The Top 7 Productization Mistakes to Avoid in 2024

Vecteris

What you'll learn

For better or for worse, the past few years have placed new product innovation in the spotlight. Most organizations have had to engage in some type of new product innovation to adapt to dramatic changes in customer behavior and in the market landscape.

Unfortunately, most organizations have also found that they don't have the skills, processes, or even the culture to successfully create new products. Close to half of new products fail and more than 60 percent of companies take longer than a year to develop and launch new products. Here are the top 7 mistakes we see companies making right now:

1. Focusing on Processes Before People
2. Starting Too Big or Too Perfect
3. Aligning to Favor the Core Business, Not New Products
4. Developing Products that Don't Solve and Urgent & Expensive Customer Problem
5. Designing and Developing in a Vacuum
6. Letting Fear of Cannibalization Hinder Sales & Marketing
7. Stopping at the MVP

This white paper will explore each mistake and share how to avoid making them. We'll show you how to move product innovation efforts more quickly and with more customer-focus, as well as to help you evolve your organization's culture to be more innovation-minded.

ONCE IN A LIFETIME OPPORTUNITY

The COVID-19 pandemic has created a once in a lifetime opportunity for innovation.

It's interesting how a crisis – characterized by uncertainty and constraints – sparks so much innovation. When times are good, we often forget the proverb, "necessity is the mother of invention." We mistakenly believe that more resources (time, money, talent) will help us innovate. But my experience and the research show that innovation can flourish in times of crisis.

> "When written in Chinese, the word 'crisis' is composed of two characters.
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> One represents danger and the other represents opportunity."
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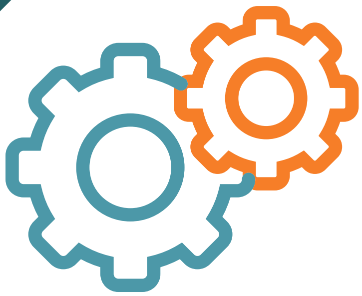
> – John F. Kennedy

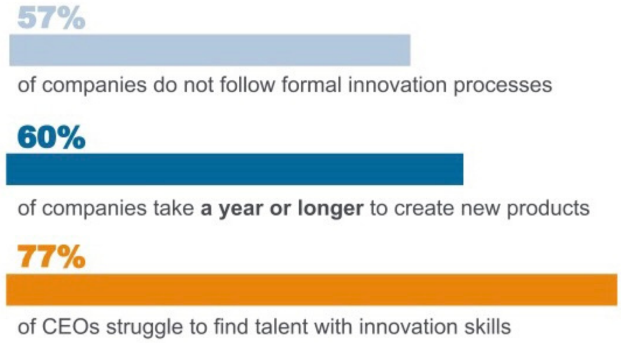


For example, a meta-analysis published at the end of 2019 found that constraints help, rather than hinder, innovation. The authors reviewed 145 empirical studies on the effects of constraints on creativity and innovation and found that individuals, teams, and organizations alike benefit from a healthy dose of constraints. In other words, the limits of time, money, and available materials, that many of us are dealing with in the wake of COVID-19, should help us be more innovative.

If the pandemic showed us anything it's that businesses need to be nimble and willing to change to meet the evolving needs of clients and customers. Companies moved to digital delivery at breakneck speeds. But what they are learning, and many companies already know, is that digitization and productization isn't just a smart way to ride out a crisis. As a recent McKinsey article noted, "During the current crisis, businesses have worked faster and better than they dreamed possible just a few months ago. Maintaining that sense of possibility will be an enduring source of competitive advantage."

UNFORTUNATELY, MOST EXECUTIVES DO NOT FEEL EQUIPPED TO INNOVATE

An April 2020 study by McKinsey found that only 21 percent of executives believe that they can carry out "New Growth" actions in the next 12 months. The reason for this skepticism is because most organizations have, what I call, poorly developed "innovation muscles." Consider these findings:



Without the process or the talent to innovate, it is no wonder most companies innovate too slowly, or worse, waste hundreds of thousands of dollars or even millions creating new products or services that no one buys.

