

Tech-Clarity

making the value of technology clear

Tech-Clarity Insight: Improving Portfolio Decision Making

***Marrying PPM Best Practice
Processes and Technology
to Drive ROI***



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Executive Overview

In today's unsure economy, nobody has resources to waste. Companies have to make the right decisions on where to invest their precious product development people and budgets. They have to focus on the right innovations and excel at new product development (NPD) to get the right products to market quickly to take advantage of market opportunities. The Manager of Quality Management, R&D, and Legal Applications for a large medical device company says, "*The consequences in R&D are huge – you have to get it right.*" Product Portfolio Management (PPM) is an important enabler. "*We need to know we are doing the right projects, that we have the right balance in our portfolio, and that we are executing to effectively commercialize innovations,*" the medical device manufacturer explains.

PPM is a discipline that helps companies optimize their product development investments and increase product profitability.

PPM is a discipline that helps companies optimize their product development investments and increase product profitability. PPM practices and tools deliver proven ROI, as explained in Tech-Clarity's [Issue in Focus: The ROI of Product Portfolio Management](#). PPM helps companies develop high-value, strategically aligned portfolios, ensure they are resourced properly, and then execute them effectively to drive profitable revenue. PPM tools also help improve efficiency. Ian McKenna, IT Business Partner for Infineum UK Ltd., explains, "*Our planning process is a lot easier with PPM.*" To enjoy these benefits, companies need to put in place the right PPM processes, metrics, and tools to improve portfolio decision-making and execution. Getting processes right is important in any systems implementation, but this is even more true in PPM where the goal is to make critical business decisions.

Familiarity with standard processes makes PPM adoption go faster.
Don Kingsberry, Enterprise PMO, Green Mountain Coffee Roasters

Fortunately, the new product development community has developed proven best practices for PPM. Companies can avoid bureaucratic, academic PPM implementation exercises by learning from others because the disciplines of PPM are very mature. Nobody has to start with a blank sheet of paper. "*Familiarity with standard processes makes PPM adoption go faster,*" Don Kingsberry, Enterprise PMO at Green Mountain Coffee Roasters and PPM veteran explains. "*Leveraging them makes extraordinary sense, it's hard to believe companies have time to reinvent them.*" Today, companies can quickly adopt best practice processes and tools to gain rapid value from PPM. As they learn more, they can fine tune criteria and metrics to gain higher levels of value to improve over time – as long as they have the right, integrated infrastructure in place.

The Purpose and Potential of PPM

As Issue in Focus: The ROI of Product Portfolio Management describes, companies that use PPM can “*rightfully expect to achieve higher levels of profitability through a number of means, including:*”

- *Selecting higher value products*
- *Making better – and more timely – decisions to correct or cancel product development projects with limited return*
- *Improving time to market*
- *Improving product development efficiency*
- *Aligning their product portfolio with company strategy*
- *Balancing product development work with available resources*
- *Balancing the risk in their product portfolio*

PPM processes and tools help us be good stewards of our business.
Manager of Quality Management, R&D, and Legal Applications, Medical Device Company

Companies can use portfolio management to make better planning decisions including risk-adjusting financial expectations, understanding assumptions for innovation investments, and providing the right skills and capabilities to do projects right. “*PPM processes and tools help us be good stewards of our business,*” offers the medical device company. “*It costs a lot of money to develop products and we should do what we can to select them right and do them right – because then we have more money to invest.*”

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Ultimately, these improvements lead to significant top-line growth and enhanced profitability. “*Implementing PPM has a profound effect on the business. Each time, I have found the return to exceed our anticipations,*” explains Mr. Kingsberry recalling his various PPM implementations. “*It is a very powerful change.*”

PPM improves decision-making and ultimately business performance through an integrated set of processes, tools, and metrics as seen in the Tech-Clarity PPM Framework (Figure 1, next page). The framework points out a comprehensive, integrated approach to PPM that ensures that planning and execution are linked and aligned. “*Figuring out how to align the strategic planning process with your execution is one of the keys of portfolio management,*” Green Mountain’s Kingsberry explains.



