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Product Management Gets Stronger

An innovative approach to managing product portfolios—the strong-form model—can help companies stay ahead of change.

by Barry Jaruzelski, Richard Holman, and Ian MacDonald

In April 2007, Research in Motion (RIM) was flying high. The BlackBerry creator was coming off its best year ever, with record revenues, record earnings per share, and record shipments. And there was a new reason to be optimistic: Apple had just introduced the iPhone, and RIM executives took it for granted that their own product—a runaway hit in the business world—would grab a huge share of the burgeoning consumer market as well. “The door to the consumer is through the enterprise, not vice versa,” RIM co-CEO Jim Balsillie said on a call with investors. “Apple has done the industry an enormous favor.”

That confidence proved to be ill founded. Although BlackBerry sales did get a temporary boost as part of the overall growth of the market, Balsillie’s faith that consumers would prefer the BlackBerry’s reliability to the iPhone’s flash, elegance, and ease of use was misplaced. The iPhone reversed the historical pattern of computer technologies flowing from the enterprise to the consumer market. Even many former BlackBerry devotees wanted a smartphone with a touch screen and an ever-growing store of apps. Today, BlackBerry’s market share has plummeted, Balsillie is gone, and the firm is fighting to survive.

RIM is compelling as a cautionary tale, but it is not unique; many companies falter in the face of discontinuous change. Their failure usually stems from their inability to keep up with technological shifts or the complexity of their product lines. These events are often seen as breakdowns at the enterprise level; the CEO and executive leaders failed to move in time. But problems like these often start at a much more granular level, with ineffective product management.

Within many companies, product managers have relatively narrow roles. They manage channel decisions, oversee incremental innovations, take account of customer needs and preferences, and use those insights to fine-tune individual products and services over the course of their revenue-producing lifetimes. Product management, in other words, is a function not unlike marketing—one that is forced to make way when decisions arise that are the domain of other functions. Thus, sales may determine which products to maintain or kill, R&D may decide when an enhanced version of a product is ready for release, and operations may have the final say in choosing suppliers.

This diffusion of decision rights may seem like a good way of keeping all of a company’s functions involved across a product’s life cycle. But it can result in limited capture of customer insights, subpar innovation, and ineffective complexity management. Worse, when decision rights concerning the product portfolio are fragmented among various functions, it can create incoherence between a company’s products and its overall corporate strategy.

What companies need is more accountable decision rights that align responsibility for results to one person who also has cross-functional decision-making authority. This realignment is at the core of strong-form product management. Under

Illustration by Lars Leetaru

the strong-form model, the "product manager" becomes a "general manager," driving outcomes for a major portion of the business through a clear understanding of customer needs and leveraging all available channels. To a degree that would be unheard of at other companies, product managers at companies that use the strong-form model own the responsibility for top-line growth and other financial outcomes. They have the authority to make major product changes when needed and force actions across functional boundaries. They are able to stay ahead of change and remain competitive in fast-moving markets, while still maintaining the coherence among product and service lines that keeps them competitive.

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At Google, for example, experienced product managers are responsible for small, agile work teams, and hold them accountable for outcomes. The products that have resulted have been consistent with Google's mission of organizing the world's information—and of doing so in a way that is extremely simple and valuable from the perspective of most consumers. The company expanded successfully into smartphone operating systems by hewing close to this strategy.

Making the Transition

At many companies, strong-form product management has become critical for the performance of their product lines and the successful execution of product strategy. In general, companies that benefit the most from adopting this model are those with more complex or highly engineered products that require difficult cross-functional trade-offs to optimize and differentiate their value proposition to customers. Some good candidates include companies in the aerospace and automotive industries, for example, that develop a single new product with such a high level of investment that a wrong decision could have devastating financial consequences. Companies with dozens or perhaps hundreds of product lines, or annual product introductions, would also benefit from a strong-form model.

For all these companies, any successful adoption of strong-form product management begins with five steps.

