

Creating a Product Strategy

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Surely every business has a product strategy – right? Wrong!

A product strategy is much more than a list of specific product actions over time. It is an explicit route-map designed to guide a company in its efforts to develop and market products that build sustainable competitive advantage and meet its growth and profit objectives. A good product strategy maximizes both customer satisfaction and profits – while stating the firm's priorities so clearly that every function can refer to it at any time for practical operational guidance.

Few companies we know have clearly formulated product strategies. Ask most managers „What is your product strategy?“ and you are likely to get a blank stare, some broad generalities on product line positioning, or a detailed list of preferred product attributes. The question will also receive different responses from the various functional departments. In short, few business managers can point to a document that describes unambiguously their firm's approved product strategy. Fewer still can describe the process by which their product strategy has been formulated, modified, approved, and disseminated. Some even justify the lack of a formal strategy by arguing that it would be dangerous to write it down because of the risk of leaks. In fact, the risk of *not* having a product strategy is far higher.

Penalties and Costs

Managers often do not fully appreciate the penalties their companies pay for not having comprehensive and explicit product strategies. In our daily practice, we see at least three disadvantages.

First, by not formalizing the product strategy process, management implicitly accepts a certain level of ambiguity in long-term priorities. Many people in R&D, design, engineering, or manufacturing are left guessing as to what are the firm's chosen long-term bases of competition or the priorities among product segments and attributes. This ambiguity hampers their choice of long-term development and investment priorities. They are often forced to make choices and commitments based on whatever information they can get.

Imagine, for example, the dilemma faced by Imperial Bikes, a European manufacturer of premium bicycles. Should the company focus on reinforcing its leadership in its traditional 10-speed racing-bike segment, or should it penetrate the high-end segment of the fast-moving mountain-bike market? Should it focus on bike weight by developing new frame materials, or should it promote customized bikes by modifying its selling and manufacturing processes? How can Imperial Bikes's design, development, and manufacturing departments set their long-term priorities in terms of skills development and manufacturing investments, unless they receive clear guidelines from management on such vital product strategy options?

Secondly, according to a well-known management law, ambiguities that are born upstream – for example, in product strategy – always pop up downstream. In other words, the penalty for not having defined a clear product strategy is often a more laborious product creation process, particularly at the product definition and specification stage. Designers at Imperial Bikes experienced this difficulty firsthand during the development of their new „Feather-Grand Prix“ racing line. To satisfy marketing's demand for the lowest possible weight, they had chosen a special type of composite for their new bike's frame. This had required a special manufacturing process, which raised costs. The higher cost was acceptable as long as Marketing positioned the „Feather-Grand Prix“ line at the top end of the market, as planned.

However, after a competitor launched a new medium-priced amateur-racing bike, Marketing had immediately asked to stretch the new generation down-market to cover the lower-priced amateur-racing segment as well. The new frame materials could not meet the new cost constraints, and the development project had to be dramatically modified.

Without the framework of a detailed product strategy, each new product development project becomes a new opportunity to ask a few basic questions that ought to have been addressed up front, e.g.:

- Which market segment are we targeting specifically with that particular product?
- What is the role and mission of that specific product in our overall product line?
- What is a winning product, from the customer's viewpoint, in that segment?
- How have we chosen to beat our competitors, generally and in that segment?

- If it's impossible to meet all customer demands, which ones should we meet?
- How many variants of the product are we prepared to develop?
- How fast will we replace this particular product we are developing? etc.

Answering these questions can be time-consuming, particularly if basic information on markets and competitors is not readily available. The „fuzzy front end“ of many new product development projects often arises because there was no product strategy or plan at the project definition stage.

Third, the lack of a clearly stated product strategy and plan specifying priorities over time, forces management to consider each new product development project on a stand-alone basis and not as part of a portfolio of new products. This, in turn, will complicate the tradeoffs that every company must make to optimize both its market impact and the use of its resources.

