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Aligning Product Portfolios with Strategic Plans

W H I T E   P A P E R

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Introduction

It is generally recognized that one key to maximizing the return on investment from product innovation is to ensure that portfolio decisions are driven by business and product strategy. 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.

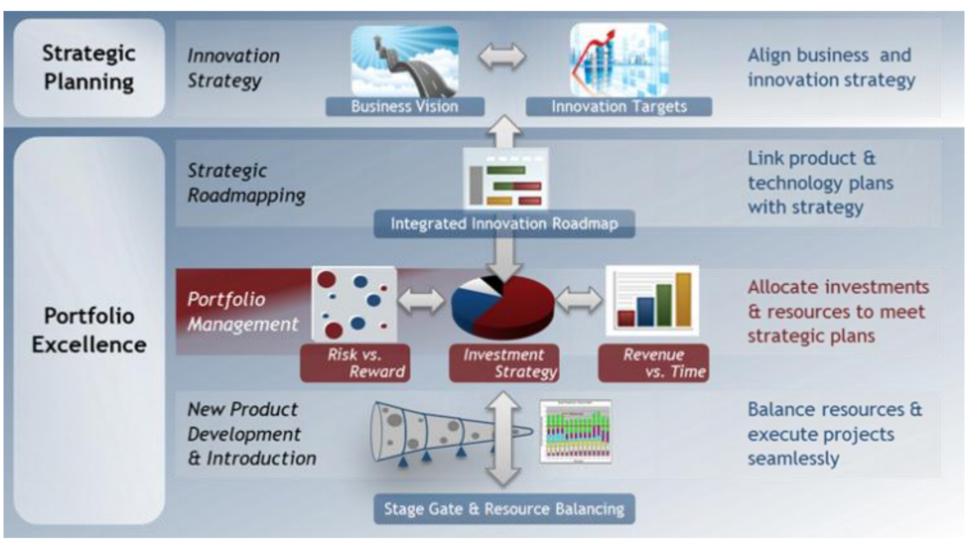
Product Portfolio Management: The Lynchpin of Innovation Governance

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:

Product portfolio management is the link between business strategy and the actual investments being made in product development.

1. Maximizing the value of the portfolio;
2. Establishing an appropriate balance of projects;
3. Prioritizing 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]



Source: Kalypso

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

Managing the portfolio involves prioritization 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.

There are many ways to evaluate projects and initiatives; ideally evaluation should go beyond financial metrics only to include attributes such as balance, strategy and value.

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 will it cost us?
- **Resource visibility**
  – What resources are required to execute the project(s)?
- **Project status**
  – What are the associated risks?
  – How long will the project take?
  – Is the initiative meeting key milestones?

Balance	Strategy	Value
• Investment by market segment, brand, product line • Mix of investment by innovation type (new to market vs. incremental improvement) • Risk measure	• Fit to roadmap • Fit to strategic initiatives • Fit to product/market strategy • Investment goals	• Financial benefits • ROI Measure • Customer value

Figure 2: Key attributes for evaluation of projects.

Integrating Planning and Portfolio Management

All too often corporate attention is focused on short-term objectives at the expense of longer term initiatives that provide capabilities for future platforms of growth.

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 organization 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 (e.g., achieving current annual 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 organization 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.

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

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 promote the development of quality data), and other important decision-making activities, including strategic planning (both annual planning and strategic product planning). This practice ensures that critical alignment points are identified and managed, supporting more responsive, effective and efficient innovation management.

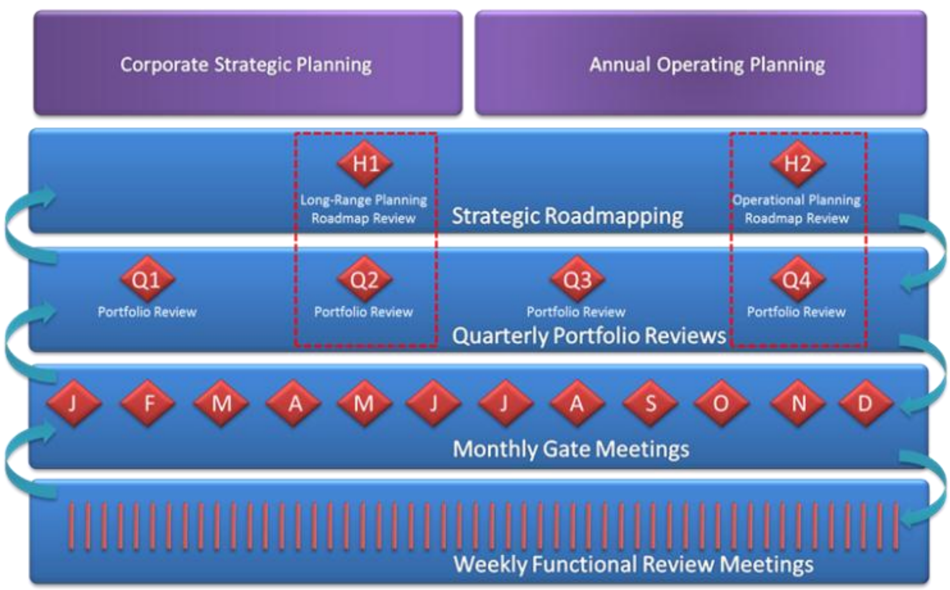


Figure 3: A typical cadence for an innovation governance process.

