Innovation Ready

A straightforward, practical guide to elevate your product strategy.

When you need to compete on innovation rather than efficiency.

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The secret to product innovation is over a century old.

In a 2021 report published by [McKinsey](), only 6% of business executives said they were satisfied with their innovation performance. **Year after year**, a similar metric is published that demonstrates the challenges of being innovative. It's not easy.

Meaningful innovation requires two key conditions be met before you are **"innovation ready"** to build the *informed* product solutions that customers really need and are willing to pay for.

Simply stated, those conditions are **knowledge** and **imagination**. Put another way, as the famous chemist Louis Pasteur said over a century ago, "*Chance* favors only the *prepared* mind."

Many paths. Same destination.

There are multiple frameworks and theories on product development. Some of the most astute and popular that have shaped our way of thinking and better enabled the start-up and large enterprise alike are:

- Lean Start-up
- Design Thinking
- Jobs-to-be-Done (JTBD)
- Agile

Each of these has contributed best practices and valuable tool sets while emphasizing different aspects of the product development lifecycle.
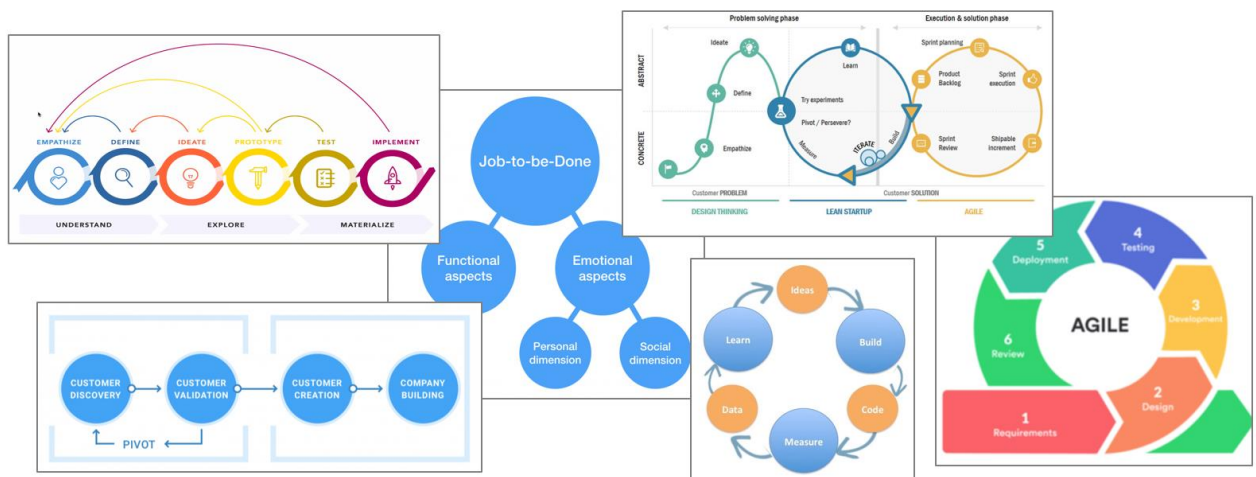

Product development frameworks from Lean Start-up, Design Thinking, Jobs-to-be-Done, and Agile.

While their focus and value stand out at various stages, there is overlap that is complimentary between them. For example, in Lean Start-up, Design Thinking, and JTBD, each focuses initially on understanding the user need, known as Customer Discovery, the Empathize stage, or Jobs to be Done, respectively. Different labels, same goal.

When we distill these frameworks, a few common foundational stages stand out:

1. **PROBLEM: Empathize with your user to understand their need.**
2. **SOLUTION: Ideate a solution.**
3. **PRODUCT: Design and validate a product / business model.**

In practice, each of these stages is built on multiple iterative cycles of understanding the user, ideating and testing the solution, and layering in the realities of the market and business model.

Problem		Solution		Product
Empathize with your user to understand their needs.	→	Ideate a solution.	→	Design and validate a product / business model.
		Iteration		
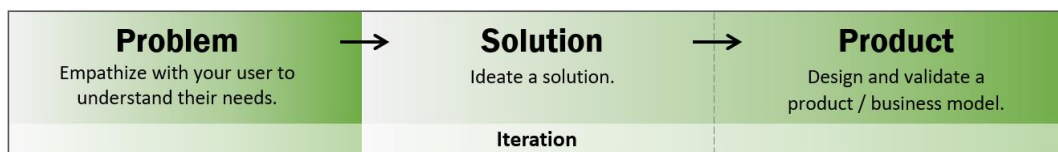
Extending on the collective wisdom of these frameworks, **Innovation Ready** extends the paradigm to add focus to the specific conditions necessary to develop the informed insights that drive product strategy. This confluence of conditions is **essential in developing smart, thoughtful products that users want and customers will buy**. It's these moments of inspiration that ultimately shape and form our work and, at a minimum, de-risk our product development activities, but more boldly, enable us to deliver the next break-through product.
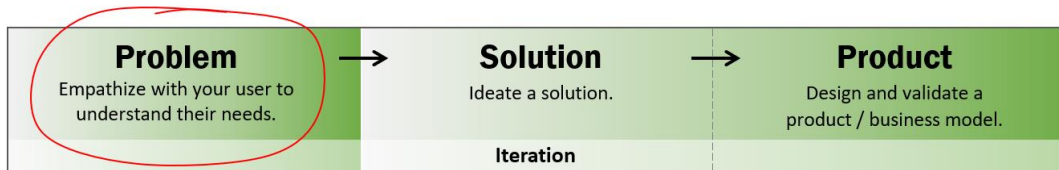
There is no one size fits all process beyond the progression of the foundational stages. Product innovation is a non-linear evolution; the outcomes from one step are your true indicators of what to do next. Put too many rules around it and you may end up forging down a path that is not your best next step.

Where you start can be significantly different as well depending on your circumstance. An entrepreneur with an idea in a field they are marginally familiar with has much to learn. In contrast, a product innovator who has practiced in the same market and user segment for many years comes pre-loaded and likely starts with working hypotheses for products based on their experience and knowledge of the space.

But let us begin this journey with our target user, where we discover the problem to be solved and product innovation ignites.

User Problem

In order to achieve a goal, your user needs access to something and their desire to fulfil this need is the problem you seek to understand. Your mission is to gain a better understanding of **your user**, **their problem**, and **why (and how much)** it matters to them.

Problem		Solution		Product
Empathize with your user to understand their needs.	→	Ideate a solution.	→	Design and validate a product / business model.
		Iteration		

The path to defining your user's problem is to become immersed in understanding their goals, observing their behaviors, and uncovering their challenges. **Empathizing** with the user is essential in this process to better understand their perspective and requires you to imagine how it would feel if you were in their situation. The deeper you can live your user's experience, the more likely you are to discover their true needs.

