The Ever Flourishing Company's View of PPM : Getting More to the Bottom Line

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Leveraging project management for excellence, growth and transformation

Contents

1.1 Abstract

Year 2009 - Global recession plus massive economic restructuring - While revenues for most of the companies were declined from 2008 to 2009, 40+% saw their revenue grow. Prognosis for Year 2010 - Optimistically marked for economic recovery 70+% companies anticipates growth (10% revenue growth organically) in 2010 relative to the growth experienced in 2008-2009. The negative impact of current economic recession has meant less revenue for most companies, forcing them to cut back on already limited resources.

To survive, companies must look for ways to optimize effectiveness with less. By the same indication, developing more products faster can be the key to higher profits. Business that can commercialize most of the capacity with little or no investments will reap substantial rewards

Strategies for Growth - Research has found that the High Growth companies are “Expending their Sales Channel” while slower growth companies are still focusing on “Reducing Cost”

It has been reported that as many as nine out of ten corporate strategies devised on the execution level never comes to fruition. Initiatives get done in the context of projects – Are these projects efforts strategically focused? While most decisions on the project level are concerned with tactical issues, decision making on the portfolio level is concerned with strategic issues. Top-level corporate management is unable to easily hand off directions. That's because choosing projects that generates value is essentially a strategic activity

1.2 Keywords

Portfolio & Investment Management, Portfolio Valuation, Priority Model, New Product Development NPD, Resource Commercialization, Theory of Constraints, Mafia Offer, Blue Ocean Strategy, Integrated Business Planning, Corporate Performance & Key Metrics and Statistical Benchmark

1.3 Concerns

Highlights	• Increase revenue, decrease cost - Sales must grow faster and keep growing faster than it’s cost to have the good growth magnitude • Exhausting companies resource and or taking too high risks endangers the chance of reaching the objective • Increased collaboration and develop strategic partnership with customer, supplier and employees

1.4 Corporate Objective: Have Good Growth Magnitude with Same Resource Levels

1.4.1 Portfolio management in context of strategy

Companies can not afford to waste their resources on low value project that will have no financial return; portfolio management would help them optimally allocate the right resources for the right purpose at the right time resulting in increase of available financial means through improved investment selection (portfolio management of initiatives), reduction of overall costs and increase of profits and margins

Since good portfolio management will impact ROI, let us understand what senior executives try to achieve

A senior executive needs to focus on company's performance which is predominantly judged by Return on Investments (ROI) (Profit/Investments). ROI can also be calculated as Investment Turnover * Operating margins%

There are only two ways to have substantial increase to the profit margins

- Cost Reduction
- Sales increase

Cost reduction as a strategy has a limit that is it can go only down towards zero; cost reduction has very limited potential and so the only way forward is to increase sales, and to convert sales increase to profit increase, sales must grow faster and keep growing faster than its cost

Organization need to increase their capacity with little or no additional investments and sell the newly exposed capacity, by doing this, **Sales - Direct variable cost** drops directly to the bottom line. This leads to profit increase without depending on other traditional approaches (price increase, raw material decrease, or cost reduction) that proves to be difficult.

1.5 Strategies for Growth

High Growth companies are "Expending their Sales Channel" while slower growth companies are still focusing on "Reducing Cost"

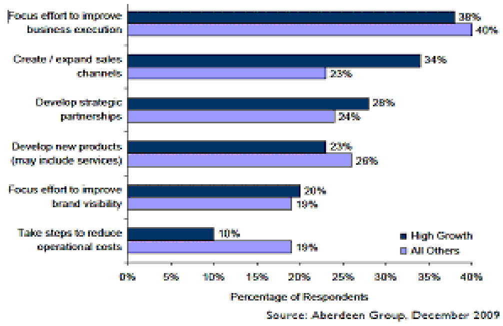


Figure 1: Strategies for Growth

1.5.1 Callenges in implementing Portfolio Management

Organizations face a variety of challenges in executing profitable business. These challenges are as diverse as the products and services offered, yet all strive for a common goal of delivering projects on-time and under-budget.

