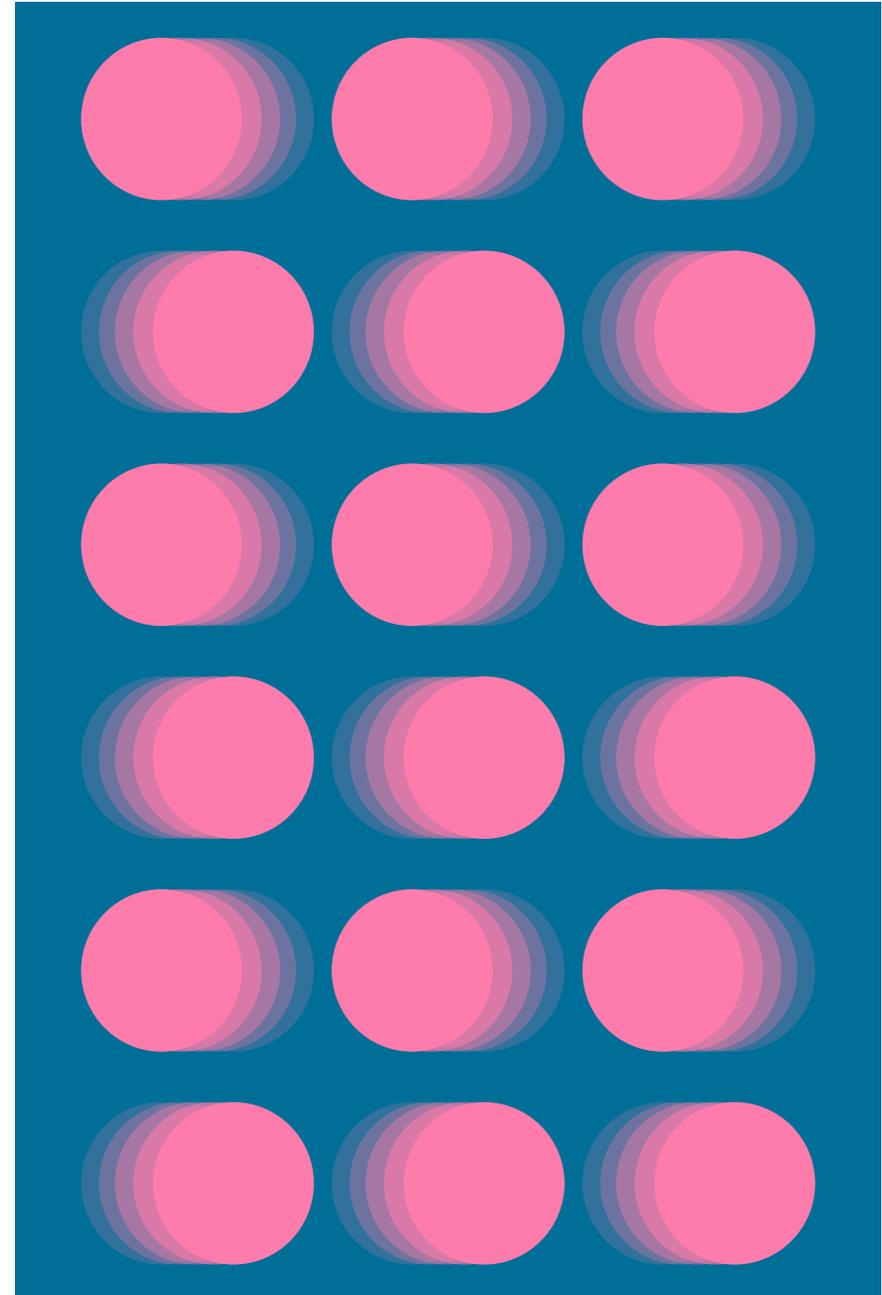


Product-Led Strategy

– A MANAGER'S GUIDE TO BUILDING VALUE IN THE DIGITAL ERA

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Foreword

Coventures was founded on the core beliefs of collaboration and co-creation. We believe that the working together of entrepreneurs and corporations can make for a much better world, as opposed to their working separately. It's rather unfortunate that most of the best actionable content for digital innovation is often written solely from the angle of startups, where you're building upon a clean table. The reality, after all, is that >90% of the world's current value is tied to legacy systems and organizations, as well as existing management practices—and with good reason: Old strategies and systems have been trialed and tested by time, and they've simply been proven to work. Their flaw is not so much in their functionality, per se, but in that they just aren't the best breeding places for building new disruptive businesses; hence, their vulnerability to the threat of disruption. Corporations are very good at extracting value when startups are good at creating value.

In today's world, it's rare for things to be completely clear or precisely determinable. Not everything is black and white — even pink is a viable option. The demands on modern organizations and management are more contradictory and paradoxical than ever before, challenging orthodox value systems and business principles. In a world where the “what” takes a back seat to the “why?”, making bold decisions requires courage, awareness, and a willingness to make mistakes.

In digital transformation, this ambiguity is often forgotten. More often than not, it's a battle of the “new” against the “old”, where participants are relatively locked in with regards to their positions. Be it about innovation, agile, lean, or teal, there sel-

dom is enough understanding and communication between the participants across teams. Digital transformation programs typically fail due to this reason, and we strongly believe that successful transformations require the marriage between two skills: i) the C-level P&L understanding on the implications of the transformation program, and ii) the entrepreneurial hands-on understanding on how to actually deliver the results. This rare ambidextrous skill-set is the key for coping in the 21st century. You can analyze which component you need to work on by asking yourself the following: Are you experiencing low levels of investment, or low return on your investments?

