Valuing Projects and Portfolios

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Portfolio Management is Multifaceted

Set The Strategy

- Define strategic goals
- Define arenas where goals will be attained
- Define projects necessary to attain goals within each arena
- Assess Gaps in Current Project Mix to highlight highest priority additions to portfolio

Process

- What constitutes a valuable project?
  - Market potential?
  - Profit potential?
  - Technology potential?
- What must be assessed to justify additional funding?
  - At each stage of development
  - For different project types
- How often are projects assessed?

Governance

- Who makes funding decisions to meet high-level strategic goals? When?
- Who makes funding decisions for each type and size of project? When?
- How often do we look at the portfolio vs. individual projects?
  - How do we prioritize projects in the portfolio?

Roll Out

- How do we pilot the process?
- What is the timeline for rollout to the entire organization?
- How do we ensure compliance with the process?

Typical Process and Method Challenges

- Teams suffer from perpetual requests to justify their programs to different parties
- Teams are told their valuations are incomplete or invalid
- Valuations are incomplete or invalid
- Difficult to review each project's fundamental assumptions
  - Attribution for inputs is fuzzy
  - Often the assumptions themselves are not explicit
  - Teams do not prioritize risks around assumptions and actively verify most important assumptions
  - No commonly understood process for revisiting a project when fundamental assumptions change
  - Interdependent projects are not revisited when markets shift or technologies evolve
- Inconsistent treatment of projects
  - Schedule and launch date are not based on current, actual funding commitments
  - Time horizons, discount rates are not consistent
  - Project cost estimation methods vary
  - Plausible size and share are not tied to a planned launch date and specific customer commitments
  - Pricing is not tied to a set of customer requirements
- Unclear how/whether multiple development plans are considered
- Post-mortems with an analysis of actual to forecast ROI are difficult to perform

Qualitative Valuation

Overview to stimulate discussion

Qualitative Valuation

- Rate projects on scale (1-5/10) using questions in a series of categories
- Categories should be designed around strategic goals, resource constraints, or risks
- Questions in each category should be
  - Mutually exclusive – little to no overlap between questions
  - Collectively exhaustive – capture all important dimensions of that category
- Question scales and question/category weights
  - Usually too confusing to aid conversations and decision making
  - Useful when synthesizing views of many independent experts

Defining Metrics

- Metrics are scored on a scale from 1-10 or 1-5, depending on anchors
- Anchors should exist for every point on the scale
  - Anchors must be concretely different to differentiate projects
  - Anchors must cover the range of possibility for projects