This is because new product innovation, especially new digital product innovation, often requires a different set of skills, business processes, and investments than most organizations typically have. Without these, organizations will typically make a series of mistakes, costing them valuable time and wasting resources.

Through our client engagements and research, we've identified 7 key mistakes that companies often make.

Let's explore each and also discuss how to move product innovation efforts more quickly and with more customer-focus, as well as to help you evolve your organization's culture to be more innovation-minded.

Focusing on Processes Before People 01

Organizations that fail to develop successful new products typically don't fail because their leader isn't a visionary. It's not that the team isn't creative or smart. It's often because, as humans, we tend to favor the routine, the known, and the comfortable. Innovation takes us outside our comfort zones into uncharted territory. It almost always requires new skills, significant behavior change, and even new organizational structures.

This starts with the CEO and leadership team first articulating a clear vision for the innovation strategy such as "in the next three years we are going to impact 100 more companies, while only growing costs at half the rate."

Then the leadership team needs to start modeling new behavior, such as embracing a rapid test and learn approach to new product development and harvesting existing products to help fund new product development. For digital product innovation, the leadership team will also need to develop new skills, such as increasing their technical acumen.

The organization needs to invest in bringing in new skills such as UI/UX design, engineering, analytics, product management, product marketing, and perhaps even a different sales approach.

With all of these news skills and behaviors will come the challenge of managing a much more diverse organization. You will need to develop organizational norms and behaviors to successfully integrate and leverage this new diversity of skills, thought, and experience. Finally, you will need an organizational structure that facilitates collaboration and agility.

02 Starting Too Big or Too Perfect

Many organizations lose money on new product development and/or get lapped by competitors because they take too long to build and launch a product. Worse, they invest too much in a product with a poor market fit. These organizations often use long waterfall development processes with “stage gates” to advance to the next level of investment. It can take many months, if not years before they start receiving real market feedback on their ideas.

Successful product innovators adopt a more rapid, experimental approach to product development that is deliberately structured as a “build, measure, learn loop” built off of Lean Startup principles. The Lean Startup by Eric Ries posits that traditional, linear “waterfall” development or R&D “stage gates” should be replaced by iterative, agile techniques. Ries saw similarities between the more agile, iterative way of operating and the Toyota Production System, which had become known as “Lean Manufacturing,” hence the name Lean Startup.

Ries proposes using a Minimum Viable Product (MVP) approach. An MVP is defined as “the smallest experiment that either proves or disproves [your] assumptions about a business idea.”

Ries calls the MVP approach a build, measure, learn loop because we:

- “Build” a product we think customers want
- “Measure” if and how they use it
- “Learn” from what customers do and say about the product
- “Loop” back to the beginning to build again

It allows us to test our products in real life with real buyers and users in order to validate the product’s core value. MVP tests are designed to answer technical questions about the product, prove or disprove hypotheses, and get a real feel for the viability of the product in the market. MVPs help avoid costly mistakes.

Aligning to Favor the Core Business, Not New Products

03

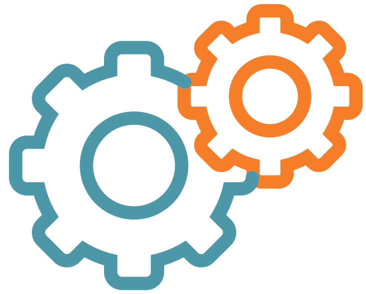
West Point graduate, leadership consultant, and author Jack McGuinness defines "Alignment" as occurring when "all members of the team work in sync to accomplish a common purpose. More specifically, an aligned leadership team debates well, proactively supports each other, is laser-focused on what is most important, and is committed to learning and improving." It is an incredibly important component of successfully executing a product innovation strategy. A lack of alignment between shareholders on the investment required to build and launch new products is a recipe for underinvestment. Additionally, a lack of alignment between organizational leaders on the strategies and performance measures to be used will doom products before they can launch.

