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# Innovation is just good product management.

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# Innovation is just good product management

By Nick Coster and Adrienne Tan

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Innovation has become a buzzword in countless organisations. CEOs want it, strategists write about it, marketers talk about it and product managers strive to deliver it.

Despite all this attention it is still uncommon to see organisations building innovation into their mode of operation. Instead we are surrounded by products that are increasingly commoditised with price being the only differentiator. Organisations that do consider innovations tend to focus on new technological gambles that are dubbed to be "innovative" but fail to deliver a commercial return.

This paper contends that effective product management should be the heart of the company's innovation program. We examine the fundamental role of product management and show that the purpose of product management is essentially to execute on the principles of innovation.

We further argue that there are no silver bullets to innovation.

Innovation is just good product management.

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## What is innovation?

### Innovation is not new

Humans have been innovating for thousands of years. Humans are creative and therefore natural innovators[1].

When faced with challenges, we conceive innovative solutions to try to solve problems. We develop solutions that can change the way we live our lives.

For example, to meet our need for mass communication, humans have innovated from painted pictures on cave walls to written languages, to hand written books, from the printing press to newspapers, radio and TV. Now we see further innovations in the internet age delivering information from a search engine, and electronic books like the Amazon Kindle.

Each step has significantly improved on the previous solution.

Given that humans instinctively innovate, we have to ask the question "Why do so many companies find it difficult to innovate?"

### Innovation defined

Firstly, let's examine the term innovation.

**The word innovate is derived from the Latin "innovatus" meaning to "renew or change".**

This definition is important because the term is often misused by organisations.

Many simply use the term to refer to doing something new or different.

What is missing from this definition is that innovation not only delivers something new or different but the change must create **value**.

Daniel Scocco of the Innovation Zen blog[2] writes,

> *The first confusion to dismiss is the difference between invention and innovation. The former refers to new concepts or products that derive from individual's ideas or from scientific research. Innovation on the other hand, represents the commercialization of the invention itself.*

[1]This hypothesis is supported by the Kirton Adaptation-Innovation Theory. It states that all individuals are problem solvers and hence creative. It should be noted that the theory is more concerned with the 'how' – how individuals solve problems.
M.J Kirton, Adaptation - Innovation in the Context of Diversity & Change, 2002

[2]Daniel Scocco, http://innovationzen.com/blog/2006/07/26/invention-vs-innovation/

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From a business perspective, effective innovation leads to change in the market that delivers increased customer value and in turn a competitive advantage for the organisation.

Jim Andrew[3], author of Payback, Reaping the Rewards of Innovation is a little more direct and states that,

> *Innovation is about making money.*

Innovation exists when:

- A problem is solved in a new way that is significantly better than previous solution
  - Better can be defined as faster, cheaper, easier to use, more reliable and so forth
- A currently unsolved problem is solved that changes the way that things are done

Importantly, good innovation is NOT:

Incremental improvements or feature enhancements that are devised to counter a capability from a competitor or to address a problem impacting performance.

This path does not lead to significant leaps in product value.

[3]Jim Andrew, The Rewards of Innovation, Harvard Organisation Review, March 2007

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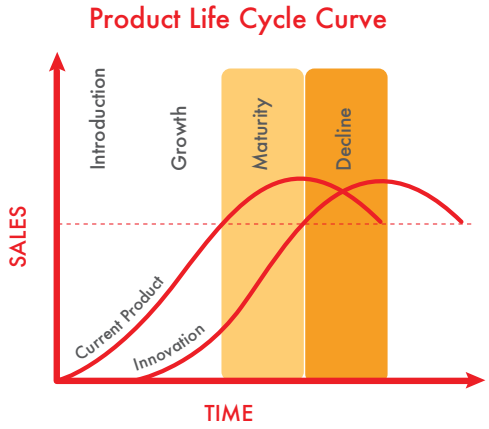


## Why bother innovating?

Every product has a lifecycle.

Products logically step through a gestation or development period within the organisation, an introduction period in the marketplace and consequently move from growth to maturity and eventually decline.

Companies that innovate can essentially extend the lifecycle of a product. A better version of the product can mean that the product's lifecycle can return from maturity back to a growth stage or from decline to maturity. The delivery of Internet access to the market is one example of how a product's lifecycle changed when Broadband access was introduced.

Companies that fail to maintain the pace of innovation may see their products and their reason for being in business becomes irrelevant. Consider a company selling Dial Up internet access but failed to offer Broadband to its consumers. This company simply would not be in business today.

IBM CEO Samuel J. Palmisano comments on the need for innovation,

> *The way you will thrive in this environment is by innovating -- innovating in technologies, innovating in strategies, innovating in organisation model*[4].

Lafley and Charan authors of The Game Changer[5] have a great perspective on innovation. They argue that,

> *Innovation puts companies on the offensive.*

This means that through innovation, companies create a step change in value for the market thereby surpassing competitive threats.