At Imperial Bikes, the unexpectedly high development efforts of the „Feather-Grand Prix“ racing line had dramatically delayed its „Rough-Roller“ project, a new mountain super-bike on which the company had pegged its future. Management realized too late that by letting a relatively low-priority prestige project – the „Feather-Grand Prix“ – use the bulk of its development resources it had jeopardized the company's new thrust into the fast-growing mountain-bike market.

The lack of a clear product strategy is sometimes perceived differently by Marketing than by R&D. The latter tend to complain more about what they perceive as a lack of clear guidelines for the long term. R&D's frustration comes from the fact that most technical people have a lower tolerance for ambiguity than do the more „fuzzy-minded“ marketers. R&D staff also tend to focus, by the necessity of their technical endeavors, on a longer-term time horizon than do the more short-term-oriented product managers or marketers.

If Marketing seems to tolerate ambiguity in product strategy better than R&D, it is also because marketers typically like to keep their options open as long as possible. Marketing will claim that flexibility is needed to respond to inherent market uncertainties and unpredictable moves by competitors. That flexibility, R&D will argue in return – often with reason – reflects an unwillingness by marketing to „stick its neck out“ on long-term priorities. Our experience tells us that the refusal to determine priorities regarding the basis of competition and to commit the company to a clear product strategy is often the sign of a weak marketing function.

The Missing Model

Managers who want to refine their product strategy to improve the dialogue between Marketing and R&D find themselves confronting a series of tough questions: Where should they start to improve? Against what benchmark should they measure their product strategy? What model should they follow? What issues should the product strategy address? How should they handle the process? Who should be involved in the process, and who should lead it? What form should its output take? How far should they disseminate the results?

The problem is that there are, indeed, very few simple, generic models applicable to a range of industries. Most management books remain rather general regarding the definition and content of product strategy, which is often mistakenly equated with business strategy. And few describe the process by which it should be developed and approved.

We therefore propose to outline in very simple terms some of the fundamentals of a product strategy, focusing on both content and process.

The Cornerstone of Business Strategy

Managers who dislike abstract management concepts tend to think of strategy in terms of a series of very simple questions. These questions can be extended to all the constituents of the company's strategy (see Exhibit 1).

In the basic model that we propose, the central question addressed by the business strategy is „How to grow our business profitably?“ Growth and profits being the main long-term objectives of most businesses, the business strategy should provide a set of coherent answers to that question. These will include ways to achieve a sustainable competitive advantage – the central motto of most strategy books – but also ways to identify, create, and exploit new growth opportunities through shrewd technological and market innovation.

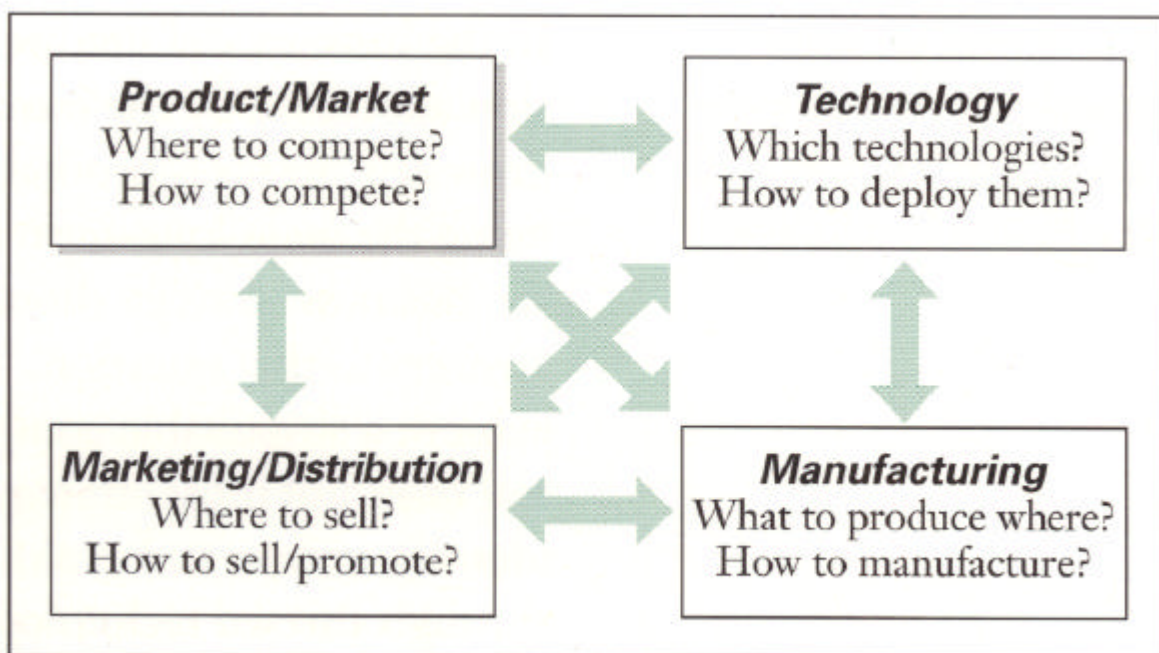
It is useful to think of a business strategy as having at least four interrelated constituents. All four can be expressed in terms of simple questions:

