Product Excellence

Driving success through true product excellence

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Preface

Great products are still the key driver of creating excitement among a company's customers, employees, and investors and finally of its financial success. At the same time the challenge to create not just one, but a range of successful products has fundamentally increased: broader choice to customers than ever, global competition in every segment, less loyal and pickier customers, and complexity and required investments steadily increasing.

Great products require the best of marketing & sales as well as product development and more intensive collaboration than ever: on the one hand, to understand the value customers see in products, through the appropriate analysis of the customer insights, to derive the product strategy and positioning; on the other hand, to engineer the product ideas with an integrated design-to-cost and modular approach.

Great products are the result of cross-functional thinking and "building bridges" between technology and customer orientation, embracing a holistic conception of end-to-end customer experiences thinking about context, systems, and usage scenarios, implementing a superior engineering based on quantitative customer insight and systematic technical excellence, balancing the use of simplicity and complexity for strategic differentiation on portfolio and product level.

Therefore **McKinsey's Marketing & Sales** and **Product Development** practices joined forces to develop a viewpoint on true product excellence. The result is this compendium with seven dimensions of product excellence.

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Driving company success through true product excellence

In an increasingly competitive and complex environment with more choice than ever a company's product success cannot rely on few gurus only—it requires excellence along the entire product creation process. To achieve it, we suggest thinking about product excellence in seven dimensions of the company's product creation process.

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The magic that surrounds a new blockbuster product is still the easiest way to create excitement among a company's customers, investors, and employees. And while consistently achieving true product excellence is always a challenge, the payoff— a higher stock price, growth in market share, increased sales, positively viewed management—usually makes the effort more than worthwhile.

The leading players in product-driven industries have climbed to the top in part because of a relentless focus on product excellence. But emphasizing product excellence does not just help increase shareholder value: it energizes employees, customers as well as public recognition and brand strength. No matter what your organization's goal, product excellence must be a part of the model.

Big payoffs, but growing challenges

While product excellence can be an unrivaled source of growth, for many companies, just getting there is a challenge (Exhibit 1). Product proliferation in everything from cars to mobile handsets has exploded in the past two decades. It has increased both consumer choice and market confusion, and as a result, products need to hit their target customer's "sweet spot" exactly to be successful. Because of this, product investments are more at risk today than ever. Shoppers have also tapped into many more sources of market intelligence: where once they browsed local stores, they now have encyclopedic real-time access to online information, making global product offerings more accessible.

Exhibit 1

The challenge of meeting customer needs and managing complexity is growing

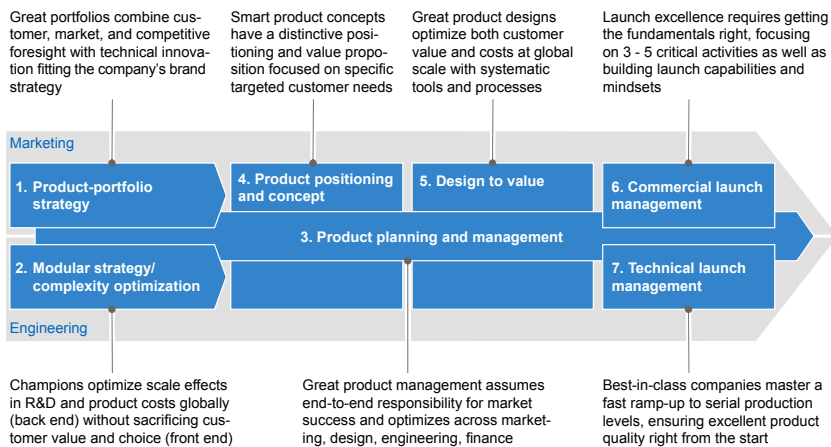| From 1990 …	… to today
Limited product choice (~ 5 handsets per maker)	Abundant product offering (~ 120 handsets per maker)
Shop around the corner (customers with limited information and choice)	Access to global product offering (e.g., Internet/mobile product search, price, comparison, recommendation, and shopping)
"Basic" products (e.g., coffee as a drink, handset as a pure telephone device)	Emotional customer experiences in a context (e.g., coffee as an experience, iPhone as part of an ecosystem)
Great technology as a differentiator (e.g., mobile phone, laptop)	Technology and perfect fulfillment of customer needs (e.g., social-networking phone, mobile ecosystem)
Mainly local markets (sales mainly in mature markets with similar customer needs)	Truly global markets and competition (growth happening in emerging markets with very different customer needs)
Mainly stand-alone products (only across models of the same platform)	Complex modular strategies for maximum scale effect (e.g., 2 modular systems for group portfolio of 45 models and 4 brands)

What is more, where simply being first with the best technology once virtually guaranteed market success, products now need to mesh tightly into customer emotions and lifestyles to fulfill their needs. While more visible in B2C businesses, all these trends also prevail in B2B markets.

To ensure that these kinds of considerations are present end to end and do not get lost along the way, industry leaders often find it helpful to evaluate product excellence according to seven dimensions of the company's product creation process (Exhibit 2).

