TRANSFORMATION

PRODUCT MANAGEMENT

THE NEXT GREAT OPPORTUNITY FOR PRIVATE EQUITY VALUE CREATION

by Grant Hunter

Product Growth Leaders

EXECUTIVE SUMMARY

Private equity (PE) firms have long relied on familiar value creation playbooks—revenue acceleration, marketing promotions upgrades, technology optimization, human resources transformation. But there's a glaring omission in most of these strategies: **product management**.

While some firms have recognized product management's potential, most still view it narrowly—often as a technical support role or something only relevant for new product launches. When done right, product management is not just another tactical function—it’s a **critical business role** capable of transforming portfolio performance.

PRIVATE EQUITY'S NEXT UNTAPPED LEVER: PRODUCT MANAGEMENT

9 out of 10 products are introduced to fill a void in the company's product line, not to fill a void in the market. — Al Ries and Jack Trout, authors, Bottom-Up Marketing

Value creation is the ultimate objective for private equity firms. When PE firms acquire a company, they are betting they can increase its value during their hold period.

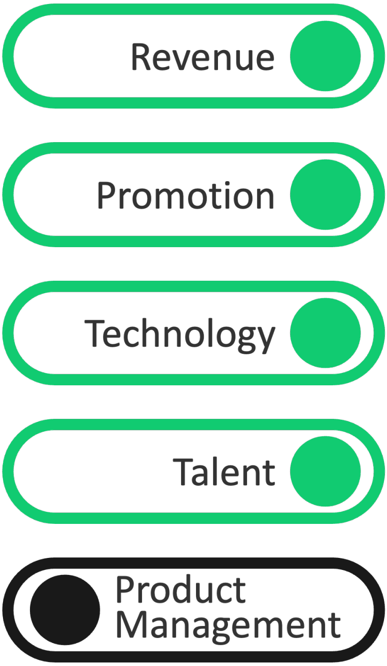
A recent HBR article titled *How Private Equity Firms Create Value in Uncertain Times* caught our attention, primarily due to the title's emphasis on value creation rather than the recommendations offered in the article. The recommendations centered primarily around cost-cutting and financial strategies, prioritizing the inflation of the company's value over creating new value for customers or the market.

Private equity firms can increase value by providing capital to scale and grow a company. Or by buying multiple similar companies to merge into larger ones.

In middle and lower-middle markets, growth is often a function of arbitrage—identifying inefficiencies in operations that can be addressed, leading to better results.

Our work with private equity firms and their portfolio companies often involves the familiar rollout of standard playbooks for revenue, promotions, technology, and talent.

Each represents a proven value-creation playbook. Many private equity firms have dedicated value-creation team members, operating partners, and consulting groups focused on them.



Product Management is the missing playbook.

Some high-profile firms do have a focus on product management. Insight Partners and Vista Equity have long been aware of the value strong product management teams can bring, as have middle-market firms like LLR and Parker-Gale.

That said, the ***commitment*** to the Product Management playbook is minimal compared to the other tried-and-true playbooks.

In this ebook, we will make the case for why Product Management is the next great opportunity for private equity firms to create value in their investments.

PRODUCT MANAGEMENT IS A VALUE CREATION ROLE

> *A good product manager takes full responsibility and measures themselves in terms of the success of the product. They are responsible for right product/ right time and all that entails.— Ben Horowitz, general partner of Andreessen Horowitz*

A revenue operations consultant shared the importance of increasing Customer Lifetime Value as part of a private equity value creation strategy.

Their plans to increase Customer Lifetime Value sounded like a product management exercise:

- Increase customer retention
- Increase average revenue per customer
- Expand to reach new personas

And beyond CLV considerations, explore increasing overall revenue by expanding into adjacent markets.

Are your sales and customer success teams equipped to consider longer-term, multi-market considerations? We prefer to rely on product management to guide these decisions.

Are retention rates an issue? By engaging with current and lost customers to understand valuable problems to solve, product management can increase customer value and retention rate.

Need to increase the average revenue per customer? By engaging with customers to understand and solve related problems, product management can develop new strategies, such as new price tiers or subscriptions. By evaluating similar customers, product management can identify methods to increase revenue for customers with lower-than-average revenue.

Time to expand to new personas or new markets? Product management can identify adjacent market segments or personas that expand your serviceable market while identifying additional problems to solve or value propositions that resonate with those adjacencies.