It's common practice to assign new product development as a "special project" to existing staff to be worked on while work is slow or after hours. While this may work for the first six to 12 months of the project, this is not a viable long-term resourcing strategy. New product development done "off the side of the desk" of existing staff is rarely successful because client demands (and immediate revenue) are always a higher priority. One Chief Product Officer of an organization undergoing this shift remarked:

"We always prioritize existing businesses. In the moment of tough tradeoffs, it's very hard to say no to an existing customer to go build a product."

Organizations fail when they do not devote some initial resources (staff time for a design sprint, budget for fast-cycle market research or concept development, etc.) to new product development. To meaningfully innovate, organizations need to make investments. Allocating sufficient resources to fund product development and launch typically requires changing shareholder expectations. This is because, research, ideation, and concept testing, for a $20 million firm, typically costs at least one to two percent of revenue. Full concept development and launch can cost five to 20 percent of revenue.

And it's not just “seed” investment that is needed. Similar to the venture capital corollary, organizations need to set aside funds to make appropriate additional product investments once an idea starts to get traction (e.g., investment “powder”). One recent CEO we worked with shared that it’s difficult to transition to new product innovation by bootstrapping or taking a piecemeal approach building a feature here and a feature there. “To be successful,” he says, “we must fully commit and invest.”



MISALIGNED METRICS

It is also worth noting that many new business ventures or product launches fail because organizations use the same metrics and processes to assess and manage new product launches that they use for their existing products and services. This often means new product launches get killed too early because they generate less revenue, lower profit margins, and use more resources as they go through the launch process and fail to “compete” for focus and funding with existing products and services. This is a big mistake.

The simple truth is this: when we focus on this year’s output and revenue as the only measure of business success, we will never innovate well. We may run successful companies for a while, but it will be hard to remain competitive. For example, one consulting organization we worked with quickly realized that their emphasis on measuring billable hours by staff was creating a disincentive for staff to sell and service products that were not sold on a billable hours basis.

Successful organizations develop product innovation-friendly metrics such as:

- The number of new, viable product ideas generated per year
- The ability to launch new products on schedule
- The number of new customers since the product launch
- Overall product revenue and profitability

04

Developing Products that Don't Solve an Urgent & Expensive Customer Problem

The number one mistake I see companies make is developing a new product that does not solve an urgent and expensive customer problem. Sometimes it happens when an organization falls in love with new technology and jumps to developing a product that uses the technology. Another thing that happens is companies get so focused on leveraging existing intellectual property that they've already developed, and they forget to ask if customers really need or want it. In both of these cases, companies have developed a "solution in search of a problem."

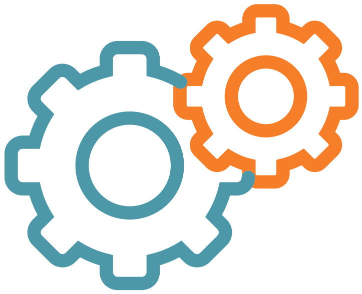
Other times our client's product team thinks they have identified an urgent and expensive customer problem. But it's really only a frequently cited problem.

For example, my team recently completed a new product development project for a client whose business was placing professionals in out-of-town assignments. We started the project with a series of Voice of the Customer interviews. Many of the professionals we interviewed talked about the loneliness they felt while on out-of-town work assignments. As we dug deeper, we realized that the problem of loneliness was not as painful as other problems, such as job assignment uncertainty or better temporary housing options. Loneliness was a frequently cited problem, but not an urgent and expensive problem.

We recommended to our client that they focus innovation efforts on solving the problems of job assignment uncertainty and better temporary housing options first and think about addressing loneliness later.

Sometimes the organization identifies an urgent and expensive problem, but for a market segment that is too small, too price-sensitive, and/or not a good fit with their core services.

For example, one copywriting services company decided to use their existing internal writing training program for new employees and develop it into a new product that clients could buy to train their own staff.



Unfortunately, after spending more than $100,000 developing the new external-facing program they found that the only companies interested in the training were the small handful of very large companies who had teams of in-house copywriters to train. The *Total Addressable Market* for this product was too small.

Other times, we mistake one client's request for the need of many clients. For example, the client of one highly niche training and development company asked for virtual delivery of the nine class training series to help reduce travel costs (this was pre-COVID-19). Without validating whether other clients had the same need, the company spent well into six figures building an online platform that only one company wanted.