Said another way, Jobs-to-be-Done theory frames the user need or 'job to be done' as a problem or opportunity that somebody is trying to solve, a goal your users are trying to achieve independent of any product or solution.

> "Opinion is really the lowest form of human knowledge. It requires no accountability, no understanding. The highest form of knowledge is Empathy, for it requires us to suspend our egos and live in another's world."
> -Bill Bullard, former Dean of Faculty at San Francisco University High School (often mistakenly attributed to Plato.)

As you gain confidence in identifying your user need, it's helpful to form it in a written **problem statement** that summarizes **who** the user is, **what** their need is, and **why** it's important to them. In this way it helps crystalize your thinking and becomes a reference point for what you are solving that you can return to through the product ideation process (and update when new insights arise).

In addition, it's valuable to check that you have identified the core problem through a root cause analysis. A simplified version of "The 5 Whys" created by innovation pioneer, Taiichi Ohno from Toyota, is an easy and effective technique that starts with your problem and asks why it is occurring. The steps are:

- Create your initial problem statement defining the who, what, and why. Make sure it is grounded in the realities of your user.
- Ask yourself: "Why does this problem occur for this user?"
- Repeat until you uncover the core problem you are trying to solve.
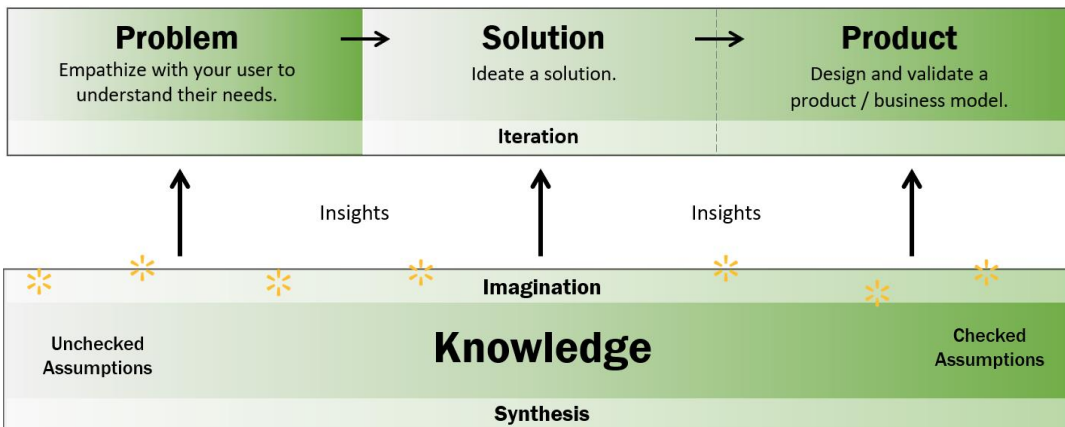
Innovation Ready

Becoming immersed in the user's needs and goals is the starting point to the product innovation process and as you deepen your acumen of the market dynamics and test your assumptions, you set the groundwork to solve your user's problem.

The confluence of two fundamental conditions is required to meaningfully spark the types of insights and Aha! moments that drive your strategy and create viable products:

- **Knowledge**
- **Imagination**

Albert Einstein put it succinctly. "**Knowledge** is a map that guides us while **imagination** is the territory where we can roam freely and search for answers and opportunities. Imagination knows no restraint and it is the power that puts knowledge to use."

When we fully understand our user's problem, the dynamics of the market, and we place ourselves in an environment conducive to creative, divergent thinking, we become **innovation ready** and are well positioned to imagine innovative solutions for our users that become successful products.

This is not a new concept. Renowned thinkers through the ages have espoused similar truisms, to wit, Seneca, the Roman philosopher said, "Luck is where preparation meets opportunity".

When we are not ready however, our product innovation risks being shortsighted and lackluster. The ancients had words for that, too. Confucius in 500 B.C. cautioned, "learning without thought is pointless; thought without learning is dangerous." When we seek to discover solutions but are hampered by gaps and **unchecked assumptions** in our knowledge, this folly can lead to misguided product strategy that misses the mark. This is costly for any enterprise, but for the startup or smaller company, it can be the end of the road.

Building Your Knowledge

Solid **domain knowledge** of your industry is crucial to being set up for successful product ideation. On the other hand, domain *expertise* is not. You do not need to be a lawyer to develop products for lawyers. Or a mechanic to build tools that serve auto repair shops. But if you are building a product that targets police stations to track cases and have little knowledge of the law enforcement and the criminal justice system, your product will fail. You cannot solve the unmet needs of your customer if you do not understand their goals and the realities of their world.

Immersion in these three focus areas will exponentially improve your chances of a grounded and well-informed product strategy: 1. **user and customer segments**, 2. the **market dynamics**, and 3. a consideration of key aspects of the **business model** for your product.

User & Customer Segments	Market Dynamics	Business Model
• User and customer unmet needs and why it matters • Behavior analytics • Solution validation	• Existing solutions / Competitors (e.g., capabilities, business models, customer sentiment) • Trends and projections • External constraints • Whitespace	• Market size • Revenue streams • Cost structure • Channels • Unfair advantage / Defensible differentiation

Thus, the **iterations** from **user problem** through to commercial **product** are continuously shaped by **insights** sparked from your validated **knowledge** of the **user and customer segments**, the **market dynamics**, and **business model** considerations.
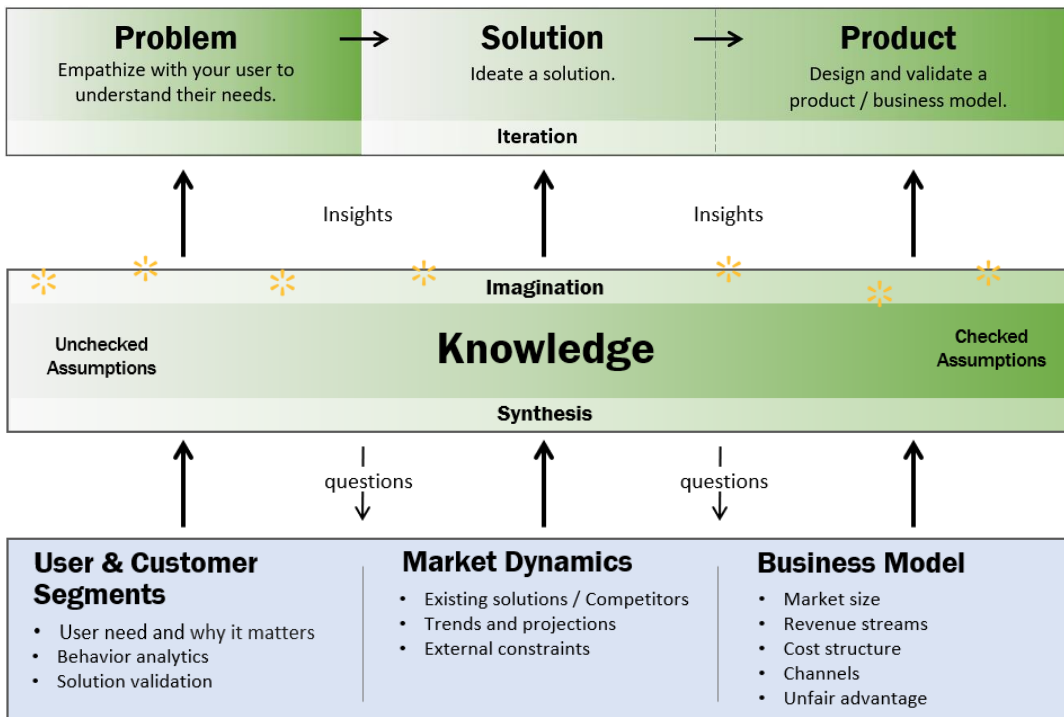
In addition to the core focus areas, the expertise from **adjacent domains** can be significant in contributing and informing your solution. Typical examples include:

