Product Arts

Product Portfolio Management

Aligning Strategy to Resources

Managing the lifecycle of a product isn't a clear cut or an easy task. Managing the lifecycle of multiple products or product lines can be daunting. How do you decide where to invest and where to hold? How do you decide the best use of your valuable resources? This is the activity of Product Portfolio Management and the discussion for this article.

The Evolution of a Product Portfolio

Companies start out as single-product entities. They go through the initial development and launch of the product and then spend a period of time growing and enhancing it. They may make various versions of the product available, such as in different colors or multiple variations of features, but it's still a single product. An example could be a frozen pizza company that offers several different selections of toppings that are marketed as a dozen different variations.

At some point, the company decides it wants to expand its offering beyond its initial product. That trajectory could be into a product line. A product line is multiple products that are somewhat similar, and can often share a common platform. Each product in the line can have tailored versions of the marketing mix (product, price, promotion, and place) and be sold to the same market segment or a new one. In our example, our frozen pizza company could expand into a product line that includes frozen breads and pastas. The "platform" in this case is the dough-making and baking capability and is common among all the products in the line.

Another example is the Quicken product that has multiple versions with the base capability of personal budget management, and then layering on of additional major capabilities for investment, home business, and rental properties. Each of these expanded products is targeted at a slightly different sub-segment at an increasingly higher price. There's also a free version (formerly Mint.com) available online with a limited set of the base capabilities. A product line could also include accessories or add-ons to the core product.

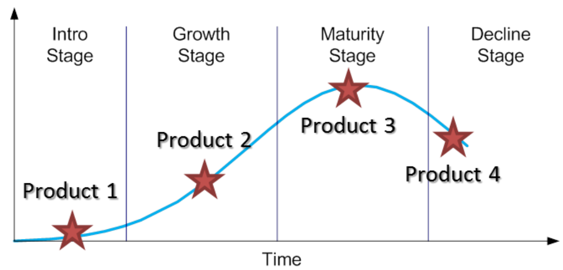
At another point, the company can also decide to expand its product line into a portfolio of product lines. Each of these can be a different line of business - even a different brand - and may have a completely different marketing mix than the original product line. In our pizza company example, they may decide to acquire a company that has a line of tomato and pasta sauces. While this is complementary to the pasta product, it can be used with any competitive pasta. In our Quicken example, Intuit also has TurboTax and QuickBooks product lines, each having a different purpose and different target market segments than the Quicken product line.

At every step along the path from product to product line to product portfolio, the company increases the complexity of managing its business. The individual products all are in different states of growth and lifecycle, and demand investment and resources for specific opportunities and issues. It is managing this complexity that creates the need for Portfolio Management.

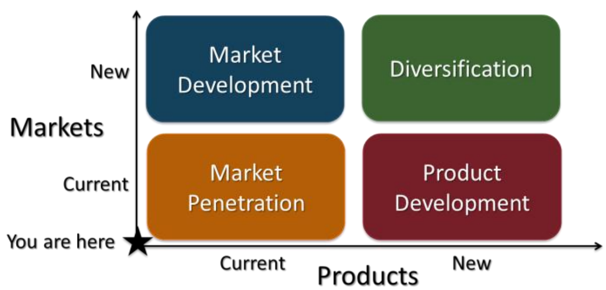
Product Portfolio Frameworks & Strategies

The overall goal of Portfolio Management is to optimize the value of the product mix to the company toward achieving its business objectives. The value equation includes both the benefits (revenue & profits) minus the costs (capital & resources). In other words, it's about leveraging the company's assets in the most effective way across its products and services. It's also about managing risk. There are various frameworks that can be used for providing, at a high level, some general rules of thumb for thinking about the portfolio and putting it in perspective.

One of the simplest is the basic Product Lifecycle model for looking at individual products. In our example, four products are distributed along the product lifecycle curve. The products in the Introduction and Growth stages are where future profits may be coming from, so investing to ensure their success today might be prudent.

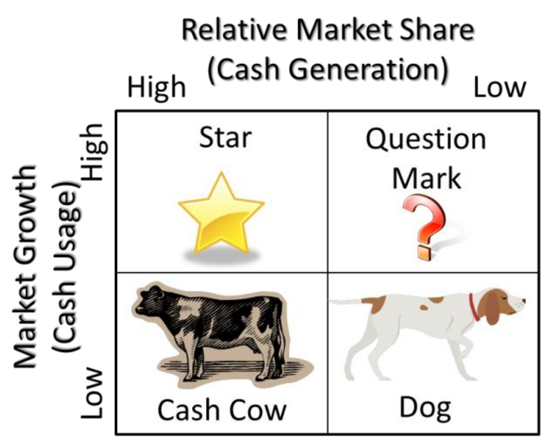


The product in the Maturity stage may only require minimal investment now to keep it sellable and thereby maximizing the profits to use in other areas of investment. The product in the Decline stage is a candidate for retirement so that it no longer requires any investment. However, it may spawn the discussion for a replacement product depending on the state of the market opportunity.

