Agenda

• Objectives and outcome
• Overview of portfolio management – why you should care
• Moore’s Core/Context model – portfolio mgt. for strategy
• GE/McKinsey model – analytical portfolio management
• Case studies to consider
• Some of our “less academic” learning’s about PM
Session Objectives

• Understand of the portfolio management process and its application.

• Gain insights into the key success factors, best practices and common pitfalls in portfolio planning.

• Apply what we learned from the classroom to strategic and operational decisions you face.
Portfolio Management has two flavors

1. Strategic/business/investment portfolio management
   - The strategy development, evaluation, prioritization and optimal allocation of investment dollars for a set of competing opportunities: markets, businesses, strategic initiatives or investment projects

2. Operational/pipeline/resource portfolio management
   - The allocation of resources (people, skillsets, capacity) to a set of competing projects or opportunities to maximize the value and throughput of the project pipeline or operation of the business

In both types of PM, the challenge is to:

- Optimize the value output for any given level of financial or human resource input.
- Align the portfolio in support of the organization’s overall strategy and strategic intent
The three high-level goals of PM are:

1. Strategic alignment—active investments are necessary and sufficient for the strategy to succeed
   - The active investments are on-strategy (Strategic Fit)
   - The active investments truly enable our strategic intent & direction

2. Strategic balance—active investments have a “desired” mix or balance across multiple important dimensions
   - Long-term vs. short-term, Core/Emerging/New markets
   - High-risk vs. low-risk, Risk vs. reward
   - Markets of Interest, Business Models, etc.

3. Maximum return
   - The portfolio is designed to make optimal use of scarce resources to achieve desired objectives.
Portfolio management process steps:

1. Define the scope and objectives of the portfolio
   - How bold/aggressive should we be in our “Max” strategies?
   - What are we optimizing?
     a) Maximize shareholder value
     b) Maximize short term operating profit
     c) Minimize operating expenses…

2. Develop compelling strategies at different budget levels for each component of the portfolio

3. Evaluate the investment, timing, risk and return of each budget alternative.

4. Allocate the total budget across the opportunities to maximize the total results
The BCG Matrix

Business growth rate

Invest

Select a few

Remainder divested

Liquidate

Relative position (Market share)

high
low

high
low
Market Share-Market Growth Matrix (BCG Matrix)

- **Stars**
  - Generate considerable income
  - **Strategy:** Invest more funds for future growth

- **Question Marks**
  - Have potential to become stars or cash cows
  - **Strategy:** Either invest more funds for growth or consider disinvesting

- **Cash Cows**
  - Generate strong cash flow
  - **Strategy:** Milk profits to finance growth of stars and question marks

- **Dogs**
  - Generate little profits
  - **Strategy:** Consider withdrawing
The BCG Matrix Product Portfolio Method

The **BCG matrix method** is based on the product life cycle theory that can be used to determine what priorities should be given in the **product portfolio of a business unit**.

To ensure long-term value creation, a company should have a portfolio of products that contains both high-growth products in need of cash inputs and low-growth products that generate a lot of cash.

It has 2 dimensions: **market share** and **market growth**. The basic idea behind it is the bigger the market share a product has or the faster the product’s market grows, the better it is for the company.
The BCG Matrix Product Portfolio Method

Placing products in the BCG matrix results in 4 categories in a portfolio of a company:

1. **Stars** (=high growth, high market share)
   - Use large amounts of cash and are leaders in the business so they should also generate large amounts of cash.
   - Frequently roughly in balance on net cash flow. However, if needed any attempt should be made to hold share, because the rewards will be a cash cow if market share I kept.

2. **Cash Cows** (=low growth, high market share)
   - Profits and cash generation should be high, and because of the low growth, investments needed should be low, Keep profits high.
   - Foundation of a company

3. **Dogs** (=low growth, low market share)
   - Avoid and minimize the number of dogs in a company
   - Beware of expensive ‘turn around plans’
   - Deliver cash, otherwise liquidate

4. **Question Marks** (=high growth, low market share)
   - Have the worst cash characteristics of all, because high demands and low returns due to low market share
   - If nothing is done to change the market share, question marks will simply absorb great amounts of cash and later, as the growth stops, a dog.
   - Either invest heavily or sell of or invest nothing and generate whatever cash it can.
   - Increase market share or deliver cash.
The BCG Matrix Product Portfolio Method

The BCG matrix method can help understand a frequently made strategy mistake: having a one-size-fits-all approach to strategy, such as a generic growth target (9% per year) or a generic return on capital of say 9.5% for an entire corporation.