- Technical framework
- UX principles
- Human psychology

It goes without saying that the wealth of your past experiences and scholarship can jump start your path to becoming innovation ready and building profitable products for your customer.

User & Customer Segments
## Understanding the user need

Talking with users and customers and observing their actions is the cornerstone to understanding their goals and needs. Qualitative research techniques are ideal for gaining a broad understanding of their underlying reasons and motivations. The most common forms are **individual interviews** and **focus groups**, but there are others including user journaling or real-life observing, watching participant in real-life situations (for example, shopping in a store or online in their home)
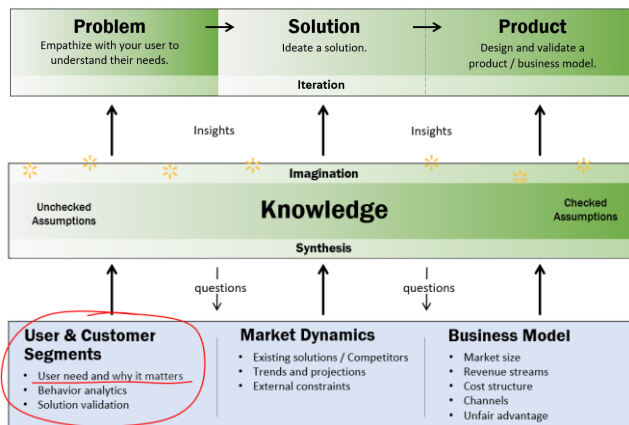
When learning about your users, remember the three spheres of knowledge:

- What you **know** that you **know** - *confirm*
- What you **know** that you **don't know** - *ask*
- What you **don't know** that you **don't know** – *listen and be curious*

To maximize what you might learn, it's important to be prepared and familiarize yourself with the world of your user. Part of being **empathetic** in your approach is to become fluent in their surrounding experience. In your preparation, be sure to study **existing solutions they may use today**. This background research allows you to formulate thoughtful questions as you talk to them and gain deeper insights than you might have otherwise.
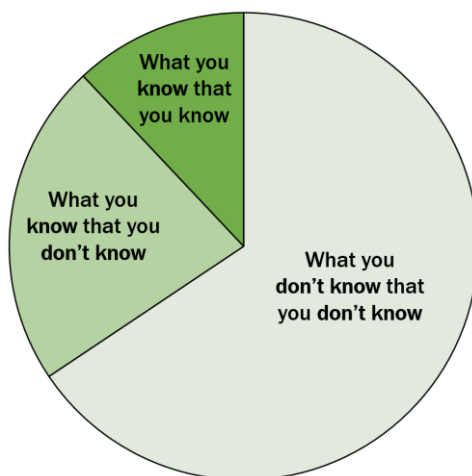
It's the questions asked, and the meaning explored, that generates the insights most useful to your strategy.

Creating an interview guide helps to organize the key topics to be covered when you speak to your users and customers. Think about the goals of what you seek to learn and write down the questions and topics that map to those. Think of your guide as a topic checklist that allows the interview to be flexible and flow naturally as the conversation unfolds. The more comfortable and casual the interview can be, the more your subject will feel at ease and be willing to share with you.

> "It ain't what you don't know that gets you into trouble, It's what you know for sure that just ain't so."
> *- Mark Twain*

Talking to users to gain an awareness of their needs and goals is both **art and science** and requires going beyond simply asking a list of questions. Following these **guidelines** when speaking with your users will help you get the most of your interviews:

- **Listen** to your user describe their needs, behaviors, preferences, and attitudes. **Pay attention to the words they use.**
- Use **open-ended questions** to prompt answers with sentences, stories, and lists that provide a deeper and more nuanced understanding.
- Ask about **past events and behavior** to understand how they act. Intentions and actions are not the same and past behavior can be a good indicator of future behavior.
- Ask **follow-up questions** to dig further into a topic or ask for clarification.
- Allow them **latitude to go off-topic**; sometimes these tangents provide clues. Nudge the conversation in a useful direction if they start to go too far astray.
- **Observe mannerisms** as they talk and watch as they use a product or complete a task in front of you. Separate their behavior from the words they are saying.
- Avoid **leading questions** or **confirmation bias**.
- Some people feel uncomfortable speaking **critically**. Give them **permission** at the very start to be brutally honest.
- Encourage them to **voice all of their thoughts**, not just the ones they think you're interested in. What they consider mundane or silly may be gold.
- **Silence is powerful.** At points, they may need time to collect their thoughts. **Wait** for the person to continue. It might feel awkward, but it's often worth it.
- **End with an opening.** Asking a question like "Is there anything you would like to add?" gives them an opportunity to share something you may not have thought to ask about or add a thought on a previous topic you'd already covered.

User vs Customer

Customers and **users** may not be the same and often have **different needs and goals**. Your customers are the ones that must be willing to pay. It's important to understand the difference and what drives each group. For example, an online publication may offer free content to their target users but charge their advertising customers for access to them. Or a user may be using a free tier of your product, while a customer is paying for a premium version. Each is important. The biggest implication of user vs. customer is how this impacts your market discovery research as you consider the differences in their segments, objectives, and activities and how that informs your overall product strategy. Without users, you won't have paying customers. But if your customer proposition is not valuable, it doesn't matter anyway.

Existing Solutions / Competitors

Competitors aren't companies that make similar products, they are any solution being used by your target user to get the job done and achieve their goals. Keep your focus broad. For example, users may have piecemealed their own DIY solution, or may be fulfilling their need in a channel you hadn't considered (e.g., digital vs. physical). All of these are competitors.
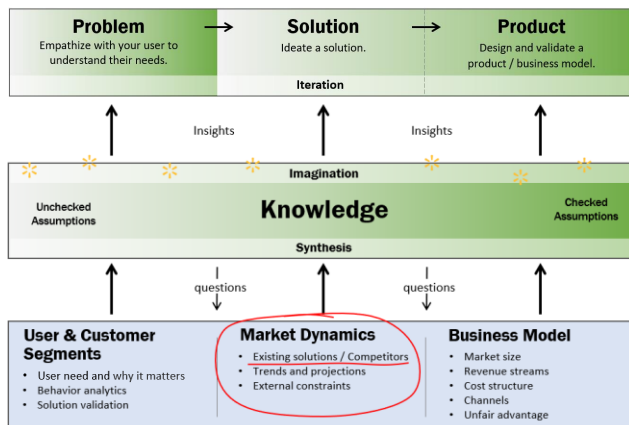
Studying competitors is your source to both understand how they are currently meeting user's needs and enrich your own user interviews by being familiar with the options available to them.