We at Coventures are a group of entrepreneurs working together to help incumbent organizations in three distinct areas:

1. Helping incumbents craft ambidextrous innovation strategies to prepare for digital disruption.
2. Building new ventures for incumbents in accordance to their overall innovation strategy.
3. Supporting the new ventures to succeed.

With our experience and extensive background as digital entrepreneurs, we have come to understand deeply both the corporate realities and the new digital business models. Entrepreneurs often like to simplify things as much as possible. Instead of long (and expensive) corporate change programs, our approach to digital transformation is a unique and simple one with heavy focus on creating actual tangible revenues from

new business initiatives and enabling clear communication between all levels of management. Our focus thus lies in areas such as having a clear strategic narrative and business case for innovation, addressing the need for stellar product leadership to enable innovation, and having actual entrepreneurs at the helm to enable the building of ventures.

In this published issue, we will touch upon the concept of product-led organizations, and how you should think about the concept in relation to your innovation and/or product strategy.



**WE HOPE YOU
ENJOY THE READ!**

MARKO OKSANEN
CEO, Coventures

1.

Volatility, Uncertainty, Complexity
and Ambiguity



In this highly transformative age we live in today, the only certainty is change. It's becoming more difficult to anticipate events or predict how they'll unfold, and our modern world is more complex than ever. At the same time, binary decisions have been made into a thing of the past, and we now need to deal with contradictory demands that challenge orthodox value systems and traditional business principles.

Accenture, a Fortune 500 Professional Services company, recently analyzed 10,000 companies in a disruption report, and published staggeringly high numbers with regards to companies currently facing high levels of disruption (63%) and those that show severe signs of susceptibility to future disruption (44%).¹

Disruption comes in many guises. It could simply take the shape of a better product or service, like Apple's iPhone; or a new business model, like Netflix's streaming service; or operational processes, like Alibaba's scaling technology. An exhaustive list of the different shapes and forms that disruption can take would be endless.

The Inevitability of Disruption

As disruption can approach from any given direction, it is no longer a question of whether it will happen, but when.

With the emergence and adoption of new technologies such as Artificial Intelligence (AI); Internet of Things (IoT); Blockchain, and innovation embracing management practices such as decentralized management (teal, holacracy), product-led-growth, effectuation and ambidexterity, previous competitive advantages and strategies that allowed for companies to be invincible are being eroded.

Thus, when thinking about digital disruption, it is essential to view it as an underlying timeline inherent in each and every industry, where the industry in question is either disrupted, in the midst of being disrupted, or to-be-disrupted.

Embracing Disruption

However, it is important to note that disruption should not be wholly shunned. Though it is to be rightfully feared for its prowess and dangers, it also presents opportunity. You need only look at companies such as Apple, Google, and Amazon to realize how lucrative it can be for businesses to use disruption to their advantage.

And that is exactly why we have put together this little guide, to show you how transforming your business into a product-led organization may not only allow for its survival, but empower it to seize the upsides of disruption.

Disruption happens when the rules of the game change

Advertising

Media

Software

Insurance

Banking

Consumer goods

Properties

Manufacturing & consulting

Google

NETFLIX



sanoma

slack

wefox

N26

amazon

BRANDLESS™

trulia

zoom

Lemonade

Revolut

Alibaba

THE ORIGINAL OATLY!

kodit.io

intel

ORION

McKinsey & Company

Already disrupted

Digital rules are dominant

Ongoing disruption

Being digital is a competitive advantage

Not yet disrupted

Digital processes creating efficiency

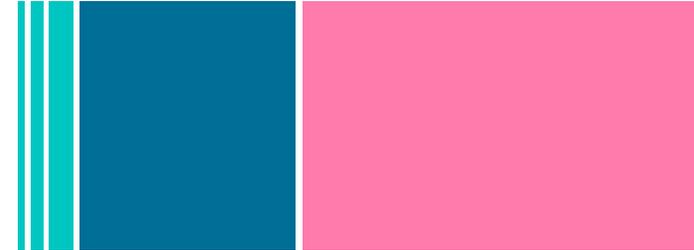
2.

What Happens in Disruption?



When disruption happens, new entrants wielding new approaches uproot incumbents in several ways.

Disruption doesn't happen overnight



- The part of the business in which competitive advantage can be created through investments in digitalization
- The part of the business that is under threat of being disrupted*
- The part of the business that is still well defensible

* This can include certain users, a certain customer segment, certain business functions, or a certain part of the customer experience and/or journey.

Disruption of Sales Methods

The disruption of sales methods is one such major way, and this becomes clearly evident in what is now the SaaS industry. Previously, software companies only approached C-suite individuals in the sales process. The authority over major decisions was necessary for the buying persona then, due to the big budgets involved and the need to install physical infrastructure to support the program being sold.

Then came the cloud era, where software was now being sold as a service. Software companies no longer needed physical infrastructure to support their software applications, and the buying persona thus changed. They would still sell to leaders, but much lower in the organization: to individual teams and departments who had gotten some degree of approval to use their own tools.

