The Missing Link in Product Portfolio Management Unleashing Value through Brand-Sensitive Innovation	A Planview White Paper Steven Cristol Managing Partner Strategic Harmony®Partners

Introduction

This paper identifies a persistent missing link in driving greater return on investments in product development – a link that is a powerful key to addressing the most challenging pain points associated with optimizing product development portfolios. It outlines a methodology for portfolio decision-making that results in stronger brands, greater competitive advantage, more efficient resource allocation, and faster time to market with the products and services most likely to create value. This methodology puts the voice of the customer at its center. It has now been successfully tested in varying contexts by market-leading Fortune 500 companies (see "Field-Based Insights" after end notes), and points to the next frontier in advancing best practices in product portfolio management.

I. The Missing Link – and Business Problems It Addresses

So what is this missing link? It is the crucial relationship between products and brands, and leveraging that relationship by *aligning and integrating product strategy and brand strategy*. Let's explore the meaning, implications, metrics, and outcomes of this that matter so urgently, especially in a troubled economy that demands companies wring every ounce of value from precious resources. But let's begin by examining the business problems it helps solve.

First and foremost is the pervasive and well-documented[1] lack of correlation between product development spend and shareholder value drivers, including profitability and growth. Such correlation analysis exposed the reality that a company's method of selecting product development projects can be a bigger success factor than the size of its R&D wallet. Project selection and resource allocation across projects are also where the most stubborn issues in product portfolio management reside. A recent survey[2] of executives and managers across multiple industries, commissioned by Planview®, identified the following as top pain points in managing product development portfolios (see Fig. 1):

1. Too many projects for the available resources
2. Decisions that go back and forth and are made too late and/or ineffectively
3. Deciding how to cut costs while minimizing future consequences
4. No consistent and transparent way to measure the value of projects
5. Missing the time-to-market window
6. Politics dominating the decision process

On further inspection, all of these issues roll up to two closely-related themes: resource allocation missteps and decision-making inefficiency/irrationality. Both have grave consequences at worst and value-diluting ones at best.

A less discussed problem, but with massive implications, is the systemic separation of the product development and brand marketing functions in so many companies (which also helps explain some of the biggest problems mentioned thus far). Even among companies that excel at both managing their brands and managing product development, rare is the company that is highly effective at integrating the two. For the rest, product development and brand management are on parallel but separate tracks. Organizational silos and inadequate, disparate metrics conspire to perpetuate such segregation. Neither the desired brand image nor the voice of the customer is then sufficiently present in product development decision-making to fine tune portfolios to yield *only* new products, features, and services that provide the strongest possible tailwind for the brand – and what it must stand for in customers' minds to grow and retain market share.

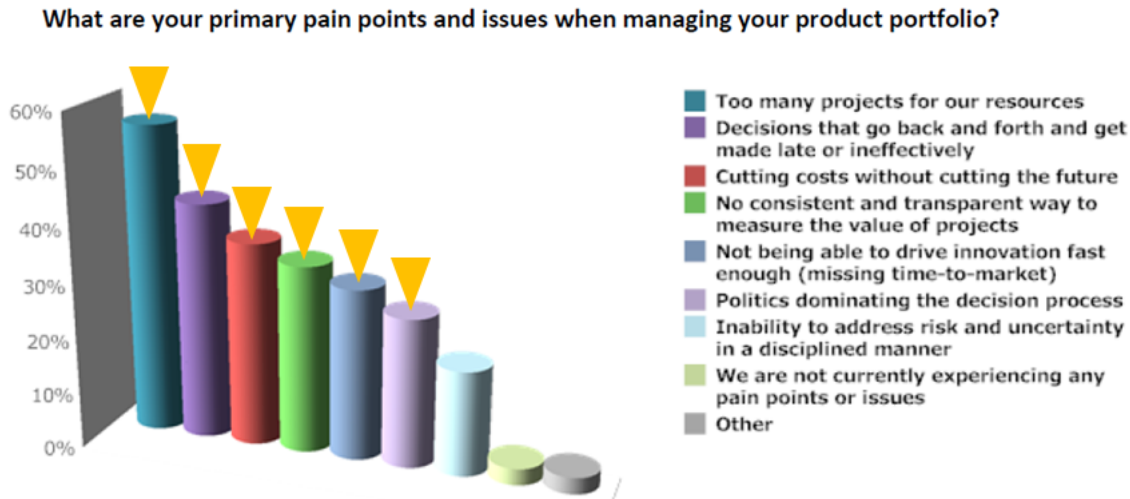

Figure 1. *Source: 2009 survey of 400+ executives and managers commissioned by Planview, Inc.*

Fortunately, when this missing link between product and brand strategy is firmly established, all of these challenges are much more easily addressed – and more quickly and affordably than most companies imagine. Let's move on to how.

