

# PRODUCT THINKING

Product thinking is the ability to discover and solve for a problem that creates value.

Product thinking is the single most essential product capability that a product manager must acquire. It is comprised of two portions: (1) the ability to discover a valuable problem; and (2) the ability to create a solution that delivers value. In practice, these two portions are typically done at different levels. The ability to create a solution for a known problem is typically easier and thus is far more commonly expressed at a junior level. For most novice product managers, the problem is given and they must utilize product thinking to come up with a solution that delivers accordingly. As you progress in your career, you start to move towards discovery. The job becomes less about how and more about identifying what problem is valuable enough to solve. Discovery is harder because it requires a broader understanding of the product management process and a much more holistic view of the business, which requires more exposure to senior decision making.

In interviews, assessment is often done for both portions of product thinking. "What product or feature would you build and why?" is a very common interview question that encompasses both the discovery and solution portions of product thinking. For beginners, nailing the solution portion will be more important to doing well. For more experienced individuals, being able to handle both is crucial.

The degree to which you need to be able to exercise product thinking depends on the problem space that you're working in. Unestablished spaces like ambiguously defined startups or complex technology require a high degree of product thinking while an established product line or simple service require less in order to be just as effective. Regardless of the minimum effective dose required for the problem, getting better at product thinking generally makes you a better product manager.

## Defining Value

Value is additional benefit that is received in excess of the cost.

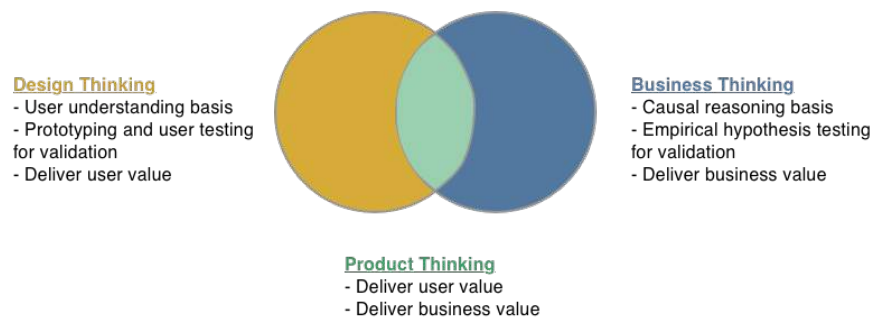
The defining characteristic of product thinking is value. Value, in our usage, is the additional benefit that is received in excess of the cost.

$$Value = Benefit - Cost$$

User value is simply value determined in relation to a user. User benefit is anything that makes it easier or more pleasant to do something the user wants to do. The cost is what the user must pay to obtain the benefit. The cost can be explicit like the price of the product or it can be implicit, like the behavioral cost of having to fill out too many fields. User value does not necessarily have to be quantifiable. It is generally more important to build this framework into your thinking process and to factor it into your analysis. There are situations where quantification will be necessary, especially in larger organizations that have a large number of prioritization trade-offs. When such situations arise, having the conceptual framework to begin with will make it easier to quantify.

Business value, likewise, is the value determined in relation to the business. Business benefit is anything that the business gains to improve its position. This will commonly mean more revenue, more users, or more market share. Business cost is the combined cost of producing the feature, including the financial expenditure, time, tooling, and manpower needed.

It is these requirements of value that distinguishes product thinking from just coming up with a cool feature. Anyone can come up with an idea. We all have our opinions of what we like and what we don't like. Product thinking is constrained by the need to deliver value, therefore requiring you to observe, analyze, and logically assess what will work for the user and the business. Product thinking is very closely associated with design thinking, which is a process to solve for user value. The main difference between the two is the need for business value. In design thinking we seek to optimize user value whereas in product thinking, trade-offs are made in order to achieve both types of value. We may sacrifice some user value to achieve business value and vice versa. In practice, product thinking looks like a blend of design thinking and business thinking.