There are multiple techniques to learn about competitors. A Competitor & Capabilities Matrix is a powerful tool to use in the discovery of multiple aspects of their business from the features they offer, the business models they use, and their market share. To complete the matrix, you'll likely need to do hands on assessments, consumer perception surveys, and source secondary research reports from market research companies.

Competitor & Capabilities Matrix

List of attributes to track	Example matrix					

List of attributes to track

- Feature capabilities and fidelity
  (Harvey balls are a good way to rate the robustness of a feature for each competitor)
- User sentiment
  - Why do they choose this solution?
  - What do they love / hate about it?
- Pricing model
- User experience
- Customer experience
- Market share
- Revenue
- Size of company

Example matrix

[Date of Audit]	Your Product	Competitor 1	Competitor 2	Competitor 3	Competitor 4
Feature Capbilities					
Feature 1	◐	○	◕	●	○
Feature 2	⊖	◔	◕	⊖	●
Feature 3	◕	⊖	◔	◕	◔
Feature 4	●	◕	◕	⊖	◕
Feature 5	◕	●	●	◕	◔
Feature 6	⊖	◔	◕	⊖	●
Feature 7	◐	⊖	◕	●	◕
Pricing Model	1st 3 months, $4 thereafter, $12 / month	Free trial 2 weeks. $15/month single $22/mo double	Ad supported. Free to user.	$10 / monthly $110/ annualy	
Market Share	25% n=750	38% n=750	17% n=750	15% n=750	5% n=750

When studying competitors, consider the following:

- Copying a **competitor's unique feature or service** can add value but while it may appear to be a differentiator, it could lack adoption and fail to address a real need. Take the idea to users to understand if this is a must have to **stay competitive** or a **red herring** that could have wasted your time and resources.

- **Separate an idea from the execution**. Sometimes great ideas are poorly implemented, perhaps as an awkward user interface or lacking a feature that would bring it to the next level. Go beyond face value and you may discover a valuable feature or tool.

- As you gain a holistic view of your competitors, look for potential **whitespace** where there may be an opportunity to differentiate. Seeing a roll-up of how competitors are positioned in the space provides a valuable bird's eye view.

- While competitors are fertile grounds to find potential solutions, remember to look broader. **Unrelated products (beacons)** may be solving a similar problem or UI experience and can provide inspiration. For example, filtering a list is a common online feature that many unrelated products have all solved. Looking around may help you **save time from reinventing the wheel**.

In addition to the competitive matrix, there are multiple other techniques to learn about your competitors including:

- Subscribe to their news alerts, marketing emails, and social media.
- Attend industry seminars, conferences, and expos.
- Watch who they hire.
- Ask your competitor directly what you want to know. They'll likely tell you. Really.

Behavior Analytics

Valuable data insights are the product of clear business objectives and specific questions you are seeking to answer about your user's behavior. Diving into a monolith of data however, without clear goals may lead to 'analysis paralyses' and result in no clear benefit.

Clearly defined KPIs are key to understand the important things your users are doing and provide clues to areas of your product that may need attention. Each data point in a report should have a purpose beyond showcasing that you have it.
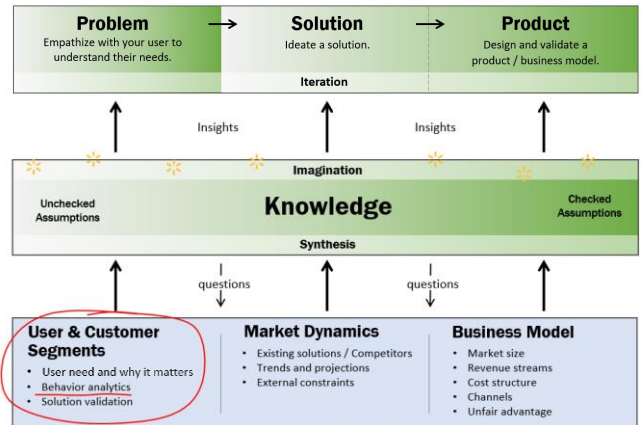
There are multiple data sources in your arsenal to study to provide better informed insights and should be part of your data analytics strategy. Below are examples of typical data points available from different sources that collectively can provide richer insights:

Web & Mobile Analytics	Back-End Database	Marketing Insights
• Unique and returning visitors • On-site activity (user flow, conversion drop-off, CTA clicks) • Referral source • Time on site / app • Bounce Rate	• User transactions • Average Order Value • Product usage analysis	• Net Promoter Score • Attribution (SEM, social, display, etc.) • Email marketing performance

Your metrics track your user's **behavior** and provide clues on things you want to dig into deeper to understand. In effect, it tells you **what** is happening. These *what* insights then inform the questions and tests you bring forward to your users to understand the **why** of their behavior. Inferring reason from data alone is just an assumption.

While it's critical to have clear objectives in the reports you create, when setting up your tracking, **be generous in what you measure**. As your analytics provide insights, new targeted questions will form and being prepared by collecting that data early on will help you when you actually need it. For example, on a website, if conversions are low, you'll want to understand where the drop-off is occurring in the flow. If you track each step from the beginning, you'll have the data available to analyze and assess what's happening.

It's All About the Questions

During World War II, fighter planes would come back from battle with bullet holes. The Allies found the areas that were most commonly hit by enemy fire. They sought to strengthen the most commonly damaged parts of the planes to reduce the number that were shot down.

