



Strategic Decisions Group

Best of Breed Portfolio Management -- Organizational Characteristics.

What it takes and what gets in the way.

Presented to:

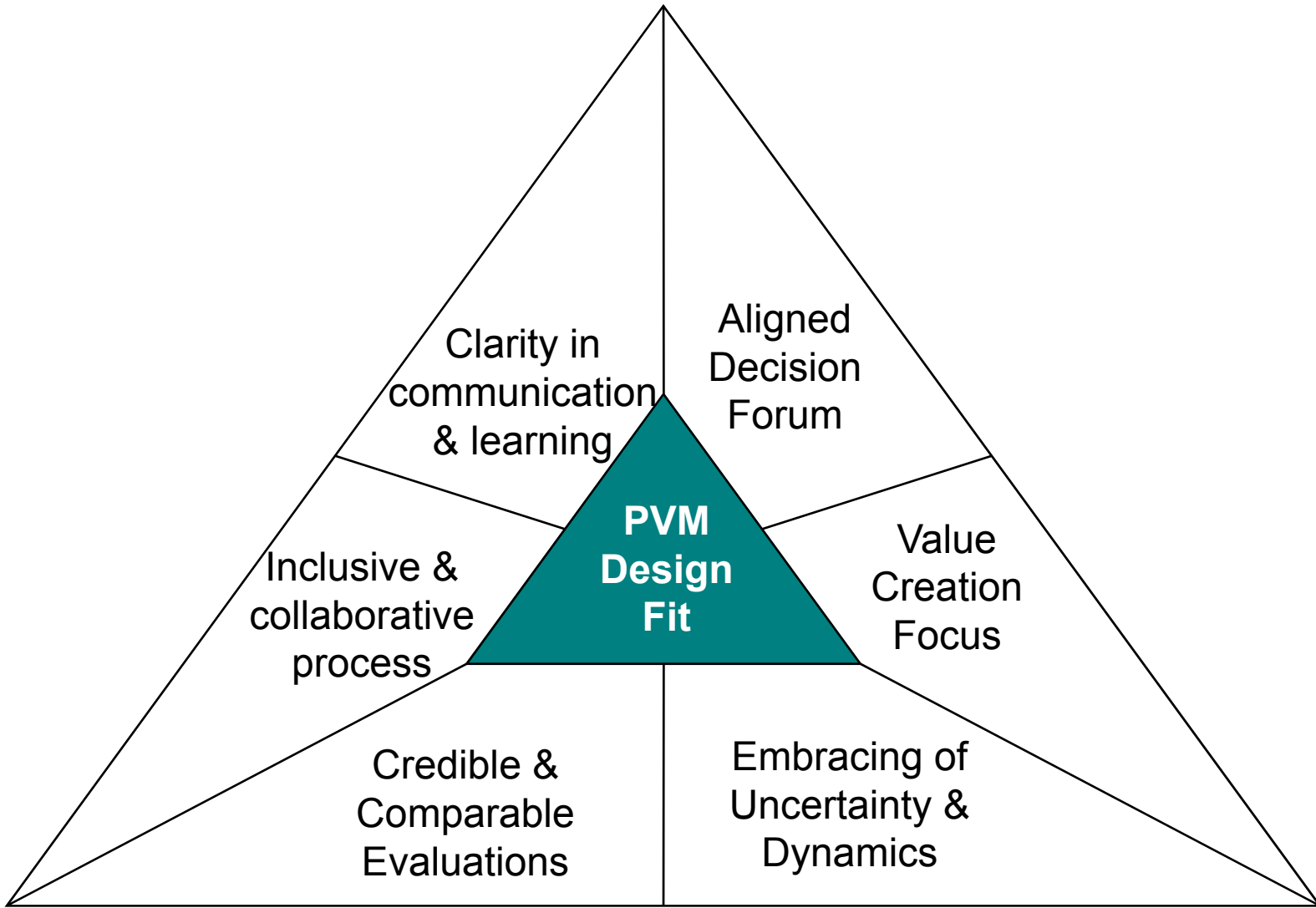
DAAG Conference

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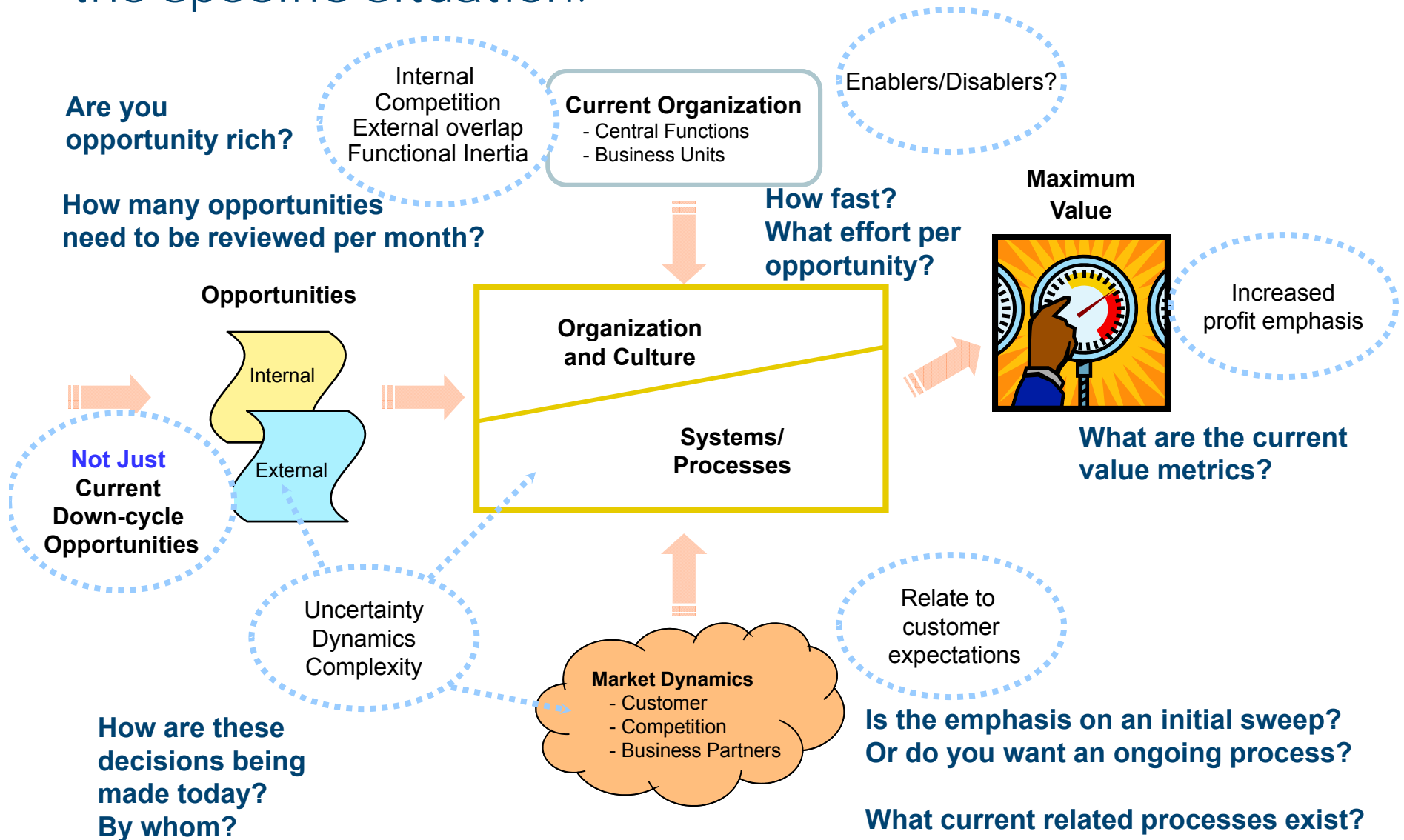
Carl Spetzler

May 18, 2009

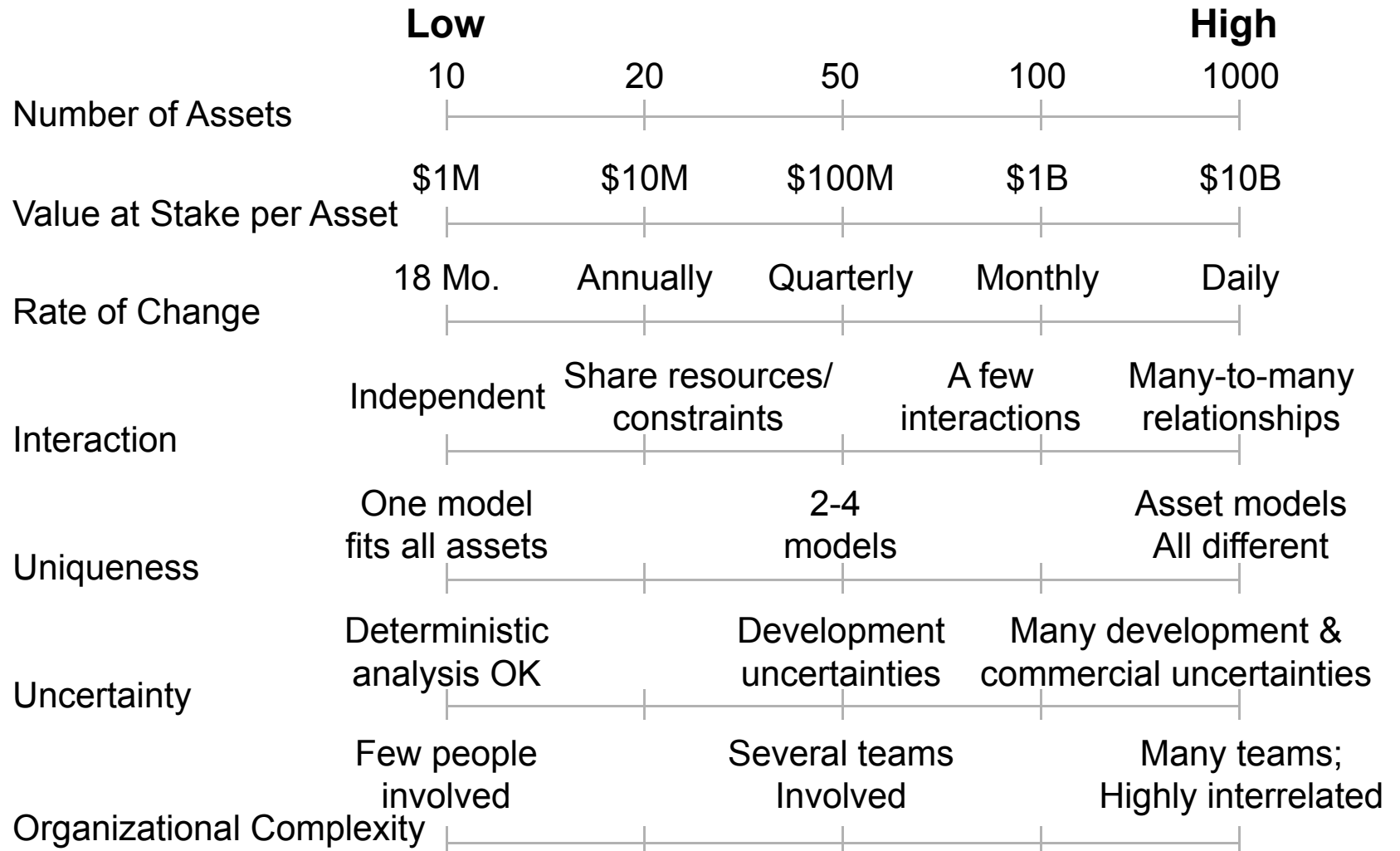
Effective portfolio value management (PVM) meets six key requirements.



