

Developing a winning product offering

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Our innovation business model framework comprises five primary components: markets, products, processes, people and economics (see [Innovation business model](#)). In this paper, we explore the second component of this framework – products. For an introduction to how the model was developed and how it compares to others, see [What is a business model? A new approach](#). For an overview of the first component, see [Selecting and understanding markets for technology innovation](#).

“Products” as we use it in the model means much more than the product itself. We use it as short-hand for the product offering – the total offer to the customer. In addition, we focus on technology-based products – specifically on products and product offerings developed around new, innovative technologies.

The goal of the products component is to develop a product offering that creates extraordinary value for customers, by meeting their urgent needs better than all their other options; partners, by enabling them to participate with you in providing an exceptional “whole solution” to the market; and your company, by generating long term growth and profitability. This paper presents a framework and guidelines to translate exciting new technologies into winning product offerings in the market.

A typical product development story

For many, perhaps most, technology companies, product definition and development is largely an engineering and technology driven effort. Here’s the typical story: scientists and researchers make an exciting discovery, or perhaps an inventor or entrepreneur has a sudden insight – a flash of genius. This discovery or insight is usually a new way to combine or leverage existing technologies; sometimes, it is a whole new technology. Either way, it seems that if only certain technical hurdles can be overcome, the possibilities and applications for this new technology are endless. The passion of the inventor is infectious, the vision is compelling, and huge efforts are made to address the technical challenges and develop a product based on the new technology. Everyone is amazed at the technical prowess of the engineering team. There is growing confidence that they will be able to overcome all the technical issues, following which no doubt the market will clamor for the product.

After months or years of effort and substantial investments of time and energy, the new product is ready (well, almost ready – invariably the first release of any new technology product has a number of bugs and technical problems still being ironed out). It is launched with great fanfare. Management and

investors are by now at a fever pitch of anxiety and expectation. Weeks and months go by. Customers are interested, but they don't seem to "get it". Sales don't take off as hoped. The company concludes that it's a communication problem, they're obviously not being clear about how great the product is, so money is poured into more sales and marketing. But the needle on the sales dial hardly moves. By now the salespeople have concluded that the technology is cool but for some reason customers are never going to buy it, while the technologists have begun to suspect it's actually the salespeople who don't "get it". Everyone starts getting a sinking feeling.

What happened?

While it takes a complete business model to have a happy ending to this story, once an attractive market is identified it is the product offering that is of pivotal importance. If you offer something that people really need and want, at least some of them will find you and buy your product almost regardless of the quality of your sales and marketing. On the other hand, if your product is a "nice to have", it doesn't fully meet their needs, or it's not obvious why it's better than other options, you will struggle to generate sales, no matter how much you spend on sales and marketing. Defining the right product offering, then, is as vital as each of the other components of the business model to economic success.

So what does a successful product offering look like? A product offering comprises five primary elements: product definition, customer experience, pricing, collaboration and differentiation. To design a successful offering, you need to optimize each of these elements, individually and in a seamless blend, to deliver true value for customers, partners and your own company.

Product definition

The core of the product offering is the definition of the product itself. Product definition is the critical first step of the product development lifecycle, which begins with product definition, then moves through development, testing, and launch, and then transitions to long-term product modifications and evolution. Good definition is the foundation for success, and is frequently the core problem with technology products. It is a widespread practice amongst both large and small companies to move from basic concept or idea directly into development, with only cursory attention paid to clear product definition.

Good product definition is a five step process: understanding *customer and other stakeholder needs*, summarizing those needs in a set of *requirements* for the product, developing a *solution vision* to meet those requirements, translating that vision into a set of detailed *user and producer specifications*, and then *designing* the product to meet those specifications. The output from product design, which then becomes the roadmap for development, may be regarded as the definitive final definition of the product.

Understanding customer and other stakeholder needs

The starting point is understanding in depth what we call the *core needs* of a clearly defined customer. These are the customer's fundamental problems, desires or "jobs to be done". You also need to understand the existing solutions available to the customer, and the extent to which they are meeting

their core needs. This research is central to the [markets component](#) of the business model, and you should not proceed with product definition until you have a deep understanding of your selected market. This critical first step is often the first hurdle technology innovations fail to overcome.