Clearly, companies must learn how to make investments in commercializing new technology more (a) effective, by selecting the right projects (products or platforms that best carry the projects to the market), and (b) efficient, by distributing resources optimally across the projects in the portfolio. This approach will maximize shareholder value and eliminate low-value projects early in the development cycle.

While companies with PPM implementation is more likely to grow profitably and efficiently, companies routinely over schedule their resources that leads to long lead time, fire-fighting and execute redundant projects and damage profitability by investing in non strategic efforts

It is against this strategic backdrop Wipro conducted a study of some of some of their customers that implemented project and portfolio management (PPM) solutions in order to uncover the pain points leading to deployment as well as the benefits that PPM offers. Respondents were asked about what tools they have implemented, and details of their customer's organization process and implementation goals. This study includes data from customers representing finance, electronics, banking, pharmaceuticals and manufacturing industries. Customer's total revenue is in excess of USD 1 billion. Each participant was interviewed about their experience since deploying project and portfolio management tools (PPM) from CA, Planisware, HP PPM and Planview. This report leverages some findings of this ongoing September-October 2010 study that includes 10 customers

1.5.2 A few salient findings:

The sample includes only organizations that are implementing a PPM solution. Around 60% indicate that they do not use scenario comparison for project selection

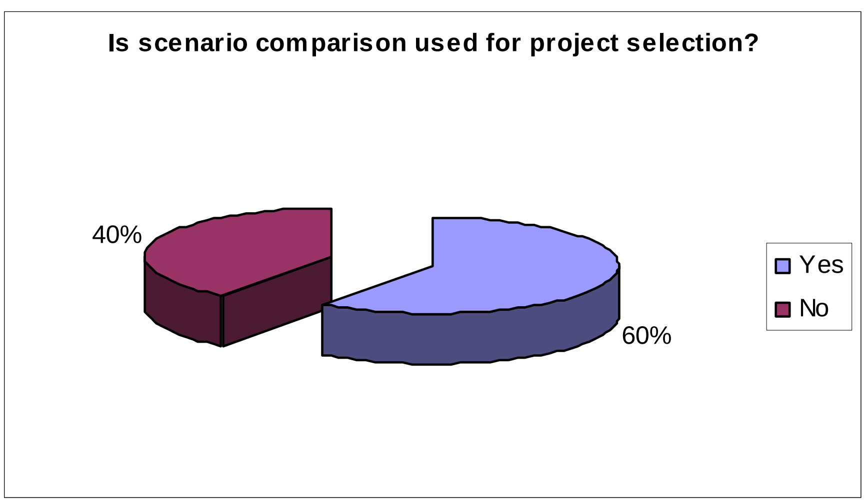


Figure 2: Scenario comparison - Usage

Of the customers who currently are not using scenario comparison 75% expects to adopt it in near future

