feature

Aligning Product Portfolios with Strategic Plans

It is generally recognised that one key to maximising the return on investment from product innovation is to ensure that portfolio decisions are driven by business and product stategy. However, many companies struggle to keep product portfolios aligned with their strategic plans. In some instances, that's because the strategies are ambiguous or inconsistent. In others, the underlying reason is that strategic planning and portfolio management are treated as independent processes, and the two are never truly tied together.

Product Portfolio Management: Lynchpin of Innovation Governance

Product portfolio management is the link between business strategy and the actual investments being made in product development. It is the governance process that determines the types of projects that enter into and remain in the development pipeline. Portfolio management typically has four goals:

1. Maximising the value of the portfolio;
2. Establishing an appropriate balance of projects;
3. Prioritising initiatives to allocate resources to the best projects; and
4. Ensuring that the portfolio is strategically aligned[1].

Central to this process is the regular review of the portfolio of projects by executives with the authority to make and enforce resource decisions. These decisions require the collection and analysis of key project attributes and metrics, and evaluation of the portfolio against a dynamic, constantly changing set of variables and business objectives.

Companies that focus only on financial metrics are generally less successful at managing their portfolios than those that focus on a range of attributes such as balance, strategy and value[2].

Balance
- Investment by market segment, brand, product line
- Mix of investment by innovation type (new to market vs. incremental improvement)
- Risk measure

Strategy
- Fit to roadmap
- Fit to strategic initiatives
- Fit to product / market strategy
- Investment goals

Value
- Financial benefits
- ROI measure
- Customer value

Figure 2. Key attributes for evaluation of projects

Managing the portfolio involves prioritisation of projects against strategic corporate objectives and against other projects. In its most basic form, it amounts to choosing to invest in one project rather than another. The implications of portfolio management decisions are far-reaching, as the allocation of resources is a tangible – and expensive – cost for the company.

Portfolio Excellence

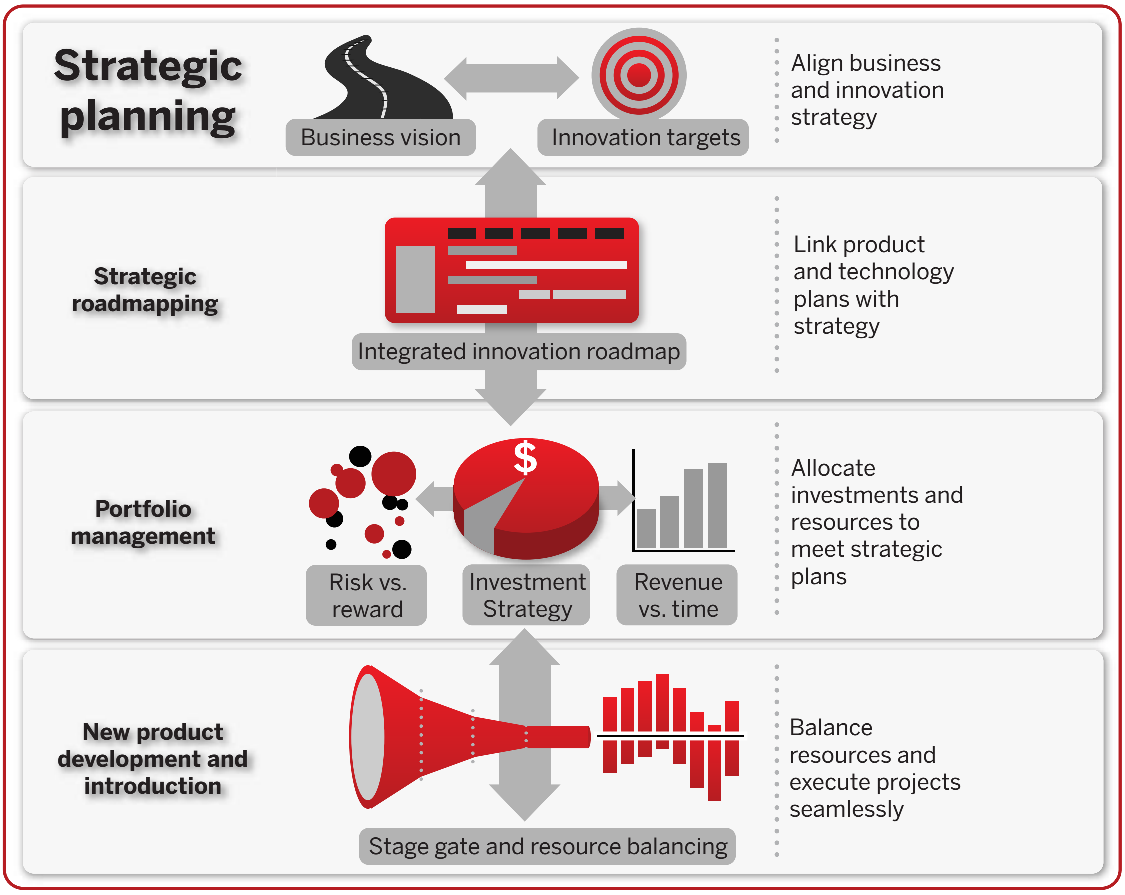


Figure 1. Product portfolio management is the link between business strategy and the new product development process.

