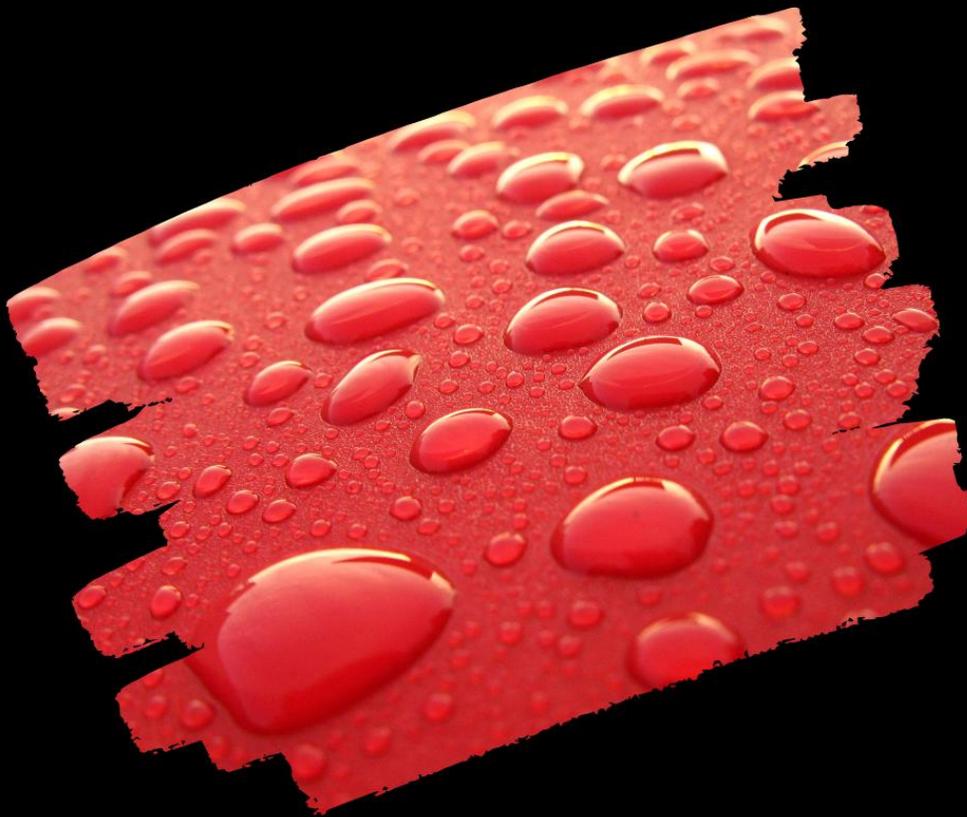


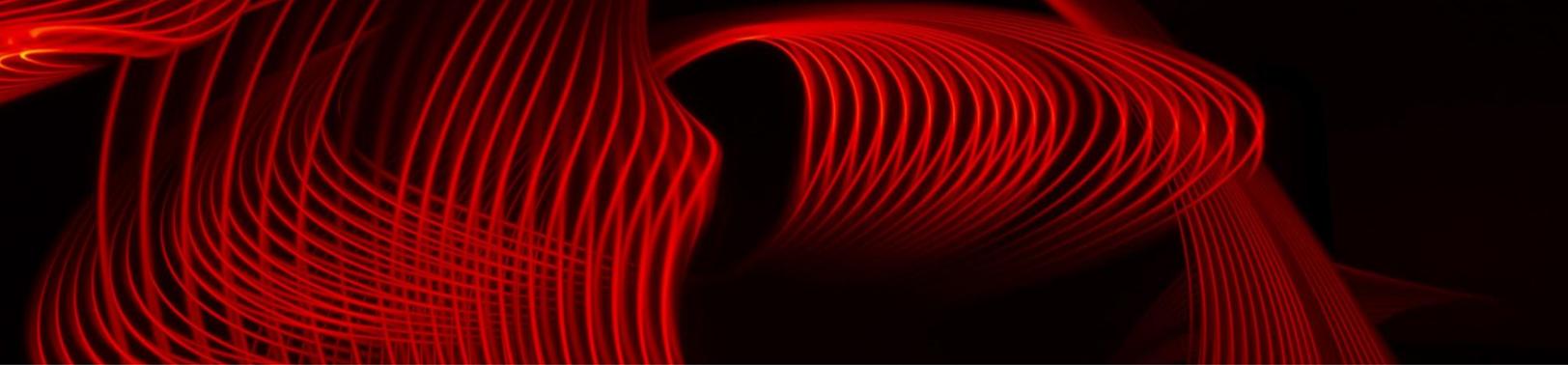
THE
NUANCES
WITH

WEB3 PRODUCT MANAGEMENT

similar principles, different practices



NITIN KUMAR



THE NUANCES WITH WEB3 PRODUCT MANAGEMENT

INTRODUCTION

Web3 is the new terminology for the decentralized and user-owned internet. Web3 technology, including decentralized finance (DeFi) and non-fungible tokens (NFTs), has seen a surge in popularity in recent years. Many organizations are now looking to explore and build on this new web. However, developing and launching a web3 product can be a complex process, and it is crucial to have a well-informed product management strategy in place. This article will summarize the key considerations for product management in the web3 space, including understanding the technology, user needs, and regulatory landscape. Historically web3 companies have been engineering-oriented than product-centric. Many web2 product management principles apply to web3, but there are several notable differences to understand.

