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## Sacred seven product management

User Interface (UI) is instead focused only on making the interface elements of the product more intuitive and functional. According to the Hooked Model we can start with external triggers to get someone interested in the product like paid advertising, mentions in the press, word-of-mouth and push notification. - Warren Buffett Business Models

When selling products there are 3 possible approaches we can follow to create a profitable business: cost leadership, product differentiation and the blue ocean strategy. What makes these products appealing is their exclusivity and status symbol they represent, additionally people tend to associate higher prices with higher quality. A demand curve will instead be inelastic if buyers are really motivated to buy, if there are no alternatives to this product or the item is essential. Convincing high skilled people to work with you can be expensive and therefore focusing on their intrinsic motivation (e.g. meaningful work, altruism) might be more efficient. Figure 12: Ecommerce Revenue (Image by author). Motivation There are 2 main types of motivation: intrinsic and extrinsic (e.g. external incentives like money). Unit Economics Unit Economics measures the cost, revenue and profit of each marginal item a company sells. In some circumstances it can be difficult to sell a product for a profit but when paired with another give really good returns (razor-and-blades model). This principle perfectly aligns with the BCG growth-share matrix. After that we should focus on internal triggers to make the user come back. Potential profit shouldn't although be too far in the future because of the discounted value of money (one dollar now is worth more than one dollar in a decade since we could have invested it in the meantime and potential inflation erodes its value). One caveat to pay attention to is to avoid getting people into an A/B test through some opt-in features. Two possible way is to also incentivize people to buy your product are to discount the price or add a bonus. 0-1 focuses on building products for market-fit, while 1-N is about scaling. The 2 key metrics comprising Customer Economics are: Customer Acquisition Cost (CAC) and Customer Lifetime Value (CLTV). With the New Zealand Strategy, we roll out a new feature that require interaction between users, to every user in a small country that has likely lots of similarities with our original target country. The advertising process is tightly connected with the purchase funnel: Awareness: getting people to know your product exist Familiarity: making them form an opinion about it Consideration: making them considering about buying it Purchase: buying the product Loyalty: becoming a recurrent buyer in addition to loyalty growth hacking incentivize users to become also advocates of the product, actively reaching out to friends and family to increase adoption (or embed viral features in the product to make it market itself). Takeaway Points Introduction Product Management encompasses 7 key disciplines: Product Design Economics Psychology Data Science User Experience Law & Policy Marketing & Growth Product Design There are two types of products can possibly be created: creating something entirely new (0-1 innovation/vertical progress) or creating a new iteration of an existing product (1-N innovation/horizontal progress). CAC CAC: average amount of money spent on sales & marketing to acquire a new customer. Making a new feature available to a random sample of users can work particularly well if the feature doesn't need interaction between different users but if not then we need to sample our users differently. On the other hand, having 1-N products in your company portfolio is as important since these are the products that can provide you with a steady revenue that you can then use to finance your experiments building 0-1 products. We think [solution] could solve it. The idea is that people read left to right and pay most important to the first digit. Do you have to buy that company to benefit from the arrangement? Figure 6: Freemium Lifecycle (Image by author). When the confidence interval includes zero, we fail to reject the null hypothesis (our new feature might cause more damage than good!). Product Management's Sacred Seven: The Skills Required to be a World-class PM: Author: Amanda Solomon; Published: 2021; ISBN: 9798754186491 ; Export Citation: BibTeX... To get the confidence interval for the difference of means we can then use the Student's two-tailed test. During the process of deciding pricing it is also important to keep in mind different mind traps which could direct the customer to buy the option most advantageous for us. The main problem with this approach is that we don't actually know the lifetime of a customer in advance. Figure 5: SaaS Lifecycle (Image by author). In this kind of model, the percentage of users that upgrade from free to paying and the number of monthly/yearly active users are some of the key metrics to follow. Once finished the MVP we can then move towards creating a Minimum Lovable Product (MLP) which should focus on providing just some really well designed key features of the product to impress the users (e.g. great out of the box experience to onboard new users). Figure 13: Hunting Model (Image by author). Every product has some form of irreducible complexity that either the developers or users have to deal with. In this scenario the key metric we should be interested in is to increase the Average Order Value (AOV) (alongside the overall conversion rate). The higher the confidence