## Value Models

It is entirely possible to produce something of great user value and no business value. It is also possible to produce something of business value and of no user value. In the long run, user value and business value tend to track each other. But the long run is a statistical average over an arbitrary period of time - something that is only helpful as part of a very general macro commentary. At an operational level, which is the level that we are concerned with, there is no guarantee that user value and business value track each other. Rather, you - as the product manager - are responsible for ensuring it. This is part of what makes the product management function both unique and challenging.

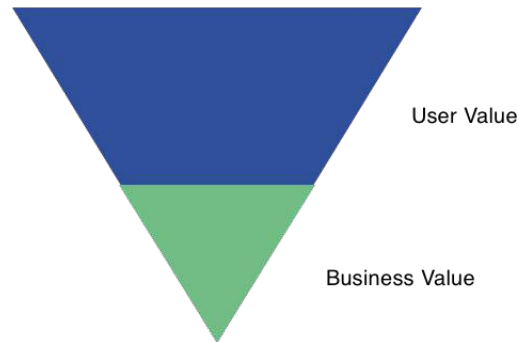
How is it possible to produce user value but no business value? Consider a company that builds a mobile app with a free version and a paid version. The hypothesis is that the free version will give users some initial value which will entice them to pay for the paid version. After a few months, the company finds that the free version has a lot of users, but almost no one converts into the paid version. In this model, the free version successfully delivers user value, but we are unable to achieve any business value. This means that the solution was only partially successful and new solutions are required to try to capture business value.

Producing business value without creating user value can happen in situations where the company has little competition and is in a position of power. As long as the company owns the vast majority of the market share, has a product with extremely high switching costs, or has regulatory capture, it can raise prices to generate business value without producing any user value. This has resulted in many unhappy users, but it has been done time and time again by companies, often under the extreme pressure of bonuses, quotas, and stock prices. Insurance, cable, and rent are common domains where these situations have popped up. A good product manager should seek to represent the user in these situations and try not to actively deliver business value without also providing user value.

The relationship between user value and business value tends to fall into a few common categories, which we'll call value models. These are not the same as business models, which detail how a company makes money including distribution, pricing, promotion, cost structure, and other non-product related mechanics. While certainly a good ancillary exercise, business model development is less important for product managers than learning how to modify the relationship between user value and business value.

## Direct Value Model

In this model, user value is created and then some portion of that value is captured as business value. Overall, you produce more value than you capture. This is the simplest value model and the most common one employed by businesses.

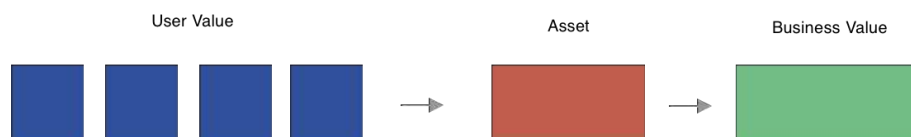


For example, a show streaming app follows this paradigm. The product contains access to a wide variety of shows that can be watched whenever for a monthly subscription fee. The user obtains an extremely high amount of user value through quality content and a fast, easy viewing experience. The business captures a small portion of that user value through the subscription fee.

A product manager operating within this paradigm needs to be very user-focused. Successful solutions require a very strong user value proposition because delivering user value is the starting point of the funnel. There is great benefit to operating in a simple value model. Because the relationship between user value and business value is so clear, product managers can employ more creative freedom in maximizing value, can move faster, and can more directly see the impact of their work.

## Staggered Value Model

In this model, user value is created at a subsidy to create a secondary product asset. This secondary product asset is then used as the primary way to capture business value. Solutions follow a more strategic, long-term orientation and have significantly more uncertainty. There is a large time differential between user value and business value. It requires a relatively high volume of growth in order to produce enough material for a secondary product asset. It may take a few years to aggregate enough volume to generate a viable secondary product asset, if it is successful at all.



