

The source for value-based management

VALUEPOINT™

A Question of Renewal

David Matheson, SmartOrg

August's [ValuePoint](#) introduced the Four Critical Questions for Decision Making in Strategic Portfolio Management (see sidebar), and September's [edition](#) examined the Sufficiency and Significance questions. In this edition, we'll look at Renewal.

All businesses die. Every business is slowly sliding into lower value, towards commoditization or obsolescence. Every one, all the time.

But not every organization dies. Organizations survive by renewal: nurturing and generating new businesses, even as old lines of business die.

The Renewal question asks, "Can we thrive in the future?" Projects that support the current business and incremental projects are critical, but they extend the current business, not renew it. Every company aspires to renewal, most have a renewal champion in their executive ranks, but few really have invested for renewal.

To see if your portfolio has the potential for renewal, use the [Innovation Screen](#) (see Figure 1), which plots each project based on its Difficulty (probability of success) and Size (financial returns if successful). This results in four quadrants:

- Small, easy projects are the organization's Bread and Butter
- Small, difficult projects are White Elephants
- Large, easy projects are Pearls
- Large, difficult projects are Oysters (which may create future Pearls as they prove out)

Oysters seem to be less desirable than Pearls, but appearances can be deceiving. While Pearls are reliable sources of high returns, it turns out that you need to cultivate a lot of Oysters to create the next crop of Pearls.

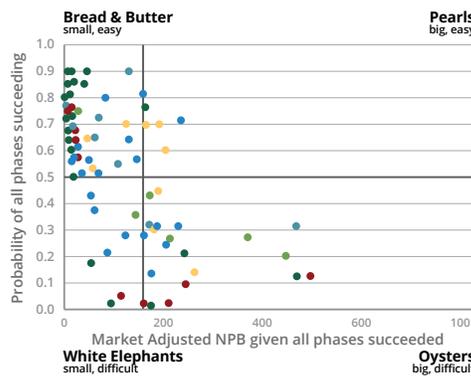


Figure 1. The Innovation Screen shows the balance of risk and return in your portfolio.

Figure 1's example shows some typical, but unhealthy, patterns. First, there are a lot of Bread & Butters (the incremental projects that support the current business), many very small ones that create distraction and clutter. Second, there are quite a few White Elephants. Some were Bread & Butters that proved to be difficult but lingered on; others were Oysters but proved to have only small markets. These should probably be killed off. But some White Elephants may be big ideas trapped inside small projects: reframing them towards upside potential and bigger targets can make these Oysters.

Figure 1 also shows some atypical, but healthy, patterns. Many companies have none or just one, especially if they have been reaping their business for several years and not investing in renewal. Our example did invest in renewal and now has many great new opportunities. First, there are several Pearls. Second, they have a working Oyster Farm. While Pearls are reliable sources of high returns, you need to cultivate a lot of Oysters to create the next crop of Pearls. Many companies have only a few, not nearly enough to reliably deliver one or two Pearls in the future.

Four critical questions for decision making in strategic portfolio management

Sufficiency: Do we have enough to achieve our goals?

Significance: Are we focusing on things that matter?

Renewal: Can we thrive in the future?

Efficiency: Are we being good stewards of our resources?

Use this framework to plot your company's projects. Don't classify projects by what you hope they are, categorize them by what they really are. Estimate the probability of success and the financial impact if the project is successful. And set your bar for big/small fairly high—what impact would impress the CEO or GM of your business? Even a rough assessment produces surprising insights and helps drive the portfolio decision conversation about renewal.

See if your company has Oysters. If not, you urgently need to find projects of Significance (September [ValuePoint](#)). If you have Oysters, you have renewal potential. Fund them.