To reap the rewards of innovation, innovation programs must NOT be a laboratory for testing and launching new ideas with the hope that one of the new ideas generated takes flight in the marketplace. This approach is a costly exercise and can be likened to 'gambling'.

For innovation to succeed there must be a method for identifying lucrative opportunities and a process for execution.

[4]Organisation Week, The World's Most Innovative Companies, April 24, 2006
[5]A FLafley and Ram Charan, The Game Changer, How You Can Drive Revenue and Profit Growth with Innovation, April 2008

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## The goals of innovation and product management are aligned

The products that product managers launch and support in the market place exist in a dynamic and competitive environment. For a product to be successful it must deliver value to its users and it must do so in a way that is different from the competitive alternatives.

A product delivers value to users when it addresses a need, solves a problem or meets an end goal. Further the product must be delivered at a price point that leaves buyers feeling that they have received a fair exchange for their money.

For a product to remain successful over time it must continuously deliver more value than the competition. This may be difficult to achieve as new competitors enter the market giving buyers more choices and prices. Profits therefore tend to be driven downwards.

To combat this effect, product managers must constantly look for a competitive edge that enables their product to continue to contribute positively to the profitability of the organisation.

brainmates defines strategic product management as the delivery and maintenance of products in their target markets that :

1. Deliver more value than the competition (user focus)
2. Create a sustainable competitive difference (buyer focus)
3. Generate organisation benefit to the organisation (organisation focus)

If the goal of strategic product management is to create value and generate profit for organisations through change, it is therefore logical to argue that the goal of product management is very much aligned with the goal of innovation.

## CASE STUDY: AUSTAR and the MyStar PVR Service

AUSTAR is a company that sees the value of product managers innovating and creating solutions for customers. AUSTAR has a clear process to get from ideation through to design and development, production and deployment.

At each stage of the product delivery cycle, AUSTAR's product management team makes sure they have involvement from key stakeholders throughout the organisation such as sales, marketing, service and support teams. This may seem like standard practice but it is the structure and the strong intent to collaborate that ensures innovative ideas are closely nurtured from gestation to market launch.

During the design and development of its Personal Video Recorded product, AUSTAR realised that they had to stand out from the competition. They focused on the needs of the buyers and identified that buyers wanted 'immediacy' when purchasing the PVR service. Buyers didn't want to wait for a professional installer to make an appointment to visit the home to set up the service. Buyers wanted the service immediately.

To solve this problem, AUSTAR ensured that their customer support members were given the ability to turn on and off the PVR service remotely and instantaneously.

AUSTAR's PVR has many features and functions that solve both the buyer's and user's problems. It's a service that provides a seamless interface across Subscription TV content and regional free to air content.

The success of AUSTAR's PVR is reflected in the increased Average Revenue Per User (ARPU) and consequently the company's overall profitability.

AUSTAR
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## Barriers to success

There are many reasons why companies fail at innovation.

In this section, we outline some general organisational reasons and more specific product management related reasons for failure.

Scott Anthony writing for the Harvard Organisation Review recently considered "What's Stopping Innovation?"[6] One of the key problems he described is the execution of the idea into a profitable product or service.

> *The hard part is in the doing, in taking the requisite steps to translate an idea that looks great on paper into profits.*

Whilst product management is not the panacea for all problems relating to innovation, companies that employ **good product management practices** have the right structure and discipline to initiate the 'doing'. That is, to:

- Determine the viability of the idea
- Forecast profitability
- Establish organisational capability
- Commence product development
- Launch the product or the service

Scott Berkum author of the book The Myths of Innovation deciphers why companies are not innovating. He writes that:

- Teams don't trust one another and hence collaboration is non-existent
- Managers are risk averse
- Innovation is hard work and takes time

According to Berkum,

> *The main barriers to innovation are simple cultural things we overlook because we like to believe we're so advanced. But mostly, we're not.*

[6]Scott Anthony, What's Stopping Innovation?, www.blogs.hbr.org 12 March, 2010

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Robert Tercek, an innovation consultant also notes a few obvious reasons for failure.

Tercek[7] states that:

- The physical environment needs to be conducive to innovating. An office space similar to a rabbit warren will not inspire innovation teams to think creatively.
- A second reason why innovation fails is that the innovation team lack the authority to bring their ideas to completion.
- Thirdly, innovation fails because the individuals innovating may not have the necessary skills to 'sell' new concepts.

## Poor product management is a barrier to successful innovation

From a product management perspective, organisations can find it difficult to innovate because their product management teams focus on the minutia of 'day to day' and fail to prioritise activities that deliver new solutions to the market.

Product management in these organisations are not structured well to innovate.

