Beyond Projects: Creating A Winning Product Portfolio

PREPARED FOR SVPMA
Agenda

Introductions
Portfolio Management Overview
Key Elements of Effective Portfolio Management
Common Implementation Challenges
Benefits of Portfolio Management
PRTM Overview

- Over 35 years of operational strategy and innovation
- 600+ consultants worldwide
- 19 offices worldwide
- Major commercial and government sectors:
  - Aerospace and Defense, Automotive
  - Chemicals and Process Industries
  - Consumer Goods
  - Financial Services
  - Government
  - Life Sciences and Healthcare
  - Private Equity
  - Energy
  - Electronics, Computing, and Software
  - Communications and Media

Product Innovation Thought Leadership

1,250 innovation transformations worldwide
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Portfolio Management – A Process For Prioritizing Across Broad Range Of Competing Opportunities

Maximize long-term portfolio value—deliver near-term commitments

**Product strategy**

**Align to strategic vision**
**Characterize markets**

**Portfolio management**

**Maximize value**
**Achieve balance**
**Maintain strategic fit**

**Pipeline management**

**Assign resources**
**Manage bottlenecks**

**Product development**

**Drive from concept to market**
Poor Portfolio Management Can Lead To Chronic Problems In Product Development

Are your projects predominantly short-term & reactive?

Do weak projects persist in your portfolio; are there few project cancellations?

Do you have gaps relative to strategic priorities; unmet revenue plans?

Are there project slippages and delayed product launches?

Do you have resource overload and skill set shortages?
What Does Portfolio Management Accomplish?

Identifying high-priority product development opportunities

Aligning product pipeline with business strategy

Assessing the impact of product launches on revenue and profits

Managing the R&D investment mix

Assessing the revenue impacts of changing the R&D investment mix

Making shifts in strategic allocations of funding across markets and/or businesses
Six Key Elements of Effective Portfolio Management

Each element must be carefully considered and implemented

1. Governance
2. Portfolio Architecture
3. Decision-Making Framework
4. Process and Linkages
5. Resource Balancing and Pipeline Loading
6. Decision Data and Systems
1. Governance

What is Portfolio Governance?

- Agreement on the roles and responsibilities of various participants in the portfolio management process to execute objectives and optimize outcomes

Effective Portfolio Governance is characterized by the following attributes:

- Multi-level cascading decision-making
- Organizationally aligned with P&L accountability and/or decision authorities
- Clearly defined decision points
- Tops-down portfolio investment decisions
- Bottoms-up management of portfolio performance
- Bi-directional interactions to inform decisions

Example:
2. Portfolio Architecture

Different portfolio segments are generally driven by different priorities; therefore, a structure of sub-portfolios is used to allocate investments.

**Example:**

- **Criteria-driven prioritization**
  - **Sub-Portfolio 1**
    - New products
  - **Sub-Portfolio 2**
    - Enhancements
  - **Sub-Portfolio 3**
    - Maintenance

Criteria:
- ROI/NPV/expected share
- Initial investment
- Technology readiness
- Execution risk

Criteria:
- Revenue/market share opportunity
- Competitive position
- Opportunity cost

Criteria:
- Key customer satisfaction
- Open defects by level
- Compliance/regulatory risk and exposure

Prioritization based on the overall strategy, and expressed in relative investment levels across sub-portfolios.
3. Decision Making Framework

Effective portfolio analysis relies on three complimentary techniques

**Strategic Buckets**
- **Purpose**: Ensures strategic alignment
- **Examples**

**Portfolio Views**
- **Purpose**: Ensures investment balance
- **Examples**

**Scoring Models**
- **Purpose**: Maximizes value through prioritization
- **Examples**
4. Process and Linkages

Integrate the portfolio management process with other key business processes and establish a regular cadence of portfolio reviews

- Strategic priorities
- Product/technology roadmaps
- Value drivers
- Project priorities, selection, and staging
- Project scope and charters
- Plan change requests