Figure 1: Tech-Clarity PPM Framework

The integrated PPM solution suite is also expanding into ideation processes, becoming a more full, integrated innovation management process. The medical device company says, “*We also use PPM for ideas. All requests come in through PPM where we develop a business case and use a risk-based scoring model.*” Integrating idea management into portfolio planning provides centralized information and allows concepts to be tracked from conception through product launch. This allows companies to identify and reward innovators and helps them validate and mature idea assumptions such as ROI.

Applying Automation to PPM

Product Portfolio Management is a process and a discipline. Getting it implemented effectively on an enterprise-wide basis, however, requires the right software enablers. Unfortunately, many companies are stuck managing PPM with complex spreadsheets that have evolved over time, are difficult to maintain, and provide limited value. “*We used to manage portfolios on spreadsheets, but it was painful to aggregate and extremely difficult to do capacity planning,*” recalls the medical device company.

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Managing portfolios with spreadsheets brings about a myriad of problems. While some might think of spreadsheet software as they “easy” approach, quite the opposite is

typically true. Spreadsheets serve many useful purposes and can be manipulated to do almost anything, but the more complex they get the more difficult they are to explain and the more the portfolio “answers” appear to come out of a black box. They are also very difficult to share effectively across the enterprise. Effective PPM technology, on the other hand, is designed to provide transparency to portfolios up and down the organization.

An enterprise level PPM system offers the benefit of more consistent data, analyses, and metrics, comparing “apples to apples” to make decisions more fact-based and objective.

PPM solutions have other advantages as well, offering intuitive evaluation and comparison of multiple options and scenarios, providing information in a graphical manner that aids decision-making, and helping promote consistent and accurate data. An enterprise level PPM system offers the benefit of more consistent data, analyses, and metrics, comparing “apples to apples” to make decisions more fact-based and objective. McKenna of Infineum UK Limited (part of the Infineum group of companies operating in the petroleum additive sector) describes the role of systems to enable consistency and best practices: *“When we implemented our process in a system we found people were doing it differently and used our system to finalize on one process.”* A common system can promote and enforce a consistent process.

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Ian McKenna, IT Business Partner, Infineum

An integrated PPM system can also serve to integrate different people and functions into a unified innovation process. For example, integration provides real information on project status and health. This helps ensure that strategic decisions are made on real data and that executives are working from “one version of the truth.” It also helps ensure that decisions are communicated back to those running the programs so portfolio decisions are implemented effectively. PPM also delivers some very straightforward improvements. Even with all of the significant top-line and bottom-line business improvements available, many companies simply develop an ROI for PPM based on improving the efficiency of their planning process by replacing manual data-gathering and cumbersome spreadsheets. That value may not be as strategic, but it shouldn’t be overlooked, either.

Putting Best Practice Processes to Work

Of course technology alone will not solve PPM problems. Experience shows – and benchmark data has confirmed – that improving profitability through enhanced product

portfolio management (PPM) requires the right technology coupled with the right business processes and metrics. The medical device company points out *“It’s very important to have the right processes.”* For any technology implementation, having good business processes is important. This is even more true for PPM, according to Aberdeen Group’s PPM Benchmark Report, which reports that Best-in-Class companies adopt standard processes and metrics in addition to centralized systems.

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Aberdeen Group, PPM Benchmark Report

Fortunately, very good practices already exist, so there is no need to develop processes from scratch. Companies can leverage these best practices and implement them across their business. *“You need a common, consistent process across the organization,”* suggests Green Mountains’ Don Kingsberry. *“My approach is always the same, leverage standards where they exist and then layer on top any company best practices that you have.”* Of course effective PPM tools allow for variations in process to adapt to unique company requirements, and not every company can realistically achieve common practices on a global basis.

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Today’s best practice models even work well across industries with minor adjustments to accommodate product lifecycle and market differences. The medical device company manager says *“When you get right down to it, PPM is really not that profoundly different if you are making potato chips, an airplane, or medical devices. Even in a totally different industry people have the same challenges. There is a lot of similarity and overlap.”*

Portfolio metrics are a critical part of PPM, but they can also be relatively straightforward.

Portfolio metrics are a critical part of PPM, but they can also be relatively straightforward. Many companies overthink their scoring models when executives are typically just looking for another source of information to make good decisions. Ian McKenna describes the metrics at Infineum, *“We implemented fairly standard calculations, NPV (net present value) being an example.”* The manager from the medical device company describes their metrics for execution: *“Our main metrics are pretty traditional – on-time, on-budget, and benefit realization,”* he says.