WEB3 IS INVERTED

In the Web 2.0 world, the economic value was delivered by protocols like TCP/IP, HTTP, SMTP, etc. but it was distributed only to the application layer. Big Tech empires like Microsoft, Google, Facebook, Amazon, etc. were built on these protocols which caused massive aggregation and centralization of value. As the power of these centralized aggregators grew, they monetized creators to their shareholders without letting them reap value from their own creations. In Web 3.0, the protocol accrues most of the value while not locking out applications (apps can also build tokens by specific

use case). Layer 1 protocols like Ethereum, Cardano, Avalanche, Solana, etc. have thriving ecosystems built on them. The communities which build on these protocols inject fundamentals into them. Ethereum's fundamentals lie in the ecosystem that drives FCF (free cash flow) for the owners of the protocol. For example, at the time of writing this article, Ethereum produces about \$2 billion FCF per month at almost no cost. The community owns pieces of the ETH protocol which grows exponentially as communities grow the ecosystem further. As protocols accrue exponential value, it is distributed to their token holders driving new economic wealth. This changes the ethos around web3 product management, one must think about web3 products with tokens accruing value through value accrual. Many web2 product managers are alien to this concept and design for an experience not optimizing for free cash flow to the product or token leaving token value to be speculation-driven not fundamental-driven.

KEY WEB3 PM SKILLS: TOKEN AND PROTOCOL VALUE ACCRUAL

WEB3 PRODUCTS MUST ADDRESS WEB2 GAPS

Web3 products are construed to build an open, transparent, decentralized, immutable, and user-owned internet. However, this does not mean everything in web2 has a problem requiring these attributes. There are core gaps in web2 e.g., centralized platform power, walled gardens of

value, opacity, illiquid assets, and single points of compromise, etc. which web3 products and platforms can solve. There is also increased security, new forms of collaboration, new asset classes, and new business models not previously possible in web2. Products need not solve a specific, new linear problem; they can solve the existing problems in a new way. Web2 migrant product managers should change their mindset to not just think about problems to solve but think about what web2 cannot do (that web3 can), what web3 can do better than web2 and where web2 and web3 together create an exponential effect. This differs from traditional product management where one is laser-focused on a single problem to solve, web3 is a range of issues and use cases that might not fully replace web2.

KEY WEB3 PM SKILLS: BUSINESS MODEL INNOVATION, ISSUE BASED PROBLEM SOLVING

THE PRODUCT-COMMUNITY FIT

Web2 product managers index heavily on goals like product-market fit rather than community engagement and adoption. The product market fit is still important in web3, but it is achieved by attracting the right people and talent to the community. Community engagement and community signature KPIs are critical skills in web3 product management, rarely required in web2. Web3 product managers must consider rewarding early adopters, bringing volumes of late adopters for scale, engagement, retention, growth, and designing for community culture. Web2 migrant product managers usually ignore this and focus on traditional product-market fit elongating adoption cycles or not achieving the right community signature.

KEY WEB3 PM SKILLS: PRODUCT-COMMUNITY FIT, COMMUNITY ENGAGEMENT

Most web3 products, esp. layer 1 and layer 2 protocols do not have a product management function which has created a barrier to adoption.

NETWORK EFFECTS, THE ONLY REAL MOAT

Web3 is open-source code and easy to fork leaving little in terms of technical competitive advantage.

Creating long-term user stickiness through value delivery will ensure they do not migrate to competing promises from other web3 products. The real MOAT is the network effects for the product increasing value with more people using the product or platform. Without network effects, Bitcoin would have been subsumed by several forks, and altcoins and Ethereum may have been killed by ETH-killers. Web3 product managers must stay laser-focused on building their only MOAT i.e., network effects.

KEY WEB3 PM SKILLS: NETWORK EFFECTS (METCALFE'S LAW, REED'S LAW)

THINKING FEATURES ++

Web2 product managers are focused on shipping features, enhancing functionality, and improving user experience. In web3, product managers must focus on economic incentives for the users or community e.g., staking, NFTs, liquidity, transaction speed, transaction costs, etc. A web3 product's value and longevity lie in its tokenomics-while engineers typically focus on token engineering, web3 product managers must embed market and incentive design into the core product. In my experience, people coming from a rigid web2 PM experience have baggage that optimizes the product features at odds with incentive design.

