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The source for value-based management

VALUEPOINT™

Innovation Portfolio Management

People + Process + Software

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As noted in previous issues of ValuePoint, making choices among product candidates to develop and sell, markets to penetrate, technologies to pursue and other factors that have a bearing on success involves forecasting future revenues, cost and time where there is a dearth, even total absence, of data. The future is fuzzy and uncertainty is the norm.

Companies that design, develop and market products face this dilemma at one time or another. To deal with uncertainty and avoid taking risks that may jeopardize one's career, many decision-makers choose a safe path based on conservative assumptions around such things as the addressable market, price, volume, margins and other factors. The result? Mediocre results at best.

At a recent industry conference on new product development, my colleagues facilitated some 30 executives in an exercise that challenged them to think about one of their most important innovative products from two viewpoints: the probability of success and if successful, how much could it be worth? The results confirmed what we see at many companies: when each of the projects was placed on an "innovation grid" (a grid with the probability of success on its Y axis and NPV if successful on its X axis), more than 90% of the projects were rated as high probability of success while having good-but-not-great expected value. The 30-project hypothetical portfolio

revealed that the chance that the mix of projects would produce an innovative game changer was virtually nil. The consensus? This reflected the conservative culture of the large companies represented.

A conservative, risk-adverse culture seriously reduces a company's ability to excel at innovation, where uncertainty and attendant risk are to be expected and failure rates are high.

So what do you do? Don't take risks and your innovation efforts fail to produce great products. Take risks, fail and take the consequences. As the ruler in the Broadway musical "The King and I" said, "Is a puzzlement."

Making Risk and Uncertainty Work for You

Many, if not most, companies address risk and uncertainty (if they do it at all) via check lists, scorecards, and other subjective methods, which while better than nothing, are quite inadequate to the task of supporting decisions that can affect investments of tens or hundreds of millions of dollars.

In their Best Practice Guidebook "Innovation Portfolio Management: Balancing Value and Risk," authors SmartOrg and Frost & Sullivan describe how Beta Inc. (a pseudonym for a real company) deals head-on with the challenges surrounding new product development. The six-step process

The biggest risk is not taking any risk... In a world that changing really quickly, the only strategy that is guaranteed to fail is not taking risks.

— Mark Zuckerberg

Learn how four companies use SmartOrg processes and software to drive innovation in this short video ▶

VIDEO



SMARTORG®

addresses individual project (product) evaluation as well as development and management of a portfolio that balances the risk and return from a mix of projects. The objective is to optimize the overall return on the investment in innovative new products, while making room for an acceptable amount of risk in the service of innovation.

Beta's organization is typical of companies that have adopted the innovation portfolio process:

People: Beta's four-tier portfolio team consists of a process owner who is responsible for facilitating and managing the portfolio process and system.

Executive Team: C-level and senior management in R&D, marketing, manufacturing and finance set the company's innovation strategy and manage the innovation portfolio.

Project Teams: Representatives from R&D, product launch, marketing, sales and finance, whose leaders report directly to the executive team and who develop and track metrics in the portfolio management system.

Calibration Committee: Project leaders, technical, market or topical experts and the executive team conduct peer review of the projects in the system before portfolio prioritization and funding decisions are made.

A six-step process guides Beta's innovation portfolio decision making:

Screen Project: Screen new and ongoing projects for selection and entrance into the portfolio management system.

Evaluate Project: Model each project's value via seven indicators and ranges of uncertainty.

Calibrate Information: Conduct a peer review of the project in the system to validate assumptions and refine projects.

Balance the Portfolio: Prioritize projects and balance the portfolio based on value, uncertainty and strategic goals.

Adjust the Portfolio Strategy: Manage resource constraints and modify the portfolio strategy.

Track Progress: Update information to review projects that are over- or under-performing

SmartOrg Portfolio Navigator® software was used by Beta to develop project and portfolio analysis and evaluation.

The complete process is described in the Frost & Sullivan [Best Practice Guidebook](#) "Innovation Portfolio Management: Balancing Value and Risk."

Meet Us at Upcoming Events

9th Pharma Resource Planning & Portfolio Management

Learn to integrate reliable portfolio and resource management practices into your company. Via case study presentations, heads of portfolio management and resource planning will share their own success stories of how to maintain a competitive advantage in the complex global environment, while streamlining business operations.

9-10 March 2016 | Philadelphia, PA | [More information](#)

Recent Awards

PM360, a leading publication serving pharma marketers, selected SmartOrg as one of its **2015 Innovators** based on development of new ways to "push the industry forward." We're pleased to be recognized for helping companies navigate the rapidly shifting dynamics of drug development.



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SmartOrg software and professional services provide executives with decision-making solutions they can depend on when investments are risky and rewards are uncertain. Our decision technology has helped Fortune 500 companies deliver breakthrough value for over 15 years.

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