Funding Oysters is scary because most of them fail. To make Oysters successful, you must make four difficult decisions:

1. Fund an Oyster Farm. Understand Oysters through the lens of uncertainty and multiple scenarios: think of them as buying “options” to invest more later if things prove out. It takes a lot of attempts to get just one success.
2. Manage Oysters for learning (not delivery). Most management processes are geared to deliver on “promises” or reach the next phase-gate milestone. These approaches kill Oysters.
3. Kill or rehabilitate White Elephants. People get attached to these projects, not realizing that difficult and small is a bad combination. Sometimes these are big ideas hiding inside of small projects and can be reformed as Oysters.
4. Create space for Oysters by decluttering. Most companies have too many Bread & Butter projects that simply need to go. This is hard because it requires letting go of good and predictable projects to pursue less predictable opportunities.

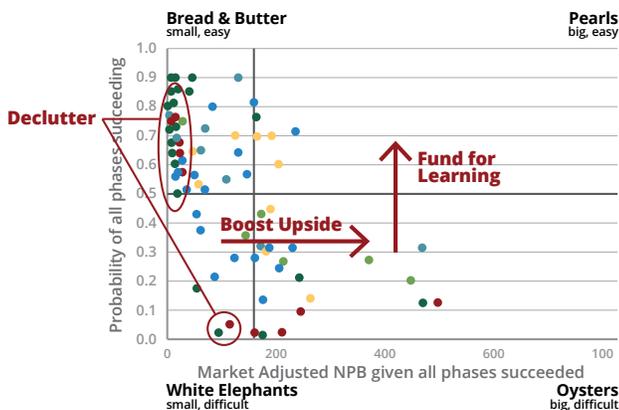


Figure 2. Managing an Oyster farm.

The impact of a good Oyster Farm is huge. A result from a rigorous portfolio evaluation is shown below. The incremental Bread and Butter projects can meet about half of the mid-term revenue goals. Oyster projects contribute the other half, just by getting one of several bets to hit. But the upside comes completely from the Oysters, and can be as large as an existing line of business. Pursuing renewal not only supports growth goals, but also gives the potential for inventing new future businesses.

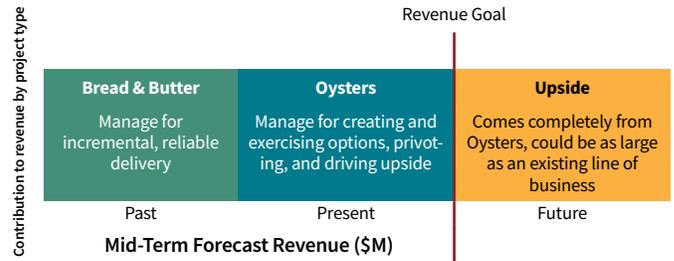


Figure 3. The future of your business comes from Oysters.

I've seen the renewal question create breakthroughs for executive teams making tough decisions. Executives know they need to renew their business, but they face pressure to deliver now and exploit the existing business. With clarity about renewal and the importance of an Oyster Farm, executives realize that starving their business' children is a fast path to organizational irrelevance and senescence.

In next month's ValuePoint, I'll discuss the last question, Efficiency.

Meet Us at Back End of Innovation

Join SmartOrg at the KNet365 Back End of Innovation conference. This year's theme is The Road Map to Execution.

17-18 October 2018 | Phoenix AZ | [More information](#)

Connect With Us



SMARTORG®

99 Almaden Boulevard, Suite 975
San Jose, CA 95113

T: +1.650.470.0120 | F: +1.650.328.1612
info@smartorg.com | www.smartorg.com

SmartOrg's portfolio evaluation platform builds your capability to align innovation and finance to agree on where and how much to invest to drive breakthrough growth. Our web platform administers and conducts the evaluation of uncertain opportunities, aggregates and compares them, and optimizes the portfolio.

© 2000-2018 SmartOrg, Inc. All rights reserved. SmartOrg, Portfolio Navigator and Organizational IQ are registered trademarks of SmartOrg in the USA and other countries. Other company and product names mentioned in this publication may be trademarks or registered trademarks of their respective companies. 2018-10-18