First, marketing leaders need to **develop a robust product portfolio strategy,** one that combines customer, market, and competitive insights with the organization's technical-innovation capabilities in ways that reinforce the company's brand strategy. Crafting such a portfolio requires leaders to develop a thorough understanding of potential pockets of market growth. They also need to answer some key questions, such as: how should we prioritize investments? Is it better to further extend the portfolio in our profitable home market or invest in less certain high-growth emerging markets? Does it make more sense to spend on additional products to fill out the portfolio, or push existing products by investing in our brand, wholesale, and retail networks as well as our production capacity in markets that perform below average?

Best-practice companies excel in 7 elements of the product creation process

Exhibit 2

Great portfolios combine customer, market, and competitive foresight with technical innovation fitting the company's brand strategy

Smart product concepts have a distinctive positioning and value proposition focused on specific targeted customer needs

Great product designs optimize both customer value and costs at global scale with systematic tools and processes

Launch excellence requires getting the fundamentals right, focusing on 3 - 5 critical activities as well as building launch capabilities and mindsets

Marketing

1. Product-portfolio strategy

4. Product positioning and concept

5. Design to value

6. Commercial launch management

3. Product planning and management

2. Modular strategy/ complexity optimization

7. Technical launch management

Engineering

Champions optimize scale effects in R&D and product costs globally (back end) without sacrificing customer value and choice (front end)

Great product management assumes end-to-end responsibility for market success and optimizes across marketing, design, engineering, finance

Best-in-class companies master a fast ramp-up to serial production levels, ensuring excellent product quality right from the start

Second, engineering managers need to determine the best way to **balance a module-based product strategy against the need to optimize complexity.** Effective modular strategies play a key role in helping companies manage complexity and should be guided by a clear governance structure.

Teams often find it useful to think about complexity in three dimensions. External product complexity results from efforts to attain competitive levels of market coverage. Internal product complexity occurs because of suboptimized product design, and internal process complexity arises due to a lack of process standardization (for example, in manufacturing). Experience shows that high performers optimize these three dimensions based on insights into where customers value differentiation, and by using engineering intelligence to find the places where standardization captures the greatest synergies.

Third, several functions must come together to **develop a product planning and management process.** Great product management assumes end-to-end responsibility for market success and optimizes performance over the product's life cycle across marketing, design, engineering, and finance. In essence, this means appointing a product or category manager as a kind of mini-CEO, with broad decision making authority. But effective product planning goes beyond focusing on a single product:

it creates an aligned rhythm across product introductions, the company's product platform and module road map, its innovation "cadence," and associated marketing events. This allows companies to achieve a higher innovation yield and to translate leading-edge technology into a stronger brand image.

Fourth, companies need to **focus on product positioning and concept development.** Experience shows that smart product concepts typically have a distinctive positioning and value proposition that focuses on specific target-customer needs. Success today depends on creating products with "spiky" attributes that appeal to the consumer's emotional side. A good example of creating an emotional bond between customer and product can be found in the way some auto OEMs seamlessly integrate a customer's mobile handset into a car's operating system, so that the car feels even more like the driver's personal space.

Product planners also need to identify market "white spots" (that is, segments with unmet needs) and then delve deeply into understanding any latent customer demand that might be present. New segmentation techniques, including some based on assessments of social media, can help planners make the cross-regional product trade-off decisions that allow the best compromises for developed and developing markets alike.

Fifth, high-performing product developers **concentrate on integrating design-to-value techniques** into all of their products and in all steps of the product development process. In doing so, they optimize both customer value and company costs. Most companies, of course, have applied classical design-to-cost tools, but many struggle to understand and quantify the value customers receive from products, such as performance, convenience, and so on. Consequently, the company's trade-off between customer value and the cost of that value is still made mainly by gut feeling, without a thorough quantifiable basis.

To approach this challenge, companies have a variety of tools they can use to help developers assess product ideas from a cost/benefit (or price/value) perspective. Leaders often find it helpful to discuss cost/value trade-offs on three levels: (1) overall product characteristics, (2) product feature prioritization, and (3) design implementation of product features.

Sixth, companies that excel at **commercial-launch management** achieve earlier ramp-up and higher peak sales. Launching is the moment of truth in marketing, and often the guarantor of true value creation. However, in many industries and

companies, commercial launch is undermanaged, and value is left on the table. A range of tools to be used with a set of interrelated drivers is available to help companies achieve consistently excellent launch results.

Finally, to bring a product to market, best-in-class product-focused companies strive to achieve excellence in **technical-launch management.** Problems in a technical launch can have massive financial impact. In preparing the technical launch, companies often fail to free up the staff needed to adapt production lines; the first parts manufactured do not always meet specifications; and continual changes reduce the product's maturity. In addition, when ramping up production, companies sometimes have to cope with insufficient availability of parts from suppliers. To ensure a successful launch, the starting point should be an assessment of the readiness of the product, the plant, and the suppliers. While this work is challenging enough for a single launch, the complexity multiplies with parallel launches. To develop transparency, many players implement a launch "cockpit" to allow management to steer all of the company's product launches efficiently.

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Product excellence provides a key competitive advantage to companies that master its intricacies. But consistently achieving high performance in this area remains a constant challenge for even the most innovative companies. The ideas presented in this volume are a collection of practices from a variety of different industries. We hope they help leaders reflect on the current product creation capabilities of their organizations, spark ideas, and perhaps begin a discussion on where to build—or how to strengthen—their own competitive distinctiveness.

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