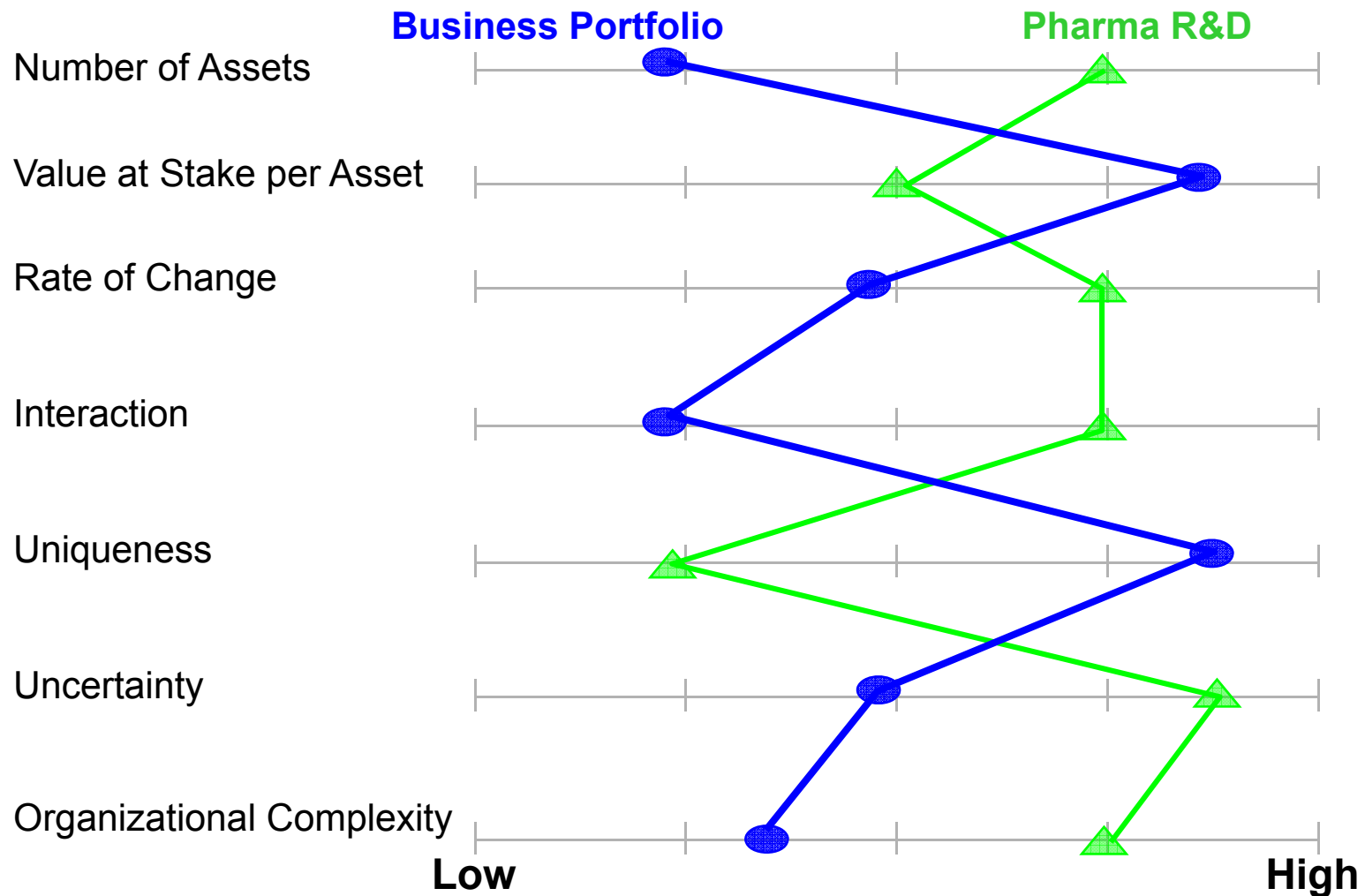
Effective PVM (portfolio value management) must fit the specific situation.



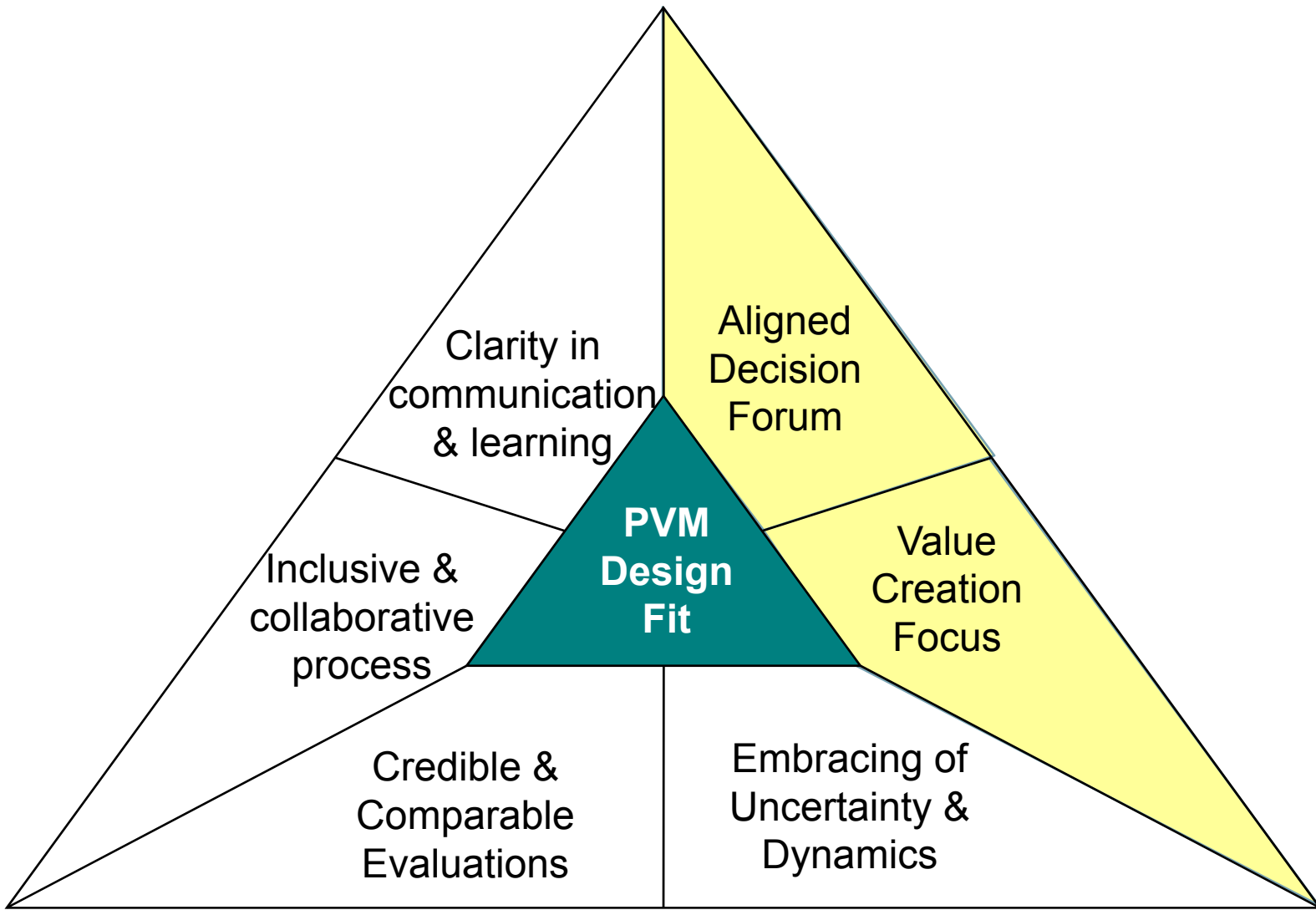
Portfolio characteristics vary significantly.



