

# Five steps for creating a winning product portfolio

**SIEMENS**

## Executive White Paper

### The strategic importance of portfolio management

Business leaders say that one of the top three challenges to generating return on product innovation investment is deciding what projects they should commercialize. This white paper describes a five-step best-practice portfolio management solution that enables you to select the right mix of projects to maximize your return on investment. This solution also provides the capacity planning, resource management, continuous monitoring and total visibility you need to ensure that your innovation projects deliver the greatest market impact.

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## Overview

A 2008 survey from the Boston Consulting Group indicates that the difficulty is selecting the right innovation projects for commercialization is one of the top three challenges that companies face in generating return on their product innovation initiatives. The two other top challenges are lengthy development times and overcoming a risk-adverse business culture.

These results confirm that now, more than ever before, companies are struggling to select the right mix of projects to maximize the return on their investments. Just as importantly, many companies don't know whether they are leveraging all of their resources to deliver the greatest market impact. Nor do they know if they are prioritizing their products in a way that maximizes their strategic business objectives.

To address these issues, your company needs a systematic and repeatable approach to portfolio planning that enables you to:

- Compare ROI, cost, resources and schedules of each product innovation project being assessed
- Assess each project in terms of its alignment with your company's overall business strategy
- Ensure that your company's product roadmap is optimized to maximize revenue
- Determine whether your company has the resource capacity to execute its product roadmap
- Rapidly respond to changing market conditions with roadmap and project adjustments
- Understand the dependencies between all current and future projects
- Gain complete visibility into the project scheduling, critical resource and dependency metrics that facilitate on-time, on-budget and on-spec project delivery

A best-practice portfolio management solution facilitates these objectives by providing a single source of strategic direction, project information and assessment tools that you can leverage to better plan your product portfolio and drive project execution more effectively. More specifically, a best-practice portfolio management solution should provide robust capabilities to:

- Optimize your product portfolio
- Facilitate capacity planning and resource management
- Facilitate continuous monitoring and visibility
- Integrate top-down planning and bottom-up execution
- Integrate portfolio planning into your total product lifecycle management (PLM) environment



## Business challenges

During recessions, the competitive pecking order of your industry is very likely to change dramatically. Like many companies, you may have placed various new product initiatives on hold or even considered stopping these initiatives completely. However, new technology advances and innovative new processes are still crucial for any company that expects to succeed over time. Just as importantly, some innovations set the stage for the new business models that can overturn an industry's competitive landscape and leave laggard companies hopelessly out of date.

According to the Forrester Report (20 June 2008), many companies only look at their product portfolios when their new product introduction (NPI) strategy is failing and their company is struggling to balance its resources.<sup>1</sup>

Given the current economic climate, today is an opportune time for you to examine your portfolio process and carefully assess all of your product innovation projects. It is especially important for you to make sure that your product portfolios are making the very best use of your company's highly valuable resources. Evaluating new projects gives you the opportunity to assess the potential for new markets, as well as the chance to extend the profitable life of your existing products and determine whether variants to these older products enable you to respond to changing market conditions or capture new markets.

Unfortunately, many companies are quick to turn their attention to project execution rather than carefully engaging in the project evaluation process. But efficient and fast-paced project execution is merely the price of entry into today's global economy, not a competitive differentiator in and of itself. It is equally important to have a winning product portfolio that clearly aligns with your company strategy.

A 2008 survey from the Boston Consulting Group drives this point home by examining the biggest challenges that companies face when it comes to generating return on product innovation investments. As the survey indicates, the top 3 challenges are:

- Lengthy development times
- Risk-adverse culture
- Difficulty in selecting the rights projects to commercialize

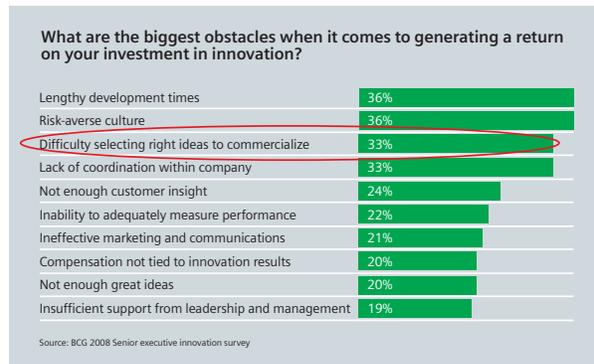


Figure 1: Barriers to product innovation return.