In addition to understanding your target customer's core needs, you also need to understand the needs of the key stakeholders who will develop, market and deliver the solution – both in your company and your partners. These include the need to realize the full power of your technology innovation in the product, the need to generate and capture value from the product, the need to leverage existing resources and investments in developing, marketing and delivering the product, and the need to maintain maximum flexibility for future product evolution.

Summarizing product requirements

Once you developed a deep understanding of customer, partner and company needs, you should summarize them in a set of written product requirements. Correctly capturing and prioritizing requirements is critical – vast sums have been wasted by companies developing features and products that customers don't need or want.

What makes this difficult is that in many cases, particularly with technology innovation, customers don't know what the product should comprise. Your job is to turn an understanding of what the customer is trying to do into a market requirement for a product. You also need to include a prioritized set of company and partner requirements for the product.

It is both an art and a science to develop a correctly articulated and prioritized set of customer, company and partner requirements, but it is a crucially important activity – these requirements become the foundation for your solution vision.

Developing a solution vision

The next step is to develop a vision for a solution that will effectively meet these requirements. You should focus on developing a vision of a “whole solution” for the customer –one that includes everything necessary to meet their needs as completely as possible, and nothing that they don't need or want.

For technology products, the whole solution can be complex, and often comprises core technologies, system components, an integrated system or platform, end user application modules, and integrated end user solutions. Your solution vision needs to determine which of these elements of the whole solution are missing from existing solutions, and how your technology innovation can help provide a better whole solution for the customer. In the best-case scenario, the whole solution will not be possible without your innovation. Your vision also needs to determine which elements of the whole solution your company will provide, and which will be provided by partners or other players in the market ecosystem.

Solution visions for different types of innovation. How your innovation can improve the whole solution, and therefore the value potential of your innovation, will vary depending on what type of innovation it is. In this context, Clayton Christensen's concepts of sustaining, radical and disruptive innovation provide a useful framework for thinking about what type of innovation you have, how your innovation can

contribute to the whole solution, and what role you and partners should play in providing the whole solution¹.

Sustaining innovation is about providing additional features to existing solutions for existing customers. Most innovation is sustaining, as markets evolve and competitors continually build out their solutions towards the goal of the whole solution. If you have a sustaining innovation, you contribute to the whole solution by complementing and extending existing solutions to better meet customer needs. To do so, you can focus just on providing your innovative element, leaving other players to provide the rest of the whole solution.

Radical innovation is about offering fundamentally new and better performance based on new core technologies to existing customers. Other than the dramatic performance improvement, the whole solution is similar in many ways to the previous whole solution as you are serving the same customer with the same needs. However, your radical innovation is likely to be core to the whole solution, and may require you to find different partners or offer more of the whole solution because of the different nature of the core technologies.

Disruptive innovation is about offering new solutions based on new core technologies to a new class of customer – people who are either not currently customers or who are peripheral customers. Here, the whole solution is fundamentally different to the previous whole solution – simpler, cheaper or more complete – because it is targeted at a different type of customer with a different set of needs. Given that both the core technologies and the whole solution are so different, it is likely that the disruptive innovator will, at least initially, need to provide more or all of the whole solution.

Solution visions for different stages of market maturity. Similarly, the whole solution, how it is provided and what role your innovation should play is heavily influenced by the market's stage of evolution and future trajectory. For a very early stage market (typical of both “new to the world” innovations and disruptive innovations), you may need to provide the whole solution yourself, as there may be few or no other players yet in the space, and skepticism is likely to be high.

Once the early market shows some evidence of life, it normally fragments into horizontal component, system and application providers, with system integrators creating whole solutions for customers. Here you will need to decide whether your innovation is best suited to providing components, platforms, applications or integration services. You will also need to build the right partnerships to be able to deliver the whole solution to customers.

Over time, the market evolves into a far more complex ecosystem, as some component suppliers specialize further and others evolve into integrated subsystem vendors, specialist platforms appear with an increasing array of core technologies and functionality, and companies begin to provide a wide range of applications and integrated solutions for specific vertical niches. As it does so, your solution vision must evolve accordingly.