In such a scenario:

A. **Cash Cows Business Units** will beat their profits easily; their management have a easy job and are often praised anyhow. Even worse, they are often allowed to invest substantial cash amounts in businesses which are mature and not growing anymore.

B. **Dog Business Units** fight an impossible battle and even worse, investments are made now and then in hopeless attempts to ‘turn the business around’.

C. As a result (all) **Question Marks and Stars Business Units** get mediocre size investment funds. In this way, they are unable to ever become cash cows. These inadequate invested sums of money are a waste of money.
The BCG Matrix Product Portfolio Method

Some limitations of the Boston Consulting Group Matrix include:

• High market share is not the only success factor
• Market growth is not the only indicator for attractiveness of a market
• Sometimes dogs can earn as much cash as Cash Cows
Moore’s Core/Context Model

1. **Core**
   - Differentiation that creates sustainable competitive advantage

2. **Context**
   - Required to meet market standard performance (keep pace w/ the competition)

- **Scale**
  - KPI: Market share & revenue growth
  - Sales: Revenues

- **Mine**
  - KPI: Earnings growth
  - Sales: Margins

- **Pilot**
  - KPI: Lighthouse Accounts
  - Sales: Close Major Customers

- **Milk**
  - KPI: Return on resources employed
  - Sales: Efficiency of indirect channels

- **Materiality**
  - High
  - Low

- **Mission-Critical**
  - High Growth/Innovation

- **Non-Mission-Critical**
  - Low – Declining/Maintenance

- **1 and 2 are innovation driven**

- **4**
  - “Pilot”
  - KPI: Lighthouse Accounts
  - Sales: Close Major Customers

- **3**
  - “Scale”
  - KPI: Market share & revenue growth
  - Sales: Revenues

- **2**
  - “Mine”
  - KPI: Earnings growth
  - Sales: Margins

- **1**
  - “Milk”
  - KPI: Return on resources employed
  - Sales: Efficiency of indirect channels

- **2**
  - “Scale”
  - KPI: Market share & revenue growth
  - Sales: Revenues

- **3**
  - “Mine”
  - KPI: Earnings growth
  - Sales: Margins

- **4**
  - “Milk”
  - KPI: Return on resources employed
  - Sales: Efficiency of indirect channels

- **1**
  - “Pilot”
  - KPI: Lighthouse Accounts
  - Sales: Close Major Customers

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  - “Milk”
  - KPI: Return on resources employed
  - Sales: Efficiency of indirect channels

- **1 and 2 are innovation driven**
### Defining Core and Context

**Nuances Relative to Hierarchy of Powers**

<table>
<thead>
<tr>
<th>Category</th>
<th>Definition of Core</th>
<th>Definition of Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
<td>High growth</td>
<td>Low growth (or worse)</td>
</tr>
<tr>
<td>Company</td>
<td>High market share within category</td>
<td>Low market share within category</td>
</tr>
<tr>
<td>Market</td>
<td>High market share within segment</td>
<td>Low market share within segment</td>
</tr>
<tr>
<td>Offer</td>
<td>High differentiation vs. competition</td>
<td>Low differentiation vs. competition</td>
</tr>
<tr>
<td>Program</td>
<td>High differentiation vs. competition</td>
<td>Low differentiation vs. competition</td>
</tr>
</tbody>
</table>
# Defining Mission-Criticality

