PRODUCT DEVELOPMENT CONSULTING, INC.

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What We Learned on Our Winter Vacation

Five Portfolio Management Challenges All Companies Face

"Each man has an aptitude born with him. Do your work... 'T is clownish to insist on doing all with one's own hands, as if every man should build his own clumsy house, forge his hammer, and bake his dough... To do otherwise is to neutralize all those extraordinary special talents distributed among men."
-- Ralph Waldo Emerson, "Success," from *Society and Solitude* (1870)

We're resurfacing after months of work on our forthcoming book, *Value Innovation Portfolio Management* -- *Achieving Double-Digit Growth through Customer Value*, due out in the fall from J. Ross Publishing. It wasn't exactly a vacation, but we did have fun -- and we learned a lot.

Writing a book, especially collaboratively, has much in common with developing a product. First comes an idea. The idea may arise from individual inspiration or from group interactions. In our case, the spark came from experiences with clients. PDC has helped numerous companies become more customer-driven by applying the Market-Driven Product Definition (MDPD) process to product development. We often watched those same companies struggle with larger decisions about their product portfolios. Which projects should they choose to put into the product development pipeline?

The idea came to us to apply the same customer-driven criteria to portfolio management that we apply to product development. We call the approach *VIP portfolio management*, and it involves connecting customer value, innovation, and strategy to portfolio management.

Next came the challenges, as often happens after a moment of inspiration: defining the audience, creating a strategic and tactical plan for getting the book done, and executing on the plan. Just as product developers do, we began with a framework (an outline) but inevitably new data forced us to refine and adjust our course. In our case, the data came from extensive research in the field and, most importantly, from interviews with portfolio management professionals at more than 15 companies. We also drew insight from years of experience with PDC clients and their successful approaches to portfolio management. We are deeply grateful to the people who took the time to reflect on the portfolio process and to share their insights with us and to the clients who created that initial spark.

The result, we believe, is a book that will make you change the way you think about portfolio management. You'll have to wait till the fall to read the whole book. In the meantime, we'd like to share some of what we learned.

-- Sincerely, Sheila Mello, Ron Lasser, Wayne Mackey, and Richard Tait

The Five Challenges

1. All Companies Have More Good Ideas Than Resources to Develop Them

The greatest challenge for companies was not coming up with good ideas. The challenge was choosing among many ideas to develop only those with the most market potential -- e.g., those that provide the highest value to customers. The down side of working on too many projects at once became all too clear: spreading resources too thinly leads to poor outcomes for all projects. The need is universal for a reliable method to choose among many worthy projects.

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"If you’ve got an organization that’s really working, if this process is really working, of understanding the customer, understanding the physics, and pulling these together to come up with innovative ideas, and you’ve got smart people that are excited about what they’re doing… they’re going to have way more ideas than you have resources to support. In fact, if you ever get to the point where you have more resources than you have ideas, I believe you've got a brain-dead organization and you've much more serious issues than worrying about any of the things we're talking about." -- William Hill, former VP of engineering and technology, The Stanley Works

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"Facetiously, I'll say, 'We've got too many ideas.' And then I'll come back and I'll say, not facetiously, very emphatically, 'We have too many ideas.' …lots of patents, and lots of idea generators in business units and in research, and lots of ideas that come from customers and customer collaboration. We even get ideas that come from third parties. So it's not lack of ideas, it's paring those down to what's most attractive that we can build a business model around." -- Tom Luin, business transformation architect, IBM

2. Executive-Level Involvement is Crucial

This is one important message of the book, and our interviews confirmed it. Without the active involvement of senior executives, product portfolio management is destined to be no more than a tactical budget shuffle. To be truly successful, it must be tightly coupled with strategy, and for that to happen, senior management must be involved.

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"We make the portfolio decisions through a couple of different senior management teams, as well as the directors within the ESA (Early Stage Accelerator) organization. So, first cut: looking at the incoming. We have people in the ESA organization looking at these projects and evaluating them and we have the directors and our senior leader who together look at the projects coming in. From there we kind of squeeze, adjust, and make the projects better for the ones that we actually want to pursue. Then we develop a high-level business case that we refer to as a one pager. From there we'll develop a more detailed business case, which we present to something called an *innovation leadership team*.