level requested and the wider is going to be our interval. One key aspect of the MVP is that it should test our riskiest assumptions about the product and feedback to us if any unexpected changes are needed. There are 2 main types of moat: barriers to entry (e.g. high costs, regulation, intellectual property and patents) and barriers to change (switching costs, brand, network effects). Unit Economics focuses on a single product at the time composing a company portfolio, while customer economics looks at the entire business. Our key north metric in this case will be to find a good balance between the number of buyers and sellers to maximize the number of transactions happening. If the results look promising, we can then move on to create some early prototypes of our product, starting from simple post-its sequences to an MVP (minimum viable product). In this case the main goal for the company is to increase the time users spend on their platform (e.g. using infinite scrolling, autoplaying, etc.) and made them watch as many ads as possible. We will know we are right if we see [metrics change]. Experiments A/B Testing With A/B Testing we can compare 2 variants of our product on a set of metrics we care about (a random subset of users gets variant A and another variant B). One possible way is to use the New Zealand Strategy. Figure 14: Purchase Funnel (Image by author). Physical goods can in fact be expensive to produce and this can in turn limit our marginal profit on each sale. Is the new industry a profitable one? Figure 10: Two Sided Marketplace Revenue (Image by author). Software companies usually fall into 5 key categories: software as a service with subscriptions, freemium apps, user-generated content with ads, two sided marketplaces, and ecommerce. On the other side, when trying to sell luxury goods (veblen goods), higher prices tend to even make your product more desirable. Once calculated the churn rate, the average customer lifetime can simply be measured as 
$$\frac{1}{\text{churn rate}}$$
 At this point we just need to calculate the average profit per user per year in order to calculate the LTV: 
$$\text{LTV} = \frac{\text{average revenue per user per year}}{\text{gross margin \%}}$$
 Putting the 2 together we can then calculate the LTV: 
$$\text{LTV} = \frac{\text{Annual ARPU} \times \text{gross margin \%}}{\text{churn rate}}$$
 Segmentation Plotting a demand curve (price vs quantity) you will see that decreasing a product price, we should expect more people to buy it. LTV-CAC ratio is therefore an important metric to look for when assessing the performance of a company (for tech companies this is expected to be about 3:1). These can typically be scenarios where we make a service to: Build supply for an unfulfilled demand (e.g. e-scooters for middle-distance transportation) Exploit untapped supply with an existing demand (e.g. a newly discovered deposit of gold) Match untapped supply with unfulfilled demand (e.g. two-sided market products like Airbnb) Once found the product you want to build, you need to make sure it can be 10x better or cheaper than the existing competition to overcome possible inertia of customers to switch or join, but no actual product, so that when someone signs up we inform them that they will be notified once the product is ready. Our job is then to try to simplify and streamline processes as much as possible so that users needs to do the minimum amount of work necessary (e.g. pre-filling items in a form, make it easy for users to interact with key buttons, etc.). Direct response therefore is closely connected with metrics like cost per click (CPC), while brand advertising is related more to cost per mille impressions (CPM). At times business objectives and user experience might not always be aligned and that's when some dark (dishonest) patterns might arise. To make a product rewarding to the users instead it should focus on rewarding one of these 4 streams: brain (knowledge), heart (love), stomach (consumption), genitals (sex appeal). To check if our results (from a sample) can generalize or not to the entire population, we can construct a confidence interval (a range where the actual value might fall in). Depending on the type of feature we launch, we might also suffer of the novelty effect or learning effect. Customer Economics While Unit Economics Focuses on the profit earned per item sold, customer economics focuses on the profit earned per customer over the customer lifetime. This difference between physical and digital goods can also be seen when inspecting companies performance in the stock market. Figure 11: Ecommerce Lifecycle (Image by author). Causal users will then be much more sensitive to potential price changes than hardcore fans and their demand curve will be much steeper (demand is elastic and small changes in prices will cause large changes in the number of units sold). Cost Leadership In this scenario our product is like a commodity and therefore there can be no real differentiator between ourself and our competitors apart from the price. V. In order to have a sustainable business, it is then vital that our LTV is greater than the CAC. Statistical significance test work by having some null hypothesis we are trying to reject (the null hypothesis represent the scenario in which the new feature didn't bring any actual value). For example we could set a Playstation for a low profit (hardware) and this will enable us to sell many games later on for a high profit (software). Figure 4: Business Models Comparison (Image by author). Metric Models Depending on your company business model, different sets of metrics (e.g. revenue, user