1. Hire or train product managers with the right skills. Investing in talent development is critical. Strong-form product managers need certain intrinsic abilities—namely, the judgment to understand trade-offs, anticipate market changes, and make savvy business decisions. They also need the technical expertise to work with advanced functional leaders. Beyond that, they need influencing skills, because in many cases they won't have solid-line authority over functional leaders, but will rely on those leaders' involvement and support. For much the same reason, they need a collaborative leadership style, in order to get the best from people and not miss out on ideas and important input from functional managers and other stakeholders. Finally, and perhaps most importantly, strong-form product managers need an entrepreneurial mind-set. This presupposes a facility for connecting with customers, a general manager–like willingness to take risks (and live with the results), and a desire to be responsible for the P&L and for meeting key metrics.

This is a rare set of traits to find in one individual. It is the sort of package that often positions an up-and-comer for general management or even for a senior leadership role. Product managers at most companies have never been asked to operate at this level, and thus the transition can result in significant personnel challenges.

To build a robust product manager pipeline, companies should put an increased emphasis on learning and development. For instance, they may want to groom future strong-form product managers by rotating them through key functional areas, and create new practices to develop and reward these managers' performance—their compensation potential should rise, but far more of it should be variable. Companies should also give heightened attention to succession planning, whether it pertains to what a person must do to qualify for a product manager role or the career path a manager can expect afterward. At many product-oriented companies, a decade or so spent managing increasingly important product portfolios can be a stepping-stone to a position in the C-suite.

2. Enable financial transparency down to the product level. Business unit managers can usually count on getting information about their monthly sales, operating margins, and costs, but it's much less common for this information to be provided on a product level. Many multiline product companies have a surprising lack of insight into how individual products are doing versus their expected performance, the extent to which a given product may be siphoning revenue from more profitable products, and what the biggest drivers of (and potential detractors from) individual product profitability are. This can lead to hidden opportunity costs or to out-and-out profit surprises, often caused by an increase in costs from a supplier that is managed by another function.

A company moving to a strong-form model can alleviate these problems by making much more granular financial information available to its product managers. The idea is to measure actual product revenue and profitability over both the near and long terms. With this information, product managers can immediately address major changes affecting a product's life cycle. It gives them the insight they need to identify marginal or unprofitable products, as well as products that don't fit well with the company's most important capabilities. These can then be pruned from the portfolio.

Of course, implementing this level of financial transparency can be expensive and complex at some companies, but the benefits outweigh the costs in the long run. Information technology—specifically new enterprise resource planning and product life-cycle management tools that provide insight into the profitability of individual products—can help companies gather this essential data.

"I personally think transparency about costs has made us a better company," says a vice president of research at a multiline food company. A few years ago, the company made a detailed assessment of the costs and profitability of its individual products. "Now we know, 'well, if that margin doesn't [increase], we may have to make a choice of whether or not we really want to be in that business.'" This transparency is essential if strong-form product management is to have the maximal impact.

3. Implement product-first decision-making processes. Strong-form product managers must have substantially broadened decision rights and increased accountability for performance and results. They should be at the head of the table when it comes to product launches, channel strategies, pricing, and many other decisions—a "first among equals" status that helps them frame the trade-offs and come up with answers that will contribute the most long-term value to the enterprise. It should be the product manager who generates the product road maps and resolves conflicts among functions.

For example, Toyota's development of the Prius was helped by an approach that gave the product's chief engineer—in effect, Prius's strong-form manager—broad decision rights. Although the automaker's rivals had access to comparable innovations, technology, and supply chains, Toyota's decision-making process was an order of magnitude faster. As a result, Toyota introduced its first hybrid car in 1997, two years ahead of rivals. That speed-to-market has been decisive: Toyota still has a 50 percent share of the North American hybrid market today.

In a strong-form system, product managers are responsible for weighing inputs from the functions against the ultimate goal of enhancing long-term enterprise value. It becomes their job to ensure that the product portfolio is coherent with the corporate strategy. A product manager's leadership status among several influential functional heads means he or she effectively has the final say in most critical decisions. The product manager also plays a key role in implementing strategy by deciding which product attributes to develop and preserve, what services to include, and what price points to hit. The product manager at a low-cost manufacturer knows it is his or her job to nix new, too-costly features proposed by R&D that are nice but unnecessary. At a company that distinguishes itself through the experiences it provides, a strong-form product manager resists lifetime cost-savings initiatives proposed by operations if those cost savings would jeopardize the characteristics of a product that make a

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customer prefer it.

