PRODUCT PORTFOLIO MANAGEMENT FRAMEWORK

INDUSTRY BEST PRACTICES AND KEY SUCCESS PARAMETERS

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Overview

Product portfolio management (PPM) frameworks help businesses constantly review existing and new products, in line with their stated strategies. In this process, while reappraising the product portfolio, some products may be de-prioritized if they no longer fit into a firm’s long-term strategy. Actually this framework is difficult to manage, as business climate keeps changing, resources turn sparse, and decision makers abound.

PPM has become a cornerstone of success for all sectors, including healthcare benefits. But not all sectors proactively seek PPM. Especially, healthcare benefit companies have been slow to adopt it and even if they do, they do not strictly follow the framework when it comes to real-time decision making.

What makes the framework all the more important is that companies are compelled to diversify as much as possible. And that requires investment in resources, human or otherwise. So expansion plans must be extensively evaluated and various factors—such as specified rate of return, geographic spread or market entry barriers—examined.

Strategic importance

Many have voted PPM as one of the most critical issues—as it is just not about realigning existing products, but helps pump new products into the pipeline. This is largely what any company’s strategy is: prune unprofitable products and promote the lucrative ones. And for doing so, objective criteria must be set out and PPM framework is the perfect platform for just this.

Classification

Some of the dominant PPM frameworks are briefly discussed below.

1. **Financial methods** are the top framework, in terms of use and popularity. They use returns from products/projects to rank/prioritize them. Some return metrics used are Net Present Value (NPV), Return on Net Assets (RONA), Return on Investment (ROI) or payback period.

2. **Methods based on business strategy** use this strategy to allocate capital and other resources, across competing projects attractive as per the metrics (mentioned in the previous method). Projects are ranked within a bucket or head (based on attractiveness parameters) and then resources are allotted accordingly.

3. **Bubble diagrams** are very popular due to their visual appeal and ease of use; added to this, many consulting companies have developed proprietary tools. They plot products or projects on X and Y axes, based on parameters such as market share, profitability, growth or any other business metric. The axes are marked by increasing order of attractiveness and the attractive projects are on the high side of both axes.

4. **Scoring methods** evaluate products/projects based on more criteria than those of bubble diagrams. Projects would be rated on a scale of 1-10 or a low-medium-high range. These scores are weighed on how each parameter is important among all the parameters; then these relative weights and are added to give the comprehensive score for each project/product. Naturally, those with higher scores receive resources.
Components of PPM framework

Each component has been discussed in detail below.

- **Manage Existing Projects/Products**

  **Periodic portfolio evaluation**: Changes to the business environment in a particular service space, region or country may cause the product/business to perform differently from what was assumed or planned when they were last evaluated. For this evaluation, benchmarks such as returns, current strategic intent and availability of resources may be considered. This process would define the periodicity of revaluation and permissible deviation from defined targets.

  **Portfolio rebalancing**: This process naturally follows evaluation. Knowing how to alter the portfolio with the changing market trends is the cornerstone of rebalancing. And this alteration lasts for more time than the life of evaluation, as rebalancing involves marked changes that must be viable and sustainable.

- **Develop New Products**

  More and relevant products, which do not cannibalize existing ones and even smoothly replace them, are the constant pursuit of companies. One of the most successful ones at this is Procter and Gamble (P&G). Its innovative Initiatives Diamond framework helped it incubate new businesses. The framework’s original prototype was developed by two researchers, Robert Cooper and Elko Kleinschmidt in 1990; later, P&G adapted it to its business structure.

  The framework is built on the premise that the performance of new products depends on four major factors (called points of performance):

  - Product innovation and technology **strategy**
  - Effective and efficient idea-to-launch **process**
  - **Resource** commitment and focusing on the right projects
  - People-effective cross-functional teams and **senior management commitment**

  The Diamond (Figure 1) can be viewed as bisected one. The top half is strategic and captures the innovation strategy, product mix, and resources required. The bottom half relates to operations and delivery of new products and initiatives.
Preserve People and Technology

Best talents, who can spot a telling business trend and update the product portfolio accordingly, are very much needed and businesses must strive to retain them. Along with prolific people, businesses need robust technology for PPM. Few PPM tools are depicted below and one has been briefly explained as well.