## Nuances Relative to Hierarchy of Powers

<table>
<thead>
<tr>
<th>Category</th>
<th>Definition of Mission-Critical</th>
<th>Definition of Non-Mission-Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
<td>Significant portion of total current revenues and earnings</td>
<td>Not a significant portion of total current revenues and earnings</td>
</tr>
<tr>
<td>Company</td>
<td>Failure would impact company’s reputation or brand</td>
<td>Failure would not impact company’s reputation or brand</td>
</tr>
<tr>
<td>Market</td>
<td>Failure to dominate this market puts overall growth strategy at risk</td>
<td>Failure to dominate this market does not put overall growth strategy at risk</td>
</tr>
<tr>
<td>Offer</td>
<td>Significant contributor to current revenues and earnings</td>
<td>Not a significant contributor to current revenues and earnings</td>
</tr>
<tr>
<td>Program</td>
<td>Failure to execute puts key offer or market plans at risk</td>
<td>Failure to execute does not put key offer or market plans at risk</td>
</tr>
</tbody>
</table>
Fatal Flaw #1
Clinging to Mission-Critical Context

- But lack of resources here results in failure to deploy!
- Resources get stuck here
- Resources added here for support

1. Invent
- Resources still get invested here

2. Deploy

3. Manage

4. Offload

Mission Critical

Non-Mission-Critical

Mission-critical risk

Context

Core
Fatal Flaw #2
We Are Betraying Our Work Force!

People being released lack the skills to fill the positions being opened
What should HP do?

Mission Critical
- Color Laser printer
- Color multi function printer
- Laser all in one
- Mono Laser (Emg Market)
- AIO Productivity
- Super Wide Format printer
- Digital Printing Press
- Specialty OEM
- Retail Photo
- On-Line Photo

Non-Mission Critical
- Hi quality videoconferencing
- Digital Entertainment Services
- SMB Web Print Services
- Embedded Web2Print
- Emerging Markets/OEM

Core
- Enterprise Services (Connectivity services development, delivery)
- Enterprise Workflow (Sys and SW)
- Scanning Services

Context
- Color Toner
- Mono Toner (Emg Mkt)
- Specialty Paper
- Cons. Inc (Product)
- Comm. Ink (Cat)
- Bus Ink (Cat)
- Color Dept MFP
- Photo Versatile printer
- Cons. Inc all in one
- SFP Low End
- Digital Printing Press
- Photo Versatile printer
- Mono Multi function printer
- Mono Laser (Dev. Market)
- Photo Versatile printer
- Consumer Ink all in one
- SFP Low End
- Large Format Creative/Technical
- Cameras

“Scale”
- Photo-B
- Mono Toner (Dev. Mkt)
- Consumer Ink (Category)
- Mono Laser Printer
- Mono Multi function printer
- Mono Laser (Dev. Market)
- Photo Versatile printer
- Consumer Ink all in one
- SFP Low End
- Large Format Creative/Technical
- Cameras

“Pilot”
- Consumer Scanner
- Commercial Scanner
- Home Photo Appliance
- Lightscribe

“Mine”

“Milk”
GE/McKinsey Model

- The GE/McKinsey matrix was developed as a more advanced form of the best known portfolio planning model – Boston Consulting Group matrix (Stars, dogs, cash cows and question marks).

- BCG model was a 2X2 based on market growth and market share.

- GE/McKinsey model is more sophisticated in three aspects:
  1. Market/Industry attractiveness replaces market growth as the dimension of industry attractiveness and includes a much broader range of “attractiveness” factors.
  2. Competitive strength replaces market share as the dimension by which competitive position is determined, also including a broader range of factors.
  3. Works with a 3X3 grid.

- The goal: The optimal business portfolio that fits the companies strengths and exploits the most attractive markets.
GE/McKinsey Portfolio Criteria

Typical (external) factors affecting Market Attractiveness

• Market Size
• Market Growth rate
• Barriers to Entry
• Current Market Profit
• Future Profit Potential
• Competitive intensity
• Overall risk of returns in the industry
• Opportunity for differentiation
• Demand variability
• Segmentation
• Distribution structure
• Technology development

Typical (internal) factors affecting Competitive Strength

• Current Market Share
• Market share growth
• Relative Brand Strength
• Customer loyalty
• Relative cost structure position
• Relative profit margins
• Quality
• Sustainable Technology Advantage
• Channels of Distribution Advantage
• Services Advantage
• Support Advantage
• Access to financial/other resources
• Management strength
GE/McKinsey Portfolio Criteria