In all of these cases, money is wasted developing and launching new products that not enough customers will buy.

Designing and Developing in a Vacuum

05

Heidi Grant Halvorson's book, *Reinforcements: How to Get People to Help You,* explores the reasons why people hate to ask for help. One of which is that we don't like to look like we don't know the answer. This happens frequently in new product innovation. Even if we take the time to conduct upfront market research to identify the urgent and expensive problems of attractive customer segments, we still design and develop in isolation. Potential buyers or users won't see the product until it is beautifully finished. Products like this typically fail.

The most successful companies take a co-creation approach both to design and development. Co-creation is simply involving people outside the product team in the development and ideation of a product. This includes ideating with employees outside of the core team, with customers, and with developers. Co-creation was coined in 2003 by C.K. Prahalad and Venkat Ramaswamy but really took off when LEGO started using it to develop new kits. LEGO has a platform where anyone can submit an idea for a new product. It's voted on by other platform users. If the idea is popular enough, the company will make it and share one percent of the profits with the idea originator.

UK-based Lloyds Banking Group is a good example of successful innovation based on involving multi-teams and stakeholders. Lloyd's was struggling to keep up with Fintech start-ups, in part because its processes were slow and innovation wasn't happening at the speed needed. They began to digitally transform through the creation of a digital services unit.

The unit is co-led by a senior IT executive and a senior business executive. This co-leadership helps to ensure that digital innovations are developed with both technology and operations in mind. "Not only does the unit deliver the technology solutions for the bank's new digital retail banking initiatives, but it also ensures that business processes are adapted appropriately," reports Capgemini Consulting. Today, Lloyds is the UK's largest digital bank.

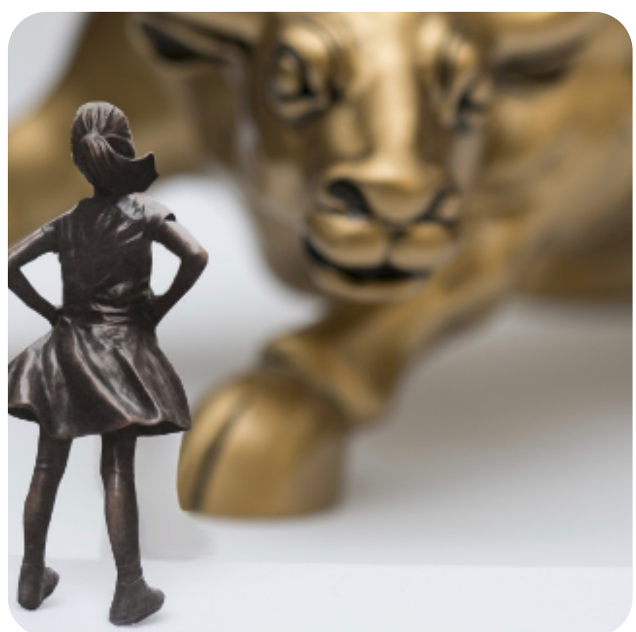
06 Fear of Cannibalization Hinders Sales & Marketing

Another hindrance to good product innovation is the tendency of companies to protect what they have and run away from products that they fear might cannibalize existing products or services. But the increased pace of change enabled by technology and increased access to capital, have increased the number of competitors especially, digitally disruptive competitors.

For example, one market research firm realized that 60 percent of the custom analysis that they were doing for clients could be automated because it was simple data capture and reporting. They explored the possibility of creating a self-serve reporting dashboard for clients to use to access this data, rather than having staff generate reports. The Chief Product Officer shared with me, “The idea of automating the reporting and giving our customers self-serve access to it terrifies most of the business leaders because it represents 60 percent of the work that we do now for clients. However, if we don’t do it, someone else will.”