A mathematician, Abraham Wald, pointed out that there may be another way to look at the data. Perhaps the reason certain areas of the planes weren't covered in bullet holes was that planes that were shot in those areas did not return. This insight led to armor being re-enforced on the parts of the plane where there were no bullet holes. **The way we think about the data is arguably more important than the data itself.**

External Constraints

External constraints are conditions in the world that can potentially impact your product. Typically, you have little recourse in influencing these and will need to consider them as part of your solution. Not all constraints are immediately obvious but can have significant impact on your product strategy. Keep your eyes open and read the fine print. A few examples include:

- **Regulatory compliance**
  An authoritative body that may set standards or guidelines you are required to follow. For example, OSHA sets workplace safety standards that must be met by businesses.
- **3rd party contracts**
  If your solution requires access to a service from another provider, the terms of service for that contract will stipulate how you can use it and may limit your options.
- **Public attitudes and/or pressure groups**
  If the general public or an organized group perceive your product or service to cross a social or other type of boundary, they could create an unfavorable environment that forces you to adjust or abandon your product.
- **Laws of the land where you intend to operate**
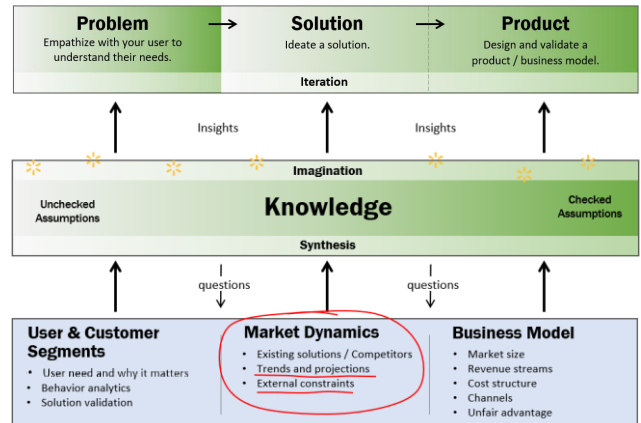
Secondary Market Research

Secondary research is an important source to gain additional insights, especially for **industry trends and projections**. A significant amount is freely available online or through market research firms like Nielsen or Gartner that publish detailed reports you can buy. Research is typically in the form of articles, studies, or past surveys and often includes:

o   **Industry insights** (e.g., projected market growth, past performance)
o   **Trends in the marketplace** (e.g., consumer perceptions)
o   **Competitor reports** (e.g., brand ranking, sales numbers)

Obviously, any secondary research you obtain can also be accessed by competitors as well.

Imagination

The eureka or aha! moments when something suddenly crystalizes happens when we widen our thinking to allow ourselves to see beyond what is today and explore what could be. Often, they are bursts of insight that incrementally build on an aspect of the whole. Occasionally, when we are lucky and **prepared**, they are transformational flashes that can leapfrog your product idea.
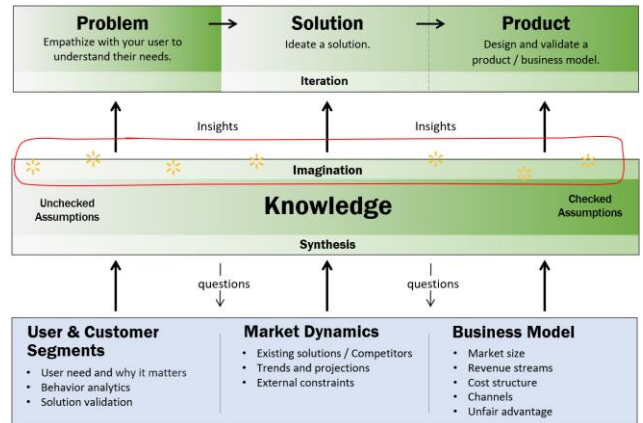
While it may feel like a magical experince at times, it is a studied physiological response. Our brains tend to produce gamma waves when we're intensely focused or actively engaged in solving a problem. Brain World Magazine describes the phenomenon: "Those aha moments are gamma spikes and indicate a constellation of neurons binding together for the first time in the brain to create a new neural network pathway. Immediately following that gamma spike, the new idea pops into our consciousness, which we identify as the aha! moment."

Like all creative pursuits, some ideas may seem revolutionary in their moment, but later with introspection, may appear far less innovative than your initial euphoria would have suggested. That's part of the process. Keep going. And take comfort that we've all been there. The Pulitzer winning art critic Jerry Saltz once tweeted: "You ever spend a whole day really working. Getting to a place where you go to bed feeling bullet-proof, like no one can touch this. You drift asleep with demented dreams of your god-like talent. Next morning you return to the work and it is pure crap."

The aha! moments are the building blocks of innovation, and they encompass both the incremental and the revolutionary. While we cannot force insights on demand, there are techniques to coerce and encourage their spark, both on your own or with a group.

Strategic Alone Time

To start, find a place to feel relaxed. This is typically not in front of your screen or at your desk. Instead, you need to make time and room for solitude where you can insulate yourself from external distractions and focus on the problem at hand. When we create these environments, it allows our minds to relax and wander, entering a creative thinking state.

It's tough, but you need to schedule blocks of time in your day for this thinking time. This is where the good stuff happens so don't feel weird about doing it. Rather, you should feel uncomfortable if you're not doing it. The outcomes can be far more valuable than that other meeting.

Ideally you want to be in an active state engaging in a **routine activity** that requires little cognitive attention allowing your mind to wander and contemplate. Common activities include:
- Walking around the block
- Cleaning a space
- Exercising
- Taking a shower

If showering is one of your favorite places for creative thinking and problem solving, you're not alone. In a multi-national study, the cognitive scientist Scott Barry Kaufman discovered that 72% of people get creative ideas in the shower. He said, "people reported more creative inspiration in their showers than they did at work."

Group Brainstorm

Brainstorms have a few benefits from generating multiple new ideas, injecting insights from outside contributors, and helping to get unstuck. There are many different formats for brainstorming and the style you use is a matter of preference. Whatever the format, the following guidelines are designed to improve the caliber of ideas you come up with.

Before the Brainstorm:
- Invite a **cross-functional team** of creative **problem solvers** from all levels of the organization. When the problem covers multiple knowledge domains, bring in **experts** in those areas. In larger organizations, participants shouldn't just comprise people who have been around the longest or those with the biggest titles.
- Clearly **define the problem** the team is gathered to solve; providing a clear goal helps keep everyone focused on the topic.
- **Provide an overview of as many insights as possible to help inform the ideas**; this is the fuel from which your insights will be based. **Don't shortcut this activity.** The quality of the ideas directly correlates to how well your brainstorming team understand the insights. Post the insights in front of the team to keep them top of mind.

- **Start with a creative warm-up.** This serves to both elevate the energy and get people into a more divergent thinking and creative frame of mind. Brendan Boyle, the founder of the IDEO Toy Lab, suggests the <u>following activity</u> to get people into a creative headspace:
    - Stand up and shut your eyes. Imagine you're standing in a big open field beneath a blue sky, preparing to blast off around the moon. 3-2-1-Blastoff!
    - Imagine yourself blasting around the moon and after 15-30 seconds, land back on earth.
    - Go around the room quickly and talk about what you saw and did (Did you wear a spacesuit? Did you land on the moon?, etc.)