"An innovation leadership team is primarily the chief technology officers across the corporation and senior strategists and senior technologists that support some of the

CTO offices. We'll review that with that team, which provides directional guidance in regards to applicability of that project to the business, competitive insights, technology insights, and whether we should pursue it or not pursue it.

"[For those we pursue, we] provide a more detailed financial analysis that we'll present to a Motorola Innovation Investment Board, which consists of the senior leaders in the corporation -- that includes business unit CEOs -- as well as our chief technology officer. We'll meet with that body approximately four to five times a year, which will then give us the approval to release funds." -- Anthony Carter, senior director, new business development, Motorola, Inc.

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"Really it comes down to our leaders and our people… it still comes down to some tough decisions. You've got 100 opportunities and you can only fund five, so out of those 100 hopefully your people have gathered the data, ranked them, sorted them, and got you to a list of for sure the top ten… But it still comes down to any one of those ten can make us successful. What combination, what five out of those ten is the best? And that's where a lot of the magic comes in. You know, there isn't always a right answer. It's just really knowing everything about your market place, and understanding and then assessing." -- Program leader for innovation management, Kimberly-Clark Corporation

3. What You Measure Determines Your Success

If you want your products to fulfill their strategic potential (and to make money for stakeholders) you need to take the counterintuitive step of *not* using financial measurements like net present value to make portfolio decisions. We believe that companies must add *customer value* to the metrics they use when evaluating potential new products. Our book offers a perspective on the benefit of doing this, as well as ideas about how you can actually measure customer value. The companies we interviewed took a variety of approaches to measuring the effectiveness of both the portfolio process and the success of the portfolio overall.

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"We track actual commercialization -- how projects are going as they start to commercialize? We're tracking revenue and we're tracking resources applied against that opportunity. Thirdly, after a business has spun out of new business development, it will be handed off to an existing business portfolio, or it might be out there as a stand alone business, we track the sales after it has left us to see how it's doing, track its profitability." -- Tony Frencham, business director for new business development, Dow Chemical

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"The ultimate success of [a product] is… three fold, you've got the budget, you've got the cost, and… did we sell? We forecasted x number of sales, and are they coming in? …Once again, the product team, working with marketing, would be determining what is the appropriate target for the sales of this particular solution in the various regions, and obviously marketing's job is to come up with campaigns in order to sell those various products and solutions. Then our regions sign up for the various campaigns based upon their knowledge of the needs within the regions. Those are the three standard ways to measure the success of the portfolio management: time, cost, and sales." -- J.C. Paradise, director of strategic marketing, Avaya, Inc.

4. Some Customer Data is Better than None at All

Many of the companies we talked to were in fast-moving industries with short product development cycles. Even in these situations, where the perception was often that doing voice-of-the-customer research to determine what the customer values would be too time-consuming, it's usually possible to gain some kind of insight into customer needs. Many have developed databases of intelligence they can reuse for multiple projects. And doing so -- even if the process and outcome are not perfect -- is always better than relying simply on intuition or gut feelings alone.

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"We have a huge amount of customer data… we're constantly doing research to understand customer needs. All of that data is available to everyone. So, for instance, if someone in a product group has done a bunch of research, it's probably going to help the services people who have to help maintain that product. It's all going to be valuable information for them as well. So we have a process to [share that information.] We have a research portal and all of the marketing teams have access to that so that we can better share information.

"We also have ongoing information that we collect about customer satisfaction with the current products and we understand how they look at our products and services versus the competition as well. So we have that ongoing satisfaction and loyalty information across the lifecycle, which also is used in the development of products.

