Aleksey Kulakov

PRODUCT DEVELOPMENT

How To Write a Product Story Bound For a Happy Ending

ALEKSEY KULAKOV
POLINA BYNOVA

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INTRODUCTION: THE PHILOSOPHY OF THE PRODUCT DEVELOPMENT APPROACH

Product development approach has taken its well-deserved place among the most effective development systems. At JetStyle, we truly believe that in the next 10 years product development approach is going to be the benchmark of management and automation.

Why so? When we develop products, we change customers' behavior. Customers interact with your product — this product impacts their lives in a positive way — they keep using it. Thus, your business grows.

To put it in a nutshell, the product development approach aims to achieve business goals and improve customers' experiences as well.

What is a product anyway?

The first thought is — something we find on shelves in stores. Generally, products are sources of value for those who buy them, and sources of profit for those who sell them.

When we discuss the product development approach, we will talk about digital products. Digital products change customers' behaviour in a gradual and consistent manner. Everyone wins here, because this change is always related to getting some value. Customers interact with your product — this product impacts their lives in a positive way — they notice the change and keep using it. Thus, your business grows.

First of all, let's line up **the key features of the product development approach:**

— It is data-driven.

We use data to check on a business's growth and implement changes at early stages.

— It is fast and incremental.

The business aims to expand its grounds, win new audiences, earn more money during the least possible amount of time.

— It is iteration-based.

Instead of working for a long time and then releasing the product, we deliver value each and every sprint.

To sum up, the product development approach is a combination of three main ideas.

Incremental changes + relying on data + developing a business fast.

PRODUCT DEVELOPMENT APPROACH VS OTHER STRATEGIC APPROACHES

This book is dedicated to the product development approach and school of learning. There are other strategic schools, and we cannot ignore the fact that during different stages of business development you can make use of any of them.

The point of this book is to highlight our vision: at the early stages, the **product development approach is the most relevant for IT corporate cultures**.

Basically, we can speak of three core strategic groups: prescriptive, descriptive and combined ones.

It all started in 1970-es with a big group of prescriptive strategies. In short, this type means that a few decision makers brainstorm and develop a strategy the company would then have to execute. A few schools inside the group:

— **School of design**. Implies we are looking for a profitable combination between what we can do and what the market needs at the moment. This is where SWOT analysis originates from.

— **School of planning**. This one literally means that creating strategy equals to developing a company's business plan.

— **School of positioning**. If you follow it, you are looking for ways to choose the right spot for your business at the market.

Descriptive schools appeared in the 1980-es. They are more flexible as they prefer concentrating on the present state of the business and are less imperative about its future.

— **School of learning** focuses on experiments. The main development tool is the feedback loop. "Test before you invest' to save resources and find a way to scale profit. The structure looks the following way: at first we find a challenge, we solve it and then reflect on this experience to make a conclusion on whether we take it as a best practice. The more loops we make, the faster we grow.

This is the strategy method we use when we implement the product development approach. It helps us move forward faster.

— **School of entrepreneurship.** When you work on a product, you fulfill a mission or a vision. Developing a company's strategy is executing an entrepreneur's desire to change the world.

The two schools of strategic thought — the learning and entrepreneurship ones — are sometimes in conflict with each other. It happens that an entrepreneur is not specific with delivering their vision and its value, so it doesn't turn out successfully.

The learning school is a way to correct this misunderstanding. If you experiment a lot, you most likely will not waste resources to create something the market does not even need.

Having an idea is still important, as it motivates the team and gives the sense of meaningfulness. In my vision, combining the visionary and learning approaches is a way to success for a startup.

— There's also **a cognitive school**. It claims that the strategy is what's going on inside a strategist's head. The most important skill is to model activity and view a business as a changeable system.

— **School of power** — claims that the key skill to succeed is the ability to form alliances to reach the maximum profit.

— **Cultural school** will strive to develop an internal culture that executes the entrepreneur's vision.

— A good example of a combined school will be the **environmental school** that pictures the business as a system consisting of "food chains". A change in any component will alter the whole system, so all factors need to be accounted for when a strategy is built.

Coming back to the product development process. We advocate for the learning school as it is reliable and fast. This type of strategy is self-educating, while it also educates you in the process. This approach helps entrepreneurs find traction with the market. It will ensure a quick start. However, it's crucial to remember that it will not bring the big idea into your business. Nor will it build a culture capable of maintaining the changes you implement into your business.