Strategy Development

- Strategic priorities
- Current operating plan

Portfolio Management

- Need for change in plans/roadmaps
- Master project list
- Performance to target
- Release roadmaps
- Project attractiveness
- Resource needs
- Project timing and progress

Pipeline/Project Execution

- Project priorities
- Resource assignments

Revenue Planning and Budgeting

- Performance to target
- Master project list
- Investment targets by strategic bucket
- Return targets

Functional Resource Management

- Headcount needs
- Resource supply

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5. Resource Balancing and Pipeline Loading

Resource balancing and pipeline management picks up where portfolio prioritization leaves off

**Strategic Priorities**
- Align programs in the portfolio with strategic priorities

**Resource Supply/Demand**
- Manage overall resource needs versus availability

**Throughput**
- Manage critical bottlenecks to optimize flow of programs

**Portfolio Management**

**Strategic Resource Management**

1. Know your program priorities and investment allocation
2. Know what resources you need to do the programs
3. Know what resources you have available to do the programs
4. Identify, assign, monitor, and adjust program resources effectively

**Tactical Resource Supply-Demand Balancing**
6. Decision Data and Systems

Project and Portfolio Management (PPM) systems—key elements

- **Executives**
  - Portfolio mix and what-if analysis
  - Strategic investment of resources, visibility to the entire pipeline

- **Resource Managers**
  - Resource planning, allocation, and assignment tracking
  - Better use of resource pool, bottleneck management

- **Decision Teams**
  - Real-time support for phase review decisions
  - Commitments based on actual resource availability, project, and pipeline status

- **Pipeline + Financials**
  - Portfolio mix and what-if analysis

- **Integrated Data**
  - Improved data alignment

- **Projects**
  - Simplified tracking of progress and issues
  - Templates for project plans and deliverables

- **Stakeholders from Other Functions**
  - Greater visibility for downstream functions

- **Process management**
  - Ensures alignment between systems and process

- **Resource**
  - Resource planning, allocation, and assignment tracking

- **Projects**
  - Better use of resource pool, bottleneck management

- **Projects**
  - Simplified tracking of progress and issues
  - Templates for project plans and deliverables

- **Project Teams**
  - Less time spent tracking and communicating progress

- **Stakeholders from Other Functions**
  - Greater visibility for downstream functions
Common Implementation Challenges

- **Discipline**: Organizations don’t agree or follow through on tough portfolio decisions
- **Politics**: Portfolio decisions cut across managerial responsibilities, threatening power and control
- **Ownership**: A lack of ownership of process at required levels of organization impedes resolution of portfolio gaps
- **Point-of-view**: No one agrees on how to estimate the value of projects
- **Data**: Inconsistent views on platform, product, program, project terminology to structure the portfolio
- **Complexity**: Product and roadmap interdependencies render simple risk-reward analyses inadequate
- **Bandwidth**: Without a good tool, bringing the data and analysis together takes too much time and effort
Benefits of Portfolio Management

PRTM’s benchmarking show that improvements in product development practices drive top- and bottom-line growth

PRTM Product Development Maturity Model and Benchmarking

<table>
<thead>
<tr>
<th>Stage 0 Functional Excellence</th>
<th>Stage 1 Project and Product Excellence</th>
<th>Stage 2 Portfolio Excellence</th>
<th>Stage 3 Extended Enterprise Excellence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal Management</td>
<td>Excellence within functions, but not across functions</td>
<td>Functions aligned for effective execution from concept to market</td>
<td>Core processes linked across internal and external business partners for maximum leverage</td>
</tr>
</tbody>
</table>

Managing Across Functions

Managing Across Projects

Managing Across Portfolios and Partners

<table>
<thead>
<tr>
<th>Revenue Growth*</th>
<th>EBIT Growth*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 0</td>
<td>Stage 1</td>
</tr>
<tr>
<td>19%</td>
<td>19%</td>
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</tbody>
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* Data for companies representing the top 20% of development practices scores

Source: PRTM’s Global Product Innovation Benchmark
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