

The source for value-based management

VALUEPOINT™

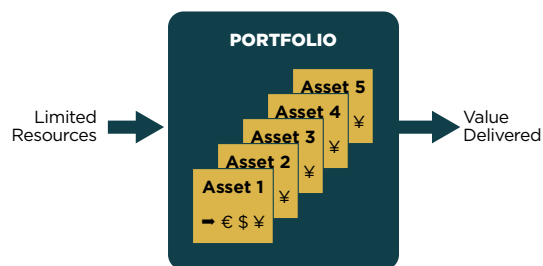


Elaborating on the “Business” Portfolio

Don Creswell, SmartOrg

In the November 2011 issue of ValuePoint™, I defined what I call the “business” portfolio to describe portfolio management that focuses on creating economic value from investments in R&D, NPD and Innovation. In this issue, I will take the concept into deeper waters. (I will use the term “portfolio” throughout this article to refer to business portfolios.)

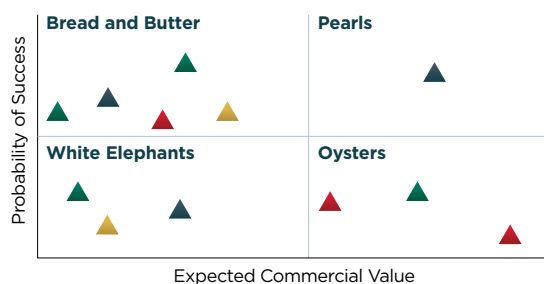
My colleague, David Matheson, who frequently lectures at Stanford University on portfolio management and decision analysis, defines the “business” portfolio (my term) as “a related set of assets that compete for resources and deliver value for an organization.” Not bad.



In relation to R&D (includes NPD and Innovation), David stresses the importance of focusing on two kinds of uncertainty that impact the portfolio:

- Achieving Project Success (Overcoming all Hurdles) — in R&D or development projects, this means creating a commercially viable result and passing all the legal, regulatory and sometimes public acceptance barriers that support successful commercialization.
- The Value of Commercial Success (Extracting the Value) is most often characterized as an uncertain net present value, which depends on uncertainties such as market demand, competitive response, product costs, etc.

Since resources are most often limited, a major challenge in portfolio management is “saying No to a good idea in order to fund a better one” and making decisions about project selection and prioritization and allocation of resources based on a well-balanced portfolio. In their book, “The Smart Organization”, the Mathesons introduce the R&D Grid: Project Portfolio Matrix, displaying the mix of projects in four quadrants.



- The upper left quadrant consists of “bread and butter” projects that fulfill the need to produce regular results for existing business units and to support shorter-term profit objectives. The projects have a high probability of success with good commercial value.
- The upper right quadrant contains projects with the greatest potential for both commercial and technical success, returning high value. Unfortunately, as in nature, pearls are rare things and only found by “opening a lot of oysters.”
- The lower right quadrant of the grid represents early-stage projects designed to produce new strategic advantage; they may have blockbuster potential. As the Mathesons point out, “The majority of projects in this quadrant are expected to fail, but those that do succeed should win big.” A management challenge:

May peace and prosperity be yours during this wonderful season and the coming new year. Happy holidays from your friends at SmartOrg.

The SmartOrg Team

Portfolio Navigator
Value Based
Management Software



PPM Optimization
Workbench™
integration with
PPM 5.0

SAP® Certified
Powered by SAP NetWeaver®

work on diminishing as many of the uncertainties as possible to improve the harvest of pearls from the oyster bed.

- Finally, the lower left quadrant contains White Elephants. Like the proverbial white elephant, these projects consume resources and are unlikely to enjoy development success or produce commercial value. Unfortunately, almost all companies have a herd of white elephants: the challenge is to have a disciplined process to evaluate all projects and find out where the white elephants are hiding and kill or repurpose them.

Since no one can consistently pick winners, managing an R&D portfolio to optimize value is like a dice game. A disciplined decision process around project evaluation and portfolio management will not guarantee winners, but it will considerably improve the roll of the dice.

R&D Portfolio Strategy is covered in detail in Chapter 10 of *The Smart Organization: Creating Value through Strategic R&D* book (Matheson and Matheson, Harvard Business School Press). ([How to order](#))

Four Must-Do's to Drive Successful Innovation

In a featured article in VISION magazine David Matheson summarizes inputs from interactive sessions with innovation executives of major U.S. companies. There were a number of surprising conclusions, including "Open innovation seems to be oversold." And that "idea-generation as an ideation practice has been disappointing." In summary, the executives agreed on four "must-do" areas to drive success. [Read the full text](#) of *Assessing the State of Innovation*.

Highlights from Reinventing Portfolio Management Lab at PDMA 2011

Some 30 executives participated in "Reinventing Portfolio Management", a portfolio lab led by SmartOrg at September's PDMA 2011 Global Conference. Highlights of the lab include "insights and pains" in managing innovation plus insights to help companies optimize the economic value created by innovative products and processes. [View shared experiences of executive participants](#).

SmartOrg Executives Honored by INFORMS

At its annual meeting in November, the Institute for Operations Research and Management Sciences (INFORMS) presented its Silver Medal for the Best Decision Analysis Application to David Matheson for *Perfecting the Recipe for Breakthrough Innovation*, based on several years of applying decision analysis to innovation at HP. The Gold Medal was awarded to SmartOrg Chairman Jim Matheson and Ali Abbas for their paper *Normative Decision Making with Multiattribute Targets*, that describes how many "management by objectives" practices actually cause poor decision making because the targets do not allow for profitable trade-offs among objectives.



Upcoming Events

Play to Win with Your Product Portfolio, A Joint Planview/SmartOrg Webinar

David Matheson of SmartOrg and Carrie Nauyalis of Planview will discuss the pathways to better portfolio outcomes and share real-life examples of how best-in-class companies use proven strategies to make critical decisions.

12-1 PM EST | 13 December 2011 | [More Information](#)

Life Sciences CEO Forum

Meet us at the Life Sciences CEO Forum in Jacksonville, Florida. SmartOrg will lead a workshop on Portfolio Optimization.

2-4 February 2012 | Jacksonville, FL | [More Information](#)

Assessing the State of Innovation

Join us on January 24 when SmartOrg and the IIR will present *Assessing the State of Innovation*, a one-hour webinar based on David Matheson's PDMA VISION article.

1-2 PM EST | 24 January 2012 | [More Information](#)



855 Oak Grove Avenue, Suite 202
Menlo Park, CA 94025

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

Since 2000, SmartOrg Inc has helped companies create exceptional value from R&D, New Product Development and Innovation through a unique combination of Value-Based Management consulting and decision support software. Our flagship product, Portfolio Navigator®, identifies and tracks key value drivers and the risks and uncertainties that must be managed to optimize economic value. Our PPM Optimization Workbench™ combines Portfolio Navigator with SAP project/portfolio management software to support strategy and implementation from ideation to commercialization.

SmartOrg clients include large companies like Boeing Commercial Airplanes, Chevron Technology, Dow AgroSciences, Hewlett-Packard, and Cisco Systems. And smaller companies like Zimmer, Catalent and TEVA Neuroscience.

© 2011 SmartOrg, Inc. All rights reserved. SmartOrg, Decision Advisor and Portfolio Navigator 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.