Learning strategic school is a way to adapt your desire to create a business to the world's needs, find your market niche and start optimization processes.

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If you want to go deeper into the review of strategic schools, be sure to read the book by Henry Mintzberg: "Strategy Safari: A Guided Tour Through The Wilds of Strategic Management". This is a meta-study that will give you a comprehensive understanding of the existing strategies and approaches.

DEVELOPING A PRODUCT: IS IT WORTH THE TROUBLE?

Entrepreneurs are creators, dreamers, innovators, visioners. In their heads they are always in the process of fighting with reality and looking for ways to change the world for the better.

This is how new products appear in the markets. According to the product development approach, an entrepreneur needs to ask themselves a lot of critical questions, mainly concerning the value this product can bring to the world.

The product development approach states that a new product is supposed to change people's behavior positively. This process should already exist, and your product is supposed to improve it and make it more effective. A series of questions arise at this point:

— Why would people want to change their behavior?

— What prevented them from changing previously?

— How many people are engaged in this activity in general?

— Is this activity even worth paying attention to?

— What's the audience's motivation to change?

If an entrepreneur finds answers to these questions, it will be easier to confirm the idea that the product is worth taking the trouble.

It's just the beginning. There are several factors you need to consider before you approach your investors with your new business idea. The following questions are linked to the core components of a product.

— Profits-wise. **Do you have a clear understanding of what you'll gain if you start this business?**

The crucial check-out points:

— The market is not too crowded.

— You know its structure (aware of the client segments).

— You found a developing niche.

— You know what the growth drivers are.

If you decide to work in a stagnating niche, you are doomed to fail. If you want to open up a new niche, you will have to spend lots and lots of resources. If you don't understand the growth factors, it will slow down the development process.

— Marketing-wise. **Do the sales pay off?**

The check-out points:

— You found the value that people want and cannot have (yet).

— You proved that you can deliver what you have promised.

— You found a sales channel.

— You confirmed that you scale profit rather than the losses.

— Product-wise. **Do we deliver value to our customers?**

The check-out points:

— There is proof that people change how they behave.

— They purchase again and bring their friends and family.

— They are happy about the change your product brings.

— Team-wise. **Do we have a well-coordinated team that develops using their experience?**

What do I mean by that?

– They “use’ each other to improve their thinking processes.

– They are quick to delegate and share responsibility.

– They help each other.

– They are predictable.

– Roles within the team are well balanced.

PRODUCT DEVELOPMENT IS A PROCESS, NOT A PROJECT

Before product approach was invented, project-based approach reigned. A project is a series of actions aimed at changing something, e.g. a business. When you see the changes, your project is done. This is the core difference between a project-based and product approach. The latter is focused on maintaining continuous change. When a product evolves, it brings more profit.

Why is this approach good for developing new products?

When we try to create something new for people to use, we need to test a few hypotheses. We can rarely hit the jackpot — a well-functioning product idea — right at the start of the development process. It will show only when the product interacts with the audience.

Basically, we create something small to check how it works. Next stage — we decide what to do with it next. We move forward into the future by little steps. With each step we perform a kind of a reality check and see how the product interacts with people. This information helps to make future predictions about the development process.

Again, these predictions are never far-reaching. We'll be honest with you: at the beginning it is even hard to tell what the result will be. However, we make sure each sprint delivers something complete and usable.

To put it in a nutshell, the product development approach aims to achieve business goals.

At the same time, remember that product development is different from software development.

You can develop software and not receive a digital product at the end. Vice versa, the product you create is not necessarily software. What turns a software development process into a product development one? In product development, the focus is on delivering value and testing hypotheses.

What do we mean when we say to a client that each and every sprint is supposed to deliver value? Based on our experience, we have outlined a few types of values in product development.

1. New features are implemented

With custom software development it was easier: we could deliver value by just implementing new features into the software. We never had to check whether that new feature helped the business to grow.

Delivering new features has nothing to do with product development, but it is still the most frequent value in the market.

Working with a product development approach, we believe that a new feature is meaningless if it doesn't influence the audience.

2. People's behaviours change

This is where initial value delivery might take place. We need to see that our activity changed somebody's behaviour. It doesn't have to be the client's audience yet; we could test the product with the client's staff. It's great if their everyday activities changed for the better thanks to our collaborative work. That means we managed to reach the primary goal of the product development approach: a change in processes.