Market Attractiveness
- Market Size
- Market Growth
- Barriers to Entry
- Current Market Profit
- Future Profit Potential

Business Strength & Competitiveness
- Current Market Share
- Brand
- Sustainable Technology Advantage
- Channels of Distribution Advantage
- Services Advantage
- Support Advantage
- Cost Structure Advantage
Market Portfolio Display - GE/McKinsey Model

Market Attractiveness vs. HP Strength/Competitiveness

- Market 9
- Market 4
- Market 3
- Market 1
- Market 5
- Market 2
- Market 7
- Market 6
### GE/McKinsey Model

**Green** = “Go Ahead”  
**Red** = “Stop”  
**Yellow** = “Caution”

<table>
<thead>
<tr>
<th>Industry Attractiveness</th>
<th>Business Strength &amp; Competitiveness</th>
<th>Specialize</th>
<th>Consider exit strategies</th>
<th>Identify growth segments</th>
<th>Prune product lines</th>
<th>Position to divest</th>
<th>Invest strongly</th>
<th>Invest selectively</th>
<th>Manage for cash flow</th>
<th>Maintain overall position</th>
<th>Maintain position elsewhere</th>
<th>Grow</th>
<th>Seek/maintain dominance</th>
<th>Maximize investment</th>
<th>Position to divest</th>
<th>Invest at maintenance level</th>
<th>Manage for cash flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Low</td>
<td>Specialize</td>
<td>Seek niches where we can succeed</td>
<td>Identify &amp; correct weaknesses</td>
<td>Try for leadership via segmentation</td>
<td>Grow</td>
<td>Try HARDER</td>
<td>Try HARDER</td>
<td>TRY HARDER</td>
<td>LEADER/GROWTH</td>
<td>LEADER/GROWTH</td>
<td>WINNER (2):</td>
<td>WINNER (1):</td>
<td>WINNER (3):</td>
<td>WINNER (1):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>Medium</td>
<td>Specialize</td>
<td>Seek niches where we can succeed</td>
<td>Specialize</td>
<td>Identify growth segments</td>
<td>Identify growth segments</td>
<td>Invest strongly</td>
<td>Invest selectively</td>
<td>GROWTH/CUSTODIAL</td>
<td>LEADER/GROWTH</td>
<td>LEADER/GROWTH</td>
<td>WINNER (2):</td>
<td>WINNER (1):</td>
<td>WINNER (3):</td>
<td>WINNER (1):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
<td>Trust leader's statesmanship</td>
<td>Sic on competitors cash generators</td>
<td>Time exit and divest</td>
<td>Prune product lines</td>
<td>Minimize investment</td>
<td>Position to divest</td>
<td>Invest strongly</td>
<td>CUSTODIAL/PHASED WITHDRAWAL</td>
<td>CASH GENERATION</td>
<td>CUSTODIAL/PHASED WITHDRAWAL</td>
<td>CUSTODIAL/PHASED WITHDRAWAL</td>
<td>CUSTODIAL/PHASED WITHDRAWAL</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

1) GE/McKinsey Generic Strategy Phrase  
2) Strategic Implications suggested by A.T. Kearney  
3) Strategic Implications suggested by Royal Dutch Shell Directional Policy Matrix
Another portfolio framework

A look at the timing of your returns, relative to the risk of achieving them

• Build a portfolio that is continuously providing new growth

• A portfolio of core, emerging and new opportunities

• Use “certainty” as the gate for investment level
  • can use gates or milestones
Portfolio Framework – Identify Issues with Current Portfolio

Risk
- Familiar
- Unfamiliar
- Uncertain

Timing
- <1 yr
- 1-2 yrs
- 3+ yrs
Portfolio Framework – Identify Issues with Current Portfolio

- Lack of focus
- Big future bets
- Risky future
- Poor initiative definition
- Risk-averse
- Poor innovation/improper management