And he was right. CB Insights recently pointed out that tools like Looker, Tableau, Microsoft Power BI, Qlik, SAS, and Domo allow companies to instantly generate reports on trends such as:

- Customer lifetime value across demographic and behavioral cohorts
- Conversion rates (site-to-item and item-to-cart) across an entire product line
- Efficiency of marketing spend and ad targeting



Businesses that are willing to cannibalize their existing revenue streams are more likely to survive. Many executives get caught up in the fear that more scalable (often less expensive) products will detract from, or worse destroy, their existing business. In truth, new products cannibalizing our existing businesses is the best-case scenario. Sooner or later, our revenue will erode from competitors if we aren’t willing to risk business as usual.

Consider this advice from Scott Anthony, co-author, *Dual Transformation: How to Reposition Today's Business While Creating the Future*: "…companies must come to grips with their cannibalization concerns because getting overly defensive can curtail powerful growth strategies."

Our best advice is to abandon the idea of totally protecting your existing services. Instead, think about how new products could attract new customers and eventually drive them to your existing services or complement existing services. Mapping how customers may go from products to services and back to products is an important part of this work.

07 Stopping at the MVP

MVP “learning loops” are only helpful if we commit to iterating on our product based on what we have learned. This is hard for organizations that have a history of long R&D cycles or that are not used to staffing post-launch teams to learn what the market likes or dislikes so they can make the product better. We need to form hypotheses, measure what we are learning against those, develop new hypotheses about the next stage of growth, and use reserve investment dollars and people to capture what we learned from the MVP launch and make the product better.

Take Dyson vacuums, for example. Dyson Ltd is a billion-dollar company whose leading product took 5,271 prototypes to create. The inventor, James Dyson, learned something new from every version he created and then improved it on the next iteration. This test and learn philosophy is something the more than 3,000 engineers at the Dyson company still use today. It’s safe to assume that its engineers don’t need as many prototypes as the founder did. They now have a global market of users who feedback information about what’s working and what’s not through their buying decisions.

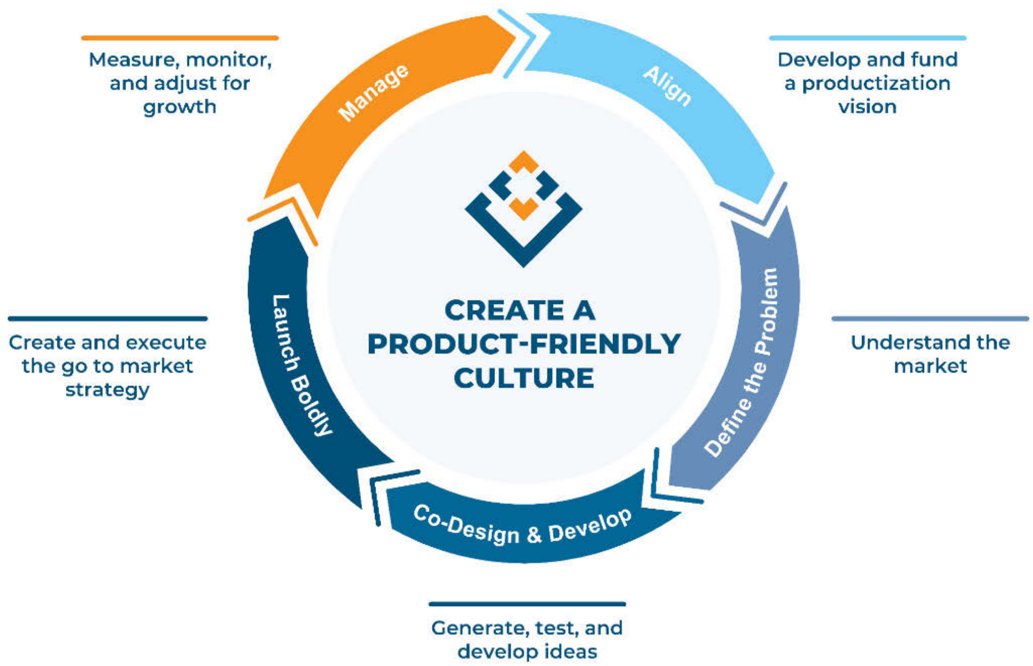
The point is our MVP or prototype is only valuable when we make changes based on what we learn. That means we need to accept that we will have made some mistakes listen to customers when they point out those mistakes and fix them in our next product iteration.