- The product/market strategy (the two elements usually being inseparable)
 - Where to compete?
 - How to compete?
- The technology strategy, which directly supports the product strategy

- Which technologies do we need to win a product or process advantage?
- How to deploy them (including the critical technology develop-or-buy choice)?
- The manufacturing strategy
 - What product or component to produce where (including make-or-buy choices)?
 - How to manufacture each product (with which technology and process)?
- The marketing/distribution strategy, the last but most critical element in the value creation process
 - What product to sell through which channel?
 - How to sell and promote our products?

Exhibit 1

Business Strategy



At Imperial Bikes, as in most other companies, the first two sets of questions were very topical and strongly interconnected. One of many critical product/market strategy issues was the company's entry into the mountain-bike market. The „where to compete?“ and „how to compete?“ questions were, indeed, two facets of the same coin. Should the firm try to enter the small but fast-growing high-end part of the current market, competing with a classical design and feature package against established German specialists? Or should it carve out a segment of its own at an even higher price level, but with a completely new concept and design – for example, with a carbon-fiber frame? And in both cases, what should be the minimum and optimum breadth of its product line?

This issue was closely linked to Imperial Bikes's technology strategy. The firm had invested many years of effort in mastering structural design of racing frames using composite materials. Should it try to transfer its know-how to the mountain-bike market, even though customers seemed to value robustness over weight and seemed satisfied with existing aluminum frames? And if Imperial Bikes followed the trend, should it develop the frame itself or subcontract the design to an outside organization?

Clearly, the answers to these questions would have profound implications for both manufacturing and marketing strategies.

Optimizing Perceived Quality and Profits

Before detailing the content of a comprehensive product strategy, it is useful to stress the two objectives it should pursue:

- The optimization of perceived product quality
- The maximization of profits

These objectives will determine the content of the strategy.

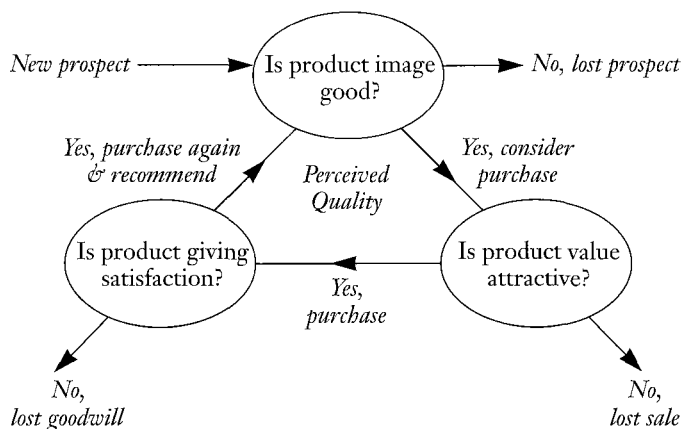
Optimizing perceived product quality means choosing how to balance the specific requirements of each of the three elements in the purchasing (or the repeat purchasing) process, i.e.: image, value, and satisfaction.