Software never works on its own. It needs to be integrated into our client's business processes, otherwise their audience will not be able to use it either. The software we develop influences the client's business.

3. The client's clients received value

This is the part we love most about our work — testing hypotheses of audience behavior. As a result of our work, real people got something valuable. How do we know that? We analyze their behaviour. If it changes — and they like this change — we succeed in delivering the value. We'll be able to notice the change only with the help of qualitative research data. Basically, it's crucial to get in touch with the users to know if the change they are experiencing is a positive thing.

It doesn't mean that our client (a company) received any value. But it does mean our work has become more meaningful. At this point, together with our client we find a way to grow the business.

4. Hypotheses are confirmed

A company gets proven knowledge about reality. This knowledge is reliable, so now the business can put resources and efforts into further development of the product.

When we start a continuous process of hypothesis testing — that's when we actually start developing a product. As a result of this work, we find the hypothesis (e.g. a set of features, a combination of marketing channel and a message) that works best to ensure our customers are happy with the product. With this information, the product has potential to grow further.

5. The economic model works out

One of the most important hypotheses is the one that checks the product's cost-efficiency. At this stage, we try to combine the product value, its message and customer acquisition channels. We do the calculations to see that we scale the revenue, not the losses.

The positive numbers state that our product is working well. The more clients/units our client has, the better. Now it's all about investing into product growth.

If we manage to accomplish everything up to this stage — we are ready to rule the world. Now it's about business management.

At the same time, I'd like to mention that achieving customer acquisition cost payback is not the universal strategy for any type of business. Negative economics works out well if the goal of your enterprise is to expand your market share. In this case, economic effectiveness is not the priority. However, it's important to keep an eye on how the losses influence the pace of the market share growth.

PRODUCT MATURITY STAGES AND RELATED TASKS

Product development comes in several stages. Each requires a different toolset and different management methods. I tend to divide all the activity into 2 big blocks, both are easily decomposed to smaller objectives.

Stage 1. At the early stages of product development there is a lot of uncertainty on what the product will be like. The biggest challenge is to find the focus, the one alignment your team will be working on during the process. Additionally, a business needs to decide whether it needs a vision for the team to keep motivated.

A business vision provides a target image of the product and it usually determines its functions. There is conflict with the product development approach, because it clearly states that we never have a specific & determined vision of the future functions. With all the experiments, the functionality can change (and it usually does), as our final goal is not to execute our initial ideas, but to make sure our product brings actual value to the customers. This should be our core question in the process of work: what change do we need to incorporate into people’s behavior?

After this idea is found, the next step is to look for a market niche to conquer. The basic rule is we never invest into a market niche that is not growth oriented. Also, we have to find the perfect combo of marketing and technological trends and hit exactly on this point. Then, we look for a relevant marketing message that would convey the value we are trying to deliver.

Finally, we find a working way to deliver the value. It is still a situation of high uncertainty, however your audience gets a positive change in its behavior, and you get your first profit. You experiment, test hypotheses until you can confirm that:

— You've found your product,

— learned to sell it,

— managed to deliver value.

— Your clients want to stay with you and bring new clients.

Stage 2 is about scaling that positive experience. Whenever a business gets a client flow it needs to set up a new operation routine. Previously you were looking for a pearl on the bottom of the sea, now you try to make sure the pearl flow is stable and regular.

This is the beginning of the optimization stage. You take a closer look at the value delivery chain and analyze every segment. This data helps you understand which of the processes are potentially scalable and which are the ones that block the process. In other words, this stage is supposed to give us an understanding on how to deliver the value to a bigger number of customers. Then, you need to make sure that those customers recommend you to their friends and family. After that, you need to see that all of them stay with you and maintain their loyalty. At the same time, the business system should not collapse while you scale and grow.

Sometimes the activity of this stage results in a necessity to review the product's marketing or sales activity. Sometimes, it all comes down to making sure we can process a certain amount of incoming client flow.

The specific steps will depend greatly on the product you are working on. If you create computer games, you need to think of ways to deliver new content. If you make T-shirts, you'll need to increase the quality of fabric and find ways to optimize logistics.

