

# Product Development Portfolios for Difficult Times

How to Set Priorities for an Uncertain Future

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# Product Development Portfolios for Difficult Times

## The Power of Pull in Your Strategy

### Key Takeaways



- A robust portfolio management process helps a product development organization weather the storm by providing the information needed for good decisions.
- When you must make cuts, it is better to kill off entire projects than starve everyone equally.
- Sometimes your best opportunities in a crisis are the ones that support your existing customers and product lines.

## When the Big Wave Hits, It's Time to Surf

In the fall of 2008, clients began to ask for help as they dealt with the need to help their companies through the economic crisis. For some of them, it was as if their orders fell off a cliff in late September. Budget cuts, lay-offs and plant closures soon followed, and with them, the need to make cuts in expenditures for marketing, research and development. Many of these decisions had to be made with very little time to consider them. How can a product development organization respond effectively to such a crisis?

A product development organization has three responsibilities in times of crisis: help the company improve cash flow immediately, reallocate resources quickly towards projects which have short term payoffs and secure the company's future. That's a tricky balancing act that is next to impossible without a good handle on your portfolio of product development efforts.

## Make Good Decisions When There's Time to Think

The value of a product development portfolio is the ability to make good decisions when there is time to think about them, which is usually during an organization's planning cycle. Companies that do this well establish a regular, predictable cadence of product releases without overloading their people or creating support headaches for themselves after the products are in the market. Each project has an expected return on investment that comes into focus as the project progresses, and clear alignment to the business unit and company strategy.

Product development leaders that have this process already in place are light years ahead of their competitors who don't. When they need to cut projects down past the bone, they have most of the information they need to make decisions already. As the organization's strategy shifts in response to the crisis, they have the ability to rapidly respond to help the company weather the storm and protect the company's future.

If you don't have that comprehensive picture, the first thing you must do is create it - now - before you need it.

## Get Everything on the Table

Product development is everything that an organization does to deepen their customer and technical knowledge and put that knowledge to use in its products and services. This definition includes new product development and current product development, including activities that enhance the value of a current product, or lower its cost. This includes many activities that fall outside the scope of engineering or marketing as those functions are traditionally defined.

However, most of the portfolios that I see don't reflect the entire range of activities that the organization is doing under the heading of product development. Usually, it's OK to focus only on the future products that lie mostly in engineering and marketing, then assume that current products can simply be maintained independently. But to manage product development through a crisis, you must get your arms around everything that your organization is doing so that you can make good decisions.

To begin, each project should have resource, cost, time and return-on-investment estimates, as well as an assessment of strategic fit, market risk and technical risk. These estimates will be necessarily fuzzy for early-stage projects, but should be crisp for late-stage projects. Risk should go down as the project moves through development towards launch. Forecast accuracy is less important than getting a complete list of all the projects, so long as the forecasters call out their assumptions so that you will be able to tell when the assumptions no longer hold.

## Feed the Projects You Need and Kill the Rest

The biggest mistake that management teams make in times like these are to impose spending restrictions across the board, rather than cutting projects. They hope that the teams will get “creative” and figure out how to live within the new guidelines. There is a tremendous amount of waste in product development, to be sure, but these policies tend to incentivize the wrong behavior.

Rather than encouraging managers to make hard choices in their divisions and decide which projects can stay and which ones will go, it drives people to continue to try to do everything without sufficient resources to do anything well. The waste of overutilization is already a major problem in product development, causing missed schedules and unnecessary rework as priorities constantly change. These policies just add to the overhead by adding to the stress on the project teams.

It is far better to kill a project swiftly and free up the resources to work on more important things than it is to kill it slowly by starving it of the people and resources the team needs to do their work right the first time. For example, managers often freeze travel budgets to save cash - only to spend it on miscommunication errors that a face to face visit would have prevented.

## Reallocate Brains Where They're Needed the Most

In normal times, we seek to isolate new product developers from the rest of the organization, moving current product support into the hands of a separate team so that the team developing new products can focus. However, the reality today is that the best use of your engineering team's time may be to help remove cost from an existing product or streamline a manufacturing process so that the company can produce the same product with fewer resources.

This is also a good time for the team to dive deeply into things that are hard to do when business is booming: experiments to deepen technical knowledge, Voice of the Customer activities to deepen customer knowledge, platform technology development to lay the groundwork for the products that will fuel the company's recovery and waste elimination activities in the microprocesses that take up so much development time, such as processes for managing intellectual property or qualifying new suppliers.


## It's OK to Kill a Project Late in the Game if the Rules Have Changed

At too many companies, projects gain lives of their own and become impossible to stop. The more resources an organization has invested in a new product, the harder it is to make a tough decision when it's just the wrong product for the time. There is a reason why “sunk cost” has no value in return-on-investment calculations: the right thing yesterday may be the wrong thing today.

Many companies have product development programs that they started when times were better that no longer fit the realities of today's market. It is essential that the management team ask hard questions of the development team, especially marketing, about how viable the products really are, given current realities, before they make the major investments in capital spending and marketing that come late in development.

It takes courage to kill a product that has so much energy wrapped up in it, but it may be the best short term and long term decision for the health of the company and the individuals involved.

## Three Actions You Can Take Today

1. If you don't already have a comprehensive picture of your organization's product development portfolio - including all the product development work done outside of marketing or engineering - build that picture today. The first drafts will have a lot of missing pieces but the process of refinement will bring the company's activities into focus and help everyone make decisions that are more grounded in the facts on the ground.
2. Once you have that picture about 80% complete, begin asking these questions:  
How long has it been since the portfolio was last reviewed?  
How have things changed for your company since then?  
If you had to cut 20% of your projects, what would you cut?
3. Identify the microprocesses in your organization where things tend to get bottled up and invest some resources in eliminating the wastes in those processes. That will help free up capacity and make it easier to assess the impact of shutting down projects since a lot of the complications from killing projects occur in the microprocesses that are overloaded. 





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