II. Brand-Product Alignment Starts with Leveraging the Voice of the Customer

Brand-sensitive innovation does not stray from the customer's voice. It relies on product portfolio evaluation criteria that not only capture the depths and nuances of customer needs, thoughts, and feelings, but also translate the customer's voice *in the same way* across all organizations that touch a product throughout its lifecycle. Development teams and product managers who decide what to deliver to customers and the marketing teams who decide what to say to them should always be guided by the same set of *drivers of brand choice* (or, in B2B parlance, drivers of vendor preference) – those attributes that are most important in customers' minds when choosing between product (or service) X, Y, and Z among competing brands. Whether characteristics such as "easy to use" for software, "healthy ingredients" for a snack food, "great image quality" for a pocket camcorder, or "fast loan approval" for a mortgage lender, the top 8 to 10 such attributes in any category (along with *trust*) can often account for at least 80 percent to 90 percent of the purchase decision. Each attribute has very specific meanings to customers, so there should be a well-defined set of brand choice drivers at each intersection of a product line and a target market segment.

These drivers of choice are the foundation of brand-sensitive innovation metrics. They inform which new products and features are the right projects to be working on to ensure brand-product alignment. When development initiatives, marketing strategies, and competitive analysis are all based on this same set of choice-driving attributes, new products brought to market and the brand stories that get told are much more likely to be in strategic sync. This leveraging of the customer's voice across functions, embedding it in portfolio analysis, bridges marketing requirements and product requirements. More importantly, it creates value more efficiently. It also polishes brand credibility when what you say and what you actually deliver from the product pipeline truly mirror each other.

As a first step, product portfolio managers will usually find the most actionable set of brand choice drivers in customer research that resides outside their own organizations – typically in the marketing organization where the brand is managed. Ideally, this will be a combination of qualitative research and quantitative brand choice studies that identify, define, and prioritize choice-driving attributes for each product line by market segment. If such research isn't available, or if you must make immediate portfolio decisions while waiting for research to be completed, you have options for creating an interim proxy for drivers of brand choice. One is to "reverse engineer" a set of brand choice attributes from customer satisfaction research. Another is to consensus-build a set of assumptions by bringing together those in the company closest to those customers (sales people, product managers, market research managers, engineers who have customer contact, etc.). Still another is to thoughtfully analyze how the top three brands in your category are currently messaging, and identify and prioritize the attributes that are getting the most attention there. **Caution:** none of these approaches are a substitute for well-designed brand choice research, but they can be a good start that represents a significant improvement over self-contained requirements definition within the product development organization alone.

III. Metrics for Brand-Sensitive Product Portfolio Decisions

Brand-sensitive innovation first requires separately assessing two complementary aspects of every product development portfolio: the degree of each project's potential *positive impact on customers* and *negative impact on competitors*.* These are inextricably tied but not the same thing, so separate metrics are in order even though both assessments are based on the same set of brand choice drivers. Regardless of how customers or competitors are impacted, the relative resource requirements and risks of each development project must obviously be considered as well. That brings us to three core assessments for brand-sensitive product portfolio decisions:

1. alignment with drivers of brand choice (which some prefer to think of as alignment with ideal customer experience)
2. competitive impact
3. manageability

These assessments become powerful building blocks that can be combined in various ways to produce higher-order metrics such as overall strategic importance.

*This perspective on metrics relates principally to products, features, and services that will be brought to market on a time horizon ranging from several months to two years. Their launch is not so imminent that their scopes are frozen, but not so far into the future that their scopes are too fuzzy for assessment. Meaningfully mapping long-term discontinuous innovation or next-generation technology platforms to brand strategy requires different approaches, as commitments to five- or ten-year development cycles cannot anticipate future brand-building requirements or competitive landscape with sufficient sensitivity.

A. Alignment Assessment

An alignment assessment should provide the dual value of greater visibility into not only the relative customer appeal of each product development initiative in the portfolio, but also the appeal of the portfolio as a whole. A brand-sensitive alignment assessment requires rating each portfolio initiative on how well it aligns with each of the most important choice-driving attributes, producing an alignment scorecard. Once all initiatives are assessed for alignment, rolling them up for a total portfolio assessment view answers other key questions. If you bring *all* those initiatives to market for this product or product line, how well aligned is your *total* portfolio with drivers of brand choice? On which choice-driving attributes are you under- or over-spending? Is your development portfolio, for example, “convenience-heavy” and “performance-light”? Vice versa? Whichever the case, is that strategically advantageous or sub-optimal? All these questions are relatively easy to answer when the right criteria have been used and appropriately weighted, and their meanings well understood, in a brand-sensitive alignment assessment. Those answers become even richer decision intelligence in the context of a competitive impact assessment.