During the Brainstorm:
- **Crank out as many ideas as possible: good, bad, and otherwise**. Sometimes we need to get the **mundane out** of our head first to get to the **new and interesting**. Go on, say all those stupid things, get them out of the way.
- Have one or two people **capture the ideas on a whiteboard in real time**.
- Encourage **wild ideas** and be willing to **build on others.**
- **Defer judging ideas.** Limiting phrases like "we're not set up for that" or "that's stupid" kill creativity and deflate the energy of the space.
- Keep it moving, but keep it organized. One conversation at a time.
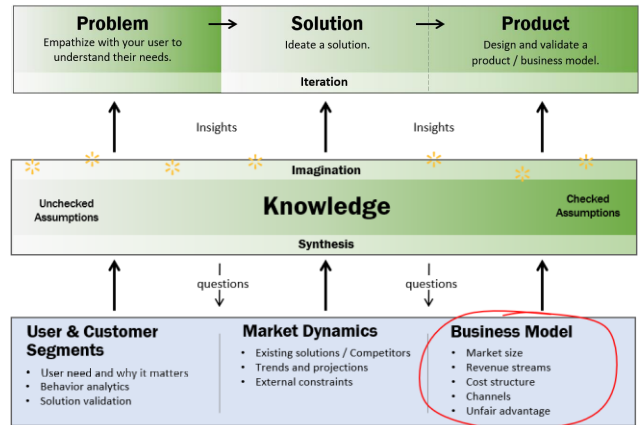
After the Brainstorm:
- Take a break to allow folks to switch gears and **organize the ideas into groups and themes**.
- Go through the ideas and begin to **evaluate their merits, assess feasibility, and mold/evolve** them.
- Prioritize the ideas (possibly a top 10 list) and add a high-level overview for each concept and an initial hypothesis of the problem it solves.

Business Model

Product innovation requires a continuous layering in of the insights of user need, market dynamics, and the business model. Each is essential to informing the product and increases the chances for success.

A simple but powerful tool to help incorporate the business model considerations is the **Lean Canvas** which organizes and lays out in order the fundamental elements you need to solve for your product to be economically viable.

Lean Canvas

Problem	Solution	Unique Value Prop.	Unfair Advantage	Customer Segments
Top 3 problems	Top 3 features	Single, clear and compelling message that states why you are different and worth buying.	Can't be easily copied or bought.	Target Customers Target Users
(1)	(2)	(3)	(7)	(1)
	Key Metrics Key activities you measure		**Channels** Path to customers	
	(6)		(4)	

Cost Structure	Revenue Streams
List your fixed and variable costs. Customer acquisition costs Distribution costs Hosting People, etc. (5)	List your sources of revenue. Revenue Model Life Time Value Revenue Gross Margin (5)

Lean Canvas is an adaptation of the Business Model Canvas by Alexander Osterwalder which Ash Maurya created in the Lean Startup spirit.

The numbers in the canvas represent an order to fill it out to maintain a user-centric approach. The content of the canvas, like your product vision, is iterative and evolves over time as you refine and validate your product.

The canvas is not meant to cover everything that needs to be solved (partnerships, key resources, technology, etc.) Instead, it focuses on considerations that have the most impact in defining and shaping your product.

1 & 2: Problem, Customer Segment, Solution
Filling in these sections with your working understanding of the Problem, Customer Segment, and Solution helps to synthesize and focus your thinking and informs the rest of the model.

3: Unique Value Proposition
Consider what is the unique characteristic of the product or service that differentiates it from what is already available on the market. Focus on the main problem being solved and what makes the solution different.

4: Channels. What are the paths to reach your users and customers? How do you get them to know about the product? Online? Partnerships? Sales reps?

5: Revenue Streams. What is the impact to your revenue stream? Are you charging for it? If so, what is the pricing strategy? Or does this solution add capabilities to an existing product or reduce barriers to conversion? If so, how do you quantify the added value it provides?

5: Cost Structure. What is the cost to build and support the ongoing operations? Consider all costs associated with bringing it to market and maintaining it, including customer research, design and development, marketing, transportation, etc. How many customers are required to cover your costs? What is the burn rate? Is this a new business in a larger organization with its own P&L?

6: Key Metrics. How will you measure the effectiveness of your product? Conversion rate, AOV, and frequency are baseline considerations. A good model to consider is Dave McClure's Pirate Metrics (AARRR) which looks at each stage in the sales funnel:
    Acquisition - How do potential users and customers find you?
    Activation - Does the user have a great first experience?
    Retention - Does your user come back again?
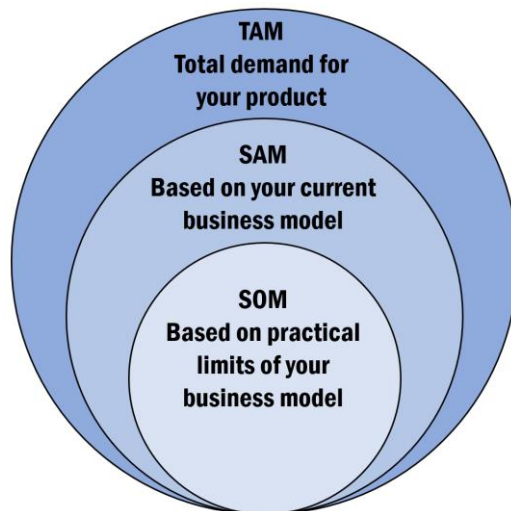   **R**evenue - How do you make money from your customers?
    Referral - Do users tell others about your product?

7: Unfair Advantage. What makes you stand out and puts you ahead of your competitors. A true unfair advantage is something that cannot be easily copied or bought. It can take the form of multiple things like a feature capability, insider data, expert endorsements, a great team, etc.

Market Size

Listen in on any venture capital or merger and acquisitions team and within 10 minutes someone will be talking about TAM, or Total Addressable Market. And for good reason: the potential size of the market your product is intended to serve is critical to understand and evaluate. **Why? If it's too small, it doesn't matter how well you nail your product.** And it's not just TAM you need to consider, but SAM and SOM. Each represents different subsets of your market.

TAM
Total demand for your product

SAM
Based on your current business model

SOM
Based on practical limits of your business model

Some definitions and examples can help. In a nutshell:

TAM. Total Addressable Market / Total Available Market. Your TAM is the total market demand for the product and provides a panoramic view of the whole market's profitability.

EXAMPLE: Imagine you're creating a new pet food product. Your company's TAM would be the average each pet owner spends on pet food sales annually, multiplied by the total number of pet owners worldwide.

SAM. Serviceable Addressable Market or Served Available Market. This is an estimate of how much of the market you might actually capture with your current business model and helps you identify your market segments so you can target them accordingly.

EXAMPLE: There are practical limitations that prevent your TAM and SAM being the same such as logistics, geography, competitors, local or country wide laws, and others. Your new pet food company operates out of Upstate New York and does not have a website yet. Research shows that most pet owners in Upstate New York have dogs. You determine that your target market is Upstate New York dog owners. Your SAM would be the average each Upstate New York dog owner spends on dog food sales annually, multiplied by the total number of Upstate New York dog owners.

SOM. Serviceable Obtainable Market or Share of Market. SOM zooms in on your business' immediate market focus, short-term plan, and initial product offering and is the portion of SAM that you can realistically capture.