Another element of your solution vision with respect to market maturity is the role your solution will play in setting industry standards and guiding the evolution of the industry value chain and ecosystem. With early stage markets, the opportunity may exist to become the industry standard and at the heart of the industry value chain – an extremely powerful and valuable position to hold in a rapidly evolving

market. If this is your situation, you may wish to consider a solution vision that encompasses becoming the industry standard.

If you are in a more mature market, there are likely to be two or three vendors vying to be the industry standard. If you are not one of them, your solution vision needs to encompass to what extent you will tie your products to one or more of the emerging industry standards contenders. There may still be an opportunity to influence the industry value chain in some respects, and this too should be a key part of your solution vision thinking.

Understanding these market dynamics is essential to defining your solution vision. Being too far in advance of, or too far behind, the market's stage of evolution will mean your solution will not properly meet needs and will not get traction. Getting it just right will translate into Geoffrey Moore's "tornado"² - the dream of every innovator and entrepreneur.

More generally, your solution vision is the foundation of your product offering. Far too many innovators and product teams gloss over this incredibly important step in their rush to begin detailed feature definition and product development. Creating a true solution vision in a deeply thoughtful way, that takes full account of customer, company and partner needs and requirements, that addresses the key shortcomings of existing solutions, and that is built on true insight into the market's evolution, is the heart and soul of the products component of a successful business model.

Defining product specifications

Once you have a robust solution vision, the next step is to translate that vision into a set of detailed user and producer specifications that can be turned over to the engineering team.

User specifications reflect the feature requirements of the product users. It is important to think about two categories of user features – *functionality* and *usability*. Functionality features are the primary product elements that allow the user to do the job they're trying to do. Usability features are about making the product fun and easy to learn and use. In early stage markets, functionality tends to dominate, but over time as functionality becomes homogenized, usability grows in importance.

Producer specifications reflect your company's and your partners' requirements. They determine the core technologies to be used, what the product must include to make it feasible and economic to produce, market and deliver, what it must integrate with to deliver the whole solution, and how the product will meet regulatory or industry standards requirements.

The key is ensuring the specifications are comprehensive and correct at the right level of detail. Leaving key specifications out is as problematic as having too many specifications. Incorrect specifications will result in a failed product. Specifications that are too detailed delay the process and limit design creativity; specifications that are not detailed enough either cause delays as they are clarified, or lead the design engineers to fill in the blanks with guesswork.

Creating the product design

The final step in product definition is product design, which effects the transition from concept to development. The goal is to come up with a product design that properly meets both user and producer specifications. While a detailed discussion of design is beyond the purview of the business model and

this paper, there are two points about design that are very important, and frequently neglected by technology companies.

The first is to actually *do* design. It never ceases to amaze us, when working with companies, how many do little or no professional product design. Much of both the technical architecture and the product's aesthetics and usability are designed by the development engineers. The result, all too often, is products that are inelegant both technically and from the customer perspective. Thankfully, in recent years awareness of the importance of product design has grown amongst technology based companies, as a result of the success of icons such as Apple.

Secondly, it is important to understand the difference between the two types of design skills, and to employ both in a seamlessly integrated way. One is "internal" to the product, focused on technical design or architecture to deliver user functionality and meet company and partner operational needs. The other is "external", focused on usability, aesthetics and branding, to meet both customer usability needs and company sales and marketing needs. While they share some principles, these are fundamentally different disciplines, and different professionals are needed for each. It is impossible to design products that truly meet both user and producer needs unless they are professionally designed by both disciplines working in close coordination and harmony.

Customer experience

The second element in a product offering is the customer experience. This refers to how the customer experiences learning about, buying, implementing, using, maintaining and eventually transitioning from the product. Defining a good customer experience addresses the second category of customer needs, their buying needs. As discussed in our [markets](#) paper, customers do not buy until both their core needs are satisfied with the whole product solution, and their buying needs are satisfied with a good customer experience. As such, it is as important to think through and explicitly design the customer experience you deliver as it is to design the right product itself.

Designing a good customer experience requires you to walk through every touchpoint (web site, phone, personal meeting, email, etc.) that a typical customer experiences doing business with your company. It is very important to do this from the perspective of the customer, and based on this research, to think through the different stages of the customer's buying and ownership cycle. A good description of this approach was given by Shapiro, Rangan and Sviokla in their Harvard Business Review classic *Staple Yourself to an Order*³.

