

NAVIGATING THE NEW NORMAL

How Companies Handle the Portfolio Management Question

By Carrie T. Nauyalis, Planview





Planview's second annual Product Portfolio Management Benchmark Study finds the product development industry still facing many of the same challenges, but with a new emphasis on solutions.



Just like every other company in corporate America, product-driven organizations have endured a challenging period of economic decline. Nevertheless, there has been plenty of hard work to go around in the downturn, with operating units tasked with decreasing costs and increasing output, finance departments reigning in budgets and redundancies, and strategic marketers working to come up with more compelling value propositions.

For many organizations, all of these initiatives will come to a halt if innovation dries up and product development fails to respond to changing market conditions. Product development is the real driver of recovery and growth for these companies – and among all of the business initiatives within an organization, it is also the most complex, with plenty of potential pitfalls and unknowns.

TESTS FACING PRODUCT DEVELOPMENT LEADERS

The economic downturn tested many leading product development-focused organizations – pushing them to continue to innovate despite increasingly constrained resources. As revenues declined, priorities had to be selected. Despite emerging signs of an economic recovery, the fear-factor aftershock of the economic decline is still present, pushing companies to continue their strategic considerations related to the allocation of resources in an era where maximizing productivity and profit is king – frequently referred to as the “new normal.”

Innovation, however, is increasing as a key component of companies' visions of future growth. According to The Boston Consulting Group's (BCG) recent *Innovation 2010* report, a large majority of executives cited innovation as a top strategic priority. Fully 84 percent of the more than 1,500 executives surveyed said they consider innovation vital for positioning their companies to benefit from economic recovery. BCG also found in its analysis that globally, on an annualized basis, innovating companies outperformed their peers by 12.4 percent over three years. Clearly, innovation in product development proves to be one of the most powerful strategies for growth.

EXAMINING THE DEEPER QUESTIONS

This begs the question: If innovation is such a priority, how is the management of the conceptualization through to market launch really analyzed by corporate decision-makers? If every dime counts, and executives are on high alert for waste, how do decisions regarding something as complex as product development get made?

The second annual Product Portfolio Management Benchmark Study, commissioned by Planview and conducted by Appleseed Partners, revealed once again that NPD managers believe that product management decisions are made less than optimally in most companies. In this year's study, product-focused companies reported that they were managing more projects than they had resources

in place to support. The survey of nearly 1,000 respondents from a cross-section of industries also found there is still a strong ongoing reliance on manual and incomplete tools for managing complex product development portfolios.

The benchmark study found the third most highly rated pain point – up from fifth last year – was not being able to drive innovation fast enough. The survey results suggest that this change reflects a fear of the risk related to maintaining or creating a new competitive advantage.

For many companies, there is a sense that some ideas possess significant market potential, while others do not, with little hard analysis backing up the real cost and return associated with taking products from inception to commercialization. Resources for innovation remain sparse in comparison to ideas for innovation. Few leading companies claim “capacity planning” as a strong suit, and there is a clear dichotomy between vision and the abilities to make it real.

All of the innovation drivers are there, but something is stopping companies from

implementing them. As much as companies want to embrace innovation proactively, the majority of respondents to the survey say their companies are actually very risk averse when it comes to new product development (NPD).

These contradictions reveal an interesting dichotomy: Companies want to mitigate risk associated with product development, yet the greatest product development successes come from the riskiest undertakings. An underlying question for many organizations is whether the balance between risk and speed can be equalized in the real-life, decision-making process of product development.

IDENTIFYING FEAR FACTORS

No wonder companies are afraid: New products fail constantly. And even when they do make it, it's common knowledge that few remain viable beyond three years. Experts agree that few products ever reach the level of success their investment justifies. Yet, for members of *Forbes* magazine's Global 2000, creating great products is inherent to their brands, and many in this category were interviewed as part of the benchmark study.

A poor choice in where or when to focus related to product development often results in tremendous losses of revenue, time, and opportunity, so it's imperative to cut bait early. Cut too quickly or deeply, however, and it kills initiatives that may have positioned the company for growth. It's little wonder, then, that product-focused organizations face these decisions with trepidation, especially in light of the tools and data on which so many of them base such decisions.

Interviews conducted as part of Planview's benchmark study revealed that many managers simply do not have clear pictures of their resource capacities with respect to their product portfolios. Without this clear understanding, it's difficult to make informed decisions related to priorities and capabilities. (See exhibit below, “Major Challenges to Resource Capacity Planning.”)

Even more concerning is that many companies indicated they did not have accurate methods to estimate the benefits of an initiative before committing the resources.