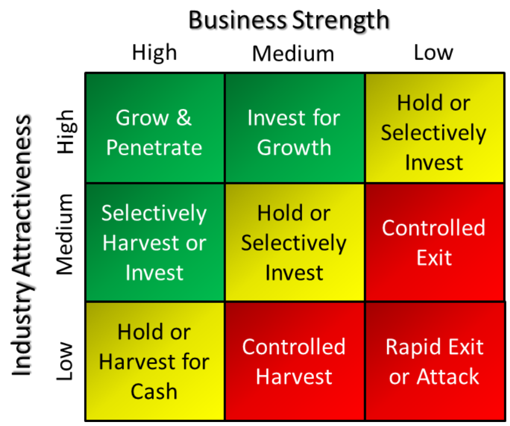


Here is a summary of a few other popular models with more detail available by searching the web. The Ansoff Matrix identifies categories of strategy that can be made relative to current products, specifically penetration into the existing market, progressing along a product development or market development trajectory, or both.

The Boston Consulting Group (BCG) Share-Growth Matrix identifies for quadrants bounded by market growth and relative market share, and category identifiers in each as Cash Cows, Stars, Question Marks or Dogs. It also can identify in which quadrants cash is being generated (profits) versus those consuming cash (investments) and high level strategies for each category.



A similar view is the GE-McKinsey Matrix which expands to 9-boxes and uses market attractiveness instead of market growth on one axis and business unit strength instead of market share on the other. This may be more useful for companies in mature markets where growth is limited, and where other measures of company strength besides market share can be viewed for entering new markets. It also has strategies for each of the 9 boxes, including recommendations to Grow, Hold or Harvest.



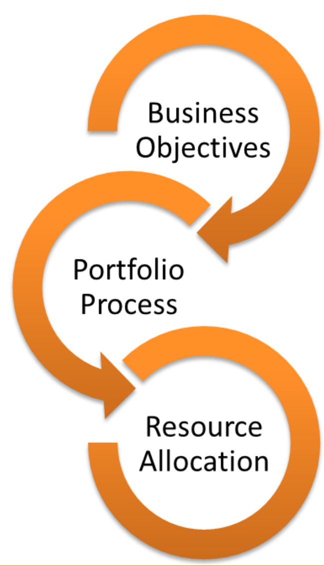
Components of Portfolio Management

Whether you're a small, single product company or a large multi-product line enterprise, there are some fundamental components in managing your product portfolio that are common, though at different levels of formality and implementation.

First, you need some defined **Business Objectives**. As mentioned earlier, optimizing value from the product mix is the target, but in alignment with business goals. This sets up some filters for prioritizing opportunities and helps to narrow the options by identifying at a high level what is "out of bounds".

A common issue in many companies is the business objectives are so generic and high level, such as increase revenue or profits by X%, that it's impossible to determine what any specific product or product line should be doing to contribute. There's a necessary step of identifying specific initiatives the company will pursue to achieve the objective, such as international expansion, expansion into new businesses, improving operational efficiencies, increasing customer loyalty, etc. If there are multiple, they should be prioritized. Then you have some meat to work with and specific set of problems and solutions for the organization to focus on. Defining your goals too loosely can work against you.

The next component needed is a **Portfolio Management Process**. There's no "one size fits all" here, and it's largely dictated by the size and age of the company and size of the portfolio to manage. Smaller and more entrepreneurial companies need far less formal process and also need the ability to quickly make decisions with minimal analysis. The process can be more ad-hoc and with involvement of just a few key staff.



Larger and more mature companies require structure and analysis (rightly or wrongly) due to the complexity of the organization and portfolio. Portfolio decisions can impact many stakeholders across multiple functions and the decision-making process is more conservative. A formal stage-gate process is often employed to assess new project opportunities with full financial business case support.

In both cases, some executive team periodically reviews and prioritizes the queue of project opportunities they will pursue against some scoring criteria driven from the business objectives. In addition to approving new projects, the team should also be reviewing the project status of those in queue. If viability, scope or ability to achieve the target goals becomes an issue, the project should be required to go back a step or even be discontinued and the resources applied elsewhere. If the process is structured, it likely has a specific resource or group that is responsible for managing it, such as Product Management or a Project Management Office (PMO).