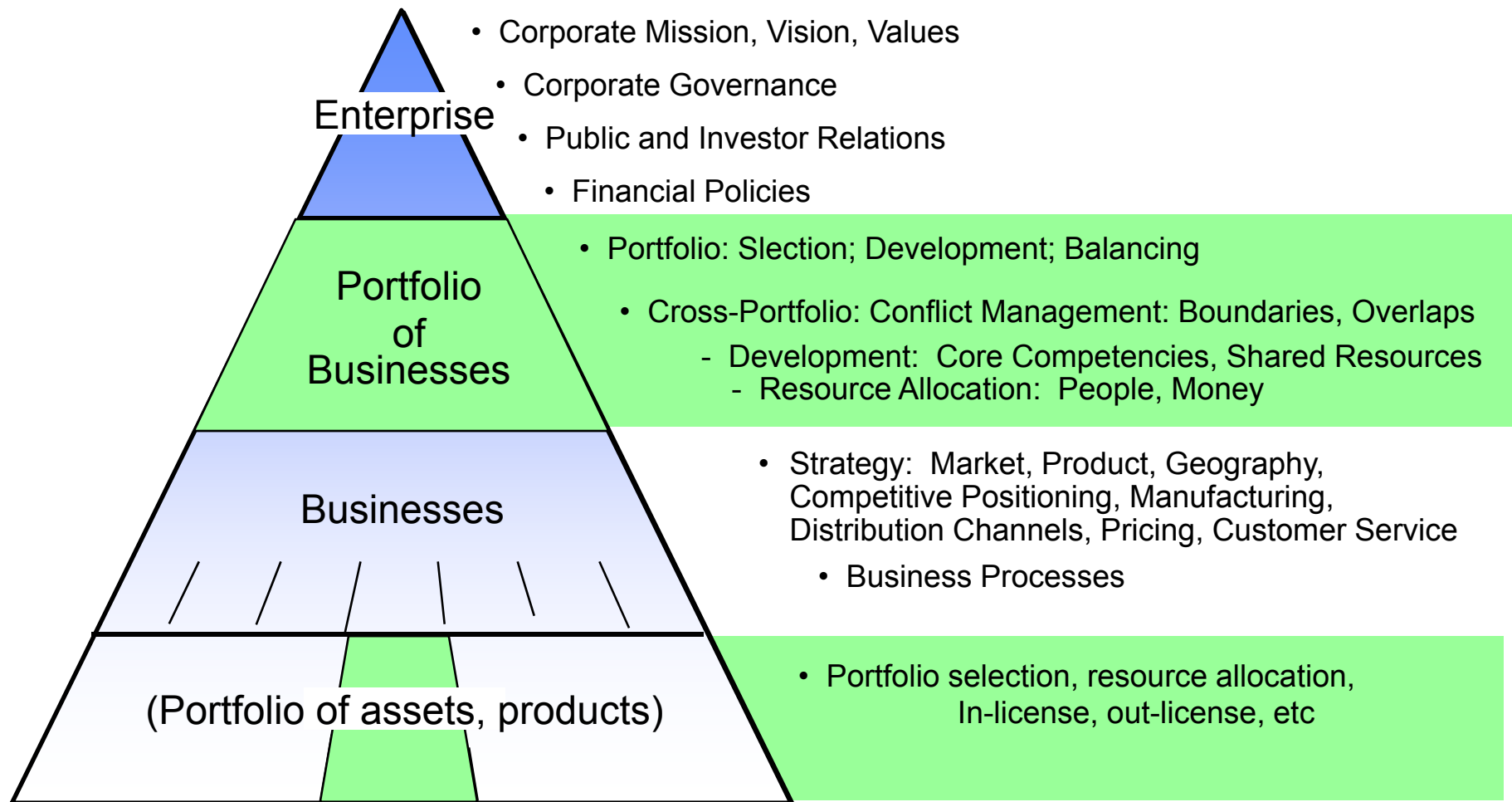
The characteristics of business portfolios differ significantly from R&D portfolios.



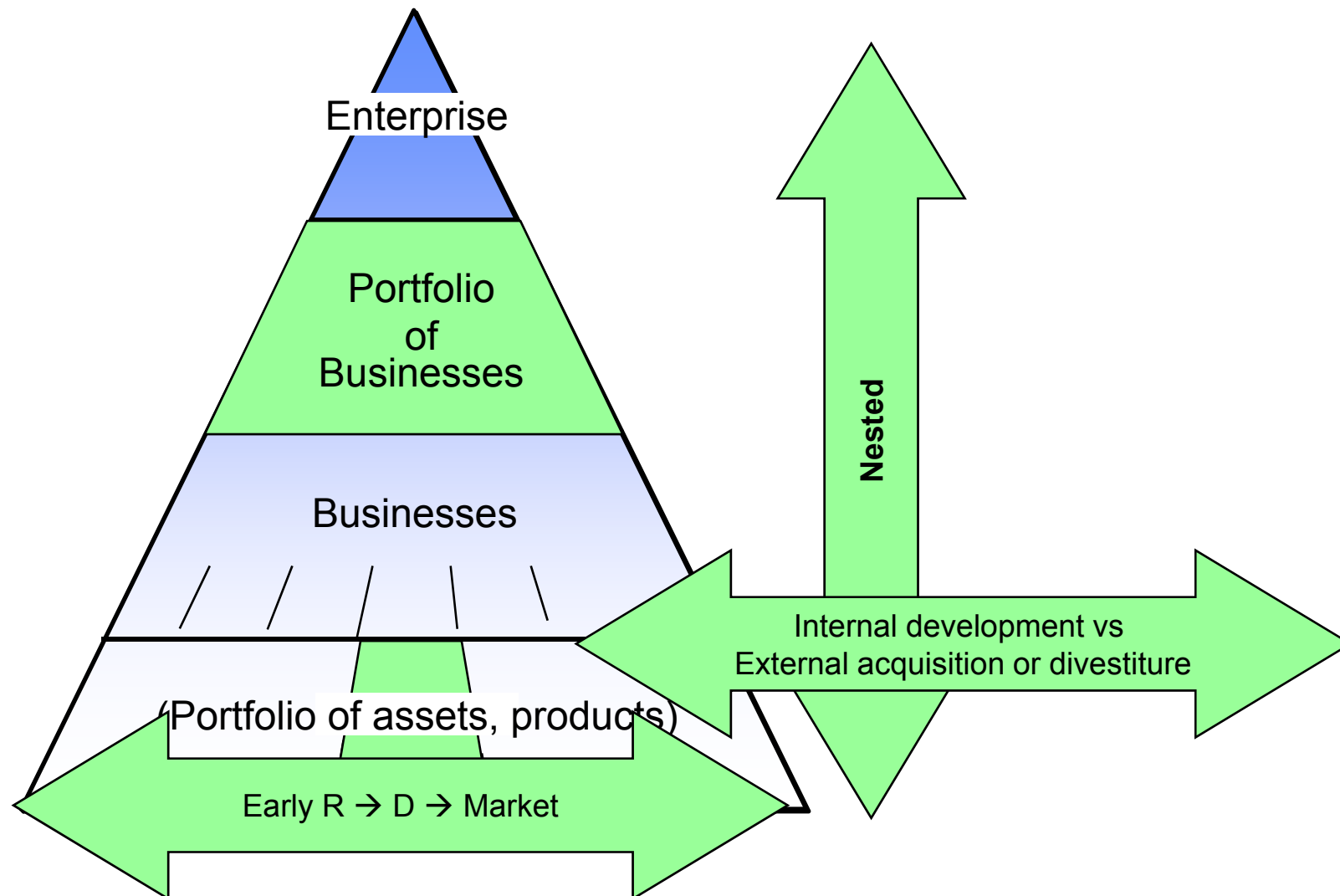
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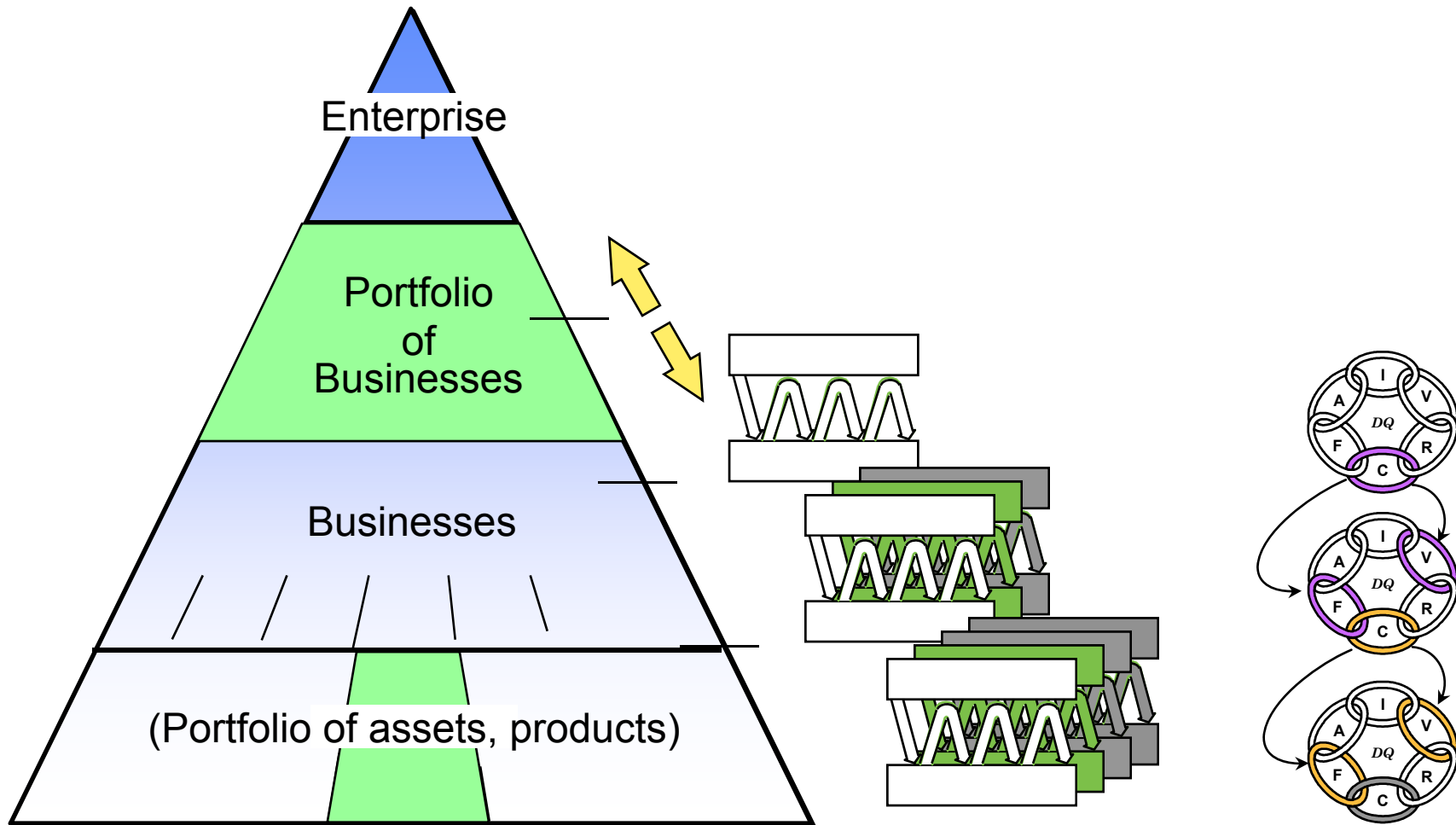
Decisions alternate as one-off strategy and portfolios.