Pattern may be ok for core markets with large total available market

Initiatives to protect/grow share in current market

Risk
- Familiar
- Unfamiliar
- Uncertain

Timing
- <1 yr
- 1-2 yrs
- 3+ yrs

New initiatives (e.g., products, sales models) for adjacent markets
Example 1 - IBM: Impact of Migrating to a Balanced Portfolio of Initiatives

John Akers (1985-92): Familiarity and short-term focus leading to disastrous results

- Declining profits and revenues
- The first loss in company’s history
- Cumulative loss of $7.8 billion by the end of 1992

Lou Gerstner (1993-2001): Balanced Portfolio of Initiatives results in IBM’s comeback as a leading IT company

- Returned to profitability by 1994
- Profits growing at 14% per annum (1994-2001)
- Revenues growing at 4% per annum (1994-2001)
- Dominant player in IT services, hardware, and software

* The POI mapping is “outside-in” using publicly available information
Source: GSP analysis
IBM: Gerstner’s actions corresponded to a well balanced business portfolio

Gerstner sequenced initiatives to focus on value capture aggressively and immediately, to fund a parallel ramp-up of value creation initiatives.

* The POI mapping is “outside-in” using publicly available information
Source: GSP analysis

### Initiatives

#### Build new businesses

1. Aggressive move into services, creation of IBM Global network and merger with ISSC
2. Outsourcing services as a business line
3. Consulting and system integration as revenue streams
4. Initiative to look at business opportunities on internet
5. Pushed for component sales in merchant markets
6. Horizon 2 and 3 business lines to develop specialized chips
7. Re-invested in mainframe business
8. Developed distributed computing software and middleware
9. Sold more of IBM’s research and boosted licensing deals as a revenue source

#### Adapt core capabilities

10. Short-term cost reduction – layoffs
11. Process re-engineering for sustainable cost reduction
12. Restructure of sales organization
13. Lobbying with Justice Dept to lift consent degree
14. Network-centric computing made the focus
15. Integrated teams – hardware, software, and services

#### Shape corporate portfolio

16. 40 service based acquisitions to build up expertise wherever lacking
17. 35 JVs to enter new markets and create industry specific solutions
18. Sold non-core businesses – exited memory chip market, networking hardware market
19. Scaled back ERP initiatives and partnered with leading players like SAP

#### Timing

- **Familiar**: Meet current earnings expectations
- **Uncertain**: Create medium-term growth
- **Risk**: Generate portfolio of high-return options

#### Outside-in analysis

Gerstner's actions corresponded to a well balanced business portfolio.
What’s the good news? What’s the bad news? Is the portfolio well balanced? What should management do?

Project Portfolio Matrix

Probability of Success

Expected NPV (Given Success) ($ millions)
Customer Lifetime Value (1/3)

The Concept

1. Contact Acquisition
   - Contact acquisition costs
     - Through Events
       - Email / Direct mail / Telemarketing

2. Product Purchase
   - Margin dollars of products bought in first purchase adjusted for losses / attrition

3. Marketing efforts
   - Events, Email / Direct mail / Telemarketing, advertising cost per customer

4. Repeat Purchases
   - Gross margin dollars of products, services and consumables purchased over lifetime

5. Customer servicing cost
   - Cost of customer support, returns, warranty and servicing

6. Customer Churn

Customer Lifetime Value

- Gross margin dollars of goods & services that has and will be purchased by a customer

Legend

Font blue - Cost
Font green - Revenue

Customer lifetime value is the net present value of the margins derived by doing business with a customer
Customer Lifetime Value (2/3)

Estimating CLTV – Approach

In a multi-product scenario, CLTV is highly impacted by X-sell & Up-sell

1. Estimate state transition probabilities
   What are the odds that a customer can move from a given state to another in a unit time?
   - Time period (t)
   - Time period (t + 1)
   - Home Loan: Yes, Yes
   - Insurance: No, Yes
   - Wealth Mgt: No, No
   - Length of relationship > 2 years: No, Yes

2. Estimate customer product profitability
   What would be the profit from a customer if he makes a certain product purchase?

3. Simulate potential customer paths over a reasonable horizon
   What would be the net profit from a customer after several time periods?

