

THE ROI OF OPTIMIZING PRODUCT MANAGEMENT

HOW TO DETERMINE THE RETURN ON INVESTMENT FOR
OPTIMIZING PRODUCT MANAGEMENT AT YOUR COMPANY



INTRODUCTION

Product Management has become a core strategic function in the corporate world today. According to CBS News Moneywatch it is the fourth most important role in corporations (behind only CEOs, general managers and senior executives).ⁱ Companies that empower Product Managers have been shown to be 50% faster to marketⁱⁱ and surveys show that 25% of CEOs now have Product Management reporting directly to them.ⁱⁱⁱ

Yet even with its rise in importance, many companies have failed to fully take advantage of the increased profits as well as cost savings that excellent Product Management can provide. Most companies have a mixture of Product Managers that came from a variety of backgrounds, including engineering, QA, sales, support and operations. Less than 2% of these Product Managers have ever been trained on how to do their jobs, so their performance is hampered.^{iv} Along with this, 52% of companies do not have a well-defined Product Management process, further eroding the effectiveness of the Product Management function.

This white paper will explain how to calculate the Return on Investment (ROI) of optimizing Product Management at a company. Most readers will find that even with conservative assumptions (see table 2) the ROI will be massive, and well worth the money and time invested. To make it easy we have also made a [Product Management ROI Calculator](#) available on our website.

FACTORS USED IN CALCULATING ROI

For these ROI calculations we will be using the following inputs:

1. Increase in Profits
2. Cost Savings
3. Cost of Fully Optimizing Product Management

The ROI calculation formula is:

$$\text{ROI} = \frac{\text{Increase in Profits} + \text{Cost Savings}}{\text{Cost of Fully Optimizing Product Management}}$$

ASSUMPTIONS

The assumptions being used are drawn from several research studies as well as the experiences of the 280 Group over the past decade helping thousands of companies optimize Product Management.

- **Profit Increase: 34%**^v

In the 280 Group [Challenges in Product Management Survey](#), which included over 850 participants, the results showed that on average the respondents believed that their company would receive a 34% overall increase in profits if Product Management was fully optimized.

i "10 Most Valuable Corporate Jobs", CBS News MoneyWatch 2012.

ii "The Softletter Sales and Marketing Handbook", Aegis Resources Inc. 2009.

iii "2011-2012 Annual Product Management & Marketing Survey", Pragmatic Marketing, Inc. 2012.

iv "Five Critical Strategies to Succeed in Your Product Management Career", 280 Group LLC. 2014.

v "Challenges in Product Management Survey", 280 Group LLC. 2015.

- **Cost Savings: 23%**

Studies show that 46%^{vi} of all resources working on new product development are being allocated to products that will fail, with poor definition being cited as the single biggest reason for product failure.^{vii} Some studies show the rate of failure for new products to be as high as 80-95%.^{viii} By optimizing Product Management, engineering and other resources are working on a higher percentage of products that will succeed, which can result in a large savings as well as increased profits for the company. While it is very difficult to eliminate all of the wasted resources, for this ROI analysis we will assume that with optimized Product Management we can reduce half of the wasted development resources and use 23% as the cost savings percentage.

- **Cost to Optimize Product Management: \$10K per Product Manager**

This cost is a rough estimate based on the 280 Group's experience doing optimization work at thousands of companies. Factored in are a variety of components such as process optimization, foundational and people skills training, leadership training, advanced certifications, standardization and licensing of best practices materials/templates and team/individual coaching. **Note: if you would like a complimentary custom estimate for your team or company [contact us!](#)**

ROI CALCULATION EXAMPLE

Let us use a simple example to demonstrate how to calculate the ROI.

Acme Corporation has 500 employees:

- 20 are Product Managers
- 130 are engineers, which cost the company \$150K per person/year (fully loaded with benefits, etc.)

Revenues are \$70M/year and profits are \$17.5M (25% of revenues) before taxes.

The estimated increase in profits = $\$17.5M \times .34 = \$5.95M$ (34% increase in profits)

The estimated cost savings = $(130 \text{ engineers} \times \$150k \text{ per year}) \times .23$ (23% working on products that will fail) = \$4.485M

The cost to optimize the Product Management organization = $20 \text{ Product Managers} \times \$10K \text{ each} = \$200K$

Using our formula $ROI = (\text{Increase in Profits} + \text{Cost Savings}) \div \text{Cost of Fully Optimizing Product Management}$ and plugging in the numbers we get:

$(\$5.95M \text{ profit increase} + \$4.485M \text{ cost savings}) \div \$200k = 5,218\%$ (See Table I below.)

vi "3,000 Raw Ideas Equals 1 Commercial Success", Burly, James and Greg Stevens. 1997.

vii "Product Development Best Practices Survey: Report of Findings", Product Development Consulting, Inc. 1996.

viii "Returning Insight to the Consumer", Stagnito's New Products Magazine 2006.