Traditionally, most companies have focused their attention on executing their product innovation programs by asking: Are we doing things right? But market leaders often believe that a better place to start is by asking: Are we doing the right things?

Too often, companies eventually discover that their product portfolio is not aligned with their growth strategy. At other times, they discover that their innovation projects are beyond their core competencies. In the latter instance, companies did select the right projects, only to learn that they do not have resources available at the right time to deliver the product within its narrow window of opportunity. When this occurs, projects flounder, launch too late or fail to launch.

In addition, many portfolio decisions are politicized. Sometimes, teams with lower-value projects but good presentation skills win project funding, while teams with higher-value projects and accurate revenue projections go unfunded.

## Best-practice solution

To address these challenges, your company needs a consistent and objective way to compare ROI, cost, resources and schedules of each project you assess – as well as a way to track the projects you execute and compare their progress against plan. Simply put, your company would derive the following benefits from a best-practice portfolio management solution that

facilitates effective and informed executive decision-making.

To deliver these business benefits, a best practice portfolio management solution provides a single source of strategic direction, project information and assessment tools that you can leverage to better plan your product portfolio and drive project execution more effectively.

### Benefits of a best-practice portfolio management solution

Business issue	Benefits
<p><b>Ability to compare ROI and strategic project alignment</b></p>	<p>A best practice portfolio management solution provides your company with total visibility into strategic decision making and its relationship to all of the individual projects being assessed for new product introduction. Specifically, a best practice solution is able to:</p> <ul style="list-style-type: none"> <li>• Compare ROI, cost, resources and schedules of each product innovation project being assessed</li> <li>• Assess each project in terms of its alignment with your overall business strategy</li> <li>• Ensure that your company’s product roadmap is optimized to maximize revenue</li> <li>• Determine whether your company has the resource capacity to execute its product roadmap</li> </ul>
<p><b>Ability to monitor each project’s costs, schedule and resources against plan</b></p>	<p>A best practice portfolio management solution enables you to monitor a project across its lifecycle. Good planning is wasted if you cannot monitor your plan after you’ve defined it. Your ability to monitor the plan continuously and make mid-way corrections is critical to the success of your business. For example, you need to be able to adjust resources if an important project falls behind schedule or kill a project if changing market conditions arise that materially affect your original assumptions. More specifically, a best-practice solution enables you to:</p> <ul style="list-style-type: none"> <li>• Monitor each project’s cost/benefits analysis and compare it against plan</li> <li>• Rapidly respond to changing market conditions with roadmap and project adjustments</li> </ul>
<p><b>Ability to drive efficient project execution</b></p>	<p>A best-practice portfolio management solution enables your company to execute its product innovation projects more effectively by allowing project management and other decision makers to fully understand the relationship between project scheduling, critical resources and dependency metrics and their impact on project delivery (i.e., on-time, on-budget and on-spec issues). In other words, best-practice portfolio management solutions are able to interact with – and play a major role in – a product lifecycle management (PLM) environment.</p>

## Key capabilities

While the preceding section is helpful in conceptualizing the benefits that a best-practice portfolio management solution delivers, the following table describes detailed capabilities that this kind of solution should provide.