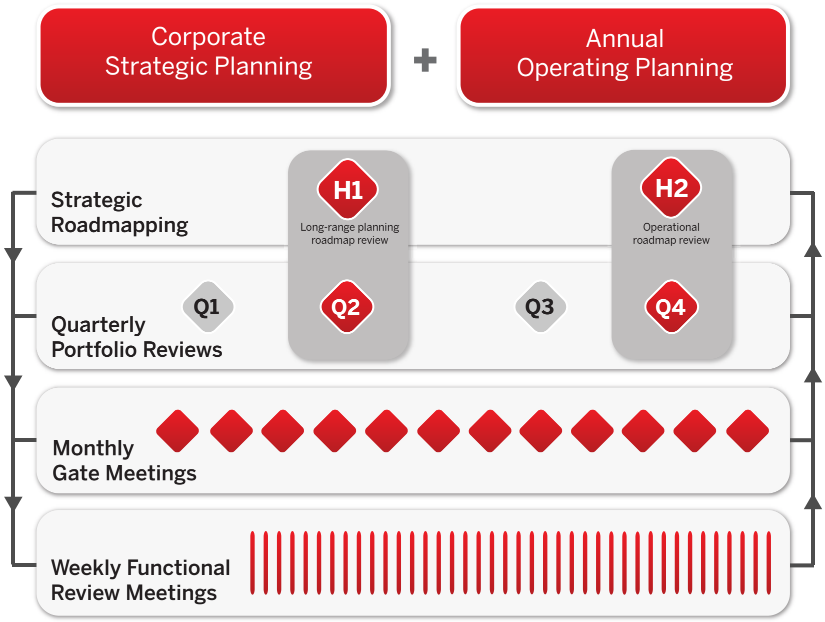


Figure 3. A typical cadence for an innovation governance process.

There are many ways to evaluate projects and initiatives. The challenge is to identify a few key measures that can be assessed consistently. Areas that are commonly evaluated include:

Project justification

- How does the project support strategic initiatives?
- Is there a clear gap in the market?
- What problems are we solving?
- Why would customers buy?

Financial analysis

- What revenue and profit do we expect the project to generate?
- What is the total development and launch cost?
- What is the cannibalisation impact?
- What is the net sales contribution?
- What is the time to profit?

Resource visibility

- What resources are required to execute the project(s)?
- What is the ratio of project benefit to resource costs (Resource Productivity)?
- How do we optimise our resource spend across the project portfolio?

Project status

- What are the associated risks?
- How long will the project take us?
- Is the initiative meeting key milestones?

Integrating Planning and Portfolio Management

To be truly effective, product portfolio management needs to actively tie strategic planning – and by extension, roadmapping – into the new product development process. This allows an organisation to connect its long-term strategy with decisions about product innovation investments in the here and now. Too often, attention is overly focused on short-term objectives at the expense of longer term initiatives that will provide capabilities for future platforms of growth.

The discipline of market, product and technology roadmapping forces the organisation to expand the horizon of thinking from today into the 'tomorrow' and then the 'beyond' timeframes. Developing this vision of the future – expressed in terms of market trends, products, customer needs and technical capabilities – is an important step in the development of a well-performing portfolio process that is strongly linked to strategy.

The operational process of managing portfolios should be defined within an overall innovation governance framework. The reason is that certain elements of portfolio planning tie into higher-level planning cycles, while other elements relate to the governance processes driving development and ideation. Portfolio management should be integrated into gate meetings (gate reviews prompt the development of quality data), and other important decision-making activities, including strategic planning (both annual planning and strategic product planning).

> "Portfolio decision making should be integrated into gate meetings as well as into annual and strategic product planning activities."

This practice ensures that critical alignment points are identified and managed, supporting more responsive, effective and efficient innovation management.

Translating Strategy into Actionable Resource Decisions

Translating strategic intent into a set of decisions that align resource investments with strategic plans can be challenging. 'Strategic buckets' are a very effective tool for achieving this end. The first step is to determine what the set of buckets will be, and roadmaps are a good starting point for this process. A bucket may represent different types of projects (e.g. breakthrough vs. incremental) or specific areas of focus for the business (e.g. enter and expand a market; develop key platform technologies).

The organisation then decides what amount of investment (resources, capital and expense) to allocate to each bucket. To help with this determination, some organisations 'force' themselves to rank the importance of the buckets.