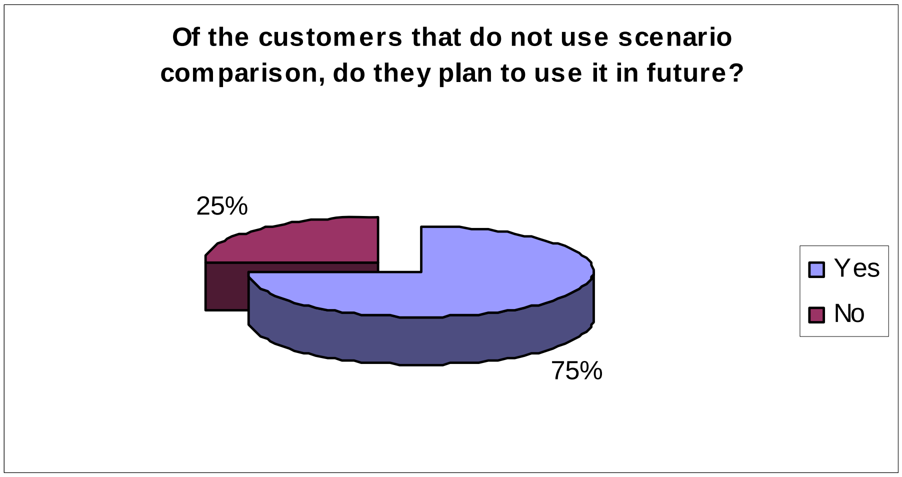


Figure 3: Scenario comparison - Future adoption

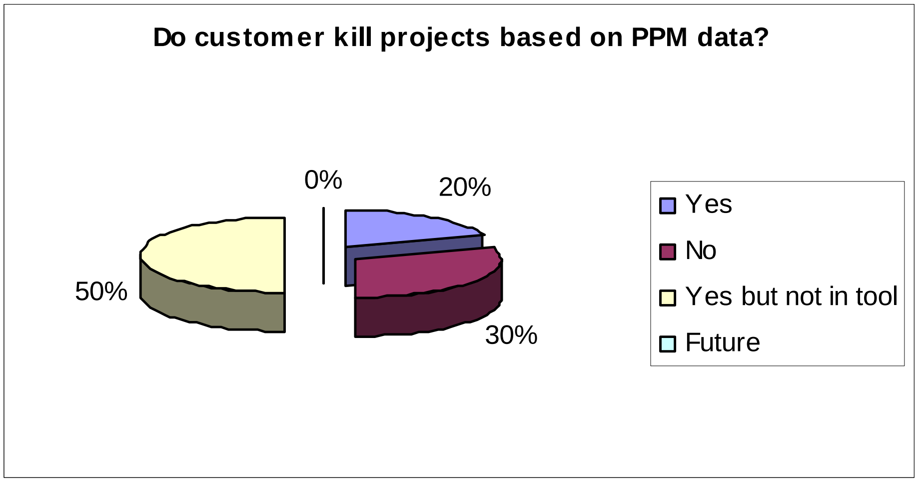


Figure 4: Kill Bad Projects - Unclog the Pipeline

50% respondents do kill bad projects but the mechanism is not integrated in PPM i.e. the decision is not made by leveraging PPM solution in place. Often there are offline processes that are more relied upon. Wipro recommends that maturing organization assume that there would be additional low value projects in the portfolio that can be dropped. For this, organizations needs to use portfolio selection process effectively

Most organizations have already made significant investments in PPM implementations but are yet to experience the full value. The Investment-to-value cycle is broken. They do not start with the end in mind. However they still manage to do right things initially but get derailed along the way. As many as 80% respondent do not calculate ROI of their PPM implementation

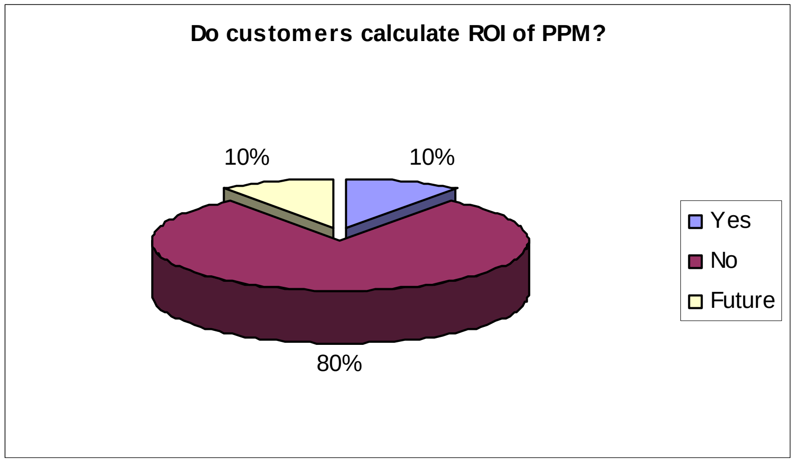


Figure 5: PPM ROI - Value assessment post implementation

Portfolio management processes are relatively new and the potential is not completely understood therefore full value is not realized. **Most of the processes do exist, but outside PPM**

