Defining Portfolio Scope: Is it Necessary for Effective Portfolio Management?

by Joe Dury

Many of our clients ask if they need to specifically define what projects, products or offerings should be included in their product portfolios and what should be left out. Leading portfolio management practices advocate the need for defining portfolio inclusion criteria. Why is it necessary to define your portfolio’s scope? There are at least two compelling reasons: clear portfolio ownership and an enhanced focus on crucial projects.

Defining Ownership

All products or projects in an organization’s database or portfolio management (PPM) system can be viewed in aggregate as a portfolio; which can be further refined and viewed as multiple sub-portfolios. Portfolios allow an organization to manage an aggregate of similar projects or products in a standardized way. By aggregating the value of ideas through projects and risk adjusting by phase, a company can see if they are going to reach their organic growth goals in the long term.

For a product centric organization, there are typically three major portfolio delineations:

1. Ideation/fuzzy front-end portfolio: the early ideas that feed the development pipeline
2. New product development portfolio: the actual development pipeline
3. Commercialized/in-market sales portfolio: the realization or new product introduction (NPI) pipeline

Each of these three portfolios has different goals. For example, the ideation portfolio aims at selecting the best ideas from various sources by vetting them through a predefined set of criteria. The new product development portfolio is focused on launching as many successful projects into the market as possible. The commercialized product portfolio is centered on selling more products into the market.

Not only do these sub-portfolios have different goals, their ownership is unique. The ideation portfolio is typically managed by marketing and product managers along with a technical architect/technology lead. The development portfolio is managed by R&D and product managers. The commercialized portfolio is owned by sales and marketing in conjunction with operational teams. By clearly defining when a product enters a certain portfolio and when it leaves (i.e. the portfolio’s scope), management can clearly define RACI (responsible, accountable, consulted, informed) roles for ownership and execution.

Focusing on Crucial Projects

Defining portfolio inclusion criteria also allows for razor-sharp focus on projects and products that really matter. Nearly every organization is resource constrained. Opportunities abound, which means it is essential for companies to focus on the most critical projects, products, and activities. These projects/activities can be aggregated in a portfolio and evaluated based on measures that are important to the business: for example, the size of forecasted revenue, opportunity for growth, and strategic alignment. This type of portfolio segregation helps prevent portfolio discussions and investments in pet projects, allowing decision makers to focus their efforts on projects that are directly relevant to the success of the business.

Consider small operational improvement projects that occur frequently. These can be managed via linear workflows and do not need to be included in the portfolio, nor do they need to be budgeted and prioritized individually. With the right tools, management can have visibility to even the smallest projects if needed, but the business does not need to invest valuable time in them during the portfolio review and decision making process. Setting clear boundaries for inclusion in the organization’s portfolio, such as excluding small operational improvement projects, allows resources to flow to the most important initiatives.

Conclusion

Defining portfolio inclusion criteria is essential for effective portfolio management. This practice delineates a group of projects based on their scope, stage of development, revenue size or strategic alignment. It does not limit the portfolio, but enables the organization to define portfolio ownership and focus on the most critical investment opportunities.

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