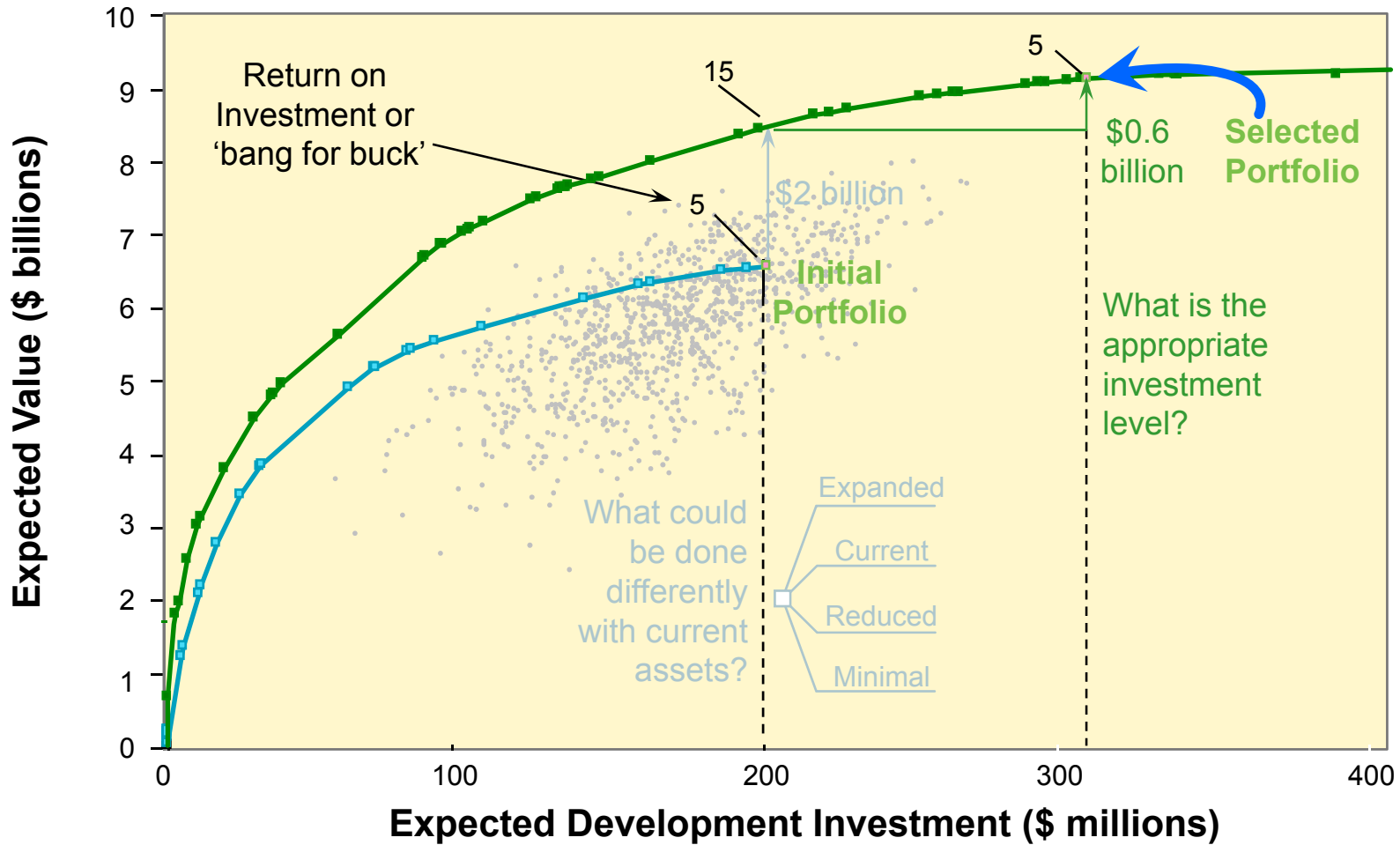
The decision domains are nested and interconnected.



Each PVM domain does not stand alone – frames and values need to be aligned.

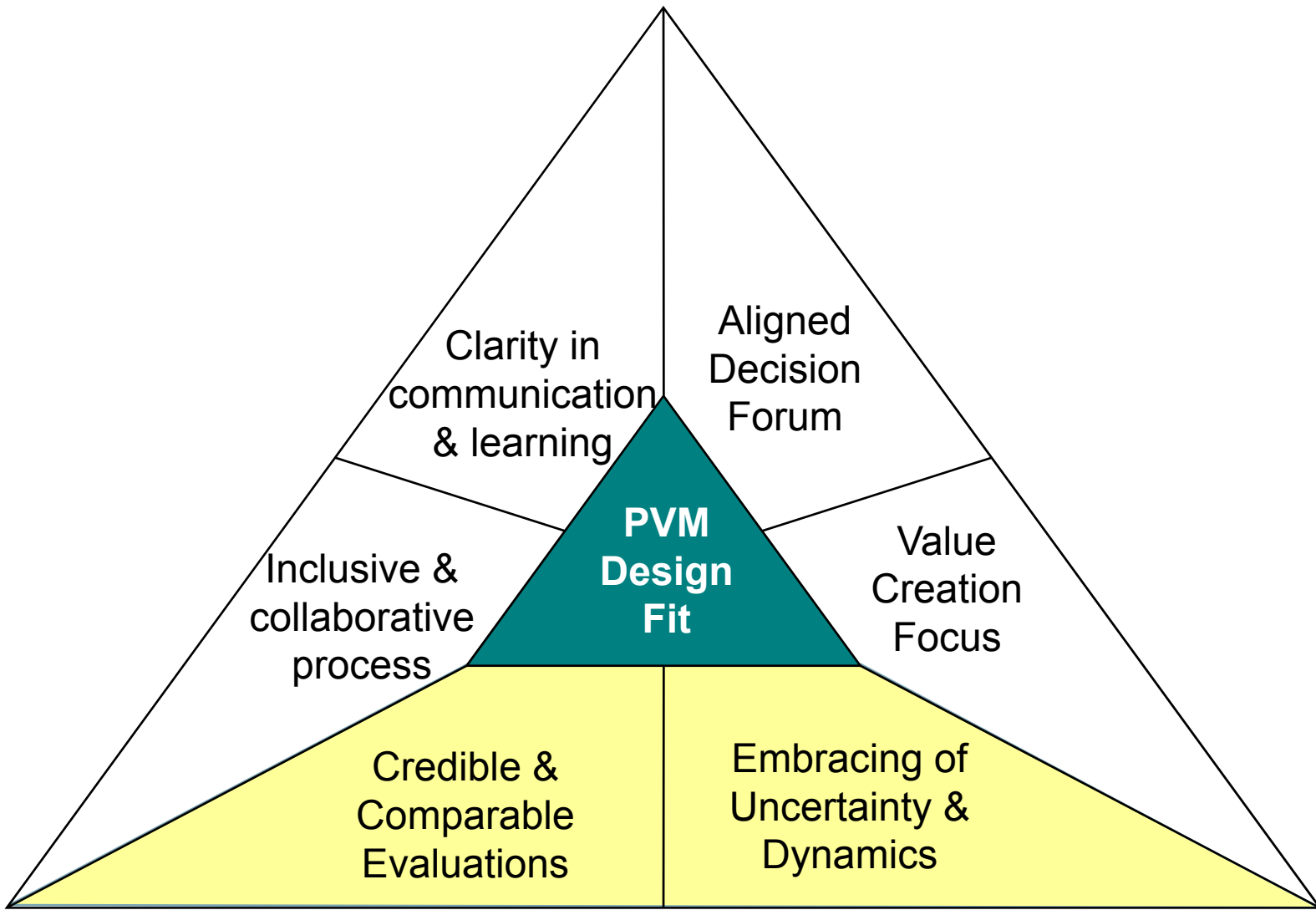


The pay-off from effective PVM is huge.