EXAMPLE: Additional research finds that most dog owners in Upstate New York purchase dog food within a ten-mile radius of their homes. You also learn that most of the dog owners within ten miles of your shop are millennials. Based on these insights, you decide to target millennial dog owners living within ten miles of your current location.

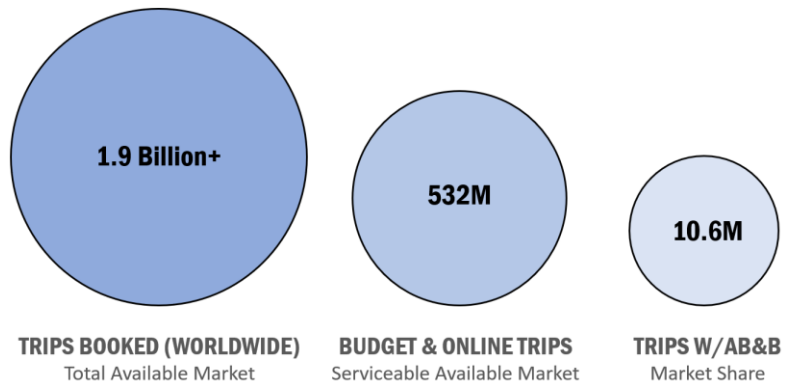| 1.9 Billion+	532M	10.6M
TRIPS BOOKED (WORLDWIDE)	**BUDGET & ONLINE TRIPS**	**TRIPS W/AB&B**
Total Available Market	Serviceable Available Market	Market Share

Chart from Airbnb's original pitch deck illustrates the differences between TAM, SAM, and SOM.

It's critical to understand and evaluate your TAM, SAM, and SOM. Jay Samit, former Independent Vice Chairman of Deloitte, said "most startups fail not because they had a bad product or idea, but because they fail to accurately gauge customer demand and underestimate the cost of customer acquisition. Aware of this, most venture capitalists and sophisticated investors will only back companies that understand their TAM, SAM and SOM."

Iterating & Ideating Your Product

With each new insight, your product continues to evolve. It's a creative process consisting of cycles of divergent and convergent thinking. At points, ideating on new ideas and ways to approach the problem. At others, it's about refining and synthesizing concepts. This iterative push and pull further refines the solution and moves it closer to something that feels workable.
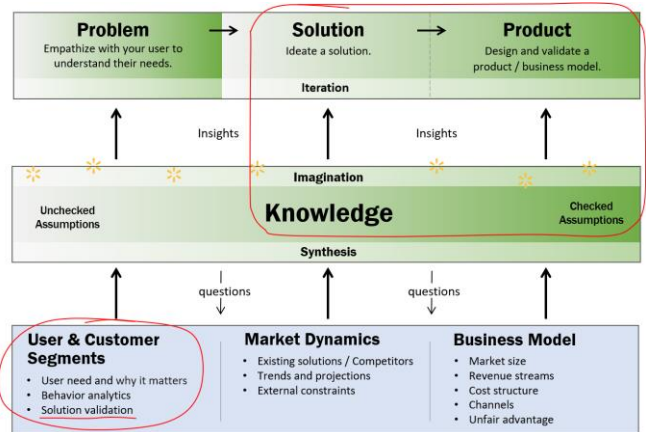
At each iteration, from the start when you may have only a simple sketch prototype or a few slides, through to launching your product and each version or pivot thereafter, your mission is to test your solution with users and collect feedback to inform new insights and ideas that you incorporate into the next version. It's a **continuous feedback cycle** designed to check your assumptions, test your business model, and answer questions. This cycle can be organized into three repeating phases:

- **Plan & Test**
- **Collect & Learn**
- **Ideate & Evolve**
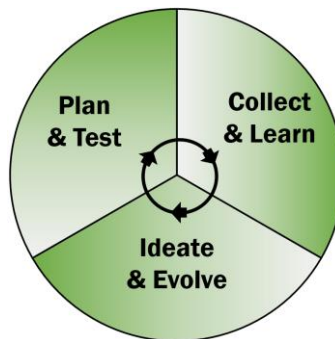
Plan & Test

The focus and scope of your tests evolves as you progress. In the beginning, it's about concepts and ideas. As you validate and evolve your solution, your testing advances to feature sets and other facets of your product including pricing, business model, UX flows, etc.

Concept Testing

To test initial concepts, interview users to gauge their interest and willingness to buy. Just as in your interviews to identify the user problem, prepare with an interview guide. Write down the idea and practice explaining it and consider the questions you may get in return. This will help to fill in holes. During the interview, when you get critical feedback, try to isolate if the general idea was disinteresting or just a portion of it. Take the opportunity to explore other options based on their comments.

Prototype & Usability Testing

When you have confidence in the overall concept, create a prototype to start testing out the details of your product including layout, flow, and key experiences and mechanics. Start with a list of things you want to get feedback on and use that to guide the flow of the prototype to enable you to observe and test your hypothesis to learn what's working and what's not. There are multiple types of prototypes. In the end, your goal is to **inexpensively simulate the solution** to get a deeper level of feedback from users. Pick your prototype accordingly. Low fidelity paper prototypes with simple line sketches are quick and inexpensive and a great place to start. Make sure the insights you capture whether from interviews, surveys, or tracking behavior metrics, are actionable.

Collect & Learn

As you collect your feedback take time to absorb and synthesize the findings and give your conclusions enough attention to ensure you understand the root cause of your user's actions. Outcomes from testing can span the continuum from homerun to strikeout, but unless you've completely misunderstood the user's problem, your solution likely has degrees of success. Google Design Sprints methodology defines three outcomes on the spectrum:

- **An efficient failure:** *Missed the mark but learned something (or many things).*
  It's likely a key aspect of your user's problem has been missed or your solution doesn't adequately address their underlying need. Consider returning to user interviews to improve your understanding. Or maybe it's time to pivot.
- **A flawed success:** *Some ideas met your user's needs, but not all of them.*
  Keep iterating and check your assumptions.
- **An epic win:** *The concept met your user's needs.*
  Move forward with confidence to the next iteration and celebrate the win.

If your assumptions are disproved, it's tough but ultimately a good thing, and while it may make you feel disheartened for a while as you recalibrate what you know, you return to the process stronger.

Ideate & Evolve

Fresh insights from your tests, synthesized with your existing knowledge, refuels your ideas and allows you to imagine new ways to evolve your product. When working through ideas, it's often helpful to create rudimentary sketches to help visualize how something might work and identify gaps or challenges in the concept.

While users are core to understanding the problem to be solved and you want to keep them at the center of your ideas, you can't outsource your innovation to them. Steve Jobs said it well: "It can be really hard to design products by focus groups… a lot of times, people don't know what they want until you show it to them."