B. Competitive Impact Assessment

A brand-sensitive competitive impact assessment strives to ensure that every dollar spent on product development will help the brand where it most needs help to establish or maintain competitive advantage. As with the alignment assessment, a competitive impact assessment should provide the dual value of gauging not only the competitiveness of one development initiative versus another, but also of the assessed portfolio as a whole.

Unless you are creating a whole new product category, first a benchmark must be established for each choice-driving attribute as to whether your current product in the market today is superior, at parity with, or inferior to key competitors. After all, the goal is to be the “brand to beat” on each key driver of brand choice. Only with this attribute-specific picture of current in-the-market products’ competitive strengths and weaknesses can you answer three fundamental questions. First, if these development initiatives as currently scoped are brought to market, to what degree do they have the potential – individually or collectively – to close any product gaps so that key competitors can no longer legitimately say they are better than your brand on attributes where you are now behind? Second, to what degree can these initiatives potentially move your brand from a parity position to a superior one, allowing your brand to legitimately assert that it is best in class on each key attribute? And third, to what degree do these initiatives fortify your lead on attributes where you are already superior but have key competitors breathing down your neck, as opposed to unnecessarily extending your current lead on attributes where you are far enough out front that there is no impending threat? Rating each initiative on potential competitive impact in these contexts yields a competitive impact scorecard that more finely tunes resource allocation to winning market share.

A total portfolio view of competitive impact also provides a gauge of overall innovativeness. When alignment scores are relatively high but competitive impact scores are relatively low, it means that the products/features are what customers want but are not differentiated enough to enable legitimate assertion of superiority on key choice-driving attributes. Many brand-loyal customers are still happy to buy those products, but market share gains without aggressive pricing are unlikely. One internal outcome of that assessment, however, may be a soul-searching inquiry into whether the company as a whole is innovative enough – and, if it is not, what could be done about that.

C. Manageability Assessment

Disciplined assessment of the manageability of one development project versus another always considers not only resource requirements but also uncertainties. We observe companies paying much more attention to resources, sometimes at the expense of overlooking consequences of development complexities and risks such as outsourcing an activity for the first time, using a new supplier, or needing to acquire new technology to successfully complete a project. Monitoring and managing both human and financial resources for product development has become much more sophisticated, due in part to robust portfolio management software. However, in assessing development initiatives under consideration but not yet underway, resource requirements may not yet have been forecast at any level of detail. Other development projects may be underway in early phases but still have flux in their final scopes. In either circumstance, the lack of complete knowledge about resources does not excuse giving manageability metrics any less attention than alignment or competitive impact. Senior product development managers, even when unable to say how many people or how much money it will take to complete a project, can almost always look at a portfolio and judge with relative confidence which initiative will be highest in resource consumption, and which will be lowest. Then rating and ranking those in between can be done as well to produce a manageability scorecard.

D. Higher-Order Metrics: Strategic Importance and Leverage.

Once completed, alignment and competitive impact assessments can be combined to provide higher-level visibility into the relative *strategic importance* of any development initiative. The balance between alignment and competitive impact must be appropriately weighted for each portfolio. That balance may need to be quite different at each segment-product intersection. Some simple guidelines apply here. A brand that dominates a market will usually be more concerned with creating the perfect customer experience than with de-positioning a particular competitor, in which case the alignment scorecard would be weighted more heavily than the competitive impact scorecard in gauging overall strategic importance. Conversely, a brand with weaker competitive standing suggests emphasizing competitive impact as the principal determinant of strategic importance. This will ensure that the brand gets help on those drivers of choice where help is most needed to close gaps or leapfrog competitors.

A strategic importance scorecard with appropriate weighting of alignment and competitive impact reflects each assessed portfolio's potential impact on customers and competitors, but it still does not account for what it takes to bring those portfolio initiatives to market. However, with a manageability scorecard in tow, strategic importance and manageability can be weighted relative to each other and combined to produce an aggregate measure of *leverage* – that is, how efficiently the development burden for each initiative is leveraged into potential market impact.

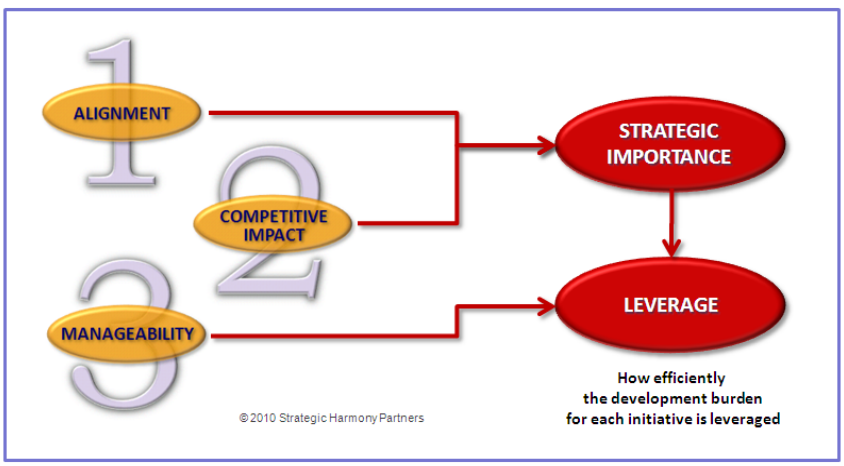

Figure 2. *Using brand-sensitive product development assessments to produce higher-order metrics for portfolio management. Source: Strategic Harmony® Partners.*

