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# Kalypso LP: Six Steps to Effective Portfolio Management

Putting pipeline and portfolio management disciplines into practice is a great idea. And getting started doesn't need to be complicated. In fact, the key to success at the outset is keeping it simple, stimulating good conversations, and trusting the judgement of senior management.

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The economic shocks of the past few years have made a lot of formerly bold company executives both nervous and risk-averse; staring into the abyss can have that effect on you. As a result, reducing the risk of launching products that fail and improving the return on R&D investments has become top-of-mind for many organizations.

At the same time, it's become harder than ever to successfully innovate in product development. That's because the product innovation process is facing a series of acute challenges which grew out of those same near-death experiences. Perhaps the most common is limited resources. Many organizations were forced to cut back deeply just to survive. But their expectations of what the company's remaining product development assets should produce, in many cases, have not been scaled back in step with their diminished capacity. And that has led to overload across a wide range of business functions.

The result has been rampant incrementalism – people making small, safe bets and looking for ways to move forward by inches rather than delivering leapfrog growth from breakthrough product innovation. As a consequence, the slower speed, inconsistent throughput, low rates of commercial success, and trouble in managing priorities across the business and its functions which are associated with this incremental mindset, are challenging companies everywhere today.

Fortunately, there are portfolio and pipeline management disciplines available which can help innovators reduce uncertainty and deliver the growth their companies and shareholders expect.

But they're just one part of a much larger business system – one that requires formulating business strategies, along with implementation capabilities, which are closely-aligned with their companies' innovation investments. And doing that successfully, in turn, requires a certain level of maturity.

## **What is portfolio and pipeline management, anyway?**

It may be helpful to think about portfolio and pipeline management as a combination of capabilities that together allow organizations to nimbly build solutions around managing their innovation assets. These include having a clear business strategy supported by the company's innovation process; having effective tools to create and capture customer requirements; having the capability to filter those ideas; having the ability to allocate investment in portfolio projects; incorporating top-down modeling with bottom-up planning; and having the capacity to manage development through a gated decision-making process – all while managing day-to-day task assignments.

These kinds of integrated business systems are currently available in the form of on-demand software. They are solutions which can help management coordinate all the moving parts in the innovation process to build a smoothly-functioning innovation and product development pipeline. The Accept360 suite is an excellent example; it can automate the collection of information, facilitate consistency in forecasting methods, and reduce the burden of data collection and management.

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But it doesn't apply the same way to every organization; when Kalypso begins to work with clients on implementing portfolio and pipeline disciplines, there is typically a learning curve before becoming proficient enough at these capabilities to improve their innovation practices.

Depending on the company's size and complexity, it is a journey that can take as long as several years to really master. It begins with a simple set of capabilities that allow a company to adopt, start up, and improve its strategy implementation. It involves a set of disciplines centered around making good decisions about evaluating risk and reward in innovation; it's not just about one specific tool. So here are six practical ideas about how to get started – and just as importantly, how not to get started – with portfolio management.

### **The good, the bad, and the transparent**

In an ideal world, detailed information about every aspect of the development process – custom-tailored to each participant's role – would be visible at a glance to all of its stakeholders. Status reports, discussion forums, roadmaps, assignments, ideas and analyses would all be immediately available to promote collaboration, track execution, and ensure customer connection. And, of course, requirement definitions would be crystal clear, notwithstanding the fact that clarity can be a challenge when those requirements grow out of broadly inclusive conversations in the marketplace.

Well-written product requirements are always a huge help to the company's implementation group. Even though their priorities are likely to shift in a dynamic Agile environment, their relative importance at any given time would provide valuable guidance to developers. As a result, engineers could keep their efforts constantly focused on the project's most important features. And they would have confidence that their work remained closely aligned with the company's most critical market drivers and strategies.

Regrettably, however, well-written requirements and timely communications are not the norm in our less-than-perfect world. Untimely and badly written ones are far more common.

### **Step 1: Scoring systems – use only as directed**

Some people believe it's possible to craft an algorithm which takes all the available information about a given project, creates a scoring system that weights and evaluates each variable, and then generates a perfectly rank ordered list of priorities. Sadly, in the real world, it doesn't work that way. There is no perfect algorithm. If we could figure that out, we wouldn't need vice presidents to make those decisions. Instead, we need to give our executive teams credit for applying their judgment and experience to decisions about which projects to pursue and what priorities to assign those projects.

Kalypso's advice to clients is to use scoring systems appropriately; use them to create quantifiable information from inputs that are typically not quantifiable – things like strategic fit, market attractiveness, risk and competitive response – to come up with an aggregate score. Put the individual variables in front of your executive decision team. Your executives will have their own systems of evaluating proposals. Over time, as you learn more about the questions they ask and the processes they go through in applying their judgment to these decisions, you'll be able to improve your scoring systems, helping the executives make better decisions around which projects and investments to pursue and what their priorities ought to be.

### **Step 2: Forced ranking – fuggedaboutit**

In the literature of leading practices around portfolio management, there are frequent references to rank ordered project lists. But in large organizations with dozens of projects in the portfolio, rank ordered lists can create a tremendous amount of work and headache without much benefit. When you're arguing over the relative merits of project 83 versus project 84, it's a waste of time. If a project is number six or seven, it's important and it should get the appropriate attention. But when you get into the 80s – you're just into a big bucket of projects, and that should be enough to communicate their appropriate priority to management.