The sales method and process itself had changed, and continues to do so. We had moved from first, the physical infrastructure era; to second, the cloud era, and—today—to the third: the end-user era, as aptly coined by OpenView Venture Partners.²

The buying persona today is the actual user, and the rules of the game have shifted. Products that are built in ways that allow them to scale their user-base before their customer-base can better capitalize on this disruption of sales methods. Instead of investing heavily into marketing and SDRs (non-quota-bearing sales development reps), the best products today do their own lead-generation.

Designing your product in this way will also provide you with

the healthy fundamentals to build your pricing models on; with complete visibility to what your users value in the product, it's easy to decide on an optimal pricing strategy. And as pricing can have 4x the leverage in areas such as acquisition-to-bottom-line, it's easy to see why product-led SaaS businesses are beating their competition in profitability and growth.

The big difference here is this: in the cloud era, all the content and features of the product itself was well-hidden behind a paywall. In this new era, customers get access to these content and features before paying.

And with this new development, you now have what is referred to as product-qualified leads. Unlike marketing-qualified leads which base buying intent on arguably arbitrary factors (such as email opens, whitepaper downloads, etc.), product-qualified leads tie themselves to users unlocking meaningful value, and are much more probable to be converted to paying customers.

This has become how many SaaS companies sell to the world in this end-user era, and companies have to adapt to this if they are hoping to keep up with the times.

Disruption of Technical Competitive Advantages

The disruption that is rampant digitalization has also eroded many traditional sources of competitive advantage. Software is replacing hardware via digital offerings, and addressing previously unrecognized and untapped gaps in the market.

Take the mobile phone industry for example. Nokia used to be one of the biggest cell phone makers in the world. A big part of their success was due to new technologies produced by their R&D teams, along with patents that protected their products that these new technologies were contained in.

But that's the old world we're talking about. In the new world, software truly owns the world, eating up these old technical competitive advantages that companies have grown so used to. In the context of the mobile phone industry, Apple came along with phones that were much more heavily invested into software than Nokia phones were. The software era also brought about development cycles that were so much faster, making IP protection significantly less important when compared to incorporating customer feedback and agile development.

The hardware era — with its long product developmental cycles and focus on developing physical products — is now over. The importance of software has grown exponentially, and pretty much all technologies now have to anchor itself on a software component rather than its physical hardware.

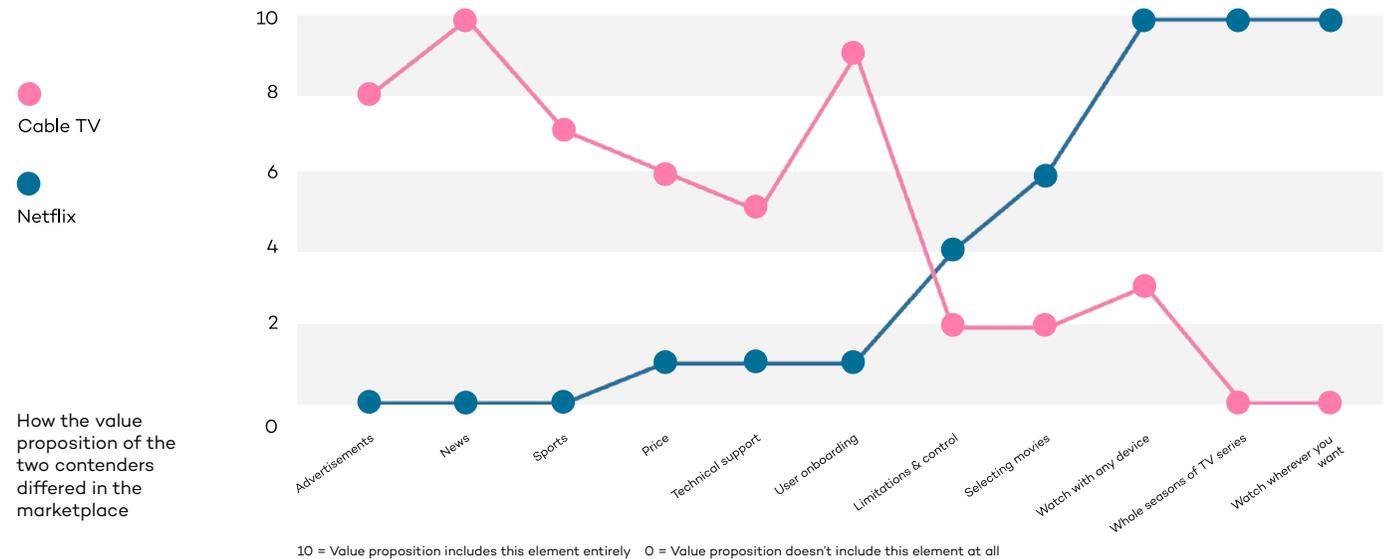
This is the disruption of technical competitive advantages, where—in most industries—whatever you could gain by having superior technology in the old world no longer hold as strongly anymore.

These are two fronts on which disruption happens, the two opposite sides being sales methods and technological disruption. But regardless of which side the disruption is birthed from, its occurrence granted many new competitors access to previously protected markets.