Organisations with poor product management practices have misguided expectations. They expect their product managers to perform strategic tasks but tend to load these product managers largely with operational and maintenance activities. They see product management as a support function to sales, marketing and engineering. Product management in these organisations seems to serve the organisation rather than lead the organisation.

Product managers that are operationally focused are not given the time to rise above the detailed everyday product issues to understand and discover customer needs and problems. They do not have the opportunity to engage in conversations, to ask questions or to observe their customers. In which case, they will not have the capacity to derive innovative solutions for the organisation.

This is a consistent product management problem across many industries.

In order to facilitate and deliver on innovation, organisations should look to deploy **good product management practices.**

[7]Robert Tercek, Why Do Innovation Teams Fail?, www.roberttercek.com 10 July, 2010

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## Product management leading innovation

Ideas can come emerge from anywhere within the organisation. They can transpire from customer visits, contextual enquiry, quantitative market research, market observations or from customer complaints.

Importantly, these ideas need to be collated and channelled through a review process to determine ideas that have merit.

A point of failure in innovation is the ability to distinguish the good ideas from the large pool of ideas.

In our opinion, ideas should be fed into a product management framework to manage, distil and eventually execute on the right ideas, turning them into profitable products.

A recent Neilsen study (June 2010) of the FMCG industry showed that successful innovators have precise new product development processes.

> *FMCG companies with rigid stage gates - - (decision points in the process where a new product idea must pass certain criteria to proceed forward) - - average 130 percent more new product revenue than companies with loose processes.*

[8]Neilsen, Secret to Successful New Product Innovation: Keep The Boss Out Of It, June 2010

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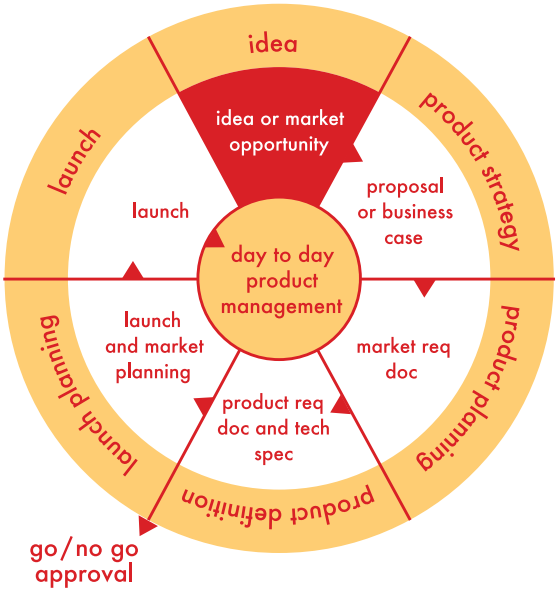
## Idea Phase

During the ideation phase, product managers should use the **market potential** formula to:

- Filter ideas to find ideas worth pursuing
- Understand the financial rewards to be gained




To calculate the market potential for a product or service firstly determine the size of the market problem, the value of the problem to consumers and the duration consumers are willing to pay for the problem to be solved.

*Sourced from Blackblot Strategic Product Management Training*

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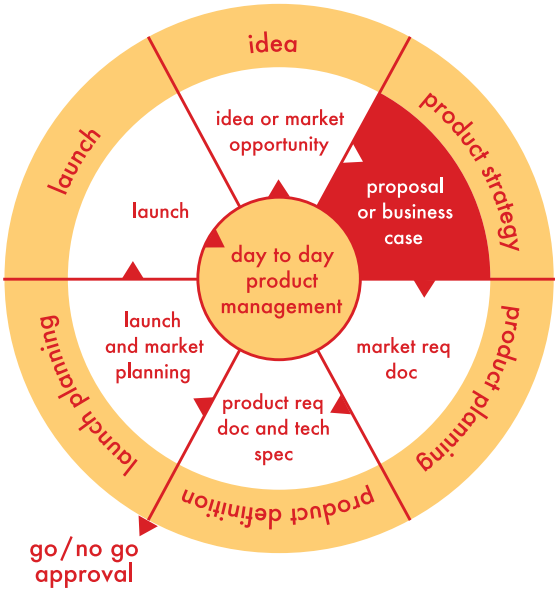
## Product Strategy Phase

Once a good idea has been identified, the next stage of the product delivery process elaborates on the idea further, determines if the business has the capability to develop the idea as well as refines the financial return.