### Key capabilities for a best-practice portfolio management solution

Process	Required capabilities
<b>Optimize your product portfolio</b>	<p>First and foremost, a best-practice portfolio management solution needs to provide a holistic view to all of your product lines, platforms, brands and road-maps. It must be able to reference what commitments you are required to meet. Once you are able to access this information, you can begin to analyze your project investments. A best-practice solution also must be able to perform what-if scenarios, as well as look at multiple project risks by altering sales forecasts. In addition, it must provide a way to compare all of your projects in a consistent manner, using similar assumptions and similar formats.</p>
<b>Facilitate capacity planning and resource management</b>	<p>Capacity planning capabilities must be available to enable you to roll up all of the detailed cost and resource requirements for your projects and compare them against your portfolio's targets, including its capital, spend and labor budgets. This will enable you to determine what can be done. The objective here is to determine your projects' resource constraints. You need to understand this during the project planning process, not just during project execution.</p> <p>While the traditional budgeting process consumes between 20-30 percent of management's time, it does not provide executives with ongoing visibility into the product portfolio or the support required for agile decision-making. The process of managing your financials is part of a grander process flow that balances "top-down" guidance with "bottom-up" execution.</p> <p>Budgets are critical inputs for the portfolio planning process. Typically, managers start with a budget and go through a planning and resource allocation process that culminates in various budget tweaks. This is an iterative process. A best-practice portfolio management solution must be able to unify your planning and budgeting processes into a single process by leveraging a single tool.</p>

## Key capabilities for a best-practice portfolio management solution

Process	Required capabilities
<b>Facilitate continuous monitoring and visibility</b>	<p>A best-practice portfolio management solution must be able to present all of your portfolio information in simple graphical dashboards that empower you to make informed business decisions.</p> <p>Your planning will fail if your executive team has to pour over hundreds of documents and spreadsheets to review, analyze and compare different portfolio scenarios. In addition, good planning is wasted if you cannot monitor your plan after you've defined it.</p> <p>A best-practice solution must be able to monitor your plan continuously and facilitate mid-way corrections that are critical to business success. For example, a best-practice solution must be able to adjust resources if an important project falls behind schedule or kill a project if changing market conditions arise that materially affect your original assumptions.</p>
<b>Integrate top-down planning and bottom-up execution</b>	<p>A best-practice portfolio management solution must enable you to align top-down planning using full time equivalents (FTEs) and organizational units with bottom-up named resources planning for integrated staff planning. It is crucial for you to know that you have resources available with specific skill sets when you need them. This makes project execution much more predictable.</p> <p>If you discover a disconnect early in the process, a best-practice solution will let you adjust resource assignments appropriately, modify the project's schedule to reflect a resource constraint, or budget an outsourced resource to ensure critical delivery. To facilitate this, your solution must provide continuous visibility into all current programs and projects.</p>
<b>Integrate portfolio planning into your PLM environment</b>	<p>You need to ensure that your portfolio planning assumptions, costs, resources, schedules and requirements are retained across your entire execution process. In many companies, the planning process is managed by an isolated information silo that is disconnected from the program execution and requirements management process. Best-practice portfolio management solutions need to be maintained as an integral element in a PLM environment.</p> <p>A best-practice solution should be able to leverage your company's rich PLM knowledge, such as the product designs, BOMs and product requirements that enable you to quickly study the feasibility of your new product ideas. This enables you to make informed decisions about the cost, feasibility, performance, resources and risks of proposed product innovations. The ability to leverage your product knowledge is absolutely critical to your product planning process. To achieve lasting and higher ROI, best-practice portfolio management solutions provide a holistic and integrated approach to portfolio practice.</p>

## Next steps

Siemens PLM Software has extensive experience helping companies like yours improve the way you perform portfolio management. With more than 5 million users worldwide, Siemens PLM Software's Teamcenter® system has repeatedly demonstrated its ability to deliver proven solutions that meet today's business needs. Contact us today – we can help you achieve your portfolio management goals.

Contact us at [www.siemens.com/plm](http://www.siemens.com/plm) for assessment of your current practices and to identify areas of opportunities.



## About Siemens PLM Software

Siemens PLM Software, a business unit of the Siemens Industry Automation Division, is a leading global provider of product lifecycle management (PLM) software and services with nearly 6.7 million licensed seats and 63,000 customers worldwide. Headquartered in Plano, Texas, Siemens PLM Software works collaboratively with companies to deliver open solutions that help them turn more ideas into successful products. For more information on Siemens PLM Software products and services, visit [www.siemens.com/plm](http://www.siemens.com/plm).

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