

3. PORTFOLIO MANAGEMENT

3.1 What is Portfolio Management?

Portfolio Management is the process used to:

- . align the set of all projects under consideration and / or development with corporate and business unit strategy,
- . evaluate and select the projects based on a given set of criteria,
- . determine the prioritization of those projects selected, and
- . allocate the available supply of project development resources (financial and people) to the appropriate projects.

Portfolio Management has three main goals:

1. *Ensure the portfolio of projects is aligned with the strategic direction of the company.*

A strategically aligned portfolio contains individual projects that are consistent with the company's strategic objectives, target markets and market positioning. Further, a strategically aligned portfolio is also made up of a set of projects that collectively deliver results that are proportionately consistent with the objectives and focus of the organization.

2. *Ensure a balanced portfolio of projects.*

A well balanced portfolio contains an appropriate mix between long term and short term projects, high risk and low risk projects, strategic, new product and infrastructure projects, and projects that address a variety of different markets and customer needs.

3. *Maximize the value delivered by the portfolio of projects.*

In measuring value a number of different factors can be considered including Net Present Value, payback, revenue, addressable market and market share increases, gross margin and operating expense cost savings, expanding competitive offerings, delivery on strategic objectives, etc.

3.2 Selecting and Prioritizing Projects

The selection and prioritization of projects is a two-step process involving first the categorization of all projects and then the rating of all projects.

The purpose of categorizing the projects is to develop a balanced portfolio of projects. The categorization of projects is a recognition by senior management that there are a number of separate and distinct types / classes of projects and that to promote the

company's long term health and growth the company needs to invest in projects from each category.

The three project categories used are: strategic, product development and infrastructure projects.

1. *Strategic*

Strategic projects are those projects that involve the entry into an entirely new line of business, or class of services and involve major corporate investment and the development of a significant number of new operational processes and competencies. These projects are typically developed outside of the existing operating structure of the organization by an independent cross-functional group established solely for the purpose of pursuing the entry into the new line of business.

Some examples of strategic products include the establishment of US and International operations as well as the integration of corporate mergers and acquisitions.

2. *Product Development*

Product Development projects are those projects that introduce new services, features and other revenue generating initiatives within the existing lines of business. Product Development projects are distinguished from Strategic projects by several key characteristics. First, the scale and scope of Strategic projects is far greater and has far reaching organizational impacts across the entire organization. Secondly, Strategic projects involve the entry into entirely new lines of business, where as Product Development projects involve the introduction of new products and services to complement or grow an existing product portfolio. Finally, as previously mentioned Strategic Projects are typically developed outside of the existing operating structure of the organization by an independent cross-functional group established solely for the purpose of the Strategic Project, while Product Development projects are developed within the existing organization under the direction of a business sponsor.

3. *Infrastructure*

Infrastructure projects are those projects that address the network, systems and operating infrastructure and capacity required for the ongoing support and growth of the organization. The Infrastructure category of projects is made up of 4 sub-categories of projects including cost savings, quality, growth and compliance projects.

3.4 Managing the Portfolio

The project portfolio is managed by the PMO (Project Management Office). While the PMO is primarily responsible for the management of only the projects from the Product Development category, it also maintains an overall picture of the resource supply and demand across all projects. Additionally, the PMO manages the annual budgeting and prioritization of all projects as part of the annual business planning process.

Throughout the year, the PMO manages the Product Development projects through the use of a Project Idea Funnel.

Project Idea Funnel



The Project Idea funnel is used to manage the number of new product development initiatives under consideration and under development at any given time. The funnel controls the number of projects under development ensuring that the number of projects under development remains manageable and does not spread development resources too thinly. At the same time, the funnel promotes the implementation of as many new product development initiatives as possible, by ensuring that as projects are implemented into production, there are new projects available and ready for development and implementation.