Companies such as Slack, Netflix, AirBnB, Zoom were then able to penetrate markets that were previously occupied by large, powerful incumbents. And with new entrants entering

markets with differentiated value propositions, the incumbent competitive dynamics start to change. Nowadays, almost all of the leading technology companies have been born this way — either by utilizing new technology, sales channels or business models. This is best described as a blue ocean shift, as coined by Chan Kim & Renée Mauborgne, in their well-received publication: *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant.*³

Disruption happens when digitalization changes the game



CASE EXAMPLE:

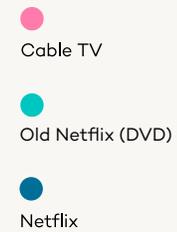
Netflix

One well-known case example that richly illustrates this blue ocean shift is Netflix. The streaming entertainment service company had heavily invested in studying areas of potential customer interest. They rode the wave that was digitalization, and created a product based on what they deemed to be optimal in the era that was then to come.

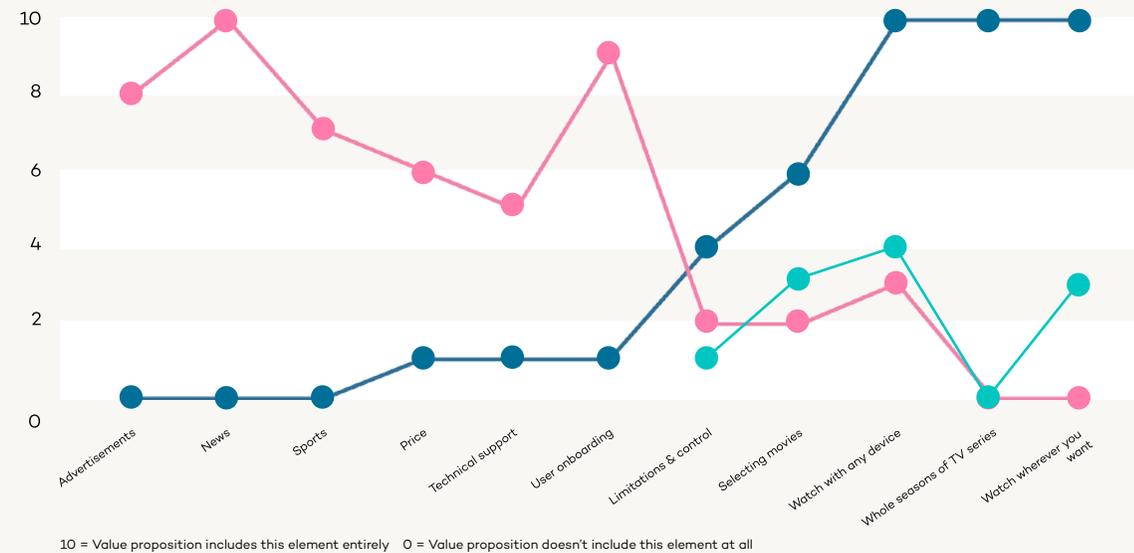
Netflix was initially set up in 1997, with their original business model revolving around lending DVD movies by post in monthly subscription agreements. The business of lending DVD movies was attractive enough for certain customer segments, but it wasn't a clearly differentiated value proposition for mass markets yet. It was only later, when the importance and range of the Internet was growing that the company recognized the changes in the market, and capitalized on them to their advantage by pivoting to a new business model: the streaming of wide varieties of films and TV series.

For Netflix, pivoting to a new model did not merely stop at becoming a streaming service, but included features such as parental content filtering; wide selections of shows; compatibility across numerous different devices; and the availability of full seasons of their customers' favorite programs, primed for binge-watching.

In other words, Netflix capitalized on the emergence of new and unmet value propositions that surfaced amongst consumers to overtake and topple its competitors that stuck by their more traditional models of businesses.



How the value proposition of the two contenders differed in the marketplace



CASE EXAMPLE:

Slack

Another case example — this time, one of the disruption of sales methods rather than that of technical competitive advantages — is Slack Technologies. Their business communication software, Slack, followed a genius product strategy that ultimately led to their recent acquisition by Salesforce for \$27.7 billion.

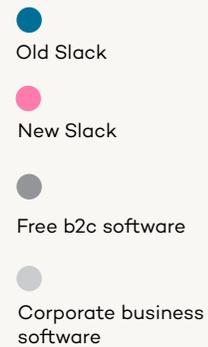
Slack was born into a marketplace where there were two very different types of competition: free B2C focused messaging tools and corporate business messaging suites. Slack chose to target a specific niche segment, and crafted a differentiated value proposition for this niche. They then executed a brilliant product strategy to expand their foothold in the marketplace by becoming a platform for all business communication.

Initially, Slack focused on product development teams and startup businesses. In this environment, traditional corporate tools weren't really used for daily communication as they didn't cater to the fast-paced communication needs of agile development teams. Slack's native integrations and their broad suite of messaging functions and features compared favourably to the other free tools then available. Their pursuit of a free pricing strategy also meant that many teams could start using their tools without asking for permission or budgets from higher management. Slack's focus on user onboarding also allowed them to win over business and other marketing folk, to become the complete communication platform in many product development teams. Slack was smart to include just enough enterprise functionality (billing, reporting, etc.) to be largely ac-