During the product strategy phase, the product manager should prepare:

- A more detailed proposal of the idea
- A business case to determine its capability in obtaining some or all of the market potential, costs of delivery and the return on investment

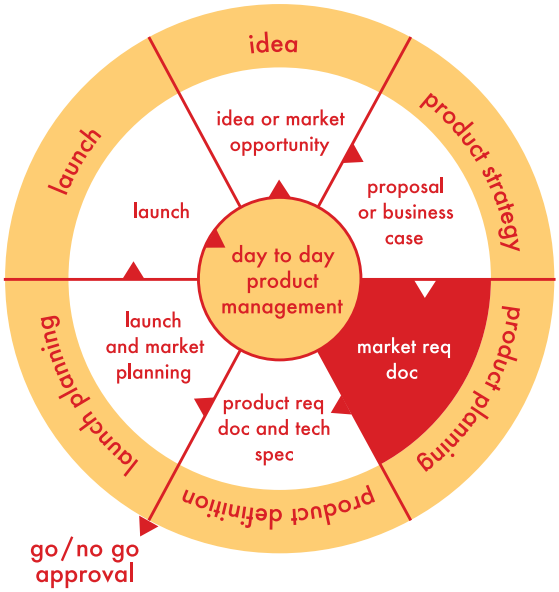
For innovative ideas to succeed in the market, it must deliver a return to the business. Using a business case helps organisations to determine if the idea has any merit.




The business case at this point in the process is considered a 'straw man' during the product strategy phase since the product idea is still in its infancy.

## Product Planning Phase

The product planning stage further defines and assesses the target market and the target market's need for the proposed idea. Seeing the idea through the lenses of a potential customer helps craft the idea further.



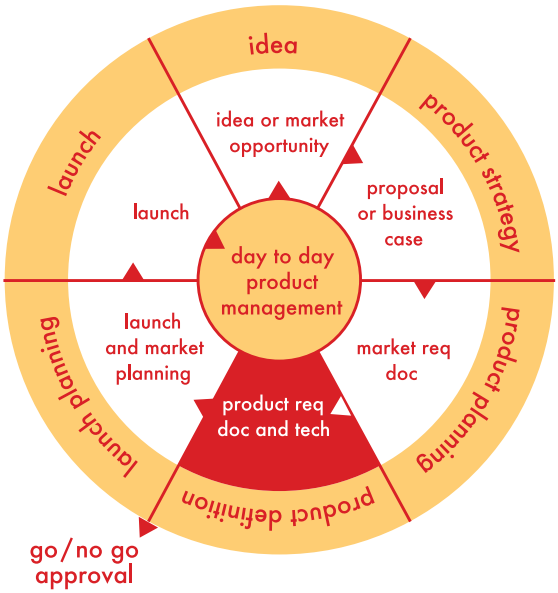

The product planning stage defines the user requirements and sets the boundaries of the new product or service.

A market requirements document is the resultant activity of this phase.

## Product Definition Phase

During the product definition phase, product managers can initiate one of the following activities:

1. Prepare a product requirements document that defines the features and functions of the product in detail. An interactive, high fidelity prototype can be developed to test the product idea and to help finalise the requirements before development.
2. Engage with a technical team to rapidly prototype the product idea initially and consequently, write a product requirements document that describes the features and functions and rules governing the product.
3. Create low fidelity, paper mock ups of the product to test idea without using technical resources. Create a product requirements document based on the outcomes of the low, fidelity prototype.




Activities within the product definition stage are NOT onerous.

It's important to prepare some documentation to describe the product.

## Final Words

Product management and innovation seek to deliver the same goals. Both practices look to the market and users for problems that are worth solving, problems that when solved will deliver value to the user and rewards for the business.

To be successful in achieving these goals both product management and innovation require hard work, time, and a robust repeatable process. If product management is effectively resourced and is outwardly focused on understanding users and buyers in the market place, it can be the engine room for innovation in any company.

However, if product management is forced to manage day to day operational activities, it will not have the opportunity to innovate.

Organisations that seek to deliver innovation to the market should resource their product management teams to enable them to focus on new market opportunities and disruptive market change.

## About brainmates

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With over fifteen years of experience in product management, Adrienne Tan is the co-founder of brainmates, a boutique product management and marketing agency based in Sydney, Australia.

Adrienne has helped to lead and coordinate product development in a range of industries with clients such as AUSTAR, Fairfax Digital, Veda Advantage, The Weather Channel and many more. Adrienne's research focuses on customer-centric decision product design and development and she has written extensively on the topic via the brainmates blog, brainrants and lectured at postgraduate level at the University of Technology, Australia.

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Nick Coster is a co-founder of brainmates who is passionate about the benefits of putting the customer before the technology and building products and services that delight the buyer and the user.

Nick has been developing and managing products for over 13 years, with range of different companies including Telstra BigPond, Excite@Home, Optus, Westpac and eBay, delivering internet service and telecommunications, online applications and internet security products.

In the process of this journey he has developed a deep understanding of the way the different technologies fit together and is always amazed at the new and exciting ways that people use them.

Since joining brainmates full time in 2007, he has also consulted to clients whose products include legal accounting software, implantable medical devices, fashion, personal training, pay TV services and financial services. Each time he brings his experience and the brainmates best practice product management approach to deliver on client outcomes.

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