"One group may look at all that data, and use it, and not have to do any additional research. Other groups may decide that that gave them a great foundation, but they still have these six questions they need to go out and do research on. ...Then that research becomes also available to the other teams so that we can share and build up the understanding of what is required." -- Deborah Nelson, vice president of marketing and alliances for the Technology Solutions Group, Hewlett-Packard

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"I would say virtually every single presentation has customer data in it. Every single one. How does it happen that they get it? It's just part of our culture now. We have a very data-driven decision making approach. And customer data is a key piece of information to make the decision. ...From a functional perspective, I'm the central source. So if people have questions... either they come to me or I go to them and say, 'you know, I really think you could use this type of information. Are you interested in getting it?' ...They all end up with customer data in their presentations." -- Deirdra Dougherty, director of global marketing communications and analysis, Dade Behring

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"The voice of the customer data comes in, historically it's come in on more of a project basis, and it's come up in what we call the Commercial Excellence Reviews. ...What we typically do is around a focused area we'll go out and do a voice-of-the-customer linked to a project. Over time, after executing many projects, you begin to develop a more complete picture of the total market, as compared to trying to do a broad survey. I've chosen… to go after it by building it up, from the bottom up, rather than the top down.

"Right now we have three project files, but the idea would be over time to compile a database and to make sure that this is available for future generations. It would become, if you will, the first place they would look rather than the last place they look… I'd rather they go to the database and look at the database first and only if they can't answer their questions in the database do they move on and do project-specific work." -- Steve Sichak, worldwide president, BD Preanalytical Systems

5. There's Always Room for Improvement

No matter how well developed your portfolio management process and strategy, you can always do something to improve it. Some of the companies we talked to were at the very beginning stages of creating a reliable way to determine what new products to pursue. Others were pros, having been at it for years -- but they still had long lists of things they wanted to improve.

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"[We would like to] have a better window into the full set of strategic questions. That's something that we're actually working on trying to create this year. We know the strategy, but every strategy may have six strategic questions associated with it… There are many strategic questions under [one strategy] umbrella, and getting them all on the table is one [area for improvement]. Another is… we have variable engagement of people from the lines of business who are thinking from a business perspective on the actual working team. That would be helpful, [but] it's hard for the resources to be sprung. From a skill-set perspective… our ability to do what I call business model innovation, which is taking a value proposition that's really creating value and deciding how to go to market with that is not a problem. But if it's a different business model, it's harder." -- James Euchner, manager of the Advanced Technology group, Pitney Bowes

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"And an area that we're currently developing innovative ways to improve is that we have 6,000 people in company, and probably half of those are in front of customers every day. How do we continually get a flow of information from the people in the field to better inform our decision? We are working on improving that." -- Deirdra Dougherty, director of global marketing communications and analysis, Dade Behring

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"At the front end, if we're struggling with anything at the moment, it's still the interaction, if you like, between getting direct voice of the customer feedback -- go to the customer, ask them what their problem is, and sort that out, turn that into a product development -- versus a more generic industry view… We should invest even in light of not having a customer come to us and say, 'I want this thing.' That's kind of a difficult balance to achieve. How much of that we should be doing, and can we be doing it at all, given the constant look at whatever we invest in, when is there an expected payback on that?… When we move back into our labs and we have a bright idea, those are still difficult to get launched, or even manage in a way that gives us a path forward with them. There's so much risk involved, not only technically, but with respect to seeing any revenue base back from them, that we don't have a good management process to work those through the system." -- Frank Bauer, manager of the Broadband Test Division advanced development organization, Teradyne

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"One of the biggest learnings is how do you take ideas and accelerate them from the concept to implementation -- because there are so many ideas, you can't pursue everything. How you approach the project is really going to be the key indicator. The other thing is the value of market research. Without the market research you're not going to be able to do the things you want to do." -- Anthony Carter, Motorola

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"We typically are not very good about dis-investing or de-selecting. Once we have an offering in the marketplace, quite often it is difficult for us to shut it down, curtail it, take it off market… The other aspect is when we have a limited amount of dollars and we’ve got what previously would be 10 investment areas, and all of a sudden through whatever necessity is dictated by finances, instead of x dollars we have x minus some number that says we need to curtail our spending, which mean we… focus on 9 things or 8 things. Making those selections is very difficult… It's easy to look at future and new investments, but taking risky investments off the table is a struggle." -- Tom Luin, business transformation architect, IBM