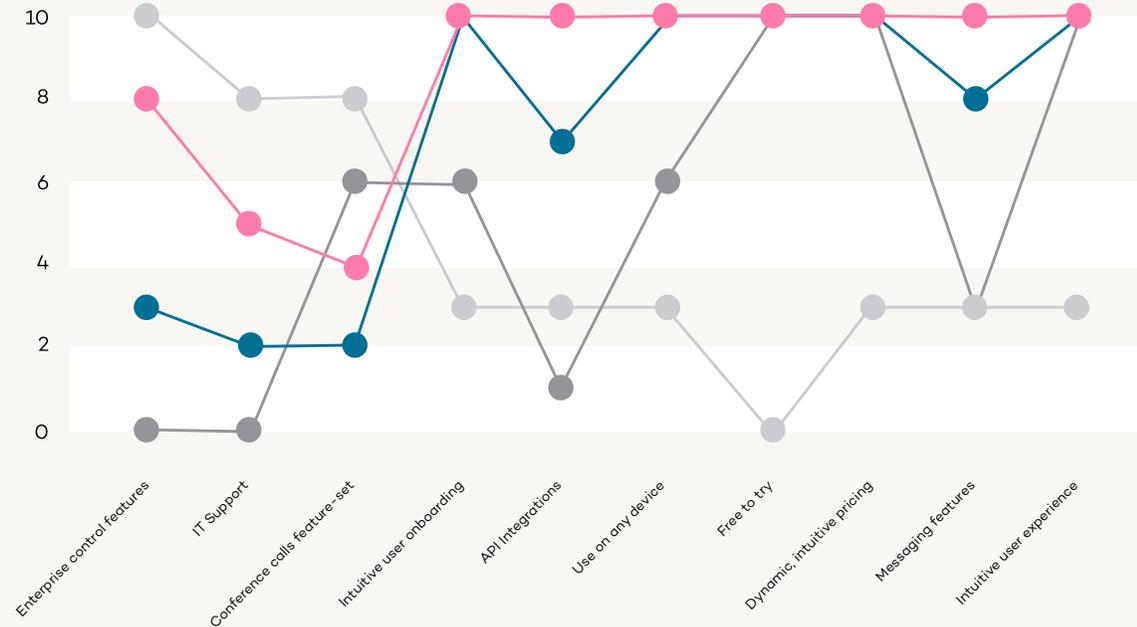
cepted in the marketplace and thus designing the user experience in such a way that there were little barriers-to-adoption, while also being persuasive enough in its value and potential to incentivize their users to upgrade to a paid subscription. This gave them the foothold they required to expand their business across many different teams and industries, and in doing so, they have soon after become a critical platform for company-wide communication, all around the world.

Further down the line, Slack continued to strengthen their core competencies, but also added numerous more enterprise features, which allowed them to sign bigger companies, albeit they

are somewhat struggling with the competition in this segment. Microsoft's fast reaction to Slack's ongoing disruption by launching Teams as a free tool protected them from the serious threat of Slack taking over a significant portion of their market. Their sustained success makes apparent how large a role distribution plays when competing in the enterprise software segment, and how product-led strategies are often the only way to stay competitive. Regardless, Slack still has a considerably competitive product, and their recent acquisition by Salesforce has only upped the ante. It'll indeed be interesting to see how the final round of their battle in disruption will turn out in the future.



How the value proposition of the two contenders differed in the marketplace



10 = Value proposition includes this element entirely 0 = Value proposition doesn't include this element at all

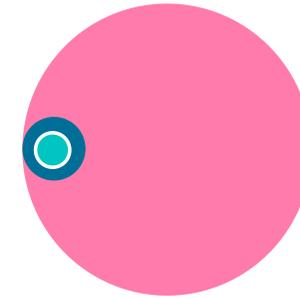
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How to Organize Your Company
in Different Eras



Of course, each form of structure provides with it its own set of benefits and shortcomings. The way you should decide on what structure your company should thus be molded around then largely depends on the situation.

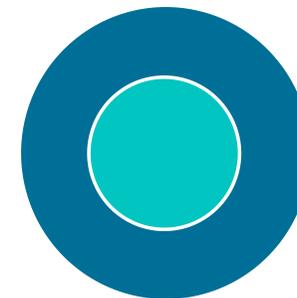
The transformation from traditional organization to product-led organization



- Product-led organization
- Partly product-led organization
- Traditional organization

You can build a product-led organization from within your existing traditional organization

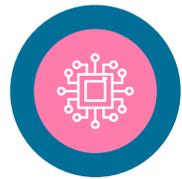
The transformation from digital organization to product-led organization



- Product-led organization
- Partly product-led organization
- Traditional organization

Three Types of Organizations

To start off, let us talk about the three main types of companies out there: technology-led companies, sales-led companies, and product-led companies.



TECHNOLOGY-LED ORGANIZATIONS

In a technology-led organization, R&D drives the demand. The demand for the technology is usually rather obvious and the challenges often lie in actually building the complex technology required. Think about the recent pandemic and how we can be sure that a safe vaccine would have limitless demand. Also, in the early days of mobile phones, the competition was simply about having the required technology and features.

In this type of environment, there is limited focus on distribution and discovery. Focus is often on heavy investments in R&D and process automation.



SALES-LED ORGANIZATIONS

An organization focusing on sales-led growth centers itself around an exceptional sales force to acquire paying customers for their product or service. They can utilize a marketing-driven inbound approach, a cold-call-driven outbound approach, enterprise sales driven approach or as often is the case: a combination of all three tailored to work together to reach different customer segments.