Over a large horizon of time, customer could choose multiple paths of product purchases

Current value = $100

Expected value after 2 time periods = $225.5
Customer Lifetime Value (3/3)

CLTV model allows to identify high value customers

Classification of accounts based on score into ten equal groups and their average two year future value

Model classifies accounts into granular buckets of two year future value

Accounts in top bucket have 2.1x average revenue while bottom 10% have 0.4x
Agent Allocation to optimize profitability (1/1)

Objective
• A B2B broker firm wants to optimize profitability by allocating agents optimally per the commission they are able to generate

Data
• Location
• Subscription type
• Area Manager mapping
• LOB mapping
• Commission data
• Agent Activity data

Approach

Exploratory Analysis
• Identify the Agent distribution by location, subscription type and area manager
• Create loyalty index based on activity
• Index agents based on commission generated – High Med Low

Benchmark performance
• Segment agents based on Loyalty and high/med/low commission agents
• Identify agent segment performance based on avg. profit and avg. loss and avg. submissions

Profiling and Key drivers
• Profile the agents w.r.t. to profitable vs. non-profitable pool
• Identify key drivers of profitability across Vintage, number of carriers, LOB, etc.

Recommended Actions
• Where to re-allocate resources to address profitability by location subscription type/LOB
• Hiring recommendation based on agent group showing high profitability by location/subscription type, etc.

Outcome
• Clear areas and agent segments of high profitability
• Identify agent allocation strategy and hiring plans
• Drive profitability by optimal agent allocation

Data exploration and basic customer characteristics

Analyse profitability by agent segments

Profitability by Customer segment

Segments needing Agent re-allocation

Profile of agents to be hired

Agent training and motivation
Partner segmentation for a tech svc business

Data used for segmentation
- Relationship with company
- Hardware buying behaviour
- Firmographic profile
- Service contract DB - SAP BW
- EDW + Partner reporting systems

Key outcomes
- Strategic partners segments (5-8) and profiles
- Opportunity assessment of partner segments
- Key behavioral profiles that differentiate segments

Tactical
- Partner profiles & segments
- Key behavioral attributes that differentiate partners
- Performance metrics & trends
- Opportunity and relationship assessment

Cumulative # of Partners vs. Sales
- 3 year sales (2011 to 2013)

1. Top 21 Partners (>100Mn hardware sales in FY11-FY13 sales) N= 21
2a. Top Opportunity partners with high TS penetration rate (>100K, <=100Mn ISS sales in FY11-FY13 sales), Hardware to TS penetration rate >5% N= 1,292
2b. Top Opportunity partners with low hardware to TS penetration rate (>100K, <=100Mn ISS sales in FY11-FY13 sales), ISS PEn RATE <=5% N= 1,005
3. Low Opportunity partners (<100K hardware sales in FY11-FY13 sales) N= 6,319

Heuristic segmentation – Stage 1
- $869 MN TS Sales
- $270 MN PLOOS Sales
- Top Accounts (23)
- No segmentation only profiling
- Hardware to TS penetration rate >=2.8%

Statistical segmentation – Stage 2
- Top opportunity (2,297)
- Further segmentation & profiling
- 1,292 partners with >5% Pen rate
- 1,005 partners with <=5% Pen rate
- $382MN TS Sales
- $85MN HW Sales
- $614 MN TS Sales
- $215 MN HW Sales
- $40 Mil TS Sales
- $16 Mil in HW Sales
- Low opportunity (6,319)
- No segmentation or profiling

Service contract DB - SAP BW
- EDW + Partner reporting systems
Portfolio Management Success and Pitfalls

Key Factors

- **Shared portfolio aspirations**
  - Align on common set of portfolio/ performance aspirations based on shared understanding of strategic threats and opportunities
  - Agreement upfront on portfolio management process

- **Value capture/sharpening core upfront**
  - Unlock investments funds upfront by improving core to allow reinvestment in highest impact opportunities across the portfolio
  - Review existing investments and initiatives

- **Active involvement in decision making**
  - Ensure that all executive committee members actively participate in making final decisions
  - Develop efficient process with deadlines for decision-making (e.g., “park” initiatives after 3 meetings of discussion)