KEY WEB3 PM SKILLS: TOKENOMICS, LIQUIDITY

The underlying blockchain infrastructure strength and limitations can alter the design, deployment, and experience of web3 products. Product managers must invest time in understating the dependencies on infrastructure

INFRASTRUCTURE IS PART OF THE UX

Web3 products built on blockchains feel the impact of their underlying capabilities on the product experience. Fast transactions, high gas fees, fragile security, etc. are natively embedded as strengths or weaknesses into the layer1 or layer2 blockchain and these properties are imbibed by the product. Web2 product managers rarely get involved with technical infrastructure given the limited impact on user experience e.g., an app running on Azure versus AWS may not behave differently; muscle

memory ignores the nuances and product impact from web3 infrastructure. Web3 PMs must understand different blockchains, their capabilities, and product impact and incorporate them into design considerations including which blockchains to support. For example, Ethereum's network effects and EVM compatibility will create higher liquidity, increase adoption, and lower costs of developer acquisition but will entail high, unpredictable gas fees, while Solana will produce faster transactions but compromise on decentralization and lack network effects. Each Testnet also has a different signature and attributes, they have different node distributions, different block times, network demand, gas prices, etc. Understand the impact on product and app logic during testing and production.

KEY WEB3 PM SKILLS: UNDERSTAND NETWORK DEMAND, TPS, GAS FEES, BLOCK TIMES, ETC.

PUBLIC INFLUENCE SKILLS

Web2 product managers can get by being analytical and influential behind closed doors and have quick decision-making ability based on their roles. Web3 product managers must lead and influence without formal authority and curb their tendency to assert themselves too much on Twitter, Discord, Twitch, etc. They must have exceptional public-facing and connecting ability with comfort to take constructive criticism in public.

KEY WEB3 PM SKILLS: LEAD WITH INFLUENCE, NO FORMAL AUTHORITY

Strengthen core functionality before shipping too many features. Backend considerations can impact everything on the front end in web3 (more than web2)

FOUNDATIONAL ELEMENTS OVER FEATURE SHIPPING

The KPIs of a web2 product manager hinge on feature addition to maximizing engagement or monetization by converting free users to paid users or advertising dollars or driving product consumption etc. Web3 product management is a different ball game, winning strategies are around strengthening the core product functionality e.g., transaction speed, higher yield, more security, simplification of the product for adoption, etc. not

endless feature shipping to drive usage or monetization. For example, the core feature of a DEX is the availability of liquidity to reduce price impact and not transaction reporting or export features, etc.

KEY WEB3 PM SKILLS: OPTIMIZE FOR CORE FUNCTIONALITY AND ADOPTION

Learn to live with some imperfections, extra caution and too many caveats will slow execution and speed to market.

WORKING WITH IMPERFECT DATA AND ASSUMPTIONS

Web2 product managers have made PM a data-driven science, data itself behaves differently in web3 as users can take it with them. There are no email addresses, no tools like Google Analytics or cookies, and multiple wallets cannot be linked to users, demographics, or systems natively despite blockchain transparency. Liquidity incentives and airdrops make it difficult to determine if the product-market fit or product-community fit was real; incentive-driven engagement can also masquerade the true utility of tokens. Web3 product managers (especially when working with native web3 products) must understand users with tracking tools or A/B tests. They must rely on some intuition and some qualitative data e.g., network information, floor prices, TVL (total value locked), wallet activity, etc. Typical web2 migrant PMs ignore all these parts and struggle to chase a mature and scientific style of product management.

KEY WEB3 PM SKILLS: NAVIGATING UNCERTAINTY AND AMBIGUITY, MIGRATE FROM INSIGHT TO FORESIGHT

As an example, understand the flow of coins or tokens through your product and make sure the right folks have custody of the crypto even at a millisecond level; it can have regulatory implication in many countries

WEB3 PRODUCT MANAGERS ARE MINI REGULATORS

I grew up in web2 product management, sales, marketing, and management consulting and have held several senior line management and CEO roles – never have I experienced the level of regulatory angst I saw as a Web3 migrant. Crypto tokens are a hot button for all governments be it the US, EU, China, India, Nigeria, etc. they have institutionalized abnormal taxes, onerous tracking requirements to outright bans, and everything in between. In the US, each regulatory body e.g., IRS, SEC, CFTC, etc. have different rules around crypto affecting web3 the way web3 products can be designed or operationalized. Web3 product managers must consider these issues seriously and directly to have regulatory skills within the PM team and liaise often with knowledgeable folks outside the country if you launch a global product. In the web2 world, all these matters are addressed by product counsels who enable business decisions not direct them in a hands-on way.