These organizations are driven by deals and profitability. The sales team calls the shot and the role of product development is often to serve customer needs as defined by the sales and marketing strategy.

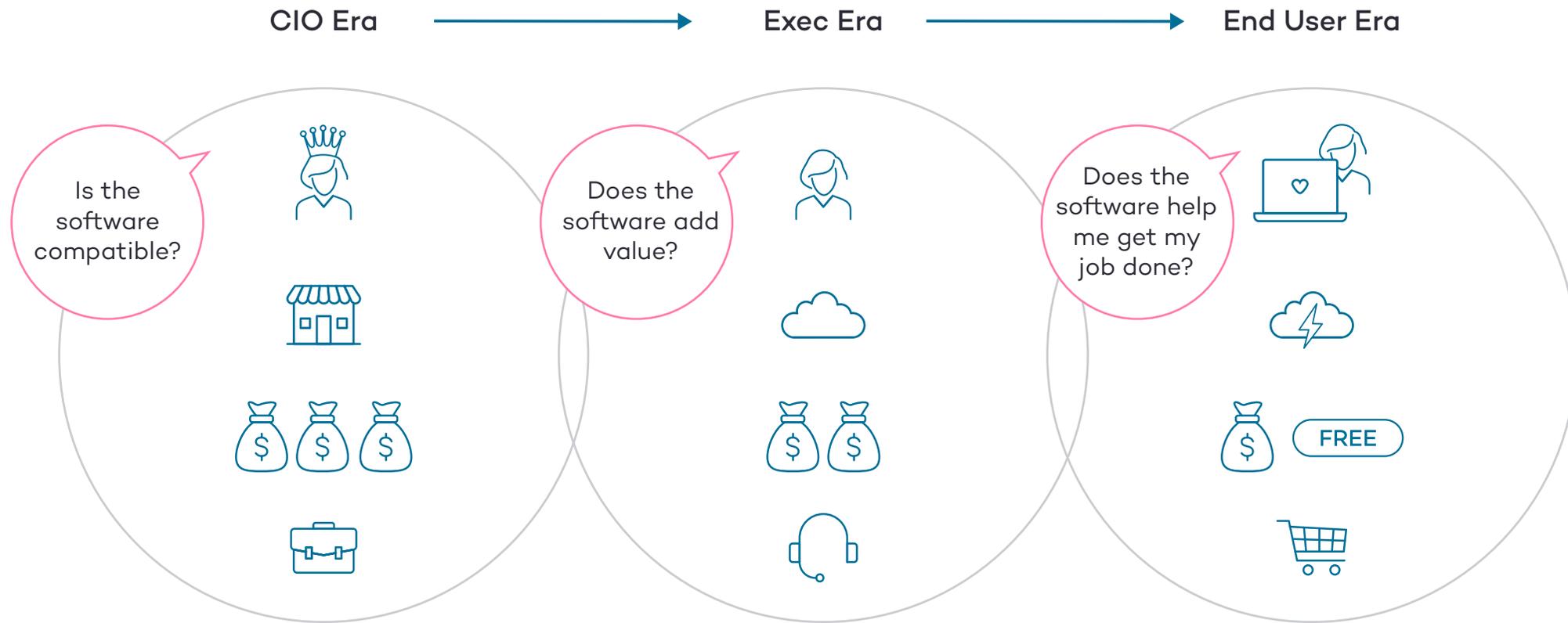


PRODUCT-LED ORGANIZATIONS

In a product-led organization, distribution and technology should both work seamlessly together to serve the product strategy. Technology (feasibility) and sales (desirability) contribute valuable inputs to the product strategy, where — while also utilizing and analyzing direct customer research and carefully crafted business considerations — a product strategy is crafted. This requires product leadership to ensure open communication and clear ownership.

So, how exactly do you decide on the type of organization that would work best in your current situation? The first step in making such a decision involves analyzing the business environment.

Product-led growth = End User Era



Source: Openview, product led growth - the end user era

Which organizational model do you need (to strengthen)?

The appropriate model depends on the context of your business and organization. What we can do, however, is highlight common denominators which can help you understand your current situation as an incumbent with greater clarity. This way, you can protect yourself against potential disruptors or even establish yourself as the disruptor.



WHERE **TECH-LED** EXCELS

If there are very little changes going on in the market, but value can be created via improving on your current product or service, then being a tech-led organization will likely bring about the most profit.

Also, when the environment your business operates in is one that is unforgiving with regards to error (e.g. healthcare, banking, spacecraft, etc.), then heavily tech-led strategies and teams would be the best route to take, as positioning your company to be error-free would then be of priority.



WHERE **SALES-LED** EXCELS

If you are currently in possession of a product or service that outrightly beats your competition in a swiftly-growing market, heavily sales-focused strategies and teams would be the best route to take as capturing market share would be of priority. Many non-digital companies use sales driven strategies as some offline products can be quite established in their own rights, and product improvements are thus of mere marginal benefit.

Must I choose?



For smaller organizations, it is extremely difficult to support more than one organizational structure due to the close-knit nature of the company as one cohesive whole. Organizational structure will dictate how exactly you organize your team, and it is impossible to organize one single team in more than one single way.