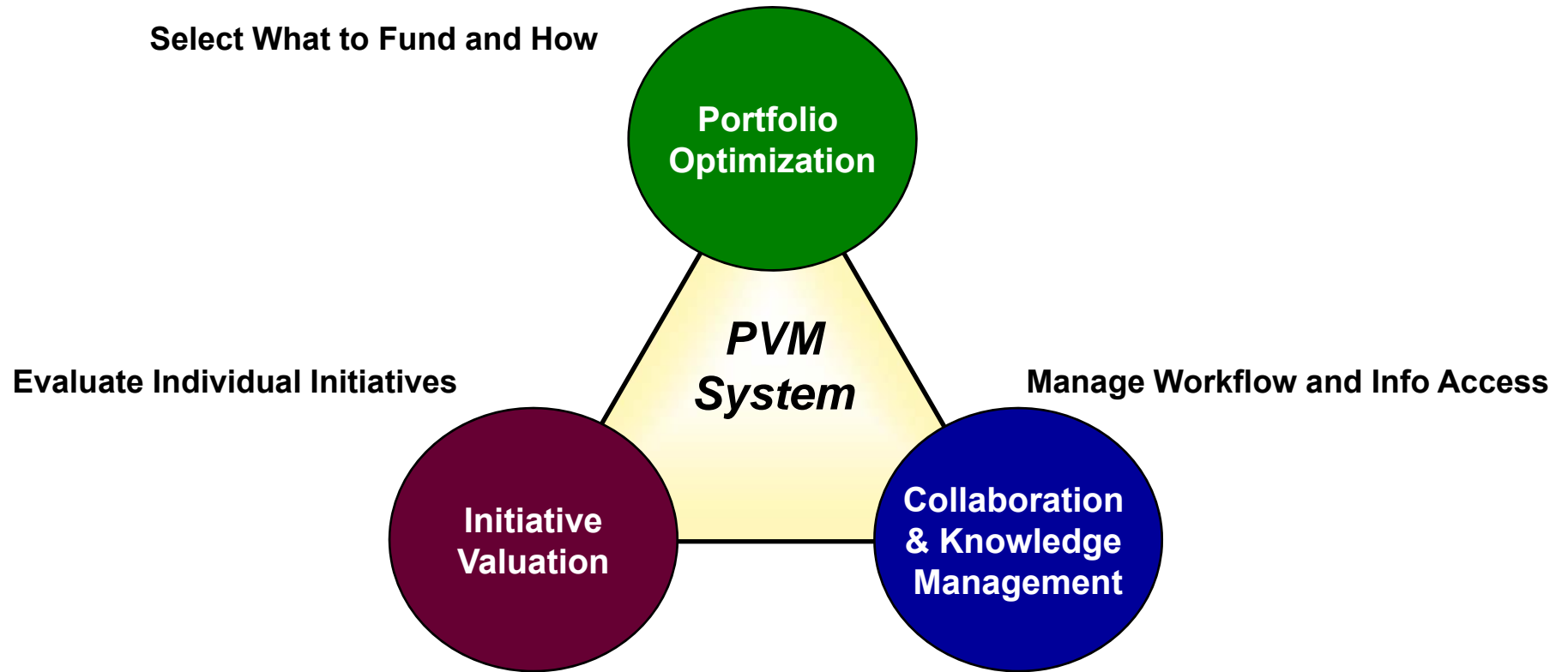


* Return on Investment = Expected NPV / Development Cost.

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PVM systems combine analytical features with collaboration and knowledge-management.



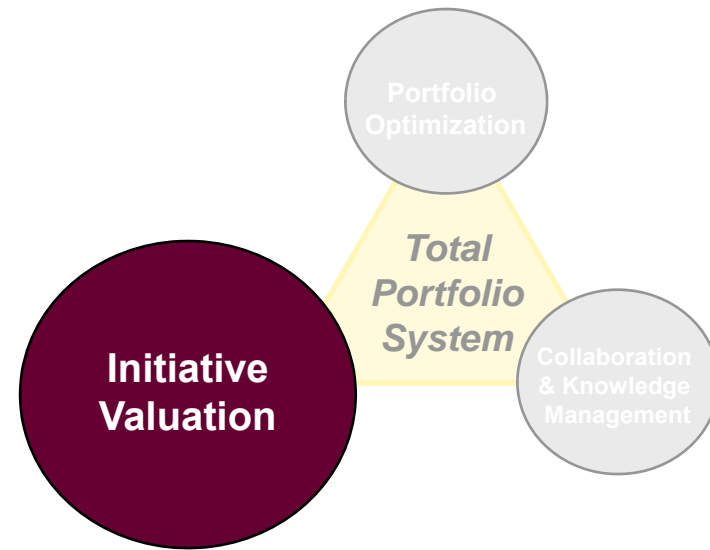
Best-of-breed initiative valuation generates credible, consistent value-and-risk profiles for each of several compelling alternatives.

Evaluate Individual Initiatives

- Frame the initiative
- Assess market potential
- Analyze commercial potential
- Perform cost analysis
- Generate final valuation

Best of Breed

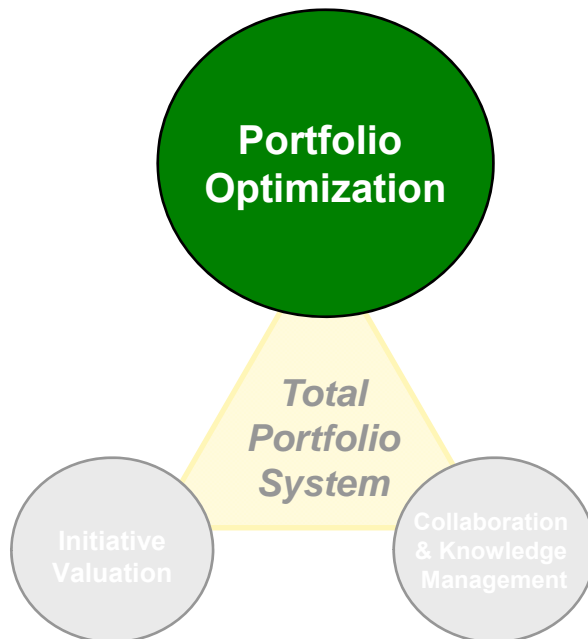
- Credible Inputs
- Eliminates behavioral distortions
- Transparent, flexible logic for valuations
- Consistent approach for all assets
- Explicit treatment of uncertainty in inputs & outputs
- Shared “global” inputs
- Treat multiple alternatives for each initiative
- Dashboards that facilitate communication
- Evergreen (or at least periodic) revaluation



True portfolio optimization requires clear understanding of trade-offs against multiple value measures.

Select What to Fund and How

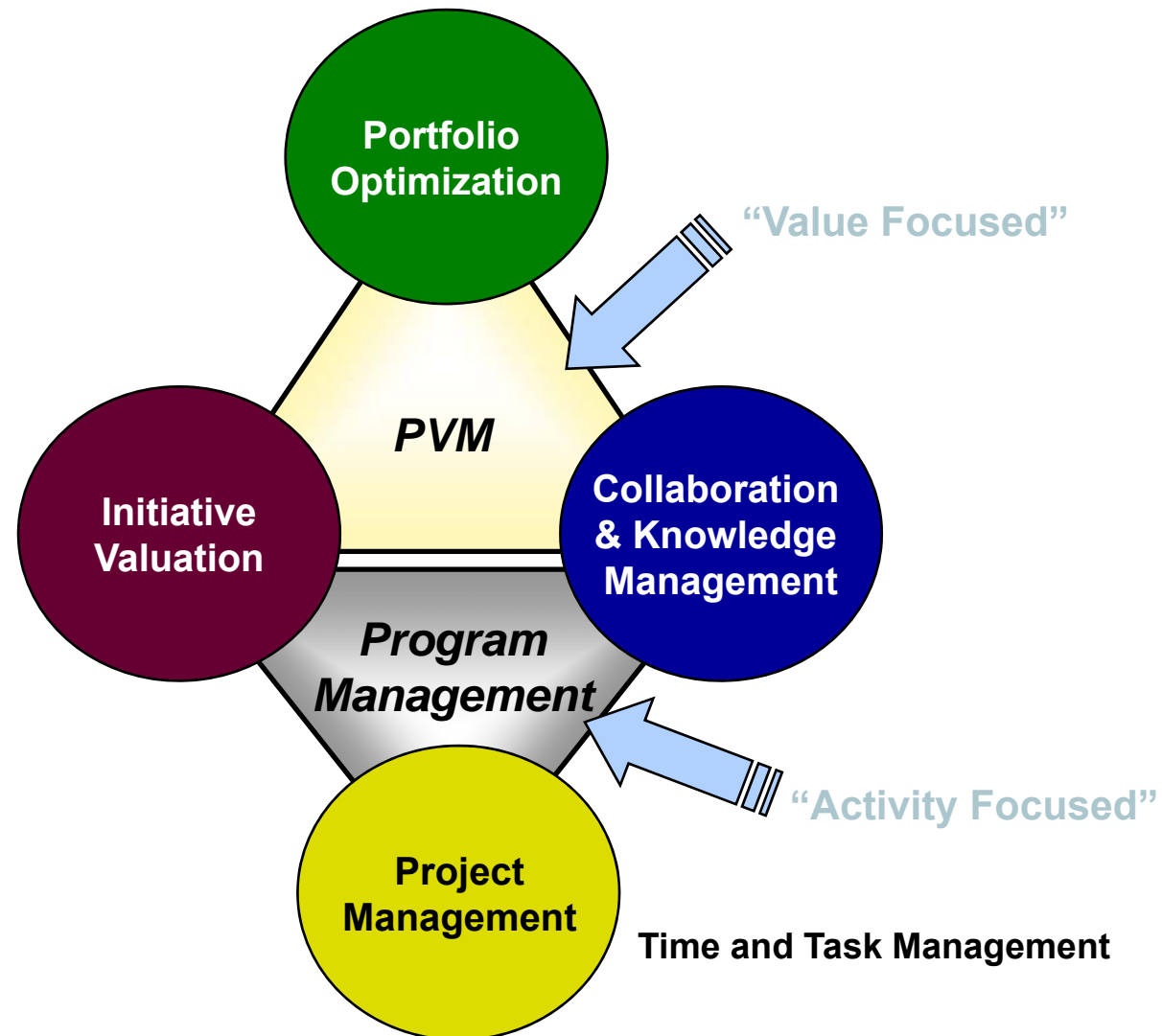
- Compare initiatives
- Develop alternative portfolios
- Combine initiative-level data
- Compare alternatives
- Select portfolio
- Plan for implementation