Be careful of becoming precious with any one solution. Growing attached to an idea puts you at risk of being blind to customer insights that could be counter to your personal opinion. Sir Karl Popper, the philosopher and London School of Economics professor said, "Whenever you propose a solution to a problem, you ought to try as hard as you can to overthrow your solution, rather than defend it." Testing with users is the best way to counter any potential biases and assess what degree your solution may actually solve their problem.

Watch out for the natural tendency to seek closure which can lead to prematurely adopting an iteration of your solution that does not adequately address the problem. There will always be pressure to show progress and get something out there. It's a tough call, but resist if you know you're not there yet, or you could find yourself building a product with low customer adoption.

Minimum Viable Product

While not a panacea to the ills of scope creep, the **Minimum Viable Product** (MVP) is an important concept. The goal is to build only the minimum capabilities that address and solve your customer's problem and makes your product **viable** in the market you are entering. It is designed to limit wasting time and money on features that have little or no customer value and launch your product to start observing real user activity. This elevates your user research from opinions collected in the safety of controlled testing to the wilds of the public and actual customer feedback.
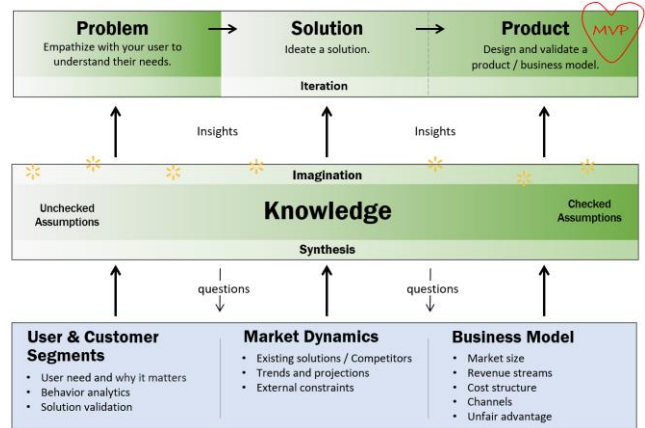
The idea of an MVP was popularized by Eric Ries, the creator of the Lean Startup methodology and has three key characteristics:
- It has enough **value** that people are willing to use and buy it.
- It demonstrates enough **future benefit** to retain early adopters.
- It provides a **feedback** loop to guide future development.

It's important to remember that **user value** is more than merely the functional. Indeed, it has emotional, and social dimensions as well. The **functional dimension** is the practical role a product or service fulfills, while the **emotional and social dimensions** encompass the feelings you get from owning or using it. Each of these dimensions are important to consider as you build your MVP and one cannot be discounted for the other.

The term **Minimum Lovable Product** (MLP) was introduced by Brian de Haaff, founder of the road map software Aha! in response to a pattern of businesses and startups that launched MVPs that were overly simplistic versions of their product with only enough capability to be usable, but ultimately, lacked enough differentiating value and had basic user interfaces. The MLP, instead, is an initial offering that users love from the start and represents the minimum that is required for customers to adore a product, rather than merely tolerate it.

Our digital world is sophisticated and there are few markets that have not been touched by digital transformation. Today's market dynamics have **elevated the minimum bar** and their **ongoing evolution will continue to redefine the level of fidelity required**. If an MVP does not satisfy or provide **enough value** with a loveable experience compared to existing solutions and value propositions, users will quickly move on. No longer does the rudimentary satisfy. In effect, the MVP has become the MLP, but we must **not mistake MLP as a license to add more than is needed**. Once real users start to use your product, their feedback will guide your roadmap. In the war of opinions, the customer always wins.

Evaluation Checkpoints

At key junctures it's important to take a step back and consider where you are and the realities you are facing. The best times are when new insights are uncovered that could impact your current scope or product strategy. Examples include:
- After a deep dive into the user problem.
- Assessment of the market dynamics (especially your competitors.)
- Completing important rounds of testing your solution or evaluating the business model.

At these junctures, you need to honestly evaluate your product strategy and all the parts needed to make it successful to determine how to move forward. A baseline set of questions to contemplate include:

- **User Need.** Does your solution truly solve a customer problem? Is there enough customer motivation (pain) to get the customer to use your product?
- **Competition**. Are there entrenched competitors who will be hard to dislodge? Similarly, what are the barriers to entry that you can sustain over time? Ideally your differentiation should be significant enough to prevent a competitor from copying the idea and benefit from their brand, customer base, etc.
- **Market Size**. Are there enough users that have the motivation to make the product successful? Or is it a steppingstone to a bigger market?
- **Business Model.** Can you build a viable business around your product strategy? Is the cost to acquire and serve customers less than the profit you can make from selling to them?
- **Level of Effort and Investment.** How much time and money is it going to take to launch and operate until it's profitable, or if an add-on to an existing product, reaches the target KPI you have established to be valuable?
- **Risk.** How significant are the risks involved?
- **Suitability.** Are you well suited to the opportunity? Do you have the appropriate insight or expertise to manage building and operating the product / business?

When you complete your assessment, decide what the best course of action is:

- **Persevere**
- **Pivot**
- **Pull-the-plug**

Persevere. Your product strategy appears valid based on your insights and tests with users. Stars are aligning. Bear in mind that success at one stage does not guarantee continued success. Pivots may still be in the future.

Pivot. A key part of your solution is not working (e.g., parts of your solution don't address a real user problem, your target market is too small, etc.), but a variation of your product strategy may be feasible. Pivots can come in multiple flavors. For example, a specific feature may be testing well and could become the basis of a different product, or focus on a different type of customer, or a new channel. Reset and change course using what you've learned to test your new hypotheses.

Pivots are not uncommon and can make the difference in your product's success. Consider YouTube: originally started in Feb 2005 as an online video-dating website where users could upload videos of themselves to find a date, YouTube had little traction and users started uploading videos that didn't match with the actual context of the site. The founders realized that their original idea wasn't working but saw a new opportunity as a general interest video sharing site. By Nov 2006, Google had acquired YouTube for $1.65 billion.

Pull-the-plug. In the course of your innovation sometimes you discover your idea simply cannot be realized in a profitable way and viable pivots are elusive. This is never an easy decision and can be fraught with emotion and bravado to persist, but when you've exhausted your options you need to know when to call it a day or risk wasting (more) time and resources on a non-starter.

Product-Market Fit

Product-Market Fit describes the milestone when you have successfully identified your target customer and they are buying and are brand advocates. Your product is selling well and in numbers large enough to sustain your business' growth and profitability. You are in an optimal position to scale.

The concept was developed by Andy Rachleff and popularized by Steve Blank, an early pioneer of Lean Startup thinking. Steve Blank defines it as "sufficient demand in a clearly defined marketplace for a product delivering a clearly defined value proposition to allow efficient capital expenditure to scale value creation."

This is the holy grail of a new business or product launch. Many strive for it, few achieve it. If you are here, congratulations, you don't need this guide.

Dana Lee 3 is a leader in product innovation and strategy based in New York City.
Contact: dana@lee3.com or lee3.com