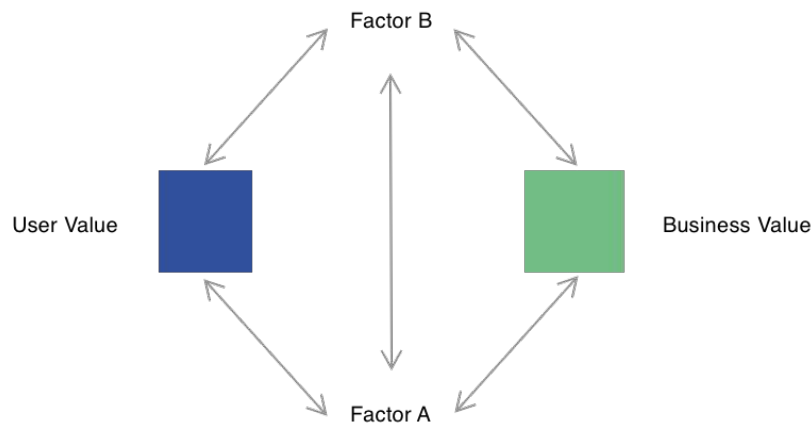
For example, a free app that allows you to review restaurants provides user value at a subsidy. There is no intention to capture any revenue directly from the consumer. After a large enough amount of reviews are collected, the company then mines the data and creates an analytics product for restaurateurs to be able to see in real-time what consumers are looking for and how their tastes are changing. The user data is the product asset that produces business value.

If the product asset gets produced, a virtuous cycle is created between user value and business value. Additional user value on one end contributes to the growth of the asset, which is in turn delivering more business value. Virtuous cycles run in both directions. In the positive direction, you create a cycle that exponentially improves both forms of value - a tremendous product win. In the negative direction, the cycle can rapidly cut value from both sides. If user value is reduced, the asset reduces. As the asset reduces, business value capture reduces. A virtuous cycle is an amplifier.

Businesses that utilize this model can quickly become very complicated. Product managers in these positions operate in a more ecosystem-like environment and have to handle things differently from product managers in simpler value models. Operationally, this tends to mean that the product manager must employ more strategic abstraction, longer time horizon, and consensus building than in other situations.

### Factor Value Model

In this model, business value and user value are created incrementally through the improvement of underlying factors. These types of value models tend to exist in a relatively mature product stage, where optimization factors are known from the product's history to drive value incrementally.



For example, a company that produces a social gaming product knows that if users stick with the game for at least 30 days, the chance of them spending money is 80%. To optimize this relationship, the company seeks to find ways to encourage the user to stick around for at least 30 days, including letting you win the first

game to build confidence, and giving you badges to feel accomplished. None of these features specifically seek to create user or business value. Instead, they specifically seek to optimize the known relationship of factors.

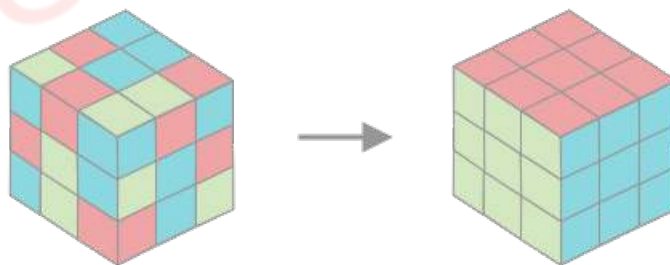
Product managers operating in this paradigm will typically be in a growth or monetization team covering a relatively mature product. They must be capable of performing analysis, deriving insight, and communicating the logic and findings. The stronger your analytical capabilities, the better suited you will be for these type of problem spaces.

## Solving for Value

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Solving for value means defining a feature that solves a problem in such a way that both the user derives value and the business derives value.

Solving for value is a bit like solving a Rubik's Cube. You can start from any side and move around any combination within the limits of the cube to get to a solution. There is no one way to solve the cube. However, you can solve the cube faster by identifying patterns and then implementing a series of actions in order. The fastest Rubik's Cube solvers can solve the cube in under 5 seconds by doing just that. Solving for value is similar. There is no wrong way to solve for value, but there are patterns and methods that can speed you up.



Reality is much more complex than a Rubik's Cube. In the real world, a square's color may suddenly change, new colors will appear randomly, a face can disappear, and you can easily end up with more colors than faces. Learning the intent and principle of a method is therefore more important than following it to the letter. Problem spaces will always contain enough differences, uncertainties, nuances, and dynamism that it will warrant personal experimentation.