Telelogic’s Focal Point is a PPM solution, offering:

- Improved product value
- Increased agility right from idea conception all the way through the product life cycle
- Enhanced focus on customer’s needs, while meeting project goals
- Better catch on ideas and product requirements from internal stakeholders, customers, etc through emails, Web-based capture and analysis tools—thereby easing reporting and decision-making
- Improved customer value and customization

PPM in Healthcare Benefits Industry

Health benefits industry in US is highly regulated and so, it cannot go global. Product development is standardized and except pricing, there are hardly any differences among products. In this industry, a company’s committee typically monitor inventories—ensuring their strategic purpose and regularly reporting the results to the company’s executive team.

PPM in the health benefits industry is definitely structured, varying from company to company. Usually, it is the company’s culture and leadership that determines how successful PPM can be. A rigid culture
or leadership, complacent with existing products cannot put PPM to good use. Maybe, because launching fresh products and entering new markets is a tricky exercise for healthcare benefit companies. New markets especially pose unique problems—a company wishing to step into a new geography has to put up an infrastructure of providers there, make them agree on a set rate and the achievable economies of scale. So acquisitions in the industry are more common.

Moreover, PPM helps deal with sustaining profitability in the long term—ensuring that a diverse product portfolio nourishes revenues and margins. So PPM is more about investing now for better returns down the line. Companies, looking for immediate profits, may not digest this long-term outlook completely. Healthcare benefit companies are no exception.

A critical component of PPM, portfolio rebalancing needs to be conducted every quarter. But the industry does not follow this trend, with some companies even confessing that they do it annually. Common tools used for rebalancing are the BCG and GE metrics (discussed in the next section); they gauge profit share against growth, and make objective actionable assessments. A company, we interacted with, thought its rivals also use the same tools. That is the level of evenness across the industry. This can be explained by the fact that new products are not too frequent and even the market is mature, in terms of penetration and consumption. Added to this the industry is extremely regulated.

Another interesting aspect of the healthcare benefits industry is that a full-time corporate development and competitive intelligence team handles PPM. Industry peers are typically keen on what rivals are up to and what their strategies in a particular geography are; and the team is specially geared up to provide this intelligence.

PPM framework

The BCG Matrix has four quadrants based on growth and market share, with high and low as the qualifiers.

Placing a firm’s products/projects in the BCG Matrix categorizes them into:

Stars (high growth, high market share) - Products/projects in this quadrant use large amounts of cash. But they generate a lot of cash, too, as they are also the market leaders in their respective segments.

Cash Cows (low growth, high market share) - Profit and cash generation qualities of the products/projects present in this quadrant are high. But due to their low-growth nature, only low level of investments should be made on them.

Dogs (low growth, low market share) - One should be beware of expensive ‘turnaround plans’ for products/projects in this quadrant

Question Marks (high growth, low market share) - Products/projects with worst cash characteristics fall in this quadrant. They generally consume huge cash, as they grow rapidly, but generate low returns due to low market share.
The McKinsey/GE Matrix is similar to the BCG Matrix, with Business Unit Strength and Industry Attractiveness as its axes. Business Unit Strength includes a broader range of factors other than just market share, and is used to determine the competitive strength of a strategic business unit. Industry Attractiveness includes a wide range of factors than just the market growth rate, and is used to determine an industry/market’s attractiveness.
P&G

Figure 4: Procter & Gamble’s 3-Dimensional Risk-Reward Bubble Diagram

Source: ISBM New Product Development Consortium

The P&G risk-reward bubble diagram is a three-dimensional framework that connects a product/project’s NPV with its estimated time of launch and the probability of success. Also, it does not take a hard rationing approach to decide on whether to go ahead with a product/project, but it is based on the firm’s resource availability and risk appetite. This dynamic framework will help keep all projects under the radar, as well as check for changes in success probability and other parameters regularly.