Our MVP is built on the best information we have at the time, but it’s not going to be perfect because our information is incomplete. I like this quote from Christopher Moisan, Product Principal at Idean, a global design firm, “We still have our known-knowns to build and deliver on and there’s the unknown-unknowns — things that crop up during our product development journey that we need to address.” The MVP helps us uncover the “unknown-unknowns” so that we can improve our product and delight more customers.

The Vecteris Productize Pathway™

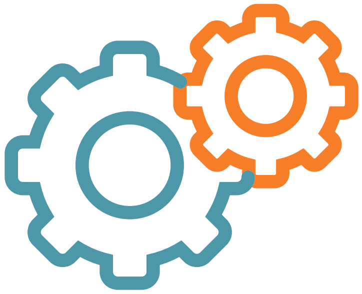
Vecteris uses a new product innovation method that is designed to help organizations avoid the top seven innovation mistakes. It is designed to move product innovation efforts more quickly and with more customer-focus, as well as to help organizations evolve their culture to be more innovation-minded.

The Productize Pathway™



Rather than creating a “set in stone” strategy, we create a set of hypotheses that we are always testing through market experiments. This approach is deliberately structured as a Lean Startup inspired “build, measure, learn loop.” It also uses Design Thinking methods, to keep the approach very customer-centric.

We start in the middle of the loop with the fundamentals of **Creating a Product Friendly Culture.** That's where we win employee hearts and minds and begin to develop new skills across the entire organization. We bring in new skills and learn how to effectively manage and leverage more diversity. We develop more collaborative and cross-functional ways of working.



We then move around the loop, starting at the top with **Align**. Here we set-aside sufficient resources to fund product development, determine how to allocate these resources across a 'portfolio' of product options, and separate the operational metrics and processes used to run the existing business from those used to launch and scale new products or services. We set a regular tempo of engaging stakeholders with updates about new product development and launch progress and discuss funding specifically.

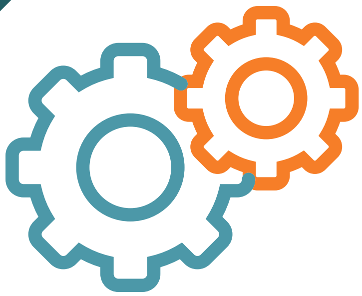
Next, we **Define the Problem.** The goal in this stage is to understand the urgent and expensive problems found in the most attractive market segments. This is part stellar customer listening, part data analysis, and part strong associative thinking to spot patterns that no one else can see. This includes:

- Understanding your customers' and prospects' urgent and expensive problems
- Knowing how these problems present by different segments or personas
- Understanding the competitive landscape and where there are opportunities for a new product

Then we move to **Co-Design and Develop**, where we generate, test, and develop ideas. Our co-creation model involves ideating with employees outside of the core team, heavily engaging with potential customers, and closely partnering with developers. This includes:

- Developing and cataloging new ideas
- Developing preliminary business models and modeling the revenue and profit potential
- Quickly testing concepts with customers and prospects
- Translating market requirements into product requirements that designers and developers can use to develop an MVP
- Working with designers to build and test prototypes
- Working closely with developers to build a functioning front and back-end
- Continuously soliciting user feedback

As we are developing, we are also planning to **Launch Boldly**. Here we plan how new products will attract new customers and eventually lead them to consume existing, yet complementary, products and services.



Mapping how customers may go from product to product is an important part of the Launch Boldly phase. This phase includes:

- Developing pricing strategies and packages to target different segments
- Creating messaging to articulate the value proposition
- Creating a multi-channel marketing plan
- Creating a sales strategy and winning the hearts and minds of the sales team

Finally, we move into **Manage**. This is where we learn from the market and begin to iterate and repeat an abbreviated version of this cycle again to improve and grow the product. This includes having:

- A customer onboarding process and a usage measurement process to ensure customers are using the product they purchased
- Regular product performance review and roadmap update conversation
- Regular discussion on how the overall portfolio of products is performing