Once you have identified the current customer experience at each stage of their buying and ownership cycle, you can begin to define the preferred experience that you want to give customers. By speaking with customers, brainstorming internally, and looking for lessons from a wide range of companies who deliver superb customer experiences, you can define the myriad details that collectively will provide the right experience to your customers.

Implementing this customer experience design is a matter of identifying which of the core processes in your business, particularly in sales, marketing, operations and customer service, need to change in order

to deliver the desired experience. We will explore this in more detail in our upcoming paper on the processes component of the innovation business model.

Pricing

The third element of a product offering is pricing. Pricing is obviously a critically important variable, and a key determinant of market success for a new innovation. For many products, relatively small variants in pricing can have major impacts both in winning customers and in product profitability. How do you go about defining an optimal pricing model?

The first step is to understand the real value you deliver to your customer. The value you deliver is a function of your product, the whole solution you enable, and the customer experience you deliver. Each of these elements has potentially quantifiable value to the customer.

Your primary goal in defining the value you deliver should be to calculate, as specifically as possible, the actual dollars and cents benefit your customer enjoys as a result of buying and implementing your solution. Ideally, you should do this in discussion with actual customers and prospects using their data, so that they agree with and endorse your calculation of the value delivered. This analysis is fundamental to being able to develop a good pricing model.

On top of these tangible, bottom line benefits, there also may be a number of other ways in which the customer gets value from your solution. You should carefully identify and make explicit each of these, supported by actual customer testimonials wherever possible. However, in our experience, customers define value for purposes of pricing largely as tangible value that they really can see and believe, and all the intangible benefits are seen as incremental to that.

The total value to your customer sets the ceiling for the price you can charge. Your goal in pricing is to capture a reasonable proportion of this total value for your company, while ensuring your customer still enjoys sufficient net value (total value less the price) to make the purchase a good decision.

Once you have a clear, demonstrable sense of the value you deliver to your customer, the next step is to understand competitive pricing – more specifically, the cost to your customer of the other options available to them to solve the problem. This may be as simple as reviewing available market pricing for competitive solutions. Often though, it is more difficult to get this kind of information, as competitive pricing may not be readily available, or the alternatives may include internally developed solutions. Through a combination of online research, speaking with customers, channel partners, salespeople who used to work for competitors, and other industry players, and reasonable assumptions, over time it is normally possible to construct a pretty accurate read on the true cost to your customer of each option.

Competitive pricing typically sets a strong benchmark in a market, and shapes customer expectations. You need to set your price relative to competitor pricing, based on the difference in value delivered to the customer of your solution versus competing solutions. Once you understand competitive pricing and the relative value of your solution, you can determine whether your solution warrants a premium or a discount relative to these other solutions. With that, you have now arrived at a total price you could charge for your solution.

The next step is to consider what payment model makes most sense for your product offering, particularly a one-time versus an annuity payment. Many technology solutions are migrating towards an annuity model, as this makes the solution much more affordable for customers, and tends to lead to higher total lifetime pricing. However, an annuity pricing model typically requires the business to have a much higher level of funding to finance the initial sales.

In recent years, a range of other pricing models have evolved in various technology markets, particularly for Internet businesses with very low marginal product costs. Our paper on [“free” pricing](#) identifies four of these models: the subsidy model, upgrade model, advertising model and asset model.

Your pricing strategy should reflect your overall business goals. In some cases, it may make sense to price low to gain market share. Invariably, however, pricing in technology markets falls quickly over time, so many technology products seek higher initial price points to capture more value and help repay some of the upfront development costs before competitive conditions drive pricing and margins lower.

More than most elements, pricing, particularly with new innovations, needs to be approached as experimentation. A number of different pricing options should be explored and tested in relatively short order, until enough learning has been gained to converge on an optimal pricing model.

Collaboration

The fourth element of a product offering is collaboration – how your solution fits with other solutions to provide the whole solution to the customer. For most technology based companies, this is an extremely important part of the product offering. Your solution needs to meet industry standards so it can integrate generally with other products and technologies, and it may need to have specific integrations developed for dominant market solutions which are particularly important to your product gaining market acceptance and traction.

To define your collaboration model, you need a deep understanding of your target market’s value chain, as well as the broader value network comprising the value chains of all the complementary solutions in the industry. For some companies with whom we’ve worked, the list of potential partners and collaboration opportunities has comprised hundreds of companies.