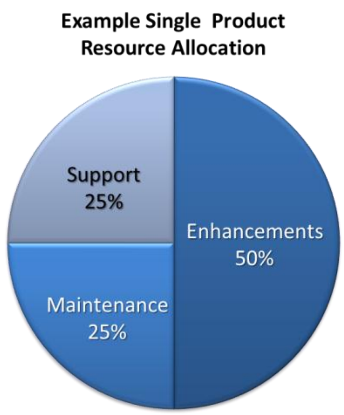
The last component is **Resource Allocation**. It's not that uncommon to have a nicely ranked portfolio plan on paper, but the actual resource allocation within the company doesn't correspond because it's not being managed against the plan. The real situation is existing projects don't end on time or require more resources, day-to-day fires and issues steal resources from the projects, and other operational or "strategic" projects sneak around the formal process into the queue. The result is the portfolio plan doesn't really move and the whole process loses credibility and momentum.

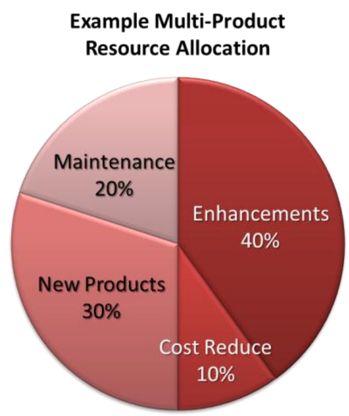
In order to manage resource allocation, you need of view of what your resources are doing and an explicit assignment of resources to projects. It's about having to make the uncomfortable decisions about what you're NOT going to do, so that you can free up resources to work on the things you say are important. Every company is resource limited, and thus has to trade off against competing opportunities. Each resource is either doing task A or B. If you assign them to project A while at the same time expect them to support firefighting B, then they'll try to do some of both, but each will steal time from the other.

It's the responsibility of the executive/portfolio team to be realistic about where your priorities are. If the priority is to deliver on your portfolio plan, then find a way to offload unassociated tasks to others or just let issues fall on the floor. If responding to customer or Sales fire drills is the priority, then provide some wiggle room in the expectations for the portfolio projects. If you expect both as high priority, then good luck with the results.

Assigning Resources

At a high level, the concept of Strategic Buckets can be employed to view how you plan to allocate your resources. For a single product, this allocation could be illustrated with just a few buckets, such as Product Enhancements, Product Maintenance, and Product Support. This could be based on % of time spend in the organization as a whole, or in terms of actual people or budget planned.





For a more complex portfolio, one simple view could be across New Products, Product Enhancements and Maintenance. You could add any number of buckets, depending any your business and objectives, such as Cost Reductions or Customer Specials. You could also have a different allocation view per product line that more accurately aligns to the specific market dynamics and opportunities.

The strategic buckets could be set up at annual budget planning, and adjusted during the year as business conditions or new opportunities or issues arise. Projects that enter the Portfolio Management process compete only against those projects within each bucket, and different rating criteria can be applied within each bucket that makes sense for those types of products. Of course, you actually have to track against the buckets if you really want to manage them, otherwise they're a just a wish list, like the portfolio plan.

Managing Risk

As mentioned earlier, a major thrust of the Portfolio Management is reducing risk for the business. Risk can come in the form of market risk, where you're entering new and unknown markets and/or with new and untested products. Or it can come in the form of technical or implementation risk, where the solution has feasibility issues for your company or the estimates of scope or cost are relatively uncertain. In this scenario, assigning resources early in the project lifecycle to help reduce these risks through further research, prototyping and market validation should be a focus.

Or risk come in form of your existing products not growing as expected or as successful products near the end of their life and decline. This suggests that you should have some other replacements in the pipeline, and thus a balanced portfolio of products in various stages and with different risk profiles. This is exactly analogous to an investment portfolio, where diversification of investments is the key to protecting yourself from different scenarios occurring in the market.

Summary

Connecting your product strategy to actual resources is what turns a plan into reality, but the process for managing this gets increasingly more complex as your product portfolio grows in size. Employing a formal portfolio management process with strategic resource allocations can make this task more manageable. The major challenge then becomes selecting the best strategy to follow for each set of investments. That is really at the heart of any business and Portfolio Management provides the tactical execution of it.

For additional reading:

Portfolio Management for New Products, Robert G. Cooper, 2001
Value Innovation Portfolio Management, Mello, Mackey, Lasser & Tait, 2006
Manage Your Project Portfolio, Johanna Rothman, 2009

About Product Arts

Product Arts specializes in Product Management consulting, deliverables and training. Our consulting consists of product strategy and planning, market performance improvements and processes for creating and delivering products. Our deliverables include specific projects for product requirements, competitive analysis and positioning, project plans, roadmaps, go-to-market planning and materials, pricing and business cases, and more. Our training includes public and private custom training for product management and associated staff. For more information, go to www.product-arts.com or email info@product-arts.com.

