Product Management and Strategy

Module 6: Commercialization

Quick Reference Guide

Learning Outcomes

1. Analyze what is required for financial sustainability for a product.
2. Calculate target cost, customer lifetime value (LTV), and customer acquisition cost (CAC).
3. Display appropriate performance metrics.
4. Design effective data graphics, particularly line graphs.
5. Evaluate how to implement the awareness, trial, and repeat (ATR) model of customer acquisition.
6. Apply growth tactics.
7. Evaluate how products, and therefore product management, contribute to organizational performance and competitive advantage.
8. Evaluate the use of product management strategies in practical settings.

Financial Sustainability

In order to achieve financial sustainability, a mathematical inequality must be satisfied, your gross profit must exceed your ongoing business operating costs.

$$\mathbf{Q}\,(\mathbf{p} - \mathbf{c}) > \mathbf{F}$$

Where:
Q quantity sold per unit time
p price per unit
c cost per unit
F fixed costs of operating the business per unit time

Calculating Target Cost, Customer Lifetime Value (LTV), and Customer Acquisition Cost (CAC)

Calculating target cost

1. Set your price based on the market conditions.
   Setting prices should be deliberate exercise coordinated between the:
   - Business manager
   - Marketing and sales manager
   - Product manager
2. Work backwards through your supply chain to estimate the maximum cost that would allow for profitability.

Target costing is critical for physical goods and services, as they have substantial and variable delivery costs.

Calculating LTV

LTV is the total gross margin you expect to earn from a customer over time, discounted appropriately to reflect your cost of capital and the time value of money.

If you expect 1 transaction per quarter, for an average customer engagement period of 6 quarters, and an average gross profit contribution of $50 per transaction, then your estimated LTV will be:

$$\mathbf{LTV} = \mathbf{6} \times \$\mathbf{50} = \$\mathbf{300}$$

- The more transactions, the higher the profit per transaction.
- The longer the period of engagement, the higher the LTV.

Factors that affect gross margin:
- For digital products, only revenue impacts gross margin because the delivery cost is negligible.
- For physical goods and services, gross margin depends on both revenues and costs.

Estimating CAC

Ideally,
- You would ask each customer:
    - How they learned about you
    - What factors caused them to try your product
- You could then estimate what you spent to create each of those factors, which would allow you to calculate the CAC for each customer.

In reality,
You rarely know customer information with much precision. You can do a simple quotient to calculate your average cost per customer of acquisition.

If you spent $10,000 in a month to acquire 200 new customers, the CAC will be:

$$\mathbf{CAC} = \frac{\$\mathbf{10,000}}{\mathbf{200}} = \$\mathbf{50}$$

You can estimate CAC by identifying how many customers were acquired via a particular mechanism and what that mechanism cost.

Estimating by acquisition channel allows you to:
- Increase spending on more efficient channels
- Reduce spending on less efficient channels

Key Performance Indicators (KPIs) and Dashboards

A good practice is to understand the key goals associated with the project and how to measure progress toward achieving those goals.

Dashboard functions

- Displays the machine's state and its recent past
- Reflects the system's health
- Helps to infer how managerial levers relate to outcomes
- Warns about dangerous trends that require intervention
- Supports your ability to forecast and budget for the future

As a product manager, you can measure and display the metrics that directly drive business profits.

Golden KPIs

- Differ across roles and organizations
- Link to the fundamental financial performance of the organization

Once you have the golden KPIs, consider what metrics related to your specific role drive them.

Examples of metrics

Subscription-based software applications

- Acquisition
- Engagement
- Monetization
- Churn

Goods

- Acquisition
- Product quality
- Customer satisfaction

Services

- Acquisition
- Size of customer base
- Engagement
- Satisfaction

KPIs and dashboard for the focal product

As part of the required activity on creating a product management dashboard, you must have reviewed various resources to assess how to present a dashboard impactfully and after that you must have constructed the dashboard as a product manager laying out the items you would want to track. Along with the dashboard, you were required to summarize with definitions or explanations for each metric to deliver a one-page or one-screen display of the formatted dashboard. This activity must have helped you display appropriate performance metrics and design effective data graphics.

Growth

Growth might be a challenge for the product marketing functional unit, although product managers will have at least a consulting and supporting role in sustaining product or organization growth. The attributes of a product directly influence growth rates, so product management decisions are closely related to growth.

The process for managing growth

- Improve the product relative to the factors driving diffusion.
- Understand budgets and resources.
- Consider the “growth menu”.
- Generate additional hacks or off-menu ideas.
- Select a set of promising approaches.
- Run experiments and analyze results.
- Redouble investments in the proven approaches.

Growth tactics

- Awareness
  - Virality
    - Word of mouth
  - Third-party media
  - Display advertising
  - Search
    - Search engine optimization (SEO)
    - Organic search
    - Pay-per-click

- Trial
  - Free trial period
  - Freemium
  - Samples
  - Brick and Mortar presence
  - Kiosks and pop-ups

- Repeat
  - Great product and service experience
  - Loyalty programs
  - Follow-up communications
  - Ongoing value-add engagement

Product Improvement Process

Sustain competitive advantage with flywheels that accumulate energy over time and give your organization the ability to overcome obstacles.

The product improvement cycle as a flywheel

As the organization operates over time, the cumulative number of units delivered (or other customer engagements) increases. With that increase in cumulative experience, the organization can discover opportunities for product improvement. When implemented, those improvements improve the value equation for the customer, enhancing the ability to attract and retain customers. Growth in the customer base further fuels the growth in cumulative buying. There is a pattern of incremental product improvement in every type of product or service.

The product improvement process

- Generate candidate improvements from user feedback.
- Deduplicate, cluster, and rationalize the opportunities.
- Estimate the identical impact and resource requirement of each opportunity.
- Prioritize the opportunities, seeking the highest impact for the lowest cost.
- Implement the improvements using an agile process.

Product improvement — gaining the customer perspective

As a product leader, you need to be a product person. You need to be the kind of person who continuously assesses situations, notices friction from personal experiences, and habitually seeks recommendations for improvement. Through this dogged determination, great product leaders can empathetically consider the customer and use their informed intuition to seek improvements.

How to identify product improvement opportunities

- Eat your own dog food.
    - Every team member should be a user of the product.
- Staple yourself to an order.
    - Assume the customer's role and go through each step in the customer journey while following the organizational process required before the customer's job is completed.
- Develop meaningful open-ended feedback mechanisms.
    - Let customers enter unstructured text in a feedback form.
    - Monitor the feedback forms.