KEY WEB3 PM SKILLS: UNDERSTAND MULTIPLE REGULATIONS, DESIGN FOR COMPLIANCE

LEADING PRACTICES AND CONSIDERATIONS

Web3 product management is difficult to grasp immediately for product managers migrating from web2. Even though principles are similar, there are subtle and stark differences. Here are best practices and learnings through direct and indirect experiences.

- Learn web3 fast, unlearn web2 baggage faster. Many things in web2 product management conflict with good web3 product value creation, understanding similarities, and differences is key
- User experience (UX) is important but does not come at the cost of compromising core functionality
- Build foundational capabilities first, and ship features aligned with core functionalities. Web2 feature monetization differs greatly from web3 adoption/engagement and value accrual
- Your code can be forked at any time, think network effects every day and every hour

and bake it into everything you do; network effects are the only source and sustainability of competitive advantage

- While product-market fit is important in web3 (as it is in web2); the product-community fit is equally important
- Strategy is important, tactical excellence is paramount in web3
- Blockchain is transparent, but you cannot make decisions based on 100% data availability or accuracy. Learn to make bets with qualitative data and live with some imperfections
- Speed to market, quality, and robustness of the product, platform, or protocol must be optimized together, this is much more difficult than in web2.
- Pivots are slow and expensive in web3; one can take a few risks but understand key pivot points and communicate them with your community as early as you can
- Web2 was about attention and conversion; web3 is about adoption and engagement (through the community)
- Web3 native products differ from web3 products interfacing with web2; design and execute accordingly
- Understand backend setup and capabilities in depth before getting to the front-end and user experience design. Go back to the drawing board if you have this any differently, web3 is just different and has deep backend and infrastructure dependencies
- Web3 is new, early movers will benefit. Optimize for speed, take a few risks and bold moves early on
- Web3 must build modular and abstract infrastructure capabilities cleaner than in web2
- Engineering driven products rarely find a product-market-community fit or scale, product management must drive adoption e.g., Bitcoin and Ethereum are rare and we may not have others like them
- Web3 will benefit by being product-driven, it is a journey. Have fun and carry the engineers along

BRINGING IT ALL TOGETHER

Web3 building for web3 in silos has not helped, the inability of web2 talent to migrate seamlessly has compounded the issue of building strong and usable products. However, there is hope as we bring in more people who understand the similarities and differences across both worlds. There are skills cut across and some that need rewiring at the thinking level. Let us visualize all this below.



FIGURE 1: CRITICAL WEB3 PRODUCT MANAGEMENT SKILLS

CONCLUDING THOUGHTS

Web3 and decentralized technology presents a unique set of challenges for product management. Building and maintaining a successful product in this space requires a deep understanding of multiple issues, concepts, and disciplines departing from product management practices from the old economy while maintaining principles of good product management. Historically, web3 products have been engineering-centric or steeped in older ways of product management – both these have had limited success. Blending new methods of web3 product management with principles (not practices) of web2 product management will drive mainstream adoption and scale faster. Both engineers and traditional product managers must open their minds to the similarities and differences. Product managers who can navigate these challenges and build innovative web3 products will be well-positioned to shape the future of the digital economy.

ABOUT THE AUTHOR



NITIN KUMAR IS A TWO-DECADE VETERAN IN THE HI-TECH INDUSTRY. HIS CAREER HAS SPANNED MANY INTRAPRENEURIAL AND ENTREPRENEURIAL ROLES IN EXECUTIVE POSITIONS ACROSS SOFTWARE, SERVICES, AND MANAGEMENT CONSULTING. HIS PASSION IS PROPELLING ORGANIZATIONS TO GREATER LEVELS OF SUCCESS THROUGH STRONG RELATIONSHIPS AND DIFFERENTIATED PRODUCTS. HE IS CONSIDERED A BUSINESS BUILDER, THOUGHT LEADER, AND PIONEER OF MANY INNOVATIVE APPROACHES. DURING HIS OPERATING AND CONSULTING ROLES, HE HAS GROWN, TRANSFORMED, AND PIVOTED MANY SOFTWARE BUSINESSES AND SCALED BUSINESSES SUCCESSFULLY. NITIN HAS BEEN IN THE BITCOIN AND CRYPTOCURRENCY WORLD FOR OVER A DECADE AND IS AN AUTHOR OF MANY ARTICLES AND IS OFTEN SEEN SPEAKING AT CONFERENCES ON THIS TOPIC. HE HOLDS MULTIPLE TECHNICAL AND PROFESSIONAL CREDENTIALS IN BLOCKCHAIN AND CRYPTOCURRENCIES. OVER HIS CAREER, HE HAS SPENT TIME IN SALES, MARKETING, PRODUCTS, PRICING, STRATEGY, M&A, AND CUSTOMER EXPERIENCE IN BOTH CONSULTING AND OPERATING EXECUTIVE ROLES.