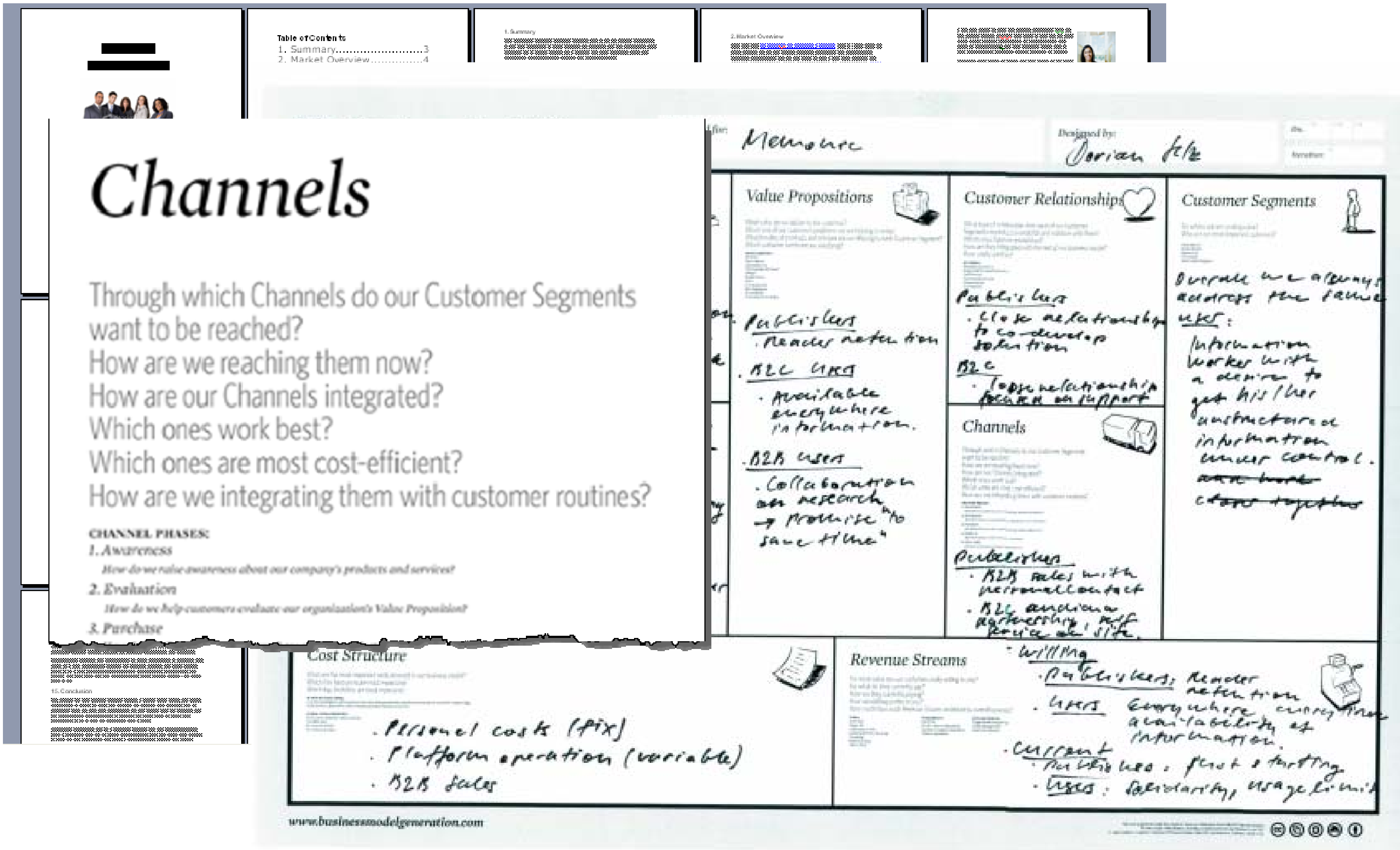
Categories

- Technical Success
  - Questions that assess technical risk or likelihood of success
- Commercial Success
  - Questions that assess rewards, market receptiveness and market landscape
- Vulnerabilities
  - Questions that address operational pitfalls and other risks

Sample Question: Program Complexity

- Capture the internal organizational challenges and risks to project completion. The greater the number and diversity of players involved across the organization, the riskier the project.
- Factors to consider: Number of locations, number of disciplines, number of organizations, alignment of objectives across organizations, external control, number of people total, track record of players
- Scoring:
  - 1: Extremely complex; will require very intensive effort to coordinate communication and align work across players (involvement: multiple CoEs, sectors or external vendors)
  - 3: Very complex; will require greater effort than usual to coordinate communication and align work across players (involvement: multiple CoEs and a sector or an external vendor)
  - 5: Moderately complex; will require average amount of effort to coordinate communication and align work across players (involvement: two CoEs or one CoE and one sector)
  - 8: Not very complex; will require less effort than usual to coordinate communication and align work across players (involvement: one CoE)
  - 10: Not complex; will require no effort to coordinate communication and align work across players (involvement: one manager)

Narrative Valuation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Channels
Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?
CHANNEL PHASES:
1. Awareness
How do we raise awareness about our company's products and services?
2. Evaluation
How do we help customers evaluate our organization's Value Proposition?
3. Purchase
Designed by:
Value Propositions
Customer Relationships
Customer Segments
Channels
Cost Structure
Revenue Streams
. Personal costs (fix)
. Platform operation (variable)
. B2B sales
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The Business Model Canvas

Designed for:

Designed by:

On:

Iteration:

Key Partners

Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

Key Resources

What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

Value Propositions

What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

Customer Relationships

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

Channels

Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

Customer Segments

For whom are we creating value?
Who are our most important customers?

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

Revenue Streams

For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

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Portfolio Management and Venture Models

	Fortune 500	Venture Capital/Startup
Number of Projects under Active Management	100-200	20-100
Percent of Maintenance projects	40-90%	0%
VC/R&D Mgmt. Touchpoints	Quarterly/Semi-annually (milestone based)	2x month
Documentation	Business Plan	Business Model
Criteria for additional funding	Quantitative metrics (score, NPV, eNPV)	Validated business model
Team - Customer interactions	Every 2-6 months	Continuous; at least every two weeks
Potential for Failure	At milestones	At every customer interaction
Response to Failure	Abandon/plead forgiveness	Pivot/reinvent

Quantitative Valuation

Discussion and review of methods

Important Considerations

- Benefits of a quantitative model
  - Provide a focal point for conversations about each project
  - Ensure project assessments are comparable
- Most companies start with too detailed a model
  - Building the model is much easier than collecting data
  - Building the model is much easier than explaining the model
  - You can always add more detail later if warranted
- Should you capture uncertainty?
  - Avoiding ‘pajama’ valuation
  - Prerequisite: culture/process that encourages/enables open discussion around each opportunity

Metrics: From Simple to Complex

- Addressable market size
- Addressable market size * market share
- Addressable market size * market share * product lifetime
- Addressable market size * market share * product lifetime * price
- Peak revenue
- Five-year revenue
- Present value of revenues
- Expected Commercial Value with lump sums
- Net operating profit after taxes
- Expected Commercial Value with cost/revenue over time
- Net present value of cash flows
- Expected Commercial Value with capitalization/balance sheet
- Internal rate of return (also mIRR, aIRR)
- Earned value added

Key Questions

- What is the appropriate time horizon?
- What is the appropriate discount rate?
- Should projects be loaded with non-project costs? How?
- Should projects be loaded with manufacturing and sales costs?
- Should cannibalization be considered? How?
- Can standardized market sizes be used?
- Can standardized staff rates be used?