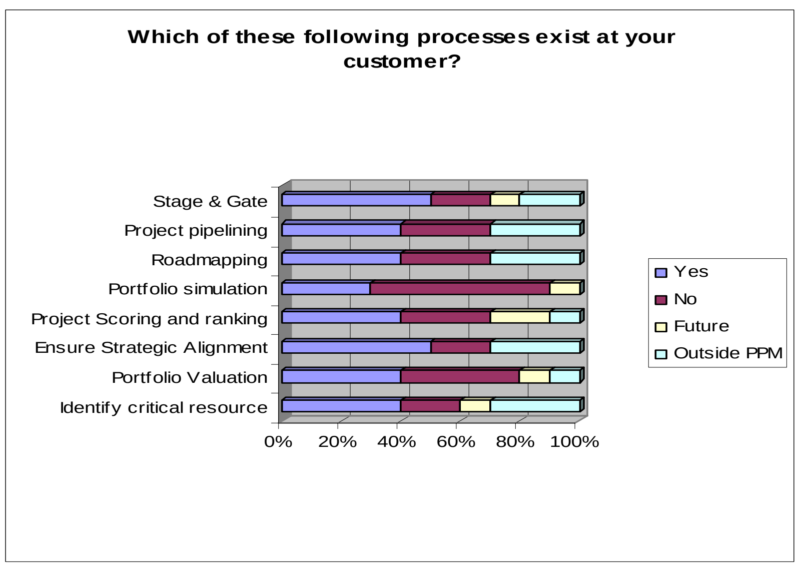


Figure 6: Portfolio Management Processes

1.6 Business Value

Highlights	• Organizations are implementing PPM tools to eliminate low value projects soon, commercialize new projects quickly and profitably while getting most out of development capacity • Streamlining project execution is viewed as primary objective of PPM and not portfolio management, this is despite having challenges in maximizing portfolio value, optimize resource utilizations and increase project velocity • Companies find that their greatest challenges are portfolio selection and pipeline planning

Portfolio management is a solution that addresses many of concerns of the companies. In many cases companies are trying to bridge the gap between portfolio planning and project execution but portfolio management is still a missed opportunity for most of the companies. Companies are implementing portfolio management

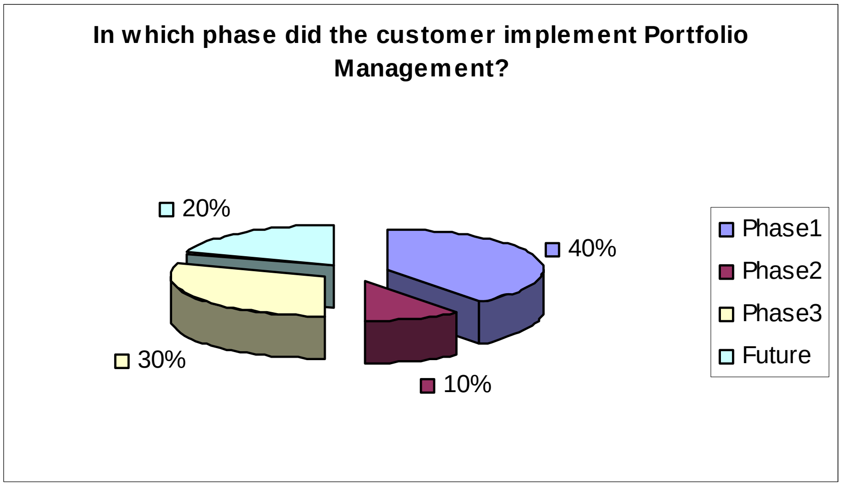


Figure 7: Portfolio management - Implementation Phase

Today's companies that employ PPM tools understand that they bring much value and better managed innovation processes and enables companies worldwide to improve organizational efficiency and save millions of dollars year after year

