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Introduction

Today’s businesses are expected to evolve as quickly as the markets they serve, efficiently delivering breakthrough and iterative innovations to satisfy changing consumer demand while turning a profit. 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 Management

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. Maximizing the value of the portfolio.
2. Establishing an appropriate balance of projects.
3. Prioritizing initiatives to allocate resources to the best projects.
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

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.

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

![Figure 2: Key attributes for evaluation of projects.](image)

## Integrating Planning and Portfolio Management

Today’s constantly changing markets with regular disruptions and ‘game changers’ means that companies need to maintain an agile outlook across the business. Operating plans need to be reviewed at regular intervals throughout the year rather than annually. By having a strategic view over all moving parts in the organization, the company can maintain its competitive edge by having the ability to quickly shift the product portfolio in response to a more iterative planning cycle.

To be truly effective, product portfolio management must actively tie strategic innovation 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., quarterly financial results) 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.

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 operational planning and strategic product planning). 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 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.
Aligning Strategic Planning and Product Portfolio Management is Key to Success

Strategic planning 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 planning 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 evolving 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.

Reference Notes


About Sopheon

Sopheon partners with customers to provide complete Enterprise Innovation Performance solutions including software, expertise, and best practices to achieve exceptional long-term revenue growth and profitability.

Sopheon’s Accolade® solution provides unique, fully-integrated coverage for the entire innovation management and new product development lifecycle. For the first time, businesses can access a single source of the truth across Strategic Innovation Planning, Roadmapping, Idea and Concept Development, Process and Project Management, and Portfolio and In-Market Management.

Sopheon’s solutions have been implemented by over 200 customers with over 60,000 users in over 50 countries, including industry leaders such as BASF, Electrolux, Honeywell, Northrop Grumman, PepsiCo, Philips, Total Petrochemicals and many more.

For more information on Sopheon and its software and service offerings, please visit [www.sopheon.com](http://www.sopheon.com)