



By Barbara Bell

# Portfolio Management and Measuring Outcomes

Part three in a three-part series on product development

In part one of this series on managing product development, we looked at the importance of setting high-level strategy. The second part was about the process itself including implementing a structured framework and putting together a solid cross-functional team. (Visit [woodworking-](http://woodworkingcanada.com)

often referred to as **portfolio management** and while risk is inherent to new product development, managing it is crucial. From a product developer's perspective, a high-risk situation is one in which much is at stake or the outcome is uncertain. For example, if it's unclear whether the product is technically feasible or will do well in the market. If uncertainties are high, it's a good idea to keep amounts at stake low. As the uncertainties decrease, the amounts at stake can be increased.

By putting a Stage-Gate process (described in part two) in place, you are taking the first step toward effective portfolio management. "Gates" are where individual project decisions are made to proceed (go), stop (kill) or put projects on hold. At these gates, each project is evaluated and scored before moving to the next stage. Even resource decisions, committing people and money to specific projects, can be made at these gate meetings.

Where Stage-Gate processes fall

short is in project prioritization and resource balancing. That is the role of portfolio reviews. **Portfolio reviews** are meetings held perhaps once or twice a year. These reviews help ensure the total mix of projects pursued is optimal. Portfolio reviews have three goals: value maximization, balance and strategic alliance.

To maximize value from a product portfolio, projects need to be ranked in terms of some business objective like profitability. A simple spreadsheet can be used to rank according to project attractiveness. Those that fall below a certain number can be shelved or terminated.

Visual charts can help you evaluate the balance and strategic alignment of projects. Use pie charts and bubble graphs to visualize where the whole product mix sits in terms of key parameters such as long- versus short-term, high-risk versus sure bets, and across various markets, technologies or project types.

## Measuring Progress

The final step required in formalizing your product development effort is to put **metrics** in place to gauge effectiveness and learn where you can improve. Metrics used to measure the health of product development processes fall into two broad categories: in-process metrics which can be measured as the project is unfolding, and post-process metrics, or those that can be measured only after the product is launched.

To measure how well projects are executed look at the:

- Number of projects that meet scheduled launch (strive for predictability so estimates can be accurate)
- Time spent in phases (strive for as short or shorter than competitors)
- Percentage of products that meet or exceed the goals set at the outset (measures success of planning)
- Percentage of projects that were within budget targets.

To measure the value projects are delivering examine:

- Profitability (payback period, break-even time)
- Percent of commercial successes
- Percentage of sales generated by new products
- Percentage of growth generated by new products (profits).

Metrics should be simple, practical and fit with business objectives. Don't wait too long to implement measurement tools.

Wood product manufacturers tend not to make the effort to characterize and improve their product development systems as they may with other business processes. However, the development process is critical to keeping development costs and risks at a minimum, and creating high value products on a consistent basis. **WW**

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canada.com for parts one and two.) In this article, we look at doing the right projects and measuring progress.

## Portfolio Management

It is management's role to decide which projects get funded. This task is



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