metrics) might be available for you. In this scenario, the only way to gain more adoption from consumers/users is to race to the bottom by lowering the price (although this might reduce our profits in the long term). Ultimately, is important to avoid any form of cherry-picking (HARKing), if the outcome is negative we should accept our idea was not the best one and move on instead of trying to consider just a subset of metrics that gives us hope to keep pushing for this feature. Blue Ocean Strategy Finally, in this scenario we don't try to fight in a crowded market but to create a brand new one where we can offer both low cost and differentiation. Some users might in fact be interested in just a casual use of your product, while others be hardcore fans. Statistically speaking, when starting these kind of products is better to focus on building supply first and demand will hopefully follow up (demand can grow through word of mouth but supply not so likely!). Figure 1: 0-1 vs 1-N (Image by author). Once gathered some data we can then run a statistical significance test to validate if we can trust our results or not. Exploring "Product Management's Sacred Seven" to better understand the skills necessary to become a product manager and create value. LTV in fact represents our marginal revenue while the CAC our marginal cost and the difference the marginal profit (the return from having a customer should be higher than the cost of acquiring it). Each segment should then be internally homogeneous and externally heterogeneous. Startup Metrics for Pirates Acquisition: getting people to know you and visit your website (number of views, SEO ranking, click through rate) Activation: getting people to sign up for our products and become users (conversion rate from visitor to user) Retention: making people coming back regularly (monthly/daily active users, retention rate, churn) Referral: getting users friends on board (net promoter score, viral coefficient, viral cycle time) Revenue: making money from your users Finally, when looking for a metric to use is important to look out for vanity metrics (metrics that look positive but don't really represent the bottom line we are trying to achieve) and strictly avoid them. If we want to compare more than 2 product versions, then we can use multivariate testing. Alternatively, another possible way to reduce costs is trough vertical integration (e.g. buying out all the suppliers or cutting middle-men). Value is what you get. If the price is too low, we won't get enough money from our many buyers to sustain ourselves and if the price is too high no one will buy our product. Some advantages of this approach is that companies can pay small recurrent installment instead of big upfront fees and get constant updates for the software they use. To find the right idea to solve, we then need to look for groups of people that are highly motivated to do something but dissatisfied with the existing solutions and then target them as our future user market. In Unit Economics physical good (e.g. selling laptops, pizzas, etc.) and digital goods (e.g. online ads, enterprise software) behave quite differently. Some example are: arbitrary cohesion, anchoring, decoy effect and compromise effect. Product Differentiation In this scenario, we market our products as unique and justify our higher prices by showcasing some form of competitive advantage over the competition (e.g. luxury goods). Software as a service (SaaS): vastly used for enterprise software or B2B (business-to-business) software sold as a subscription model (e.g. monthly, yearly). When setting the price for your product we need to also pay attention to how the prices of similar products related and this results in a phenomenon called herding where prices between competitors are really close to each other. We'll cover: Book Authors: Aditya Agashe, Neel Mehta, and Parth Detroja Contacts If you want to keep updated with my latest articles and projects follow me on Medium and subscribe to my mailing list. Psychologically though taking away a loss is more powerful than adding an equivalent gain. Another possible approach is through gamification, this process consist of 7 parts: Goals to achieve Rules to follow Feedback to measure progress Rewards Users motivations (rewards should be tied to them) Freedom of choice Freedom to fail User Experience User Experience (UX) is about the holistic experience of the user interaction with the product. Norman Doors: objects whose designs tell you to do the opposite of what you are supposed to do. The exact chance that the real difference in means is zero or less is also known as the p-value. If we are not able to prove users of our product superiority then our product becomes commoditized and we fall back in the cost leadership realm. In the long term, how much money we make or lose for each transaction is going to greatly outweigh whatever amount of money we started with. 95% or 99% are two values commonly used. Figure 8: User Generated Content with Ads Lifecycle (Image by author). Before starting any test, we should then define our own research statement: We believe that [user group] faces [problem]. Most of the content is a direct quotation from the book and original authors work. In this case our 1-N products can be represented by the Cash Cows (low growth but strong market dominance) and 0-1 products by question marks (which have high growth potential and can potentially turn into stars one day). One way to measure this is the churn rate, which is the percent of users leaving our product within a window in time (e.g. month, year). Market Entry There are 3 possible ways to enter a market: building your own product, borrowing someone else product (e.g. partnering to use another company product or co-developing one) or buying another company product. Data Science - According to the hunting model we can categorize companies based on the average amount of money we can make from them in a year (annual revenue per account). In these kind of products keeping a good balance between supply and demand plays a vital role (if there are not enough buyers then the platform is not good for sellers and viceversa). Our margins will then dictate our future success or failure. 