If you are currently operating a large enterprise business, it is inherently necessary that you have a degree of portfolio-thinking in the management of different departments and teams. There are, no doubt, some parts of your business exposed to changing market environments that entail room for product development. These parts should accordingly be governed by product-led strategies. However, other parts of your business may be exposed to different environments, and should be governed by tech-led or sales-led strategies accordingly.

Balancing these in an appropriate manner is no easy feat, and requires ambidextrous leadership that exercises simultaneous use of both explorative and exploitative activities.

4.

Why and How You Can Benefit from
becoming a Product-Led Organization



Though being a product-led organization is not necessarily the right fit for all companies, it is evidently one of the emergent winning options due to the erosion of competitive advantages brought about by digital disruption.

This is why traditionally sales-driven SaaS companies are inevitably shifting to become more product-led, where instead of competing with each other via having the best sales team and the best 'whole product', the concept of product-led growth and its possibilities is pursued instead, due to it being the best and most common way for SaaS companies to organize themselves to ensure they remain competitive.

Product-led organizations have certain competitive advantages over sales- and tech-led companies; not only in the case where disruption is occurring, but also even before said disruption happens.

By focusing on how your organization works and centering its operations around being product-led, you are—in a way—building a machine that builds the machines. You will no longer be dependent upon one single product, but rather, your dynamic capabilities that allow you to adapt to any situation will become your competitive advantage—and a strong one, at that.

PRODUCT-LED ADVANTAGES AGAINST TECH-LED ORGANIZATIONS

One major problem that many tech-led organizations face due to allowing technological advancement to lead the way, is building features nobody is using or wants to use, and thus bloating the product.

In fact, IT research advisory firm, Standish Group, has repeatedly published research showing that an average of near 80% of features in software products have little to no value.⁴ This is why product management is often key, with the same research also concluding that you could be getting up to five times the value of optimizing said product development. This is what tips the scales in favor of being product-led.

Being product-led helps remedy this failure to connect business, market, and technology together, and prevents the organization from ending up with value propositions that are unappealing to the market.

Product-led organization creates competitive advantage during digital disruption

PRODUCT-LED ADVANTAGES AGAINST SALES-LED

In some ways, becoming product-led is just the next natural step for sales-driven companies. Good sales driven companies have already thought about the “whole product”, meaning how the whole customer experience pre- and post-delivery has already been created⁵. This includes the sales process as well as training, onboarding, and documentation, amongst other things. Sales-led organizations are used to using technology to streamline operations and achieve automation (marketing automation, etc.), and becoming a PLO is merely a step forward, to extend this mindset to the current core product.

This allows PLOs to largely remove the many steps involved in long traditional sales processes. If you were to structure your company as a product-led organization, your business suddenly becomes much more scalable, especially when the product itself largely does its own sales and lead generation too.

This added scalability, along with large potential savings in costs due to the streamlining of your sales process allows for greater potential in both growth and profitability.



Organization aims at	Revenue growth	Best possible customer experience	Best possible know-how and technology
Competitive advantage	Best sales organization	Best product and product organization	Best technology, IPR and experts
Context	Critical systems, complicated transformation	Changing requirements, digital and dynamic market	Slow change, long product development cycle

What Changes When You Become Product-Led?

There are four main benefits a company can derive from focusing on product-led growth and structuring itself as a product-led organization, all of which provide for distinct advantage over competitors:

● WIDER TOP-OF-FUNNEL

Through free trials or freemiums, a product-led organization opens its sales funnel up to a much larger number of potential consumers, while also putting them into more inclined positions to become paying consumers.

This is a lot swifter than the traditional prospecting process required by sales-led growth, and enables the company to focus on improving onboarding processes, which in turn allows the company to service more customers from all over the world, in only a fraction of the time it would if it were executing sales-led strategies.

A product-led organization thus enjoys much faster sales cycles, as prospects practically onboard themselves. The reduction in time-to-value for consumers enables quick and effortless conversion of free users to paying customers. In other words, with appropriate investments, your business can transform into something easily scalable and largely automatic.

● HIGHER VALUATION MULTIPLE

In a product-led organization, fewer people are needed in the team as there is an inherent alleviation of the need for hand-holding due to the focus on providing a better user experience with the least human assistance possible. This directly translates into higher profit margins per customer, scalability, etc.

The product itself becomes the driving force behind acquisition, engagement, retention, and expansion. A product-led organization thus is more valuable than its sales-driven counterpart. For example, Slack was valued 18-times its revenue⁶, when again e.g. Salesforce valuation is only 10-times^{7 8} its revenue.

● LOWER CUSTOMER ACQUISITION COSTS

Making the product the main vehicle behind customer acquisition allows the product-led organization to adopt a lower cost structure in their business. This, in turn, permits such companies to offer lower functionality plans designed for specific customer groups (e.g. small businesses) that otherwise would not be able to afford the normal price tier.

This unique affordability then allows product-led organizations to not only target large corporations as customers, but smaller businesses as well. The added revenue diversity also minimizes the impact of any loss of individual accounts, and provides stability to the business.

● MERITS OF A WELL-DESIGNED PRODUCT

Lastly, the product-led organization also enjoys a product that is inherently better, more intuitive, and user-friendly. This means higher customer satisfaction, longer customer lifetimes, and more viral growth via momentum generated by the increased inbound interest and word-of-mouth promotion that stem from having a well-designed product.