When we think of what changes to make, it's really important to keep in mind the initial goals and to measure whatever relevant business indicators. I will dwell on this more in Chapter X of this book.

To sum up:

Product development consists of 2 big stages:

1) hypothesis testing and experimenting to find your place in the market,

2) scaling and optimization. During this stage, you experiment only if there's not any best practice to use.

It's worth mentioning that you may need to use different software for both stages. In some cases, the software system you used for hypotheses checking is not the one that will grow and turn into the real product during the second stage.

PRODUCT DEVELOPMENT AS A STRATEGIC APPROACH: TYPES OF HYPOTHESES

I will never get tired of saying this: hypothesis testing is crucial when you look for a new business niche or figure out the direction of its development. This section will outline four levels of hypotheses.

1. Market hypothesis

We research the market: its size, shares, growth factors, etc. The data helps understand whether this market sphere is even worth the trouble of winning it. Also, we get information on the audience's needs and figure out a way to cover them.

2. Marketing hypothesis

The previous level gave us a growing niche to conquer; now we need to understand what to sell there and how to do it. This hypothesis is about finding the perfect marketing mix and the key message that would bring sales growth.

Conversion rate optimization during the product development process is a way to further experiment and develop the product. Marketing efforts bring the clients; clients provide data on whether the product delivers values to customers and brings profit to the business.

3. Product hypothesis

Earlier we found a potentially profitable market and the first customers. Now it's time to scale this experience. This means we need to change the customers' behavior. This hypothesis cannot be fully outsourced to the development team; delivering value is always a collaborative process.

4. Team hypothesis

Creating hypotheses is not enough. The business needs to find sources of competence, i.e. a development team that knows how to test hypotheses. These people can facilitate the product development process, because they are skilled at this and can dive into the business's activity fast.

Who is in charge of forming hypotheses?

At JetStyle, we believe that it is irrelevant; it can be either the client or the developer team. The biggest challenge is the testing itself, along with making valid conclusions and assumptions, and integrating new features into the business process. The ultimate aim is to ensure speedy growth of the client's business.

GOALS & METRICS: HIERARCHY

When you create a business and a product, you want to measure the effectiveness of your activity. This is what metrics are for. Generally, they indicate the speed at which we move towards our goals. It adds to the meaningfulness of how you spend your money and effort. Moreover, measuring your actions makes you feel more secure and confident. I am certain that experiment data is more reliable than expert opinions, no matter how professional they are. Humans make mistakes, and it is absolutely normal. Numbers can be faulty too, and in this chapter I want to share the vision on how to decrease the possibility of wrong decisions that we make based on the metrics.

Metrics

— help you move faster towards your goal

— add to your confidence about your actions

There are too many metrics to consider all at once, so the first thing is to define their hierarchy. Performing any kind of planning activity, I suggest doing the following exercise: visualize the ultimate goal and think of how to reach it starting from the last point of the chain. Of course, here we can never put aside the idea of the business goal. What product goals are there in the market?

– **To pay off the investments and maximize the cash flow.**

This one's especially relevant for small and medium sized companies. This goal has its restrictions. A business is aimed at winning new customers and gaining profit, but it has to gain margin from each and every client it gets.

– **To increase the market share and the business worth.**

The restriction here is that along with growing your client base you'll see how losses grow top. This is the process you'll have to learn to manage.

Product development usually implies following either of the two goals above, but there's one more.

– **To boost the stability of your business structure and prolong its lifetime.**

This goal is rare for startups, as they are usually focused on continuous growth. However, sometimes a company creates a product just to stay flexible and adapt to the changing environment.

Back to metrics. On our way to growth we check hypotheses. There are three most popular ones:

Hypothesis 1. "If we raise conversion rates, we'll attract more clients for the same amount of money, which will put us ahead of the competition'

Hypothesis 2. "If we collect research data on our customers' pains and needs, we'll find a way to upgrade our product to deliver more value than our competitors'

Hypothesis 3. "If we find effective methods of customer retention, our customers will be more loyal and willing to pay more'

All other hypotheses are found when the three ideas above are decomposed. To see how metrics look, let's take a look at the first hypothesis as an example.

"If we raise conversion rates, we'll attract more clients for the same amount of money, which will put us ahead

of the competition'. Let's find out what metrics you need to measure the result of the activity.