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Instead, we propose using quartiles or quintiles to communicate priorities about the most important investments and where people should be allocating resources. Quintiles are a little cleaner than quartiles; they force you to think a little more about where a project should fall. When you first start out and your pipeline is overloaded, there's a tendency for projects in the fourth and fifth quintiles not to receive any resources; they wind up being put on hold or killed. But if you have a balanced portfolio, projects in the fourth or fifth quintile should also be resourced and executed; just make sure those quintiles don't become stigmatized in the future.

### **Step 3: Resource Capacity Planning – step back**

These days, resource management is paramount for most organizations. They're struggling to figure out how to manage their pipeline and how to allocate resources to the product development projects that they've already agreed to pursue. The obvious solution – one that many people gravitate towards – is creating big databases that contain all the resources and skill sets, and then allocating people to projects wherever they find shortfalls.

That can work in relatively small organizations where executives have line-of-sight visibility into resources and skill sets. But in large organizations, where resources are controlled in multiple places, it breaks down. So our recommendation for companies that are just getting started is to look at resource management more from a capacity planning standpoint. There's just too much data required to completely evaluate who's working on what. Instead, create big buckets of skill sets and model aggregate demand around priorities that you can compare against aggregate supply. Then look for bottleneck areas and focus your resources on those bottlenecks.

### **Step 4: Conflicting work models – separate but equal**

Program and project managers who are responsible for product development initiatives are likely to use a tool like Microsoft Project to track tasks as they manage the day-to-day work of a team. But you shouldn't confuse the management of day-to-day tasks with the higher-

level decision-making processes associated with a stage-gate process. If you have a standard stage-gate process that allows you to map a detailed work breakdown against it, great. But that's not the norm. Trying to combine these disciplines into a single system leads to unnecessary complexity and detail. So separate them and keep project management and task-level detail out of the stage-gate process.

Of course, there's a certain elegance in looking at these things as being intertwined. But when you're just getting started, less detail is better than more. And keeping them separate but linked is important. The key is not what task is the team working on today. Instead it's: where are you in the gated process? And what is the status of that particular initiative?

### **Step 5: Weekly time tracking – a waste of time**

Conventional wisdom notwithstanding, weekly tracking of individuals' work doesn't generate enough value to justify building it into your critical path of implementation. If the people in your engineering, marketing and product development functions aren't accustomed to reporting how they spent their time last week, it can degenerate into an obstacle to adoption and to accomplishing what's really important in implementing portfolio management. You're simply asking for trouble and resistance. Instead, just assume that if someone is assigned to a project for a particular percentage of their time, that's where they're actually spending their time. Use exception-based reporting to capture any big variances.

If you force time tracking on an organization early in your adoption of portfolio management disciplines, you will get lots of data, but it won't let you make better decisions. You can't drive looking in the rear-view mirror. Very few organizations can use all that historical time allocation data to create better planning or forecasting algorithms. Just make sure you're not burdening yourself and your implementation with that requirement at the outset.

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## Step 6: Evaluation criteria – use sparingly

There's a tendency for organizations that are just getting started in designing portfolio management processes to come up with 15, 20 even 30 different evaluation criteria. The problem is, that leads to redundancy and complexity and diminishing returns in evaluating investments across the portfolio. It's difficult for executives to absorb more than five or six different independent variables and evaluate them when making portfolio prioritization decisions. So instead, take a small number of important criteria and focus on improving your consistency in measuring those key variables; collecting a lot of information that may not be accurate isn't going to help make better decisions.

The real value in putting evaluation criteria in front of the people responsible for making portfolio decisions lies in the conversations those evaluation criteria engender – not in the numbers themselves. If people are good at portfolio management, they'll test the assumptions behind the values and you'll have great conversations around just a handful of evaluation criteria. So look for things that are intuitively obvious, things that astute people would ask questions about, and see if you can come up with criteria that allow them to make better decisions.

If you do it well, you'll increase the aggregate value of your portfolio and product development pipelines, improve your product mix and balance, identify areas which are overly weighted toward incremental improvements but starved of investment in break-through innovation, and make sure your innovation and business strategies remain closely aligned.

## About Kalypso:

Kalypso is the world's premier innovation consulting firm, helping clients improve performance by delivering on the promise of innovation. Kalypso offers clients full service capabilities including Business and Innovation Strategy, Front End of Innovation, Portfolio and Pipeline Management, Development and New Product Introduction, Value Management, PLM Technology, Leadership and Learning, and Intellectual Property Management. For more information, visit [www.Kalypso.com](http://www.Kalypso.com). Follow @KalypsoLP on Twitter and on Facebook at [www.facebook.com/KalypsoLP](http://www.facebook.com/KalypsoLP).

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## About Accept Software Inc.

Accept Software, Inc. delivers The Product Innovation Management solution that technology-driven companies use to decide which products to bring to market for the fastest time-to-profit. The Accept360 Suite is the only complete end-to-end software solution that tightly links company and product strategy through ideation, portfolio planning, roadmaps, requirements and execution. For more information, visit [www.accept360.com](http://www.accept360.com)

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