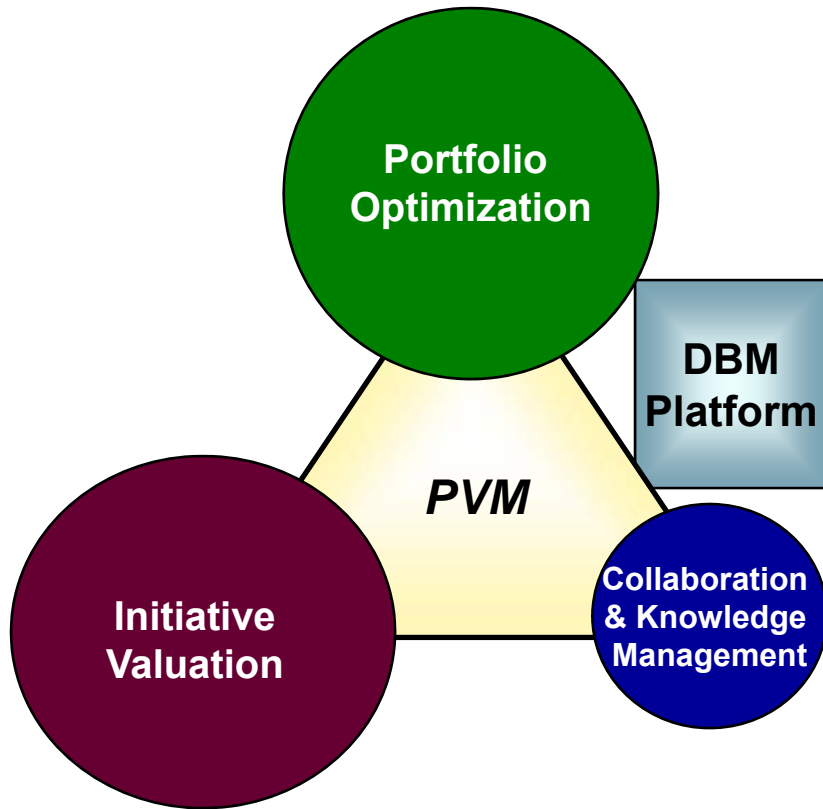
Best of Breed

- Trusted by decision-makers
- Handle multiple value measures (NPV, earnings, capital expense, ...)
- Quantify portfolio risk as well as value
- Accurately capture interdependence (initiative synergies and correlated risks)
- Treat multiple portfolio alternatives
- Dashboard that helps decision-makers
- Set overall funding based on opportunities
- Create options that might be exercised later
- Establish milestones and decision trigger points
- Portfolio alerts

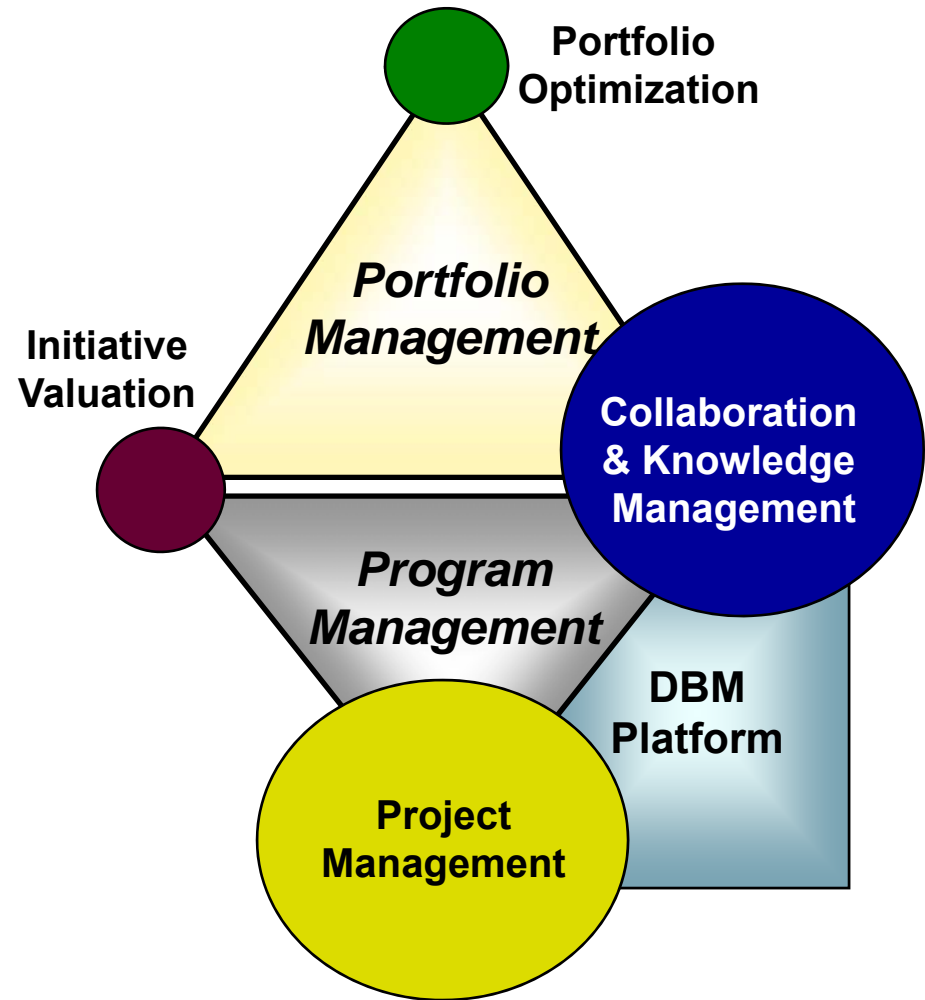
PVM is related to, but distinct from, program (execution) management.



We see two types of solutions in the market.

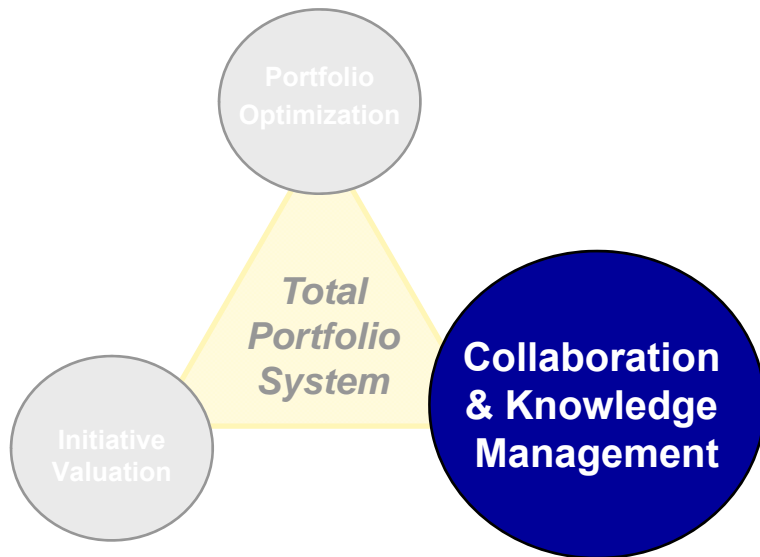


Stand-alone PVM Solution



Project Life-cycle Solutions

To make the best periodic and ongoing decisions, the right information needs to be in the hands of the right people...at the right time.



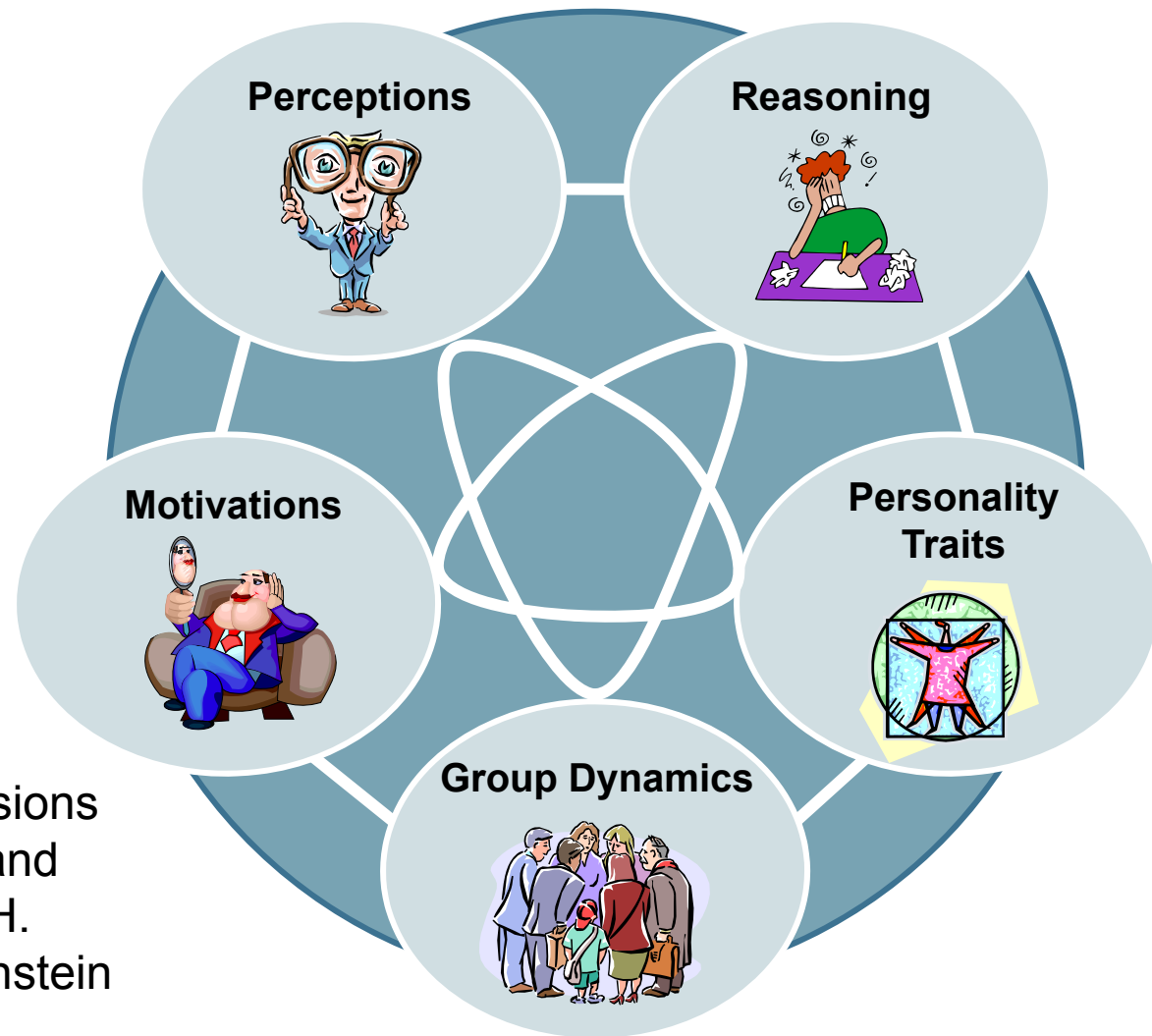
Manage Workflow and Info Access

- Gather external data
- Generate internal assessments
- Review, audit, refine inputs
- Produce and distribute reports
- Archive data

