

Product Portfolio Management *It's about Knowledge and Experience*

Belinda Burson

Within an organization there are many groups that are dependent upon technology and tools; there are also a number of groups that are dependent upon the people. One such group is Decision Analysis (DA). Granted, DA practitioners rely upon very sophisticated models and decision trees, but the validity of the data entered into those tools relies completely upon the individuals gathering that data. In turn, returns on investments rely on the quality of the internal decision making capability of the organization.

One particularly measurable area within an organization is Product Portfolio Management. Big Bet Industries require a proven process for the review and valuation of the project portfolio. This is an evolution - an on-going process of analysis, review and change. In turn, these industries should employ individuals with an equally proven track record and flexible mindset.

When the projected net present value (NPV) of your product portfolio does not match reality, it's time to think about building or rebuilding your portfolio management team. The timeline to establishing a successful portfolio analysis team and process can be greatly reduced by utilizing a consulting firm renowned for their work around DA and hiring an experienced individual to build the team. These teams operate in a matrixed organization. In my opinion, a truly world-class team should be led by someone with years of experience in both DA and in leading teams in complex organizations. While it is useful for the team leader to also have experience in the industry, this is less critical as he/she can be surrounded by individuals with years of product and/or functional experience.

By far, the Pharmaceutical industry has the best practices in place around decision quality, primarily due to the widely-used SDG (Strategic Decisions Group) Methodology and decision sciences, which address the risk and uncertainty inherent in all Big Bet Industries. The majority of the world's ten largest Pharma companies have built world-class portfolio optimization groups within functions such as discovery, development, marketing, strategy, M&A and finance. As a result, the Pharma industry holds the greatest market share of human capital around decision analysis.

Most people trained in this competency will agree that the return on a *qualitative* analysis is much higher than that of complicated analytical techniques. Although, as the process becomes more refined, so does the need for more advanced analytics that are capable of combining the qualitative with the quantitative. You cannot achieve a true qualitative analysis without a high quality team, skilled at translating both sets of data.

Often times a matrix organization lends itself to creating a "part-time" team of portfolio managers and analysts from in-house talent. This is not ideal for at least two reasons: 1) For part time team members, fighting fires in one's functional area will always take priority over doing the non-urgent but important work of something like portfolio

management; and 2) Unfortunately an individual's knowledge about research, development, exploration, regulatory, quality, marketing, or other functions (depending upon the industry) does not qualify them necessarily to be part of the portfolio management team. While having functional knowledge is useful, best practices dictate that portfolio management team members be excellent communicators, politically savvy, able to lead by influence (especially upward), analytical, and most importantly, inherently able to ask the *right questions*. These are generally personality traits, not learned tools. And these team members absolutely must fit the culture of the organization.

They must be able to take into account political and social realities when modeling projections. The dialogue between the team members and the rest of the organization must possess transparency. This is NOT an accounting exercise, it is a decision making process. Traditionally, evaluations start out noble but lead to a process of justifying a senior-level decision. This is the reverse intent of DA. The senior executive team should enlist the help of the DA team prior to reaching a conclusion. The executive team should expect that many times the Portfolio Management team may generate a value for an asset that does not support the executives' conclusions. This should not be frowned upon, but rather embraced as a challenge to further explore and prove or disprove one's theory. From the firm's financial perspective, it is far more beneficial to cut losses early so that funds can be freed up to invest in assets with more potential. Today's corporate leadership needs to be challenged; they need to be questioned, and they need their decisions supported by a proven methodology.

Establishing a true product portfolio management team and process will be challenging, but rewarding – particularly in regards to reliable financial projections and long term shareholder value. Some of the challenges will be:

- Changing business processes to include a portfolio management process
- Identifying and hiring the right team and process leader
- Establishing the credibility of the team across the organization
- Integration and development of team members

In an effort to minimize these challenges, one should take a hard look at the culture of the organization. In order for the portfolio management process to be successful, the team must be properly placed within the organization. This is different for every company and should be fashioned into any particular model without evaluation and justification. This is your first true decision quality exercise. Some organizations feel these groups fall under R&D, while others question the unnecessary pressure that falls on team members to conform to R&D's agenda. Others have placed this under the office of the CFO, perceiving it (inappropriately) as an accounting tool. This model may work well in your organization if your CFO could be termed an Operating CFO or COO/CFO. Finally, groups have been developed under corporate strategy, where some might argue that these individuals are too far removed from the heartbeat of the organization. Again, this depends upon the culture of the organization. Some Corporate Strategy groups are used as mini-consulting teams performing Monte Carlo simulations, developing the Ten Year

Strategy, and other non-operational work, while other Corporate Strategy groups are filled with people with real-world experience making real-world decisions.

The plan for building a Portfolio Management, Decision Analysis, Decision Quality, or similar team cannot be left purely as an in-house function. Through recent experience at building teams, I have learned that the candidates for these roles must be strategically sourced, and at times brutally scrutinized for cultural fit. Their personality traits cannot be lifted off a resume pulled from the internet or evaluated even within a full-day interview with a dozen people. We all uncomfortably admit the possibility, but there are times when gender plays a role as to who is more uniquely qualified to meet a “bona fide” job requirement in this culturally driven role. In a global organization, careful consideration should be given to “geographic diversity” and “cultural receptivity” to gauge likely organizational acceptance of the DA candidate. These are some of the reasons our clients use search firms – to identify and deal with a corporation’s sensitive human capital issues.

Our firm, Solomon Case & Co. has gained unique experience in this space. We have a large candidate pool in North America and Europe. Candidates are looking for a new challenge. Some of these individuals have been in their current position in excess of seven years. They were trained by SDG (Strategic Decisions Group) years ago and have been continuously modifying and expanding the portfolio function within their organization. Most would be interested in repeating this in a new organization. They can bring lessons learned, best-practices, and a fresh look to your portfolio of products.