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## Product Innovation Best Practices Series

# Portfolio Management: Fundamental for New Product Success

**Reference Paper #12**

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There are two ways for a business to succeed at new products: *doing projects right*, and *doing the right projects*. Most new product prescriptions focus on the first route – for example on effective project management, using cross-functional teams, and building in the voice of the customer. Portfolio management, the topic of this chapter, focuses on *the second route*, namely on *doing the right projects*.

A vital question in product innovation management is this: How should the corporation most effectively invest its R&D and new product resources? That is what portfolio management is all about: resource allocation to achieve corporate new product objectives. Much like a stock market portfolio manager, those senior executives who manage to optimize their R&D investments – to define the right new product strategy for the firm, select the winning new product projects, and achieve the ideal balance of projects – will win in the long run[1].

## A Roadmap for the Chapter

This chapter first outlines the four goals in portfolio management together with the various tools and techniques for achieving each goal:

- The first goal is to *maximize the value* of the portfolio for a given resource expenditure, and so various financial models, risk and probability models and a scoring model approach are presented as ways to realize this goal.
- The next goal is *balance* – the *right mix of projects*. Here the emphasis is on visuals and graphics: bubble diagrams, including the popular risk-reward diagram, as well as other variants of bubble diagrams; and more traditional charts, such as pie charts, which reveal the spending breakdowns in the portfolio.
- Achieving a *strategically aligned* portfolio is the third goal, and both bottom up approaches (where careful selection of individual projects results in a strategic portfolio) and top down method, such as strategic buckets, where the business's strategy drives the portfolio, are described.
- The final goal is achieving the *right number of projects* for the limited resources available, and while most techniques do deal with resources constraints, resource capacity analysis is presented as a possible solution here.

An assessment of popularity and results achieved reveals that the most popular portfolio methods aren't necessarily the best, and indeed financial approaches yield the poorest portfolio.

Recommended approaches for portfolio management in your business are highlighted next. Two fundamentally different approaches are described – both use the same tools highlighted above and described in detail later in the chapter, but the way the tools are applied is quite different:

1. The "Gates Dominate": approach
2. The "Portfolio Reviews Dominate" approach.

The pros and cons of the two approaches are outlined, along with some of the operational details of their use.

[1] This article is forthcoming as a chapter in The PDMA ToolBook for New Product Development, Wiley & Sons, 2002.