As illustrated in Exhibit 2, image is where the purchasing process starts – and sometimes ends, if the company, brand, or product image do not match the customer's expectations. Image influences the trade or the customer before the start of the purchasing process. Its role must, therefore, be well understood, and the ways to influence it included in the product strategy. Management may choose to emphasize certain product attributes that will directly influence the company, brand, or product image. The recyclability of a TV set – if provided before it is mandatory – will not create a direct value to the customer, nor add to his/her usage satisfaction. It will, however, convey positive notes about the environmental consciousness of its manufacturer.

If the image test is positive, the appreciation of product value – what the customer gets for what he/she pays – is the second step in the purchasing process. Because value is more tangible – it can be measured objectively on the basis of customer perceptions – it is often the driving force in product strategy. The company's product development and design process focuses on providing value to customers, and value-creating attributes rank high in the hierarchy of most product managers.

Exhibit 2

Managing Products for Customers



If perceived value determines the purchase decision, customer satisfaction determines customer loyalty, repeat purchase, and, ultimately, image. Every marketer knows this. However, not all distinguish between value-creating attributes and satisfaction attributes, and fewer know how to make optimal tradeoffs between these two categories. For example, the noise level of a vacuum cleaner is probably a strong satisfaction attribute for the user. It may not be an important purchasing value attribute, from the customer's point of view, typically because it can seldom be fully appreciated at the time of purchase. Statements about decibel ratings do not easily convey the message at the point of sale.

Unless the product strategy specifies clearly and for each product line the relative importance of image, value, and satisfaction – and specifically which attributes should be stressed in each category – the discussion will start again with each new product project. Product managers, unable to build a hierarchy of product attributes on short notice, will tend to put all attributes and features in the „must“ category, resisting tradeoffs. Under project pressure, the ultimate tradeoffs will not be optimized nor consistent with earlier choices.

The second broad objective of the product strategy is, obviously, to maximize profits by using company resources as effectively as possible. This can be achieved by specifying a set of guidelines and targets for product definition and design, which will lower design and development cost, as well as for sourcing and manufacturing. These guidelines typically cover areas such as product life cycles, product diversity, and product and key-component modularity.

Where and How to Compete?

Two questions are at the core of the product strategy. „Where to compete?“ determines the product offering and the chosen competitive arenas. „How to compete?“ determines the thrust and priorities the firm will use to build a competitive advantage. These questions can be further broken down into a number of subquestions, as shown in Exhibit 3.

The first set of questions will determine the scope, contour, content, and structure of the company's product line:

- *Its geographic coverage* and the extent to which it intends to serve its various geographic market segments and their local and regulatory demands with standard, adapted or specific, customized products
- *Its basic segment coverage*, in terms of price-points and performance levels, and the brand allocation to each segment if applicable; in other words, whether the company intends to be a full-line player, a partial-line supplier, or a specialist
- *Its niche segment coverage*, in terms of level of effort considered, type of niches selected, and corresponding benefits expected (e.g., image transfer, technology pioneering, growth potential)
- *Its density of coverage*, in terms of product line depth by application or price-point segment, by distribution channel or brand, and, generally, the extent to which the company intends to proliferate its product offering

These are all strategic decisions that the company must make before it embarks on specific product development projects. The answers will determine both the markets to be served and the contours of the product line to serve them, including the origin of the products to be provided (proprietary design and/or manufacturing versus outsourced products). In that sense, the answers to these questions determine which resources should be allocated to the development of the product line.