These scenarios (and more) are areas where product management can help create value before you have to worry about building a new product from the ground up.

The Business Role of Product Management

For some firms, the concept of product management as a business role can be surprising. Business-oriented product management seeks ways to expand markets and boost both revenue and customer retention.

Although product management can be interpreted in various ways, we assist companies in implementing the business aspects of product management, highlighting the importance of the term “management.” Helping identify friction in the market and working with teams to remove that friction from those who buy and use products.

As a business role, product management maximizes the value created for the market and the organization across the product's lifecycle.

A market-focused approach maximizes value. Product management is responsible for engaging with the market and market-facing roles in the organization to discover opportunities for value creation through growth. Adjacent market segments and personas. Unmet problems to solve. Value gaps.

Aligning with the corporate strategy, product management defines product strategies that have the best chance of maximizing value creation. Consider this "doing the right things."

Product management shifts into empowering the organization for successful execution, empowering the delivery organization with context on the problems to solve, and empowering the go-to-market organization with value-based positioning and precise market segmentation. Consider this "doing things right."

Done well, product management collaborates with the entire organization and delivers product success on purpose.

Doing this poorly (or not at all) leads to wasted efforts and investments.

LAW OF MARKET FAILURE AND ITS IMPACT ON VALUE CREATION

A surprising number of innovations fail not because of some fatal technological flaw or because the market isn't ready. They fail because the responsibility to build these businesses is given to managers who aren't up to the task. — Clayton Christensen, author, The Innovator's Solution

It is time to face the elephant in the room: Most products fail. Some never make it to market, and others make it to market but never break even or meet expectations.

New products, major releases, minor releases, and everything else are subject to the law of market failure.

Research from Nielsen indicates that 80% of new products fail.

In *The Innovator's Solution*, Clayton Christensen estimates the figure at 76% — with 40% never reaching the market and 60% of those that never achieve break-even.

Perhaps the failure is due to not doing the right thing. Perhaps it is due to not doing it right. Either way, you end up in the same place: **failure**.

With the law of market failure accepted (or at least acknowledged), let's look at it through the lens of a private equity portfolio company.

Failure's Impact on Value Creation

A private equity portfolio company will likely have 10-15 significant releases during a typical hold period (5-year hold x 2-3 major releases per year). That is 10-15 specific opportunities for creating value.

- Deliver a feature that increases retention rate or usage.
- Expand to a new persona to drive growth.
- Address an adjacent market segment to increase the target market.

But, at an 80% failure rate, the best-laid plans . . .

At that 80% failure rate, only two or three significant releases during a hold period will create value. Even if a portfolio company can get the failure rate down to 50%, you still look at half of the releases not delivering value.

As a private equity leader told his portfolio executives during a planning workshop, "Make sure you are not wasting your R&D budget."

Product management plays a critical role in identifying the right opportunities (do the right things) and collaborating with the organization to execute those ideas (do them right).

Product management is critical in ensuring the portfolio company can maximize the value it creates for the market and the organization during the hold period. Better yet, done well, product management provides a natural growth strategy that can be featured when it is time for an exit.

A business-oriented, market-focused approach to product management ensures that portfolio companies are not wasting their R&D efforts.

Product management doesn’t just drive value during the hold period—it builds a compelling growth story that increases strategic buyer interest and valuation at exit. A clear product roadmap and market expansion thesis can be the tipping point in a competitive bidding process.

SOME COMMON MISUNDERSTANDINGS OF PRODUCT MANAGEMENT

89% of companies have not clearly defined product management.— industry survey, 2022

As a practice, product management is largely misunderstood. In a 2024 research study, “Product Management is not understood or valued” was ranked as the number one factor causing dysfunction in product organizations.

Here are three common misunderstandings of product management:

Misunderstanding #1: “Product Management is a Technical and Support Role”

Perhaps the most common misunderstanding about product management is that it is a technical and support role, a glorified business analyst or project manager.

In technology-driven and agile organizations, we often observe that product management works primarily with product development or engineering teams yet rarely or never engages with the market. When this happens, product management becomes a reactive support role for technology and go-to-market teams, not a proactive value-creating role.

It is essential to transition product management to a role that represents both the business and the market. This will enhance its value and, in turn, create the utmost value for your portfolio company.

Misunderstanding #2: “Product Management is Just About New Products”

A partner at a successful private equity firm explained why they did not focus on product management: “We purchase companies with a long runway in their current products.”