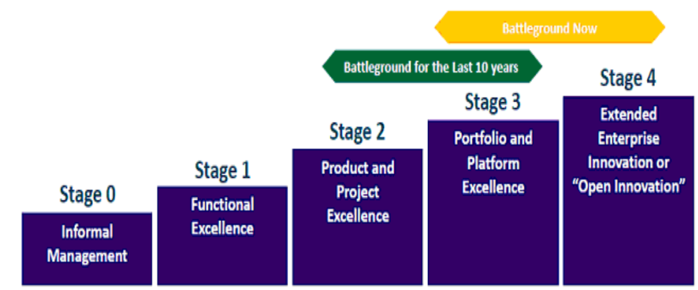
Forrester in May 2009 found that PPM tools bring a 250+% ROI (over a three-year period) to organizations – and PPM experts to create a three-pronged ROI evaluation based on cost reduction, cost avoidance and revenue increase that provides a guide for companies interested in or already using PPM systems

Dimension	PPM helps by . . .
Reduced project failures	• Aligning projects with available resource capacity. • Synchronizing projects for highest impact. • Aligning projects to strategic goals. • Providing estimation tools and best-practice methodologies.
Reduced project cost overruns	• Aligning projects with available resource capacity. • Assigning the right skills to the right projects. • Providing workflow and visibility into project performance. • Providing estimation tools and best-practice methodologies.
Reduced project throughput times	• Aligning projects with available resource capacity. • Assigning the right skills to the right projects. • Providing workflow and visibility into project performance. • Providing estimation tools and best-practice methodologies.
Reduction in low-value projects	• Capturing planned and active projects and performance. • Providing portfolio reporting and analysis capability.
Reduction in administrative activity time	• Capturing active project data (e.g., status, issues, risks, and changes). • Providing automated report generation and analysis.

Source: Forrester Research, Inc.

Figure 8: Key Benefits of PPM Software

PRTM Benchmark found that increasing maturity level on PACE model directly drives both revenue and margin growth



	Stage 1	Stage 2	Stage 3	Stage 4
Revenue Growth	16%	19%	19%	32%
EBIT Growth	8%	8%	23%	54%
Time to Market	1.0	0.5	0.3	-
Productivity	1.0	1.2	1.4	2.0

PRTM Benchmark. Population: Telecoms, Consumer Electronics, numbers from the top 20% growth companies in each level of maturity

Figure 9: Benefits of Increasing Maturity Levels -PACE Model

1.7 Value of Improving: IDC Research Results

Summary results for the surveyed respondents yielded the following metrics:

- Number of projects managed increased 35%
- Cost per project was reduced 37%
- Redundant projects dropped 78%
- IT staff productivity increased by 14%
- Project failure rate dropped 59%
- The total annual benefit per 100 users is $83,500

- Payback occurred in 7.4 months

Source "How Project and Portfolio Management Solutions Are Delivering Value to Organizations", IDC, September 2008

1.8 Analysis

Highlights	• There are various tools including portfolio management that can help organization achieve substantial capacity gains in operations. However, if we can't sell any of this newly uncovered capacity we have had no bottom line • Kill existing bad projects and unclog the pipeline • Formalize value assessment process and periodically measure portfolio value & performance • The major change is "WIP Reduction" & "Release Control"

Table 1: Lack of portfolio management practice can imply numerous performance issues while appropriate best practices would result multi-faceted benefits