The „how to compete?“ questions determine the competitive profile of the product offering, i.e., how the company intends to respond to the often-conflicting demands of the market and to differentiate its products from those of competitors. These questions also can be broken down into four main categories, dealing respectively with:

- *The company's basic product platform or positioning per segment.* This determines the areas where the company intends to compete on price alone, on value (quality/ price ratio), or on a premium basis (to be specified).
- *The product performance profile by segment.* This determines which product attributes will be privileged by segment and how the company plans to be positioned on each (e.g., meeting minimal expectations, average, above average, or best in class).
- *The technology and innovation profile.* This determines the technologically driven product areas in which the company intends to lead, to follow competitors, or to outsource to vendors and those it intends to leave aside altogether.
- *The company's image profile.* This determines how the company wishes to be perceived – as a whole and by brand, if more than one – on the various dimensions of image relevant to its business.

Defining Each Product's Role

Companies with broad product programs sometimes have a hard time allocating their resources and efforts among various product categories and individual products. The lack of a clear framework for the upstream allocation of product priorities within a product portfolio perspective is usually felt downstream, at the product development stage. If the role of the new product under consideration has not been specified early on, the process of defining the product objectives, specifications, and success measures will be more difficult.

It may, therefore, be useful to list explicitly the strategic roles and expectations of each product category or individual product in the company portfolio before the start of any product project. The contributions of various products to the company's objectives may be quite different. For example:

- Some products may be expected mainly to sustain the company's volume or profit base. Others, less important in their actual contribution, may still be attractive net margin contributors or growth builders.
- Some products may be needed primarily to fill gaps in product line or to enhance the company's image. Others may help the company venture into new areas, by being the carriers of new technology or the testers of new concepts.
- Some products may have a primary mission to build a new market segment or to support the company's position in specific distribution channels. Others may be needed mainly to confront aggressive competitors or to spread seasonal sales patterns.

Exhibit 3

Where and How to Compete?

Where to compete?

- *Geographic coverage* – How do we meet the specific needs of each market?
- *Basic segment coverage* – How do we cover the basic size/performance/ price segments?
- *Niche segment coverage* – How do we meet the needs of special niche segments?
- *Density of coverage* – How much choice do we offer in each segment?

How to compete?

- *Basic product platform* – On which basis do we compete globally?
- *Product performance profile* – In which area do we want to outperform our competitors?
- *Technology/innovation profile* – In which area do we want to innovate and lead?
- *Product/image profile* – What product image do we want to promote?

As shown in Exhibit 4, grouping individual product missions in clusters enables management to identify distinct categories or classes of products with very different strategic implications, hence priority levels.

Base products are those critical to current company performance and position – for example, through their significant contribution to sales volume, profits, and market position. The renewal of base products requires full management attention, but base products cannot be expected to bring the company much added growth or diversification; this is the role of key products.

Key products are those with the potential to change the company's growth and market positioning, either by enabling it to move into new growth areas or by enhancing its image in the market. Successful key products are destined to become base products, thus enlarging the company's market and profit base or replacing aging product concepts in the company's portfolio.

Pacing products are experimental products that the company launches to test the attractiveness either of a new technology or of a new concept. Pacing products may be the precursors of future key products. Ultimately, if successful, they will give way to entirely new product categories. By their very nature, pacing products are more risky than either key or base products and must therefore be funded from long-term-oriented innovation budgets.

Exhibit 4

Recognizing the Strategic Roles of Each Product in the Line

		Strategic Roles and Expectations												
Products		Volume base sustainer	Profit base sustainer	Margin contributor	Growth builder	Product line filler	Image enhancer	New technology carrier	New concept tester	New market builder	Channel supporter	Competitor killer	Seasonality spreader
Leverage Products	A	✓	✓							✓	✓			← Base Product
	B					✓				✓				
	C			✓	✓		✓		✓					← Key Product
	D					✓						✓		
	E			✓		✓	✓	✓	(✓)					← Pacing Product
	F									✓	✓			
...														