The key to developing metrics is to understand that PPM is not an engine that turns out answers - it is simply a tool that helps companies improve their decision-making process. In the end it is still people making decisions as opposed to relying solely on an algorithm. *“Strive for clarity and simplification,”* explains Don Kingsberry. *“The bigger an organization gets the more you have to fight complexity.”* Portfolio analytics don’t have to magically generate an ideal portfolio - that is simply not realistic. They just need to provide consistent information in an easy to view way so people can make better decisions. *“We had trepidation about reducing decisions to numbers, to scoring,”* remembers Ian McKenna of Infineum. *“Of course it was never our intention to put in information and have the system calculate an answer.”*

Taking the Practical Path to PPM

PPM adds significant business value when enabled by the right technology and process, but many companies are intimidated by the thought of adopting a change in such a strategic process. This is usually the case when people overthink the solution instead of focusing on what is important – making better decisions. Too many companies design academic PPM processes expecting it to be perfect on day one. Today, companies can’t wait for an ROI that takes years. As Mr. Kingsberry says, *“You need to start providing operational information and value quickly.”*

There is no need to have all of the processes perfectly in place before embarking on the implementation of PPM technology.

Instead, companies can start small and grow. They shouldn’t underestimate the value of small steps. For example simply pulling together a company’s portfolio and providing visibility to all projects is extremely valuable. *“Executive get excited because they can see a master portfolio including new product introductions,”* Green Mountain’s Kingsberry points out, *“Program reviews often foster dialogue and communication that typically hasn’t been happening.”* There is no need to have all of the processes perfectly in place before embarking on the implementation of PPM technology. *“In a previous company, we cut millions of dollars of projects that were wasting time and we shouldn’t have been working on. We got clarity on that immediately and had a huge multi-million dollar return in 6 months,”* Mr. Kingsberry recalls. *“PPM software and process help bring visibility to those things.”*

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Simply by providing timely, reliable, relevant information companies can take big strides. Providing the right tool to visualize and analyze the data and reviewing multiple “what if” scenarios helps make better decisions. As mentioned earlier, companies can get started quickly by leveraging best practice templates, reports, views, and workflows instead of reinventing the wheel. Then, as leaders are making decisions new metrics and views can be created based on what they actually deem valuable. Companies can start by considering which decisions are the most important for PPM to support and target the information that will help solve real problems, like viewing the strategic mix of the portfolio, understanding revenue contribution by project, analyzing risk versus reward in the portfolio, or seeing all projects by pipeline phase.

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Putting in place rough-cut capacity planning and resource balancing extends the benefit of portfolio visibility. Resource management helps ensure that projects are properly funded and staffed, that there aren't too many projects in the pipeline to execute effectively, and that managers have the right information to resolve shortages and resource conflicts. Resource planning can be based on more accurate data when detailed planning and execution are in place and automated.

The important point is to enable people to make better, more informed decisions – but not kill the process with too much burden from overly complex models and excess paperwork.

Whether a company starts with a strategic portfolio planning initiative, by implementing a gated product development process, or by putting in place detailed project scheduling and execution, there are best practices available for processes, metrics, and reports. Again, most companies don't need to develop their own processes. “*We follow a formal stage-gate methodology, it's very typical and traditional,*” explains the medical device company. The important point is to enable people to make better, more informed decisions – but not kill the process with too much burden from overly complex models and excess paperwork. Instead, companies should ensure that they put the right infrastructure in place and supported by best practice processes and metrics so they can centralize information, coordinate processes across the enterprise, and implement a full PPM process.

Improving Portfolio Processes Over Time

No portfolio process or metrics are perfect, and certainly not at the onset of using them. As mentioned earlier, companies can get value quickly from best practices and then tailor

them to unique business needs instead of having a long academic discourse prior to implementation. The key to making this work, then, is to improve over time as the company gains practical experience with the tools and the metrics. Mr. Kingsberry of Green Mountain explains, *“You learn pretty quickly what works when you use PPM tools.”*

We are rigorous about post-launch lessons learned. We know there is still room for improvement.

