How Better Product Management Boosts Profits

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Profits gained from product initiatives are driven by two factors: the selling price of your product, and its total cost. The difference between the selling price and its cost is profit, both of which are impacted by product management.

Let's take a look at cost. How does better product management impact cost?

Better product management leverages standard practices, a single source of truth, an institutionalized language, asset sharing, and collaboration to reduce costs by as much as 25% through efficiencies, lower ramp-ups, and leveraged work.

Product management is a structured approach to defining, planning, and guiding project execution of product initiatives. Through better product definition and planning, project execution is more effective and efficient. Organizations can save at least two to three percentage points on overall costs just by reducing the amount of changes. It has been shown that product management practices that include multiple validation points can cut annual release costs as much as 10% by doing the right thing once.

Proper product management, using roadmapping in coordination with the other Seven Pillars of Collaborative Product Management, improves organizational alignment which further reduces costs. Think of it like tire alignment on your car. When processes, capabilities, or product features are slightly misaligned, they pull against the rest, wasting energy which ultimately is measured in cost. Depending on the organization, an additional 10% cost reduction can be gained by staying aligned with core competencies and strategic product direction. One-off product initiatives are costly and taxing on the entire organization.

As a product becomes more clearly differentiated in the market, its cost of sales and marketing decreases.

It turns out not all product features are equal. Two features delivering the same value to the market can cost more than four times as much as the other. Better product management practices help identify the features costing 20% of the budget, while delivering 80% of the value. Product management practices should utilize portfolio management principles which help organizations reduce overall costs.

A better product management culture pays in reduced costs which increases profit margins.

But what about the sells price, can better product management increase the sales price? This is a little tricky, but the answer is yes. Remember, an increased price may not be part of the product strategy. Product management will increase the perceived value of your product which may or may not translate into raised price. The organization may elect to sale more product, or raise the price. The result is the same, the amount of profit collected goes up.

Product management increases the perceived value of a product by defining product features that the market values and is asking for. Product Management can further increase perceived value by including a balance of PERFORMANCE, BASIC, and EXCITEMENT requirements in every release. This balanced approach increases the perceived value of the product using the same resources. The result is higher profits.

The primary purpose product management is to increase profits with increasing amounts of competitive advantage through all product initiatives. By improving product management, an organization will lower costs and increase the perceived value of a product, thus increasing profits.

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