Best of Breed

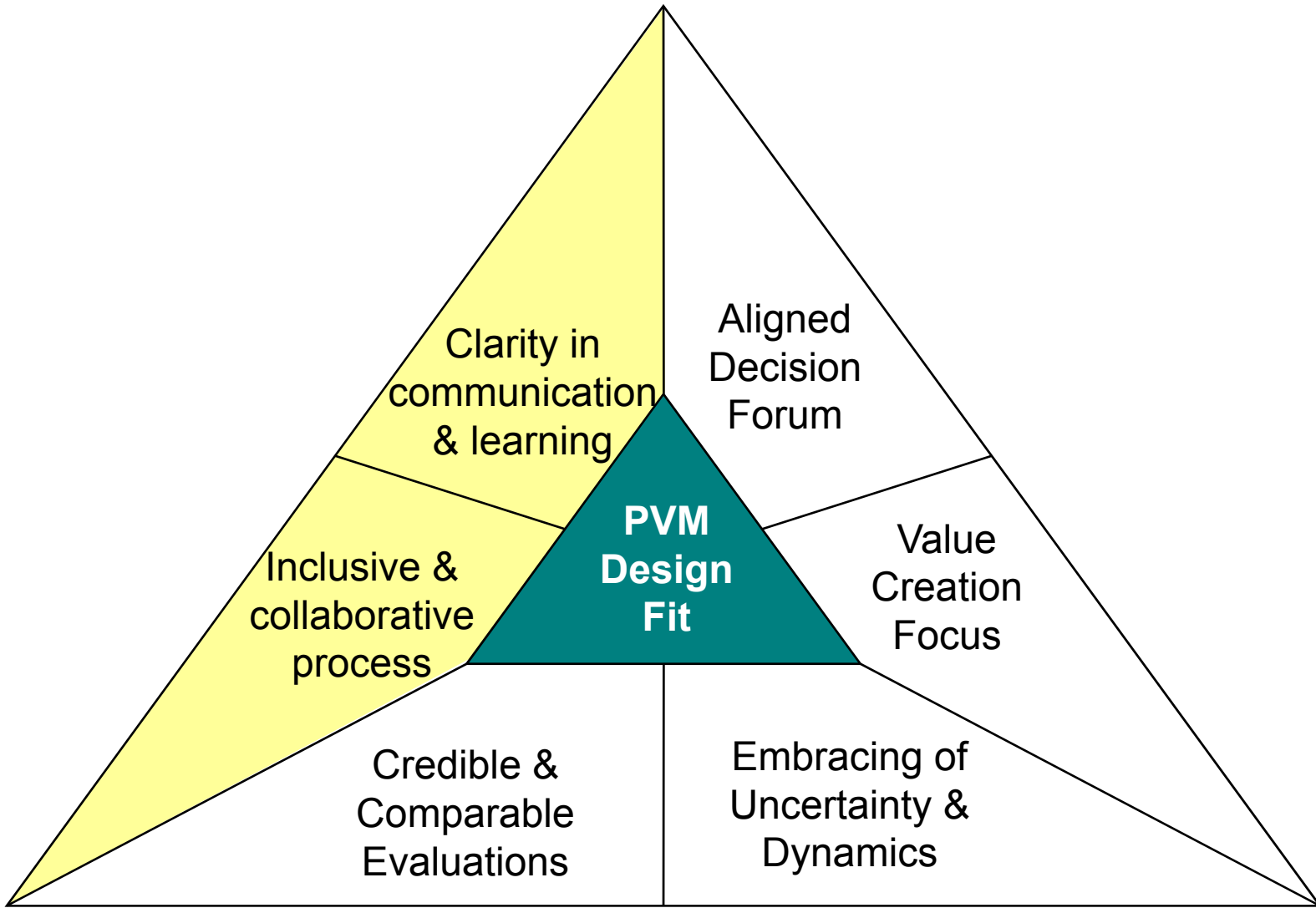
- Use best possible internal and external info sources
- Aggregate/link related documents and data
- Streamlined data access (browsing, searching, directories, etc.)
- Maintain, track, provide version control on inputs and outputs
- Comprehensive security and permission management
- Scheduled and event-based notifications
- Integrate with existing systems to make authorship easy, communication channels obvious, and avoid redundancy

Behavioral distortions are reduced through elicitation techniques, training, calibration, and “Nudge” design.



Nudge: Improving Decisions About Health, Wealth, and Happiness by Richard H. Thaler and Cass R. Sunstein

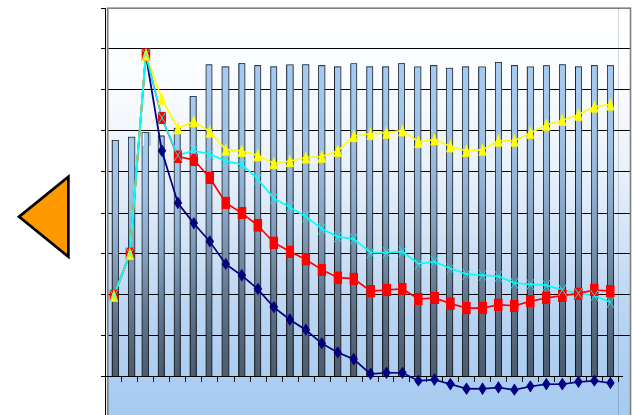
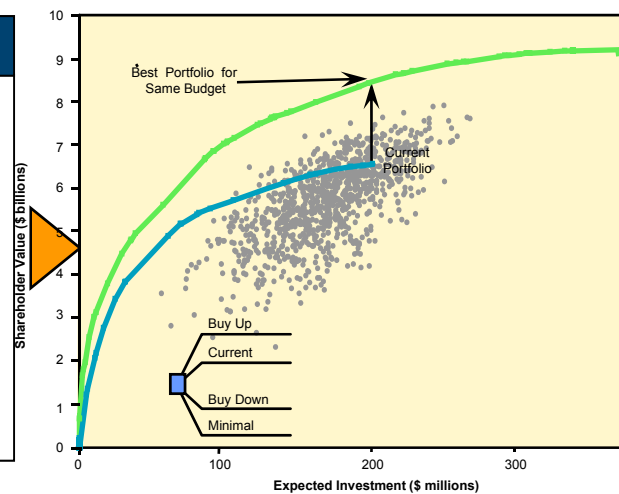
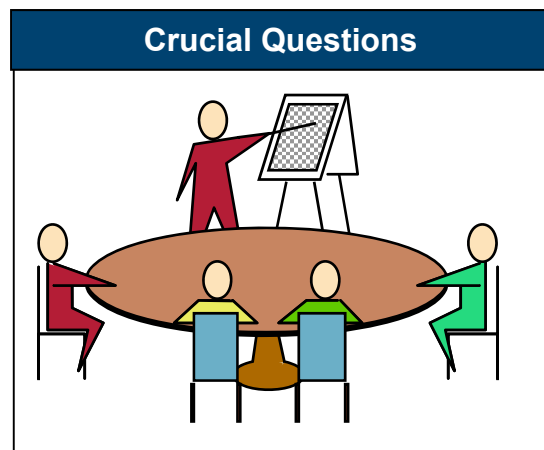
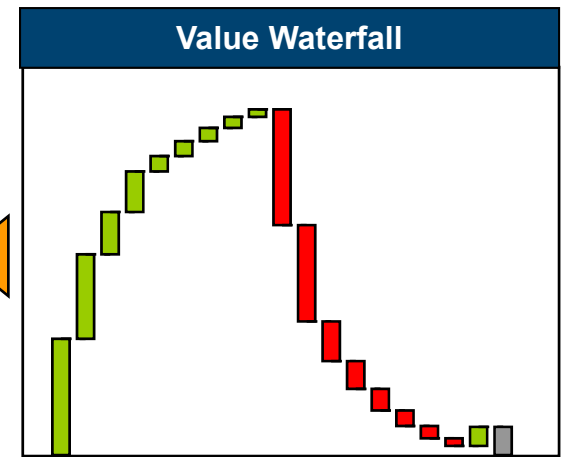
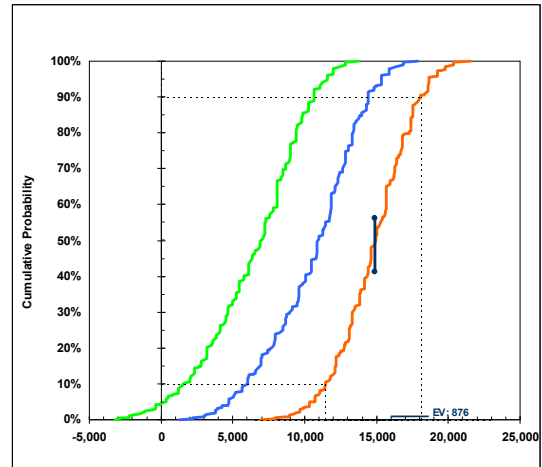
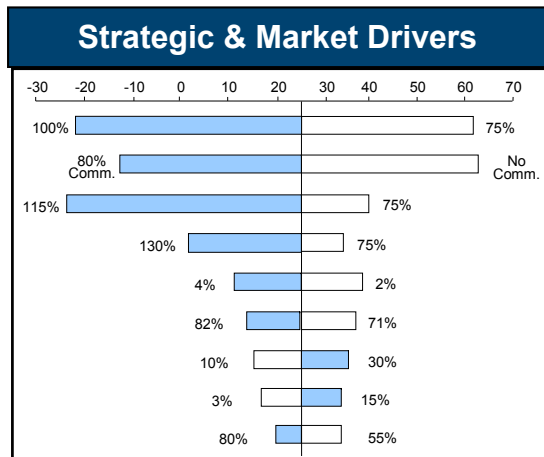
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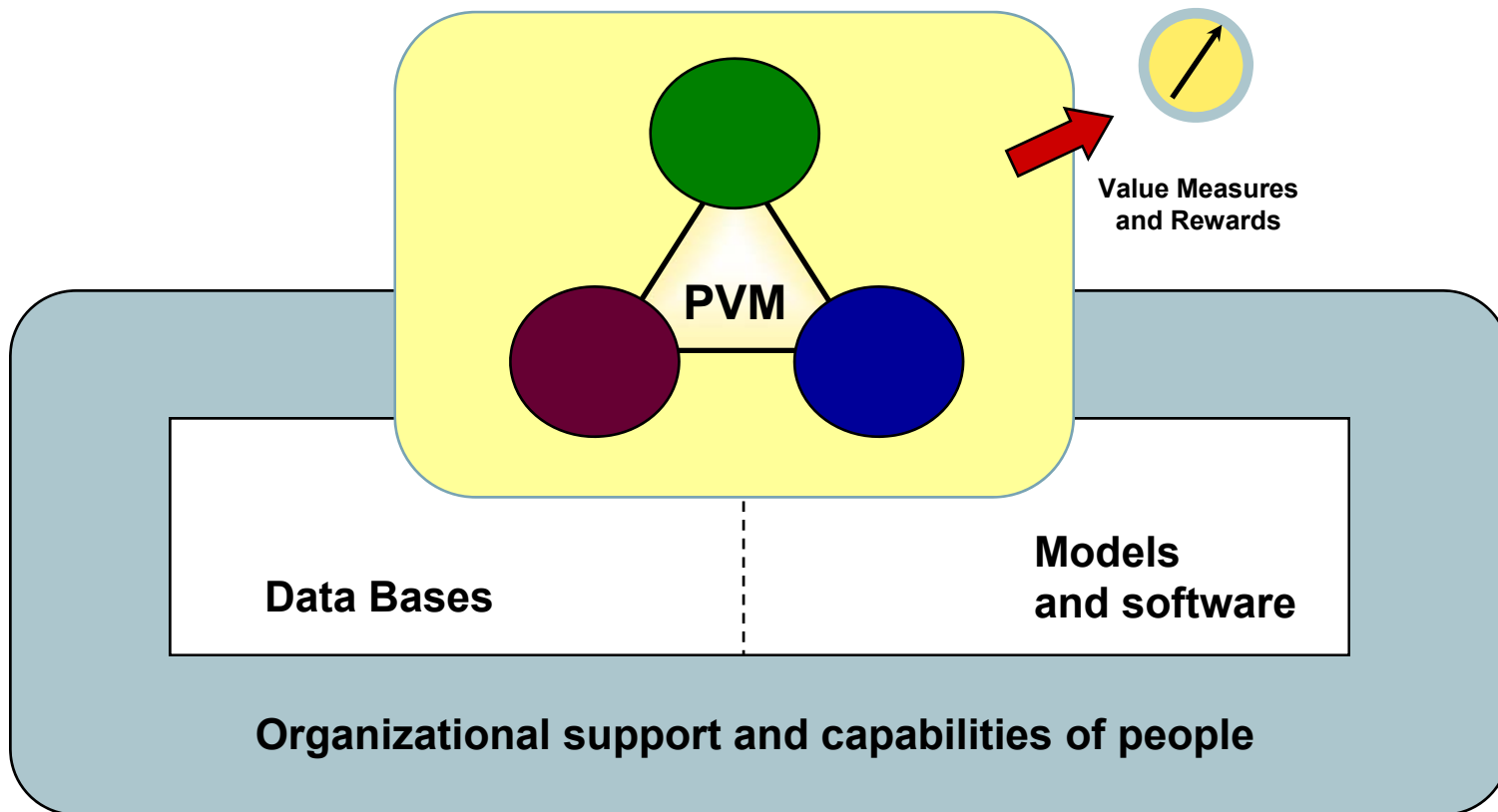
Portfolio decision processes are best when they are inclusive and collaborative.