0-1 When building 0-1 it is then important to find spaces with low initial competition. Instead with the learning effect users struggle initially to interact with the feature since they need some adaptation time and eventually the performance improves over time. Product Management's Sacred 7 - The Skills Required to be a World-Class PM. Stickiness Habits play a key role in order to make users automatically come back. According to the Self Determination Theory (SDT) people want to fulfill 3 innate desires: competence (getting good at something), autonomy (having a sense of control of your future) and relatedness (having a connection with others). One way to reduce prices is to reduce costs and this can be achieved for example by using economies of scale (the more products we sell the cheaper is for us to make them since we can negotiate better deals with suppliers, etc...). Additionally, unit economics focuses mainly on the present while customer economics also on the longer horizon (even if this might result in higher initial costs). Quirky Pricing: selling items for completely random numbers shows the buyer that we are trying to do whatever we can to keep prices low and we are not trying to trick you. Authors: Neel Mehta, Parth Detroja, Aditya Agashe. This can be represented by the equation below, although it is important to remember that in real life there also other characteristics to take into account such as the cost for running servers, pay employees and the window timescale to choose to run your experiment (it might take months for a marketing campaign to bring any result). 
$$\text{CAC} = \frac{\text{marketing} \times \text{sales} \times \text{expenses}}{\text{new users}}$$
 LTV LTV: total amount of money we can expect to make from an average customer over their entire lifespan (until they quit from using our product). User generated content with ads: this type of category includes social networks, review sites and microblogging sites where users create posts and ads are shown between them. Digital products instead have a high upfront (fixed cost) but very low marginal cost (it doesn't cost almost nothing for Google to do a search query, or for Facebook to make you do a post). Assigning people tasks that match their expertise level can then allow them to enter a flow state and give their best. 1-N The main problems that 1-N products try to solve are: staying relevant, defending market share from competitors, add new features, keep profit margins to increase, improve customer experience, etc. Prestige Pricing: prices with round numbers show that we are not trying to do offer any sale or discount and is usually associated with luxury products. One possible way to do so, is to give variable rewards (e.g. we get more pleasure from the anticipation of reward than to get the reward itself), exactly like scrolling website such as LinkedIn, Facebook work. Skeuomorphism: a new technology copies design elements from an older technology to make it easier to understand for people more comfortable with the old technology. Figure 3: Different stages of prototyping (Image by author). To make the confidence interval we then need to specify a confidence level (how cautious we want to be). At this point, we are ready to perform a staged rollout and making our feature available to beta users first and eventually to the whole audience. Figure 2: BCG Growth-Share Matrix (Image by author). Figure 7: Freemium Revenue (Image by author). To ensure 1-N products don't get disrupted by competition they should then try to have some form of hard-to-copy advantages such as: A strong brand Network effects Economies of scale Making offers that competitors can't match Unique Technology Switching Costs Knowledge of processes Captured resources (e.g. patents, teams) Hypothesis Testing In order to validate the idea for a new product it is then important to list out all the assumptions we are making about why this idea should work and use different research methods to test them (e.g. surveys, interviews, field studies, focus groups, diary studies, etc...). With digital products then increasing the scale of our users will then lead to much higher returns than when trying to scale physical goods. Data Science 90-9-1 rule: 90% of users on social media are "lurkers" (mostly watch but don't contribute), 9% are contributors (comment, like, post sporadically something) and 1% are creators. Figure 9: User Generated Content with Ads Revenue (Image by author). These are some of my contacts details: LinkedIn Patreon Medium Profile GitHub Kaggle Based on the actual human work. You can find listed below some of the reasons and circumstances in which might be best to pick one or the other method: Build Borrow Buy Company is new or short on resources Company is not an expert in the market and doesn't want to be Remove competitor from the market or keep product away from other competitors With the novelty effect we get an initial spike up in the usage and then a steep decline (people are surprised of the change and interact more, then once the