Translating Strategy into Actionable Resource Decisions

Strategic buckets are one tool that could be used for translating strategic intent into a set of decisions that align resource investments with strategic plans.

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 or expand a market; develop key platform technologies). The organization then decides what amount of investment (resources, capital and expenses) to allocate to each bucket. To help with this determination, some organizations will 'force' themselves to rank the importance of the buckets. Once the buckets are defined, agreement is reached on the information required to evaluate and prioritize initiatives in each one. The initiatives in the buckets are then prioritized. Forced ranking can be very helpful in allocating resources across initiatives, but other prioritization techniques can also be used.

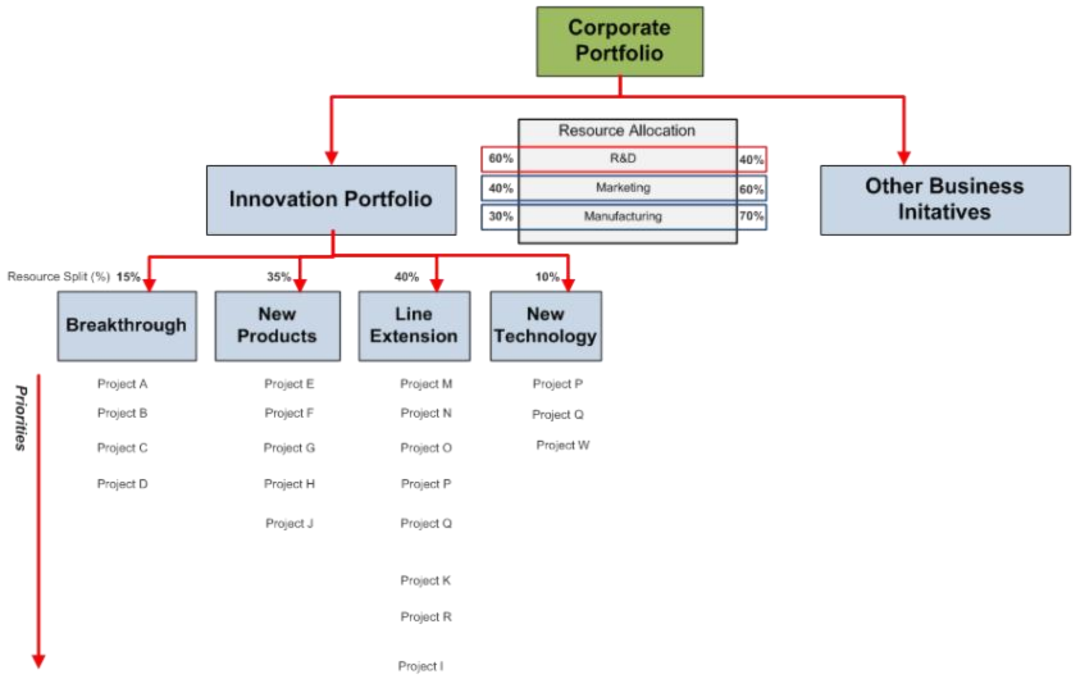


Figure: 4: The use of strategic buckets can help align investments with corporate strategy.

Integration is Key to Success

Synchronizing roadmapping and portfolio processes will help you keep product development resources consistently focused on the products with the greatest revenue and profit potential.

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 the roadmaps.

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

Related Reading in the Sopheon Resource Center

⇒ Innovation Governance: Aligning Strategy, Ideation and Execution for Better Business Results.
Author: Frank van Ruyssevelt, Business Consultant, Sopheon

⇒ Overcoming Barriers to Sustainable Competitive Advantage, Part 2: Making Product Portfolio Management Real
Author: Iain King, Business Consultant, Sopheon

Reference Notes

[1] COOPER, R.G. and EDGETT, S.J. *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.

About the Author

Iain King is a senior business consultant at Sopheon and a certified New Product Development Professional. He has more than 20 years of experience designing and implementing knowledge-based innovation solutions. He has implemented stage- and phase-based product development and portfolio management processes for leading companies worldwide, and has optimized the performance of innovation management and governance processes for customers across a range of industries. Iain can be reached at iain.king@sopheon.com.

About Sopheon

Sopheon (LSE:SPE) is an international provider of software and services that help organizations improve the business impact of product innovation. Sopheon's Accolade® software suite is the first in the industry to provide end-to-end support for strategic product planning, ideation and innovation process execution. The suite's Vision Strategist™ component automates the roadmapping process, allowing users to visualize and plan the future of products and technologies. Accolade's Idea Lab™ component helps organizations generate, select and develop winning product ideas. Accolade Process Manager™ automates the product innovation process and provides strategic decision support for the management of product portfolios.

Sopheon's software is used by top innovators throughout the world, including industry leaders such as BASF, ConAgra Foods, Corning, Electrolux, Honeywell, Northrop Grumman, PepsiCo, SABMiller and Total Petrochemicals.

Sopheon has operating bases in the United States, the United Kingdom and the Netherlands, with distribution, implementation and support channels worldwide. For more information on Sopheon and its software and service offerings, please visit www.sopheon.com.