Finally, companies typically complement their product portfolios with a number of *leverage* products. These are products the company develops with a special purpose in mind – for example, the reinforcement of its position in certain market segments or distribution channels. Leverage products may be more tactical in purpose than the more-strategic base, key, and pacing product categories. They are therefore given a lower priority than products in other categories.

By classifying its product categories and individual products according to their strategic mission, management is likely to plan and control the evolution of its product portfolio better over individual product life cycles. As shown in Exhibit 5, it can also plan the expected contribution of each product category and product to sales and margin over time.

Management at Imperial Bikes used that classification system to rethink its priorities. The company had had a tendency to proliferate models over the years, trying to expand in a number of market segments, without always clearly recognizing the relative strategic mission and importance of each of these products in its portfolio. For example, management recognized that, by putting so much effort behind its „Feather-Grand Prix“ racing line – which was an important image-builder but had very limited sales potential – it had delayed the renewal of its „Master-Pro“ line, which was its base product line and main earnings contributor. By the same token, it had delayed the „Rough-Roller“ mountain-bike project, a key product for the company's future growth.

Planning to Win

If the product strategy is explicit, along the lines described, it can more easily be turned into a realistic and coherent product cycle plan. The product cycle plan, by specifying which new product will be introduced when, is the natural outcome of the product strategy.

Companies that have not clearly defined their product strategies – often because they don't yet thoroughly understand their markets, their customers, their competitors, or the potential for technology change – will find themselves with disconnected and constantly changing product and technology plans. This situation is illustrated on the left side of Exhibit 6. Each new product action proposed by management will raise fundamental product and technology strategy issues, which will be addressed on an individual basis, often without much continuity.