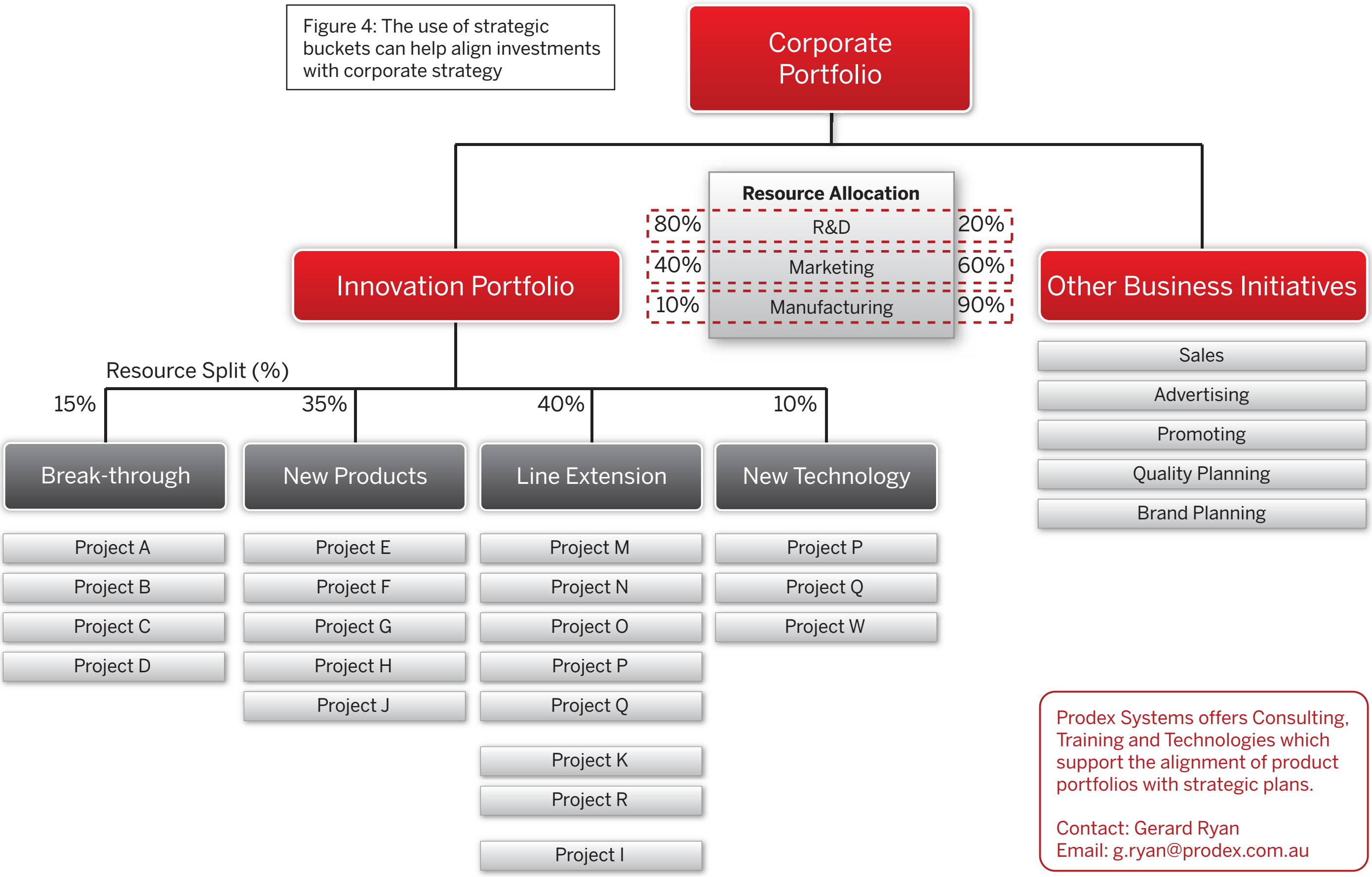
Once the buckets are defined, agreement is reached on the information required to evaluate and prioritise initiatives in each one. The initiatives in the buckets are then prioritised. Forced ranking can be very helpful in allocating resources across initiatives, but other prioritisation techniques can also be used.

Integration is Key to Success

Strategic planning (i.e. roadmapping) and product portfolio management are a natural match. Integrated market, product and technology roadmaps and their outputs should be used consistently as reference points for portfolio review and decision meetings. When this practice is followed, the outputs of portfolio reviews also support the dynamic maintenance of roadmaps.

Successfully synchronising roadmapping and portfolio processes will have a lasting impact on the ability of your organisation to ensure that innovation projects are a direct reflection of the strategies of your business. This will in turn go a long way toward helping you keep product development resources consistently focused on those products with the greatest revenue and profit potential.

Figure 4: The use of strategic buckets can help align investments with corporate strategy



Prodex Systems offers Consulting, Training and Technologies which support the alignment of product portfolios with strategic plans.

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Article adapted from Sopheon White Paper - Aligning Product Portfolios with Strategic Plans by Iain King (used with permission)

Reference List:
1. COOPER, R.G. and EDGETT, S.J. (2000) New Problems, New Solutions: Making Portfolio Management More Effective (Reference Paper #9).
2. COOPER, R.G., EDGETT, S.J. and KLEINSCHMIDT, E.J. (2001) Portfolio Management for New Products: Second Edition, Perseus Publishing.