Table 1: The total ROI for a team of 20 Product Managers would be 5,218%

INCREASE IN PROFITS	
Current Annual Profits	\$17,500,000
Estimated Increase in Profits If Product Management Is Optimized	34%
Increase in Profits with Product Management Optimized	\$5,950,000
COST SAVINGS	
Number of Employees Working on New Product Development	130
Cost per Employee Fully Loaded per Year	\$150,000
Percentage of Products That Fail	23%
Cost Savings Resulting from Diversion of Development Resources	\$4,485,000
Increase In Profits	\$5,950,000
Cost Savings	\$4,485,000
Total Financial Gain	\$10,435,000
COST OF FULLY OPTIMIZING PRODUCT MANAGEMENT	
(Including Process Improvements, Training, Coaching, Standardized Templates)	
Cost per Product Manager (Estimate)	\$10,000
Number of Product Managers	20
Total Optimization Cost	\$200,000
RETURN ON INVESTMENT	
Increased Profits Plus Cost Savings	\$10,435,000
Total Optimization Cost	\$200,000
ROI (Profits + Cost Savings/Optimization Costs)	5218%

Note: If you would like to run the numbers yourself use our online [Product Management ROI calculator](#), which allows you to make any assumptions that you would like to use. You can also [contact us](#) and we will create a custom ROI report for you.

A MORE CONSERVATIVE EXAMPLE

If you believe the assumptions in the above example are high then we can do a simple calculation with much lower numbers. In this example we will change the following assumptions:

- Profit increases are only 5% instead of 34%
- Cost savings are only 5% instead of 23%

Running the ROI calculation with these much lower assumptions still gives us a 925% return (see table 2 below).

Table 2: With more conservative numbers the total ROI for a team of 20 Product Managers would be 925%

INCREASE IN PROFITS	
Current Annual Profits	\$17,500,000
Estimated Increase in Profits If Product Management Is Optimized	5%
Increase in Profits with Product Management Optimized	\$875,000

COST SAVINGS	
Number of Employees Working on New Product Development	130
Cost per Employee Fully Loaded per Year	\$150,000
Percentage of Products That Fail	5%
Cost Savings Resulting from Diversion of Development Resources	\$975,000

Increase In Profits	\$875,000
Cost Savings	\$975,000
Total Financial Gain	\$1,850,000

COST OF FULLY OPTIMIZING PRODUCT MANAGEMENT	
(Including Process Improvements, Training, Coaching, Standardized Templates)	
Cost per Product Manager (Estimate)	\$10,000
Number of Product Managers	20
Total Optimization Cost	\$200,000

RETURN ON INVESTMENT	
Increased Profits Plus Cost Savings	\$1,850,000
Total Optimization Cost	\$200,000
ROI (Profits + Cost Savings/Optimization Costs)	925%

CONCLUSION

Even with very conservative and modest assumptions, the ROI for optimizing the Product Management function at a company is quite large. Companies that fully optimize their processes, provide their Product Managers with foundational, as well as advanced training, and have well-thought-out best practices templates for core documents stand to benefit greatly.

So what does it take to optimize Product Management at your company?

Use our whitepaper and checklist to help build an optimization plan for your Product Management organization: [Five Key Factors for Creating an Effective Product Management Optimization Plan](#).

OPTIMIZE YOUR TEAM

Let us create a customized plan for your specific situation to ensure your team or company's success. Learn about how our assessments, private training, consulting services and contractors can help your company.

PRIVATE CUSTOM TRAINING

For private training we can deliver our standard courses or we can completely customize our course materials to meet your needs and match your process, terminology, examples and most critical internal challenges.

IN PERSON TRAINING

Attend our in-person training in a wide range of locations across the world.

ONLINE COURSES

Get started today with our online courses and study at your own pace.

PRODUCT MANAGEMENT TEMPLATES

We offer Product Management templates that map to our Optimal Product Process™, are included in our training and are sold as standalone toolkits.

CONSULTING AND CONTRACTORS

Our consultants and contractors can help your company bring world-class, customer-focused products to market faster. Get work done quickly with interim employees or get help with short-term project work.

ASSESSMENTS

We can conduct an in-depth assessment of your Product Management and Product Marketing functions (people, process, tools) and create a custom plan to take your team to the next level.

LEARN MORE

Have a question about our products or services? Want to talk to someone in our sales department? [Contact us!](#)



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