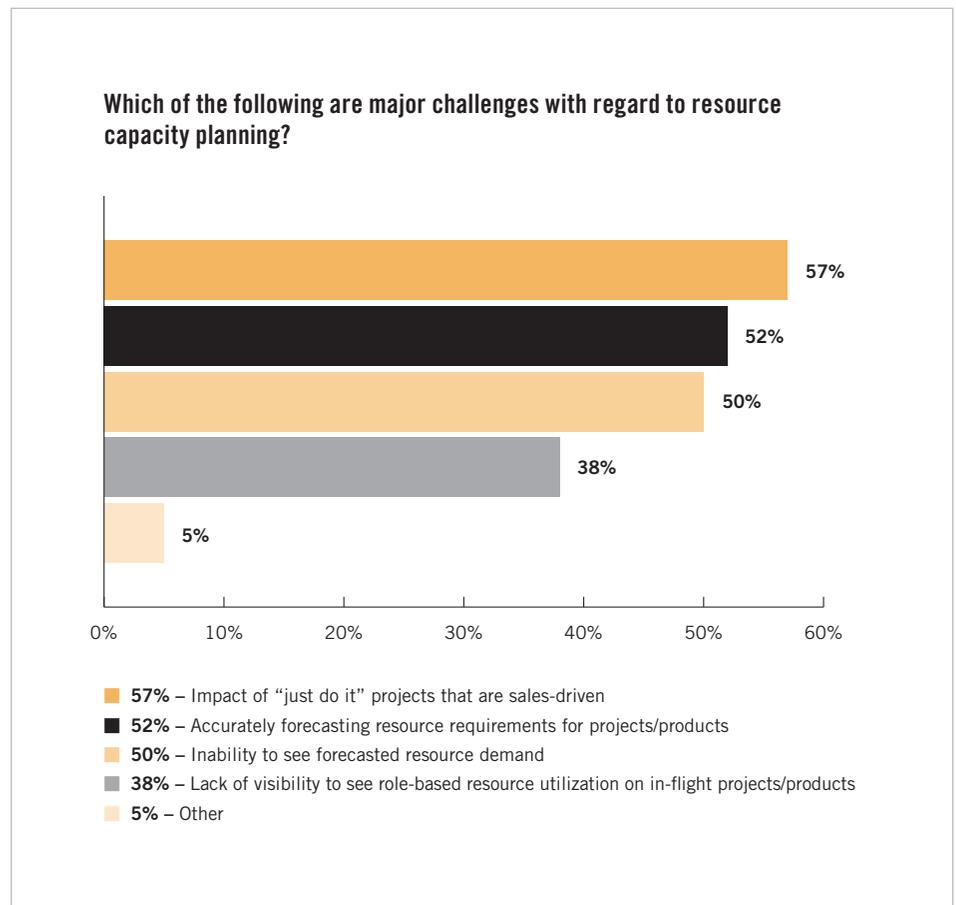
So, as a result, particularly during the economic downturn, many companies made

Key Findings from the Planview Benchmark Survey

The second annual Product Portfolio Management Benchmark Study, commissioned by Planview and conducted by Applesseed Partners, revealed several key takeaways:

- Once again, 57 percent of respondents said one of their top three pain points was “too many projects for their resources.”
- About half of respondents identified “managing changing priorities as business conditions change” as their greatest risk.
- Approximately 42 percent of respondents found their organizations' forecasted schedules “mostly to highly inaccurate.”
- Six in 10 respondents indicated that their organizations were “risk averse on new product innovation.”
- Only one in four respondents rated themselves “good” at resource capacity planning.
- Only 11 percent of respondents said their companies constantly monitor and stop underperforming projects.

Exhibit: Major Challenges to Resource Capacity Planning



“For an optimal outcome, responding to changing conditions both within and outside an organization cannot be arbitrarily based on hunches and incomplete information. Ideally, responsiveness must be shaped according to data and a keen understanding of what is and is not working.”



decisions about what new products or iterations would bring them the biggest returns with the resources they had, but they were doing so with incomplete information.

For an optimal outcome, responding to changing conditions both within and outside an organization cannot be arbitrarily based on hunches and incomplete information. Ideally, responsiveness must be shaped according to data and a keen understanding of what is and is not working.

As the Planview research revealed last year, companies continue to feel the pinch of the lack of clarity. Many leading corporations (more than half of those surveyed) are still using spreadsheets to manage product development. Managing simultaneous product development initiatives, concepts, and cross-organization resources is difficult without the ability to dynamically track, analyze, and report multifaceted information.

Currently (and as in last year's study) managers report dedicating large amounts of time to collecting, updating, and manipulating data in spreadsheets, and less time analyzing it to build a meaningful strategy.

TIMES ARE CHANGING

On the other hand, the recession has yielded some benefits. For one, the downturn forced organizations to improve their efforts to streamline resources. Thus, many

are beginning to seek and implement new solutions for managing product development, their pipeline of projects, and their investments.

It's not surprising, then, to see that 70 percent of respondents in the Planview study indicate that their organizations are refining the product development process, have begun refining the process, or are evaluating new tools. Coming out of the recession, companies need to find the right tools to gain clarity regarding their product development processes.

Recent analyst reports indicate that product-driven companies are increasingly considering portfolio management (PPM) enterprise tools, which garner insight into utilization and appropriately align product investment with corporate goals. PPM products can help product organizations with many stages of guiding products through the pipeline, including ideas and competitive assessments, resource capacity planning, project execution, cost management, product marketing, and more, depending on the depth and maturing of the product.

THE IMPORTANCE OF ACCURATE MEASUREMENT

Product development companies – whether they are in the manufacturing, technology,

healthcare, or financial services sector – are in an ongoing process of new iterations of their products and processes and venturing into new areas that will create long-term returns. How these efforts are measured and evaluated are central to making the right decisions at the right times.

There will never be one answer or solution for driving innovation and optimizing efficiencies through to commercialization. Experts agree that, in order to be an organization capable of ongoing innovation, it must integrate and evaluate numerous approaches, including culture, strong leadership, market research, and vision.

Ongoing competitive pressures are pushing companies to become more efficient and innovative just to survive and maintain market share. Corporate managers and leaders ultimately must achieve a high level of visibility into their processes to remain competitive.

To learn more about the Planview Benchmark Study and download a copy, visit www.planview.com/pdsurvey. 



Carrie T. Nauyalis is product line manager at Planview, a company that focuses on providing portfolio management solutions to enable better decision making and business accountability. Contact her at carrie@planview.com.