Good design also means you understand the value your users are getting. This can lead to much more elaborate product strategies guiding you to the outcome you want to achieve in the marketplace. Also, you'll have the benefit of using value-based pricing, which can be optimized for different user segments. This allows you to reap much higher margins than your non-product-led competitors.

Becoming product-led doesn't mean your existing departments will become irrelevant. Rather, you should start taking small steps in the right direction and induce collaboration between sales and product development. Usually, sales people are happy if product development can cater to their needs and if the product can be used to produce more high-quality leads for them. Likewise, product development seldomly objects to having a better understanding about their customers' needs. In short it's about leveling up on your skills in product leadership to meet the requirements of building digital products.

Closing

Disruption and change has always been part of entrepreneurship. It's just the speed that is increasing exponentially. In some environments, PLO/PLG has been table stakes for tens of years, and with the digital revolution, it's becoming so that it's likewise in every industry.

There is a simple recipe for coping with disruption and change: build what exceeds customer expectations. The domain responsible for succeeding in this is called product leadership.

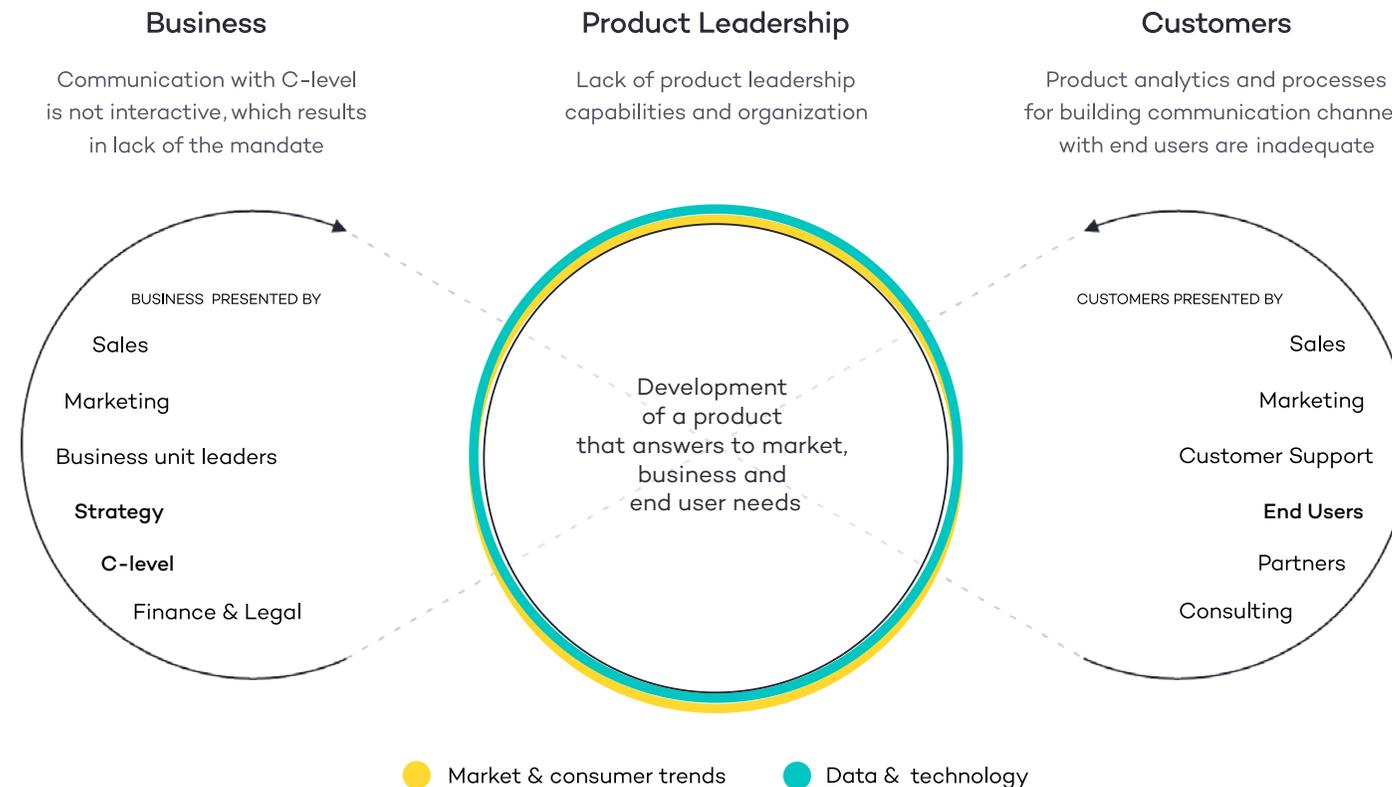
We at Coventures believe that product leadership is key to be-

coming a product-led organization. We understand that being product-led is not the top priority topic for every organization in 2021. But we also understand, that—for many—it should be. And for those leaders and organizations that have arrived at a similar understanding, Coventures would be more than happily obliged to be their trusted strategic partner throughout the Nordics.

We believe in actionable innovation strategies, which affect

the bottom-line immediately and make plain sense. Our recipe for crafting these strategies is to collaborate with proven digital entrepreneurs and ensure that the product organization of a company is aligned with the chosen strategy. If you've found our exposition on this topic to be of interest, be sure to stay tuned to our next e-booklet, where we will be diving deeper into the concept of product leadership, and how it can pave the way for corporations to become stellar product-led organizations.

Three most typical challenges with product leadership



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