surprise is over they don't interact anymore). Products that have high utility and are used frequently are quite likely to naturally become an habit, but also low utility actions can be turned in a habit if they happen regularly enough. There are 2 key types of advertising: direct response (get users to take action immediately) and brand (increase user awareness of the company/product). Two possible types of MVP are the: Concierge MVP (or Wizard of Oz MVP) or The Fake Door Test. Investors might in fact prefer tech companies over traditional businesses since, although tech businesses incur in higher costs at the beginning, they also are much more likely to have higher profit margins and growth in the long term (therefore being able to sell their shares for a profit or earn dividend gained trough these higher margins). Is the price right? Depending on how many segments of users we have, we can then create different tiers for pricing the product (free, user, enterprise, patron, etc.). Ecommerce: is a online version of a physical store and focuses therefore much more on selling physical goods (people buy goods online and we ship them). This can then simply be translated to be the sum of all the marginal profits you earn from an average customer making a transaction. Marketing & Growth What are you hunting? Psychologically the number 9 is also generally associated with the feeling of sale. Although, all users are not born equal and that's why it can be really important to segment your product audience in different categories and maximize the revenue curve for each of them. Users are in fact much more likely to interact with people within the same country rather than from outside and therefore there shouldn't be disruption for them to use the product. The grater the rate, the faster we are losing our customers. In the Concierge MVP we make the actual front-end and replace a complicated back-end with actual human work. You can find listed below some of the reasons and circumstances in which might be best to pick one or the other method: Buy Borrow Buy Company has experience in a similar market You want to quickly patch a hole Getting in a tough to enter market Piggyback off existing resources Outsourcing the less profitable and most intensive parts of your business which would act as a liability if owned Getting special talent not available in house Additionally, before considering buying another company is important to keep in mind these first questions before making a decision: Do both companies benefit from joining forces? During the rollout it is also important to not check just the metrics we wanted to improve but also countermetrics to see if our new feature is causing any problem with the other features that compose the product (cannibalization). When taken to the extreme we would then have a small portion of users acting as whales and paying much greater sums than the rest of the population. In this scenario Time on Site and montly/yearly active users are some of the key metrics to keep into account. Freemium apps: consumer software that its free to use but provides paid upgrades like in-app purchases or subscriptions (same as SaaS but targeted to individuals instead of companies). In The Fake Door Test instead we create a full blown landing page with the product description, log-in, etc.. The MLP should also make sure to cover any possible "cold start" problem by preloading the product with some content (e.g. example usage). For a product to have a good UX, it needs to follow 4 key principles: be discoverable, give feedback, being forgiving and intuitive. Choosing the right data to ... Product management's sacred seven : the skills required to be a world-class PM By: Mehta, Neel [Author] Contributor(s): Detroja, Parth [Author] | Agashe, Aditya [Author] Language: English ... This might in fact skew our results since people joining the study are by default more eager to experiment with new things compared to an average user. In this case, version A would represent our control group (which shows the original version of the feature in the product) and version B our experimental version (showing the potential new feature embedded in the product). While working on 1-N products it is then always important to lookout for potential 0-1 innovations since competition might take advantage of radical changes in the tech landscape to take your product out of business. Hidden Fees: fees that appear at the last minute once the customer is already committed to make a purchase. If the results, were not too negative we could then try to repeat the experiment with a bigger sample size or a slightly lower confidence level to see if we would get this time a completely positive interval. As part of the process though we might leak some people out of the funnel and it is then important to use retargeting (e.g. using third party cookies and Google/Facebook ads to remind them of the product) and remarketing (e.g. using mailing lists) to try to win them back. Economics Price is what you pay. The goal should then be to find a sweet spot between the two extremes to maximize our revenue. If the interval is all above 0 the new feature would then be accepted! (in this case the p-value should be less than 0.0X). Psychology 3 Theories of Price Charm Pricing: prices that end in 95, 98, 99, 89, 49. At this point we can then track this experiment for some time and see if it results in some improvement in our desired metrics or not. Two sided marketplaces: this category includes websites that match buyers with sellers and take a commission from each transaction. 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