discussing with

senior management.

So go make a friend in finance. You need the information they have and their help in interpreting the information and putting it to good use. I think you'll find that these people want to help their company, and appreciate the opportunity to do so.

Examples

You can see example opportunity assessments at www.svpg.com/examples.