Once you’ve developed such a list, you need to be guided by the priority needs of your target customers, and the whole solution you want to provide, in order to determine your priorities for developing specific integration capability with selected complementary products in your market.

In some cases, particularly with early stage markets, there is an opportunity to gain a dominant market position through a well-designed and aggressive collaboration model. This involves identifying and securing the support of major industry players for your solution, on the basis of a very clear value proposition to each of them. In the best case scenario, your solution becomes the industry standard, a very desirable and valuable position to occupy in a rapidly growing market.

Differentiation

The final element of a product offering is differentiation – defining how your solution is superior to other options, and sustaining that superiority over time. For customers, partners, influencers and other market players, differentiation is achieved through *positioning* – how your solution is positioned relative to other solutions, and the extent to which your solution meets customer needs compared to their other options.

This positioning should take account of the total of the other four elements of the product offering – the product itself, the customer experience, pricing and collaboration. You need to position the sum total of these four elements as a seamless whole, relative to the sum total of the same four elements of competitive product offerings, in the mind of your customer.

Whether you do anything or not, customers will position your solution in their minds relative to other solutions. It's a human tendency to do so in order to make sense of our options and decide what to purchase. Given this reality, rather than just leaving it to the customer to position your solution based on incomplete information, you are far better off proactively positioning your solution through a clearly articulated *value proposition*.

Value proposition

A value proposition is a summary of the total value to the recipient, where total value is defined as total benefits less total costs. Note that only those elements of your product offering – product features, customer experience and collaboration - that *meet customer needs* are benefits. All other elements offer no benefits, and may even be a negative and thus part of total costs. Total costs include pricing and other factors such as time and risk. An effective value proposition must offer substantially greater total benefits than total costs.

Your value proposition must be developed in light of buyer alternatives - your offering must not only be of value, but of greater value than all other options available to your target market. In order to create a proposition that meets your market's needs better than all other options, it may be necessary to explore adding or removing both benefits and costs.

In some cases you offer more value by increasing benefits at a similar or lower cost - compare the cost of a PC today versus five years ago. In other cases you increase value by eliminating many features and even some benefits - but at a dramatically lower cost. Southwest Airlines is a well-known example of this. Sometimes you can increase benefits significantly at a premium price and still deliver substantially more value - Starbucks is an obvious example.

A good value proposition, in addition to offering value, must be effectively communicated to your target market. Strong value propositions should be clear, concise and compelling.

While you begin by defining the value proposition to your customer, you also need to define value propositions to other key players, particularly your various categories of partners, including channel partners, vendor partners, technology partners and strategic partners. In each case, the total benefits of your product offering must exceed the total costs to them in order for your offering to create net value to them.

Equally importantly, your product offering needs a clear value proposition to your own company. The total benefits to your company – such as long term revenue, profitability, market reputation and customer relationships – must exceed the total investment and operating costs incurred in creating, marketing and delivering the product to the market.

Value protection

In addition to a value proposition, differentiation includes the need for value protection, to ensure you can sustain your differentiation and competitive advantage for as long as possible, and resist competitive value erosion. While intellectual property protection is frequently the first thought that comes to mind in this regard, there are in fact a number of approaches to consider in defining the value protection element of your product offering. In our [paper on mitigating competitive erosion](#), we identify a dozen different approaches grouped into two broad categories: limiting competitors' ability to offer a similar product and/or price, and encouraging customer preference for your product other than through features or price.

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In summary, this paper has presented a framework and set of guidelines to developing a winning product offering, the second component of designing a successful business model. A winning product offering comprises a well designed, seamless blend of five elements:

- a superb *product definition*, enabled by your technology innovation, to provide the whole solution to the customer's core needs and nothing that the customer does not need;
- an excellent *customer experience* throughout the customer's buying and ownership lifecycle that meets their buying needs completely;
- an optimal *pricing* model that captures the maximum possible value for your company while ensuring sufficient net value is delivered to the customer;
- a well thought-out *collaboration* model, to ensure your product integrates effectively with complementary products and technologies across your industry's value network;
- sound, sustainable *differentiation*, through effective positioning and value propositions to your customers, partners and your own company, and a strong value protection model.

References

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