- **No analysis-paralysis**
  - The process is an art and requires business judgment – don’t expect an algorithm
  - Focus on strategic priorities and overall financial envelope first, and financial details afterwards

- **Clear accountability as part of on-going process**
  - Ensure on-going accountability for execution
  - Manage portfolio of initiatives on on-going basis, not as a one-off

- **Value capture/sharpening core upfront**
  - Unlock investments funds upfront by improving core to allow reinvestment in highest impact opportunities across the portfolio
  - Review existing investments and initiatives
Critical Success Factors to implement PM

- Apply portfolio management to important strategic decisions that matter and use to support the management decision process
- Active sponsorship and engagement from accountable decision makers
- Can not view it as simply a budgeting exercise.
- Portfolio scoping and objectives; zero-based vs. incremental
- Transparent decision criteria consistently applied
- Central portfolio team with full engagement from businesses
- Sufficient time for the project and business “experts” to provide thorough input
- Involvement of at least some core team members who have prior experience with portfolio management and the supporting evaluation processes (i.e. a decision quality certifier)
Challenges Implementing Portfolio Management

- Once an organization sponsors a portfolio process, they do a good job implementing it.
- However there are cultural/behavior and technical challenges we face in wide-spread adoption of portfolio management.
  - “Not invented here” syndrome
  - Ad-hoc, one-up, hallway decision processes are ingrained
  - “This is what I get paid to do”
  - It is viewed as a budgeting exercise.
  - Viewed as too much work
  - Not consistently sponsored by senior management
  - Data is difficult to assess, ex: Return on a marketing program or new market
Considerations in portfolio management decisions

- Do you understand where, when and how profit is generated in the market you are considering entering?
- Do you have a realistic view of the competitive intensity?
- Can you build the organizational capability needed to succeed?
- Good portfolio planning requires objectivity, ability to treat data clinically?
- Look past the best “sales pitch” and focus on the comparative data.
Considerations in portfolio management decisions

• In portfolio of core, emerging and new. Emerging is most challenging.

• Understand the biases in your organization and in the process.

• Get leaders involved who are willing to “tell it like it is”.

• You are far from done, when the decisions are made. Alignment and Execution are the most challenging.

• Make sure the budgeting process is clear and agreed to upfront.
Politics in Portfolio Management?

- "Where you sit, influences where you stand".
- Bosses’ pet projects or pet people
- Back room and side deals being made
- Powerful organizations wielding a big stick (usually “core” businesses)
- Fiddling with the denominators
- Justification for the answer that is already known
- Good portfolio management shouldn’t be about “win-win”. There are winners and losers.
- But, when there are winners and losers, it can throw some folks in to backup mode
- Getting to an answer is hard – implementing the changes is harder
Some thoughts on implementing the changes

• Burning platform can act as spark to get change started, but need a “compelling destination” to sustain it.

• Give some thought to who has the most to lose from the change and then build plans to address.

• Think about how all of the “influence systems” in your business affect behavior.

• Find your informal leaders at every level and make them “insiders”. A part of the program.

• Set up performance based rewards. Hold people accountable and have high expectations – people rise to them.
Some thoughts on implementing the changes

• Communicate. Look for ways to facilitate 2 way dialog and understanding. When you find resistance, ask “what”, not “why” questions.

• Don’t try to put lipstick on a pig – bad news, is bad news -- don’t risk eroding trust.

• Make sure you have measurable goals and break the work in to doable chunks -- both in terms of time (Quick wins are critical) and scope (try to keep ambiguity at senior mgr level).

• Remember, the stronger your business success has been, the harder it is going to be to change.
Discussion—Portfolio management

• What have you learned that you can put to work immediately yourself?

• What have you learned that you can use at work, in this program?

• What have you learned that you would like to use but feel you need more help, support, permission, etc.?

• What obstacles or barriers do you anticipate in doing things to improve the way we make decisions and develop strategies? What could be done to reduce or eliminate these barriers?
References


*Business Portfolio Management*, Michael Allen, John Wiley & Sons, New York et al., 2000 One of very few books devoted to business portfolio management