4. Establish deep customer connections. At strong-form companies, it falls to product managers to translate customer insights into product improvements and new products. This is very different from the customer connections that are made at companies that conduct product management more conventionally. Sales and marketing, not product management, may decide which new features get added at functionally run companies—increasing the risk that the product changes may be tactical, as opposed to being implemented with long-term profitability in mind. Likewise, at a conventionally managed company, R&D may unilaterally push new technology to market. This increases the risk of a failed launch if the technology does not fit with customer priorities, as was the case with the Iridium satellite phone system.

Closer connections to end-users enable strong-form product managers to effectively manage complexity and to deliver the right products and feature sets, performing better than the competition. It's worth noting that product-line complexity is not always bad. It depends on what has led to the complexity and whether it is creating value. But it can often be detrimental, for example, when companies fail to retire aging products that have a declining number of customers, or when they push so many products into the market that they overwhelm or confuse customers. The strong-form product manager distinguishes necessary from unnecessary complexity—and this includes technologies the company is investing in and supporting across the portfolio. The objective is to find the sweet spot of having a differentiated market position while not letting costs get out of control, and permitting only the complexity the customer will pay for.

5. Collaborate across functional boundaries. Strong-form product management is inherently cross-functional. Communication is essential in developing the relationship between marketing and product management; there may be some debate over which group sets the product mix, sales plan, and forecast. Another important relationship exists between engineering and product management; someone will need to oversee the trade-offs in early stages of product development.

A company that wants to use strong-form product management must break down these and other organizational barriers. For many top innovation executives, this is critical. After all, multiple departments generate information and contribute to the success of a product—a strong-form product manager needs to be at the center of this knowledge. For instance, instead of customizing a product for a single customer, a product manager who works closely with his or her peers in marketing and R&D may realize that the same innovation would benefit multiple customers, and that it can be engineered into the product at a platform level and scaled across customer segments. Similarly, a product manager who has a good relationship with his or her peers in operations may be faster to recognize the value that could be created—in the form of either increased product quality or lower costs—by changing suppliers.

Committing to Change

Companies adopting a strong-form approach will need to undertake a change management initiative that typically requires years to implement. Success hinges on the involvement of the CEO and other senior leaders. They must often make leadership changes at the product manager level, and they have to explain the benefits of the new model and advocate for it. And they need to prevail upon other functional leaders, whose skills they still need, to accept a new organizational paradigm and a shift away from their old roles in product management (*see "Think Functionally, Act Strategically," by Deniz Caglar, Namit Kapoor, and Thomas Ripsam,* s+b, *Spring 2013"*). After the CEO and senior leaders have paved the way, the organization must appoint a change management team to manage this transformation. This team must then articulate project goals, establish metrics for success, monitor progress, and course-correct if things don't go as planned.

Although fully realizing the benefits of a strong-form model will be a multiyear effort, companies can introduce improvements along the way. For example, executives can identify their highly skilled product managers at the outset, and put them in charge of the most important projects. And they can start working to improve transparency, which will bring immediate benefits as these managers acquire the information they need to make decisions.

Companies can also deploy strong-form product management in one business unit and a more traditional functional approach in other units. A semiconductor company, for instance, might use strong-form management in a fast-evolving area such as the development of mobile chips, but not in the unit that manufactures a commodity product such as DRAM (dynamic random access memory) chips. Or look at Amazon, which has adopted something very close to strong-form management in the unit that markets the Kindle e-reader.

Whether companies choose to build this capability in one business unit or to adopt it enterprise-wide, a strong-form model offers significant opportunities to move from strategy to execution while ensuring coherence—a critical enabler of success. By creating a tight link between strategy, the customer, and products and services throughout their life cycle, strong-form product management becomes the nexus of a company's current portfolio, future portfolio, and long-term profitability. As technologies continue to evolve and the chance increases for complexities to overwhelm the product line, strong-form product managers can ensure that their company is leveraging the best information to make smart decisions about innovation and development. Some companies have already made the transition, but most will need to embrace the strong-form model in the coming years—to avoid becoming the next cautionary tale. +

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