Inappropriate portfolio management practices…	**… Leads to problematic decisions…**	**… and results can be catastrophic**	**Best Practice**	**Benefits**
No visibility of resource capacity	Resources spread on too many projects Resources over allocated	Delays and long cycle time Budget over run	Identify constraints Resource & enable pipeline Project selection	Increased effectiveness and efficient performance by insights and high leverage managerial decision (not cultural change) Allocate resources to most profitable projects Determine trade-offs between cycle-time, constraint
Too many projects in the pipeline	Numerous held projects	Ineffective investments Too many low value initiative Delayed projects	Project selection Ensure strategic alignment Resource & enable pipeline (Project sequencing)	
Lack of roadmap	Decreasing project quality	Undelivered business value	Strategic roadmapping	

		Low quality and inadequate customer support	Ensure strategic alignment	capacity and load (WIP) Set unwavering priorities and assure on time completion Focus improvements on biggest disruptions to the flow Optimize capacity Accelerate project flow Increase profit
Inability to align resource to appropriate projects	Lack of resources on "good" projects	Reduced number of successful projects	Project selection	
Selection/killing decision not based on objective information « Political »	Inability to properly value opportunity A lot of lost opportunities Late project cancellation Decisions are often hardly understood by operations or clients	Held projects, slow progress Waste Internal/external frustration	Project selection Portfolio value assessment Rank and prioritize portfolio Kill bad projects soon	

1.8.1 Directions for Success

Highlights	• Reduce WIP, reduce complexity & cut cycle time for accelerated project flow • Pursuing time efficiency • Develop platforms, ensure strategic alignment to execute goals

To achieve exponential growth magnitude companies must build significant competitive edge and the ability to capitalize on it, on big enough market without exhausting the resources and without taking real risk

"WIP reduction" and "Increasing constraints capacity" cuts cycle time. Thus understanding constraints their capacities and load forms the basis on valuable information for business. Shorter cycle time drives performance

Dump the projects and broad portfolios that weigh you down and do not provide value. In the past, many of those projects seemed worth supporting and broad portfolios may have seemed attractive. Now they just suck up resources and time both of which are precious. It is time to let some go

Companies should focus their energy on developing platforms, each of which provides good foundation for developing many different products. The choice can be the basis of differentiation and the differentiation can be based on total cost, superior performance, or ability to scale. A platform strategy offers several important advantages. It can speed up the time needed to deploy innovation throughout product lines and to launch products to market while also helping to keep R&D spending down. In addition, platforms can reduce the number of required parts, leading to significant savings in cost of goods sold and other supply chain management expenses

- Institutionalize portfolio management process & establish ownership to ensure that common, objective criteria are being used to value, select, manage, kill and coordinate portfolio priority and resource capacity

Companies overall portfolio has to clearly quantify the following metrics ROI, Profitability and margin, Cash flows and Risk profile. It prioritizes projects by removing subjectivity from decision making. Companies should select project if it has a positive NPV but at portfolio level it is not possible to accept projects solely on its merits. Lets us assume that there is finite capacity, which is true in all most all cases. Now the NPV rule has to be modified so that the combinations of project should have greatest combined NPV

- Balance project pipeline with resource capacity

In an unconstrained environment its critical path dictates lead-time of a project. However in capacity-constrained cases, project schedules and lead times depend on when capacity is available at the drum resource (constraints). When projects are not staggered operations are bound to experience substantial queuing losses and resource conflicts. Obviously the goal is not to start working on more projects rather it is to complete more projects. Releasing projects in violation of bottlenecks' capacity creates unnecessary WIP. So pipelines have to be cautiously loaded and projects correctly sequenced to maximize the flow

- Tie change to growth, not process improvement

Decide where investments are needed to improve the three critical measures of pipeline effectiveness and what forms the investments should take. Evaluate the results in tandem with your key financial metrics

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1.10 Authors Profile

International project management consulting / advisory experience with full exposure to top management and ability to assess improve and re-construct customer operations to execute projects faster and more efficiently resulting in accelerated revenues, lower operating costs and efficient use of capital assets

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