Manager, Medical Device Company

Using tools in real-life decision-making situations shows what works, what is needed and the value it provides. Companies have to pay attention to lessons learned and use them to modify processes to improve future performance. It is important to close the loop by comparing actual results and updating templates and processes to better reflect reality, improving forecast accuracy over time. Lessons learned can also help improve “softer” things like team composition, capabilities, project management approach, and whether business rules and processes were followed. *“We want to know what went well, what didn’t go well, and how do we learn from it. We are rigorous about post-launch lessons learned. We know there is still room for improvement,”* The manager explains how continuous improvement works at the medical device company. *“It’s a great thing when a company has a process in place at the end of a project and they do a lessons learned review, but the real value comes by building the information back into the process for the next time instead of just an academic exercise,”* explains Mr. Kingsberry. *“The system lets you build that into the methodology and processes through templates that can be updated over time.”*

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Another way companies can improve is by phasing in more PPM capabilities over time. Most companies adopt PPM through an incremental approach as opposed to a “big bang” that attempts to implement the entire suite at one once. For example, companies might start with strategic planning or project execution depending on their greatest needs. *“We felt we could evolve over time,”* Ian McKenna of Infineum explained. *“For example resource planning and management are becoming bigger issues due to demand for resources.”* The medical device company manager supports the incremental approach, saying *“Companies would make a mistake by trying to turn on everything at the same time.”*

Now we have a process to build on and we anticipate even more gains will come as we go forward.

Ian McKenna, IT Business Partner, Infineum

Regardless of where a company starts, they should put in place a solution that can be extended over time. “*Now we have a process to build on and we anticipate even more gains will come as we go forward,*” says Infineum’s McKenna. With the right solutions and best practices in place, organizations will learn what their real portfolio problems and opportunities are and can continue to improve portfolio processes and ultimately product profitability.

Conclusion

PPM improves portfolio decision-making, leading to top-line growth and improved profit margins. Companies gain significant value from PPM by developing optimal portfolios, ensuring they are enabled with the right resources, and improving project execution. They are also extending to a more fully integrated innovation process including idea management, gaining higher levels of value.

Merging the tool, process, and organization so they work together we feel like we are making better decisions.

Manager, Medical Device Company

Coupling processes, people, metrics, and PPM software provides real, strategic value - the kind that shows up in the annual report. “*Merging the tool, process, and organization so they work together we feel like we are making better decisions,*” explains the manager from the medical device company. “*It’s a lot easier to manipulate the data to show us what we are up against, see the capacity constraints, and identify the highest value projects. We get the information faster and it really helps us make better decisions to select better projects and the mix of projects.*”

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Companies can accelerate their time to achieve value from PPM by adopting industry best practices, metrics, and tools, and then adapting over time as they learn more about how to make the best product decisions. Green Mountain’s Kingsberry agrees, “*It’s better to try to phase it in and do a bit over time over several releases.*” PPM offers significant ROI without requiring companies to reinvent the wheel, providing a compelling business opportunity.

Recommendations

Based on industry experience and research for this report, Tech-Clarity offers the following recommendations:

- Take advantage of PPM to develop and execute optimal product portfolios – driving growth and profitability
- Integrate portfolio planning, resource management, execution, and innovation processes
- Take advantage of best practice processes - avoid reinventing the wheel
- Don't overcomplicate PPM, start with visibility to portfolios and clear metrics
- Leverage integrated PPM tools to help automate data collection, standardize processes, provide portfolio transparency, and enable better decision-making
- Improve over time by putting in place a lessons learned / continuous improvement program (and use it)

About the Author

Jim Brown is the President of Tech-Clarity, an independent research and consulting firm that specializes in analyzing the true business value of software technology and services. Jim has over 20 years of experience in software for the manufacturing industries, with a broad background including roles in industry, management consulting, the software industry, and research. His experience spans enterprise applications including PLM, ERP, quality management, service, manufacturing, and others. Jim is passionate about improving product innovation, product development, and engineering performance through the use of software technology and social computing techniques.

Jim is an experienced researcher, author, and public speaker and enjoys the opportunity to speak at conferences or anywhere that he can engage with people that are passionate about improving business performance through software technology.

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