The core one is to find out how much money you spend to win customers. It's called Customer Acquisition Cost = you get it by dividing all the money you spent for marketing efforts by the number of customers acquired during a period of time.

The cost of a customer is tightly linked to the notion of our expenses. As, depending on the goal, you need to make sure these expenses are in balance with the CAC, and the profit we get from each client. These indicators are separate metrics you can track.

The novelty of your product is another thing that defines the metrics you'll use. I like implementing the concept of AIDA (S) (Attention Interest Desire Action Satisfaction). We see if there is any demand for the product we're selling, and how many people are ready to switch from Desire to Action. If the demand is high, it's logical to use the one-touch sales (e.g. via target advertising). The efforts are measurable too; CAC will be calculated by dividing the cost of contact by conversion.

Metrics-related risks

— Losing touch between the actions and the goals. If you don't measure your activity, you have no understanding whether it is effective or not.

— Metrics abuse = working hard to grow the numbers without actually realizing why you need it. It happens when there is no well-defined hierarchy within the metrics system.

The term describing this case is "local optimization', and sometimes it's worse than doing nothing. The classic example of that: a manager responsible for one element of business development maximizes the metrics they are responsible for. As a result of this metrics abuse, you'll get lots of low-quality leads with high metrics numbers. Alternatively, to gain more clients this manager will offer discounts. That will get in the way of boosting your margin. There'll be no use of it.

Every time you feel you've lost track towards the goal, you need to look back and ask yourself: is measuring this action will bring me closer to what I want to achieve with my business?

Later, when you know how many clients you can get, you focus on fixed expenses. With this data, you work on new metrics: the number of clients you need to balance the profit and the fixed expenses.

Why do we need the metrics data when we make decisions?

— To test hypotheses. Are we working on something that improves our process?

— To check if our experiments are successful. Are they bringing us towards our goal of decreasing costs/delivering value/retaining customers?

— To introduce a new practice while having proven data on its effectiveness. Has this experiment given actual positive results expressed in numbers?

There are two ways of analyzing the data the metrics provide:

— **Down-Up: this structure is based on the first-level activity.**

Example: you launched an ad campaign with banner advertising targeted at a certain group of customers. After it's finished, you know the Cost per Click and the conversion rate. With this data, you can calculate the CAC. The difference between the margin and the CAC is the profit you get from a client. Then you multiply the profit by the quantity of clients and here's your gross profit. Gross profit minus fixed expenses is your net profit, and so on.

— **Up-Down. Here you'll work with bigger indicators and literally "go down" parameter by parameter.**

Let's say, you want to calculate CAC again. Take the gross profit, divide it by the number of clients; here's you CAC. However, in this case you take into account all clients in general, not considering specific targeted activities. The biggest risk is that accounting fluctuations will spoil the numbers, as during each period of time the amount of clients may vary. Using this method of calculation, you most probably will not understand whether a business experiment is successful or not. It's hard managing your movement towards the goal, as the cause and the consequence are mixed up.

I recommend taking the Down-Up method as the core one — to create and test hypotheses. The Up-Down is great to check the results of the Down-Up one.

bit.ly/unit_economics_jetstyle This is a metrics calculator developed by JetStyle. This simple tool will give you an understanding of how to make your website / app / ad channel / any other idea pay off. It will give preliminary data for initial discussions of the product idea. What you need to do is type in the core economics parameters of your product and you'll see a list of metrics you need to pay attention to if you want the numbers to add up.

IN CONCLUSION

There's a lot more to say about the product development approach, so by the time you're reading this, Alexey is already writing the next book about it. If there's anything specific you'd like him to cover, here's a Google form[1] you can use to ask your question or leave your feedback about this book. Also, if you feel the product development approach is applicable to your business model, Alexey is ready to give a free consultation; sign up for it in the form.

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Alexey Kulakov is JetStyle's CEO and co-founder. Alexey started his career as a UI designer and grew to become an executive. Along with managing JetStyle, he started a self-publishing platform Rideró as a Chief Product officer. Thanks to this experience, Alexey promoted the product development approach to JetStyle as well.

This book covers the philosophy and basic ideas of the product development approach. Alexey hopes this information will be helpful to anyone who's looking to develop a new product while not having enough understanding what strategic approach would save the money and efforts. In addition to that, this book will be useful to Senior Product Managers, CEOs of startups that are going through the product development process, CMOs that are challenged with a task of product development.

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