- Reach out to the relevant stakeholders
- Bring the conflicts into the process – don't avoid them
- Evolve rules for conflict resolution that:
 - Drive to maximum overall value instead of parochial interests
 - Seek the truth
 - From fact and research
 - With behavioral distortions minimized
 - Built-on experience and judgment
- Use as the forum for making the most important and difficult choices
- Kept current with timely updates

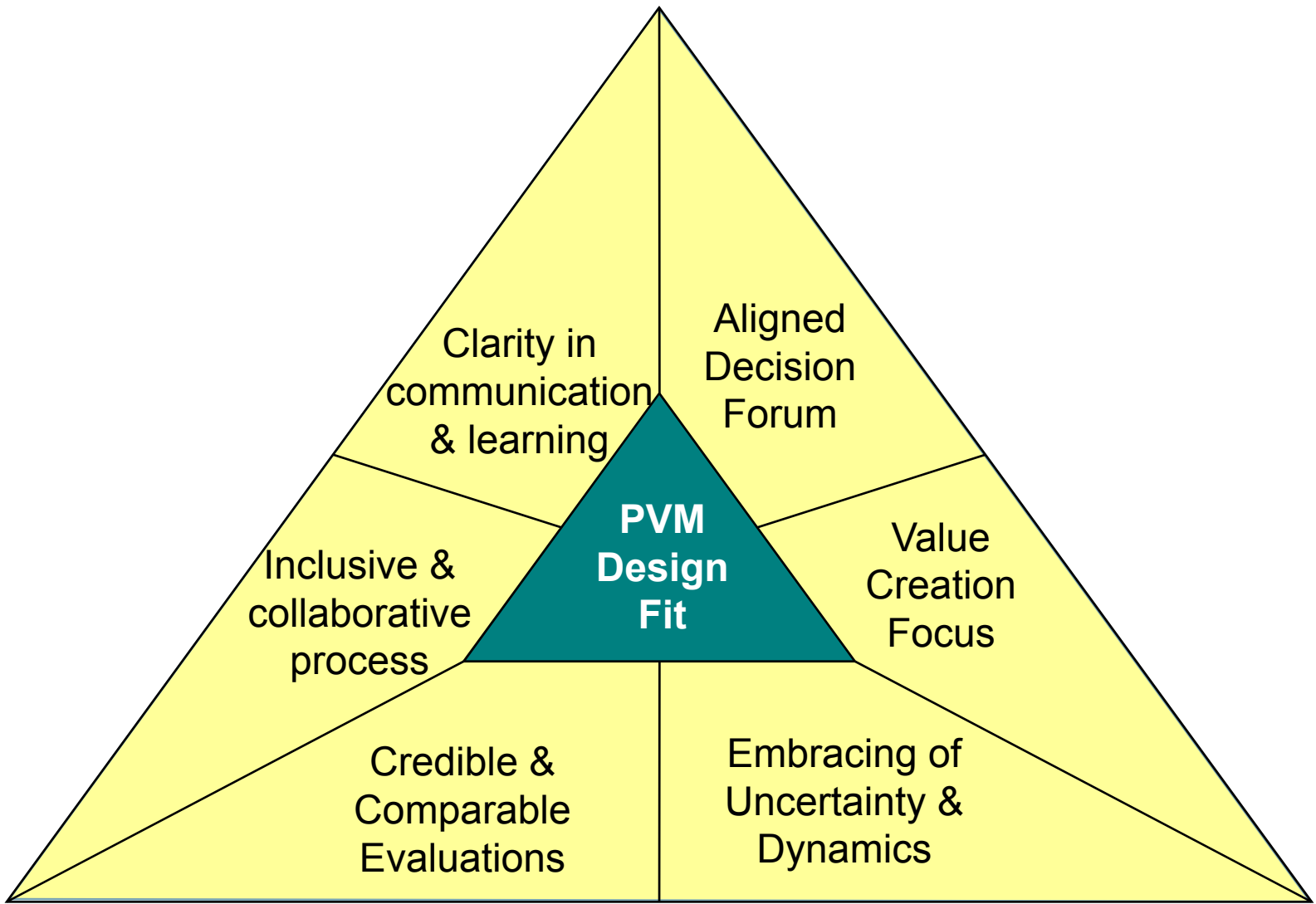
Good Dashboards combine the most salient information for tracking and learning.



PVM increases speed, collaboration and decision quality by storing learnings and building capabilities.



... and it is a whole management system.



Credibility and quality result from a whole management systems view.

Committed organizational leadership

Credible valuation methodology

Range of investment alternatives

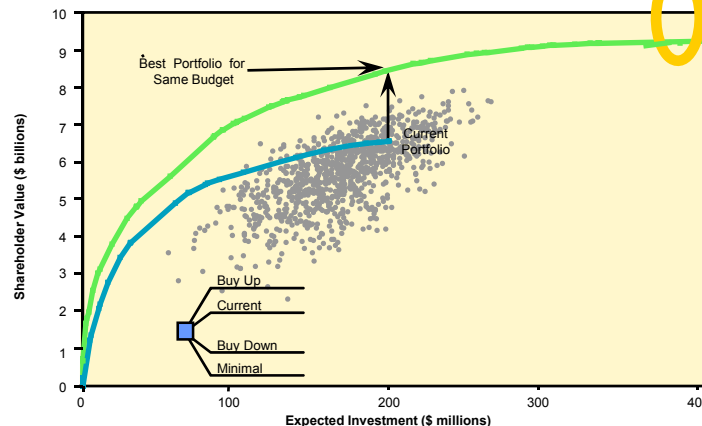
Credible inputs—handling uncertainty

Excellent communication & collaboration

Sound process design

Effective process leadership

Appropriate software systems



...and if a component is missing or not well connected to the others, portfolio decision-making may not be substantially improved.

In summary, PVM is a technical and organizational challenge.

What does it take for a successful PVM?

- **Knowledge and Skill in DA and PVM**
- **Credibility – especially with the decision-makers**
- **A broad management systems perspective**
- **A fitting design**
- **Effective tools and software**
- **Good dashboards**
- **Process leadership**

And, what gets in the way?

- **Lack of Decision-Maker support**
- **Over-simplification**
- **Over-complexifying**
- **Bogging down**
- **Not winning the “credibility war”**
- **Lack of a systems perspective**
- **Trying to have one size fit all**
- **Lack of vertical or horizontal alignment**