Exhibit 5

Identifying Needs/Opportunities for Expanding Sales and Margin

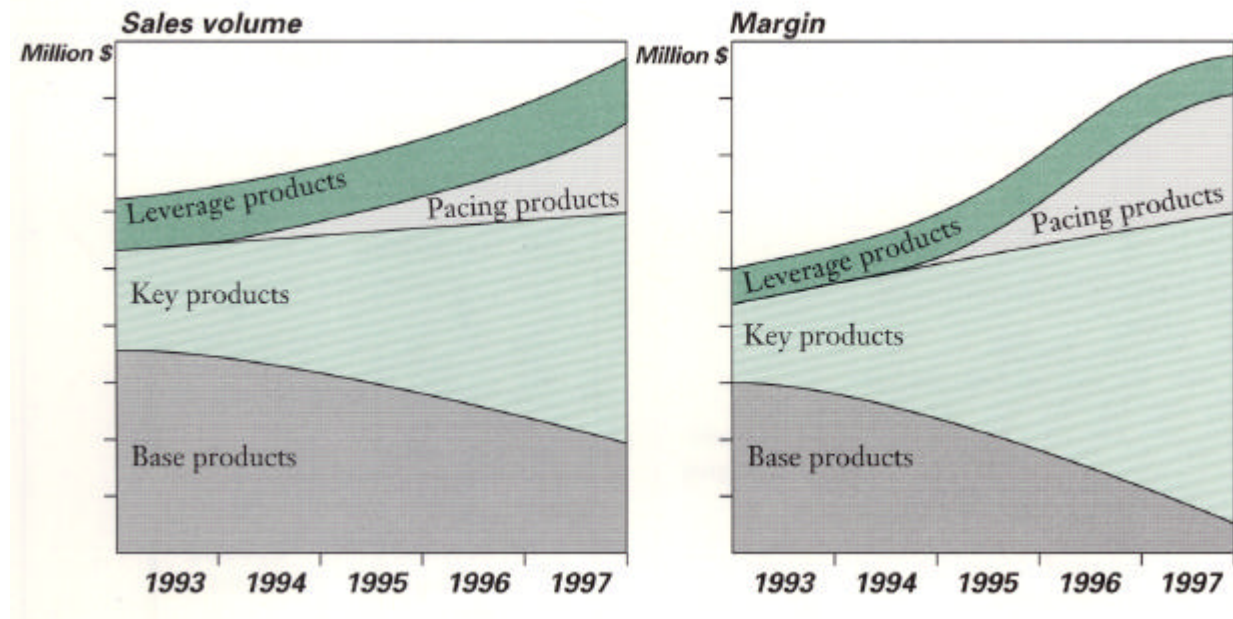
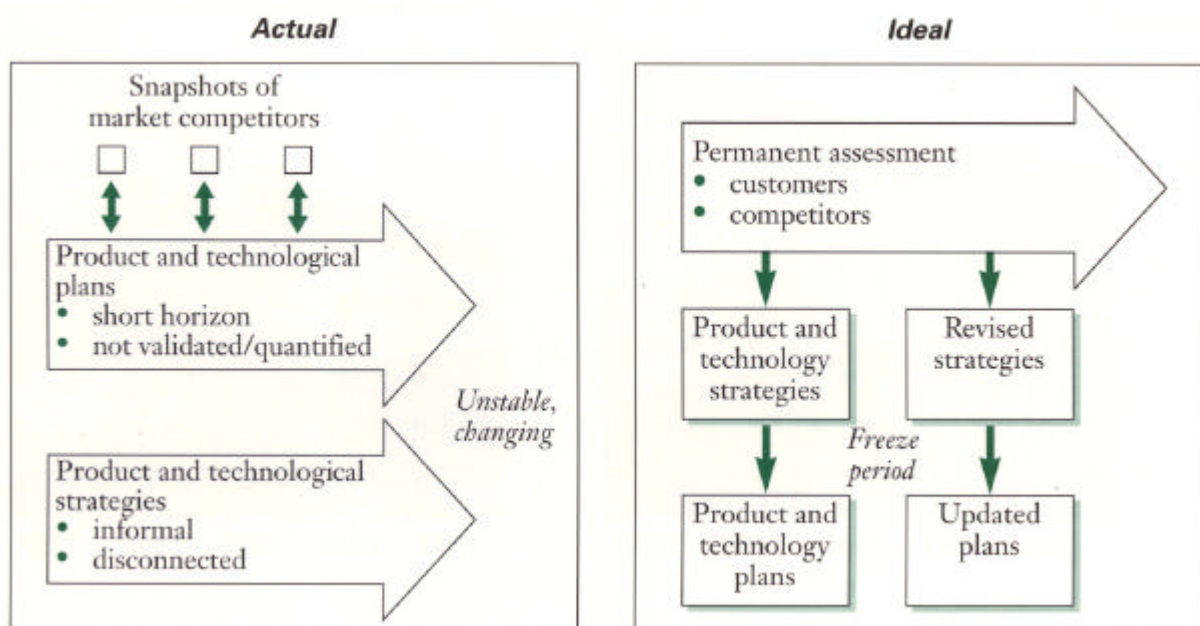


Exhibit 6

Planning to Win



The ideal pattern, by contrast, is illustrated on the right side of Exhibit 6. In that model, the company is permanently following changes in markets, competitors, and technologies. The knowledge thus accumulated feeds an internal process of definition and/or review of product, market, and technology strategies, which can then be translated into specific product and technology plans. These will be frozen until changes in market, competitors, or technologies warrant a new cycle of revision of the strategy and/or – more frequently – of the product and technology plans.

A Collective Process

Companies that have made the effort to define explicit product strategies have reaped strong benefits, not just from the strategy itself, but from the process by which they derived it. To answer all the questions and issues listed above requires setting up multifunctional task forces in which marketers, technologists, and product developers actually talk to each other. It also requires a vast effort to upgrade the company's strategic information database with the latest insights into customers, competitors, and technologies. Such a process helps create a common understanding of product issues and priorities and a shared commitment to implementing the product strategy.

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