His perception was that product management focuses only on building something new—a zero-to-one product. No doubt, that is hard to do, and while it may be what Venture Capitalists invest in, private equity firms invest more in already-created existing products.

Most value created by product managers is created with existing products, not new ones. Getting a new product from idea to product-market fit receives all the attention, but scaling a product after product-market fit is where the most value happens.

To create the most value for your portfolio companies, understand that product management plays a vital role in helping discover the opportunities with the best chance of creating value and collaborating with the organization to execute those opportunities successfully. With new products and existing products.

Misunderstanding #3: “We Don’t Need Product Management in Acquisitions”

Growth from follow-on/roll-up acquisitions is one of private equity’s most common value-creation strategies. The efficiencies gained and economies of scale from this approach are time-tested.

Often, these strategies are led by the deal teams at the private equity firm—with little or no involvement from product management. But we see two key areas where product management can guide the deal teams.

Market-Focused Approach

If done well, a product strategy should define a core vision for the market. This includes defining current and potential adjacent market segments and current and potential adjacent product categories.

In conversations with serially successful product leaders from private equity portfolio companies, each one stated that **one key to success was making acquisitions that make sense based on the market needs**, not just on what companies were available. Research reveals that acquisitions purely for financial reasons typically struggle to deliver meaningful portfolio synergies.

With market maps and product needs defined, successful private equity product leaders can identify target acquisitions that help complete the vision.

Product Management Impact on Integrations

After an acquisition, product leaders can seek out use cases to improve user and customer experience. Successful firms must ensure the products work together to achieve cross-sell/up-sell opportunities.

Post-acquisition, product management can focus their discovery efforts on finding these synergy opportunities.

- Where can customer experience be improved?
- What opportunities exist for cross-selling or up-selling across the different products?
- How do we tell this story to our customers?

Product management is the critical role in connecting strategy to execution. This holds true in both organic and inorganic growth strategies.

GAINING VALUE FROM PRODUCT MANAGEMENT

You must have long-range goals to keep from being frustrated by short-term failures. — Charles Noble, American Major General and engineer who worked on the Manhattan Project

The best way to create value for a company is to create value for the market.

A coherent portfolio and product strategy are key drivers of value creation. Product management can contribute the most to your investment in this area.

Done well, product management ensures you are doing the right thing and empowers the organization to do it right.

Done well, product management reduces the failure rate of your product initiatives, increasing the value you create for the market and the value created for your company.

Done well, product management helps you target the right acquisitions and accelerate the post-acquisition value created from those acquisitions.

Done well, product management provides a viable portfolio strategy that can be a central thesis for growth when the time comes to sell.

The best way to optimize the value you create for the market and company is with good product management.

Product management done right delivers:

- Higher customer retention = better Lifetime Value/ Customer Acquisition Cost ratios
- Faster market expansion = shorter payback period
- Lower release failure rate = higher return on investment on R&D spend
- A more attractive asset at exit

You've optimized sales, promotion, technology, and talent. Now it's time to optimize the core engine of value creation: your products.

How do you do this?

Product management as a business role is accountable for maximizing the value generated for both the market and the business.

Product management is the next great opportunity for private equity value creation.

Ensure the product leaders in your portfolio companies and their teams have the capabilities and resources to shift to the business role of product management.

Product leaders and senior product managers need the strategy and business capabilities to manage products through their lifecycles.

Product managers need fundamental product management skills to discover and prioritize problems to solve, empowering the development and delivery teams for success.

HOW PRODUCT GROWTH LEADERS HELP PRIVATE EQUITY FIRMS

At **Product Growth Leaders**, we help private equity firms and their portfolio companies turn product chaos into product clarity—so they can deliver product success on purpose.

We offer intensive, application-based learning programs that equip product leaders and their teams to tackle immediate challenges while building long-term capabilities. Our programs go beyond theory with hands-on coaching and real-world application, ensuring teams not only learn but get stuff done.

Led by industry veteran **Steve Johnson**, our programs address the most persistent areas of dysfunction in product management—market-driven strategy, prioritization, repeatable processes, and clear roles.

Everything we teach is grounded in the **Quartz Open Framework**™, a modern, cohesive approach to managing products across the lifecycle.

Through learning programs, advisory calls, and product leader councils, we serve as trusted partners to private equity firms—supporting the growth and performance of their portfolio companies' product organizations.

Product Growth Leaders

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