GE strategic buckets

The GE strategic buckets approach is aimed at maintaining a balance between new and existing products. It can be used to strategically allocate various limited resources—say, time and money on a pre-determined basis towards new and existing products. The advantage of this model is that it provides a visual representation of the allocation but, on the flip side, is only as good as the decisions employed in setting the mix before the visualization is applied.
Figure 5: Strategic Buckets: Mercedes Benz Star Method of Portfolio Management

(GE-Allied Signal-Honeywell)

New Product Projects
Platform Projects
Other

The business’s strategy is to split the resources into buckets projects are rank ordered within buckets but using different criteria in each bucket.

Source: ISBM New Product Development Consortium
Companies trying to improve their product portfolios face a number of difficulties, some of which are summarized below. One overarching issue in PPM is that product failures are frequently self-inflicted. Several studies have indicated that many a times, the challenges faced while improving product portfolios are mainly due to corporate politics and poor processes.

- Product portfolio decisions are very often not based on objective information. Similarly, lack of objective information is another related problem plaguing new product development. It hampers the proper evaluation of product opportunities.

- Too many cooks spoil the broth theory: As many people are involved in bringing a new product to market, and new products are important to the business, there is always a conflict of opinions and ideas, partly due to internal politics.

- Many factors influence a product/project’s value potential. So, without valid and correct information people will form opinions based on what they perceive and their prior experience.

**Figure 6: Top Challenges in Improving PPM**

- Inability to properly value product opportunities: 38%
- Decision processes not based on objective information (politics): 37%
- Poorly defined portfolio decision criteria: 25%
- Unwillingness to stop projects underway (inertia): 21%
- Inability to align resources to appropriate projects: 19%
- Inability to see available resource requirements or capacity: 18%

*Source: the PPM survey by Aberdeen*

Companies are often reluctant to stop projects under progress; a frequently cited reason is ‘management hubris’. Lack of objective data and product opportunity evaluations worsens this problem, as product decisions then become biased.

In addressing these challenges, most companies have first focused on improving the execution of product development projects. As a starting point, they follow a maturation process focusing on improving product development processes. With improved processes in place, they next move to better the portfolio selection or pipeline management processes.

As part of the process improvement, data, which form the centerpiece of the evaluative process, are made more comprehensive to include the following:
- Revenue - growth, size, and drivers
- Industry assessment - competitor review
- Market assessment - size, risk factors
- Project’s value - net present value, return on investment, internal rate of return, etc
- Risks - technological risk (evaluating obsolescence risk); product development risk (including legal, regulatory risk); commercial risk
- Fixed capacity/assets (for asset-intensive industries)

**Figure 7: Overcoming Challenges in Improving PPM**

- Implemented gated product development process: 48%
- Standardized product development processes: 37%
- Obtained executive buy-in for portfolio management: 32%
- Implemented portfolio review meetings: 29%
- Adopted proven portfolio management techniques: 27%
- Formalized value assessment processes: 26%

*Source: The PPM survey by Aberdeen*
New product - opportunity valuation

Project valuation is an important aspect and is an area with highest uncertainty in objective evaluation of the size of an opportunity. Some problems arise mostly as a result of the valuation method used in the process. As methods are plenty, there is no consensus on what would accurately serve the purpose.

Some most commonly used valuation techniques for new products are:

- Sophisticated NPV
- Real options, the value of platform development, which firms tend to underestimate
- Revenue (the simplest approach)
- For a new product, the revenue stream and its timing might be highly uncertain, and may lead to difficulties in evaluating opportunities based on cash flows or other revenue-based measures

If a company has a product portfolio, a regular evaluation of the various products in that portfolio becomes essential. There are numerous problems associated with such a rebalancing exercise—the prominent being, what is the right mix of new and existing products. It is also important to note the fact that there are many ‘buckets’ of products and an apples-to-apples comparison to prioritize them is difficult. Some of the bucket types are:

- Project types
- Product lines
- Regions
- Market segments
- Strategic vs. non-strategic customers
- Time horizons
- Other parameters

A much more important parameter for new project/product evaluation is to see whether the new product fits with the company’s overall strategy. But it is sometimes difficult to establish a product/project as fit, because the firm’s strategy might itself be unclear. Also, there could to be many projects which are ‘underground’ and may not appear in the company’s strategy framework until at a very later date.