Side-by-side examination of strategic importance and manageability assessments often reveals that the highest-impact initiative in the portfolio is not the most onerous, and that the most manageable initiative is not the lowest impact. These relationships help define relative investment leverage across each portfolio. They telegraph resource reallocation opportunities and help identify which projects can be killed, delayed, or reduced in scope with minimal negative consequences for the brand. How resource-constrained a company is, and its appetite for risk, will drive appropriate weighting of manageability versus strategic importance.

IV. ROI, Shareholder Value, and Pain Points Relief

Leverage scorecards and the assumptions underneath them provide a way of looking at *Strategic Return on Investment*. Strategic ROI is a powerful complement to traditional measures of financial ROI such as net present value and internal rate of return. Since the voice of the customer tends to get lost in financial measures, looking at financial ROI in combination with strategic ROI provides a more holistic view of both hard and soft returns that drive shareholder value.

The connection between brand-sensitive innovation and shareholder value is profound. New products and services are principal drivers of customer perceptions that largely determine whether brand equity grows or diminishes over time. Product portfolio management that is tuned both to drivers of brand choice and competitive imperatives strengthens brands more efficiently than when innovation and brand management are detached. Strong brands in turn boost value creation[3] on all fronts – not only increasing revenue, but also supporting premium pricing for better margins and lowering cost of capital with a large and loyal customer base that attracts investors. Customer loyalty in turn makes cash flows more stable and reliable. On the cost side, brand-sensitive portfolio decisions encourage strategic cost-cutting by imposing more rigorous limits on the number of projects brought to market, and on the scope of each. Marketing costs are also reduced when products and features map strongly to brand choice drivers, finding a receptive audience and retaining customers to reduce pressure for expensive customer acquisition.

And that brings us full circle to the portfolio management pain points at the beginning of this paper. When portfolio decisions are made collaboratively across product development, product management, and marketing organizations, and are guided by a common set of criteria that drives both product and brand strategy, decisions don't have to inefficiently careen back and forth. Rational consensus ratings of portfolio initiatives and the follow-on analysis of alignment, competitive impact, strategic importance, and leverage begin to triumph over politics and the emotions that often surround pet projects of influential managers or engineers. The use of brand-sensitive metrics becomes a consistent, repeatable, transparent way to assess project value in a truly customer-focused way. When costs must be cut, they can be cut with much greater precision in the context of competitive impact analysis to minimize marketplace consequences for your brand. All this results in more effective resource allocation, getting to market faster with the things that matter most, and a more highly leveraged development portfolio for each product or service offering.

Such is the power of brand-sensitive innovation. The customer's voice is heard throughout, and product development is better positioned to emerge as a hero in every brand's story – over and over again. Brand-sensitive innovation will be made more powerful still as a new generation of product portfolio management software solutions evolve. These tools will support best practices in a brand-sensitive context, helping to facilitate the requisite cross-functional collaboration and embedding the metrics that bring product strategy and brand strategy into value-creating harmony.

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Visit www.planview.com/ProdDev
to learn more about Planview Product Portfolio Management solutions,
including Brand Impact Analysis powered by Strategic Harmony®.

About the Author

Steven Cristol is founder and managing partner of Strategic Harmony® Partners, a strategy consulting firm, and holds a patent for the first system to align and integrate product strategy and brand strategy. During 30-plus years of consulting and corporate experience, he has helped some of the world's most innovative companies – from Global 100 to Silicon Valley startups – build and manage brand equity and optimize product development portfolios. He is also a recognized thought leader on simplifying the customer experience and, as a Free Press and McGraw-Hill business author, his books have been published in eleven languages. Steven has devoted the past decade to creating a disciplined and more effective process to align innovation with the most compelling value propositions and increase customer satisfaction, competitive impact, and resource efficiency. He can be reached at cristol@strat-harmony.com.

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Field-Based Insights for Viewpoints Expressed

This paper is largely based on insights from in-depth consulting engagements with innovation-intensive companies – working across product development/engineering, product management, marketing, sales, and competitive intelligence/strategy groups, and personally facilitating workshops with these cross-functional teams to evaluate and prioritize product development initiatives. Those insights have been augmented by hands-on involvement in many client-sponsored primary research studies on brand choice dynamics and product requirements, and direct observation of qualitative research with clients' customers.