

Focus on the Goal: A Framework for Delivering on New Product Development Efforts

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EXECUTIVE OVERVIEW

Many companies understand their new product development projects as the important groundwork necessary for their future growth and profitability. Those companies involved with industrial manufacturing often find that these projects are highly complex and take a significant amount of time, with the consequence that bets are placed on high risk-low reward products. It is small wonder then that a recent Boston Consulting Group Survey of over 2700 senior management executives revealed executives are taking a closer look at what they are spending on new product development and a majority of them are unhappy with the status quo. Many are revisiting their new product development efforts and evaluating how this money is being spent.

Thankfully, the objective in new product development is not quantity of investment but quality. Quality can be achieved through instituting a discipline that continuously evaluates new project proposals entering the portfolio funnel against existing projects to determine which projects receive funding. This sets the organization up to focus and execute on project work that has the greatest chance of success given resource limitations. To achieve higher levels of return on investment from the portfolio of new product development efforts, companies must first ensure these projects not only align with their strategic goals but also have the potential to be commercially successful and technically achievable. Then these projects need to be prioritized based on using consistent evaluation metrics before being selected for initial or incremental funding. This process of evaluating and determining what to fund is not performed once in the project's lifecycle but throughout it at various stages. In fact, tough decisions, such as killing a project or putting it on hold, are made all along the way, although more frequently early on, to ensure that resource allocation decisions are placed on the most likely winners. In conjunction with choosing the best project portfolio, the company needs to ensure the right resources are available to accomplish the work from the start of the new product funnel to the finish.

Effective portfolio management systems directly address these challenges, among others. A comprehensive portfolio management solution that incorporates project and resource management provides a platform and process for prioritizing and

selecting the portfolio of projects that have a strong commercial justification throughout their lifecycle; and analyzing them against available funding and resources. In addition, these systems also provide resource management tools to help companies stay on top of new and changing resource allocation requirements based on project investment decisions made at each stage of the project portfolio life cycle.

Oracle Primavera is a leader in Project Portfolio Management (PPM), providing the functionality industrial manufacturers need to realize higher returns from their new product development activities. Oracle's Primavera PPM solutions deliver the information necessary to consistently and objectively make the right decisions at every stage; focus project stakeholders on collaborating to reach their vision and shared goals; make resource allocation decisions now and plan for future needs; and ultimately, support project portfolio lifecycle processes from the idea stage through successful product introduction.

EXPLORING CONTRADICTIONS IN NEW PRODUCT DEVELOPMENT

The present economic climate is putting pressure on executives to reduce new product development spending; and yet many executives acknowledge innovation remains critical to their future.

Industrial manufacturing companies generally agree that carrying their new product development initiatives from idea to successful product introduction gives them a competitive advantage in delivering value to their customers. A Boston Consulting Group (BCG) Survey finds that executives struggle to reconcile this view with cost containment measures. The Survey explains, "innovation remains a strategic priority for the majority of companies, but the number that consider it a top priority is falling. Sixty-four percent of survey respondents ranked it a top-three priority, down from 72 percent in 2006 and 66 percent in 2007 and 2008. Most companies expect to raise innovation spending in 2009, but they are growing increasingly cautious. . . . And significantly, 14 percent of companies expect to reduce innovation spending in 2009."

So why is there this contradiction between the importance of new product development and the reluctance to fund it? First off, executives are taking a closer look at what they are spending on new product development and many are not impressed. Nearly half of all executives and 56% of industrial company executives are dissatisfied with their return on innovation spending, according to the 2009 BCG Survey. Additionally, the Survey finds that executives are not very confident in their company's ability to track innovation inputs like people, time and money and the innovation processes that drive a product concept from the idea stage to generating cash for the company. Notably, "only 32 percent of executives are satisfied with their companies' innovation-measurement practices. And that percentage has been falling," finds the Survey.

Separately, noted experts in the new product development area, Dr. Robert G. Cooper and Dr. Scott J. Edgett, conclude "a lack of focus and inadequate resources surfaced as the number one weakness in businesses' new product development efforts. . . . project teams working on too many projects or not sufficiently focused on [New Product Development] NPD work." Far too high a proportion of

Many industrial manufacturers are dissatisfied with the way that they measure and manage their new product development efforts.

resources are spent on mediocre and small projects that deliver a low yield to the company.

Dr. Cooper offers the following anecdotal observation by one senior project leader that is striking in its candor and suggests the ramifications for companies reluctant to evaluate their new product development practices. “We don’t deliberately set out to do a bad job on projects. But with seven major projects underway, on top of an already busy ‘day job,’ I’m being set up for failure . . . there just isn’t enough time to do what needs to be done to ensure that these projects are executed the way they should be . . . and so I cut corners.” Committing the organization to deliver on too many projects or to ones that do not deliver adequate strategic value creates a resource drain that ultimately dulls the performance of the organization’s innovation efforts.

This contradiction stems from a lack of confidence in attaining the projected return on investment from new product development efforts. This lack of confidence has two primary causes: (1) a new product development funnel that resembles a highway to no particular product launch destination and (2) a lack of a consistent repeatable process and objective evaluation metrics to make tough decisions. In other words, too many projects chasing too few resources due to a lack of discipline to kill projects in the portfolio based on the fact that there are inconsistent or lacking criteria to evaluate them throughout their lifecycle. This results in lengthy development cycles and when products are finally launched the results are often lackluster and can sometimes be disastrous.

DEVELOPING A PLAN TO RESOLVE THIS CONTRADICTION

Portfolio management helps companies reap the benefits of new product development efforts by keeping the focus on building and maintaining a healthy pipeline funnel with objective analysis and improved decision making. Innovation and new product development success is more about how you spend the money, says Michael Dalton, Managing Director for Guided Innovation Group, LLC. More often than not the budget is a constraint that industrial manufacturing companies have to manage as they strive to make the right project and resource allocation decisions at each stage of development to achieve their strategic goals.

Not surprisingly, an industry study determined that a company’s commitment to product portfolio management—the application of portfolio management to evaluate, select, prioritize and execute new product development projects—can determine the company’s success in meeting product development targets.¹ Companies that are best in class at this practice are 64% more likely to execute product portfolio management strategies than poorer performing, laggard companies; more likely to use product development processes, with more than 80% reporting adoption of product innovation processes by more than half of their

¹ Aberdeen Group, The Product Portfolio Management Benchmark Report, August 2006.

intended users; and ultimately achieve higher profit margins from their newer products than other companies.

Portfolio management solutions can address this contradiction and its causes enabling a company's new product development efforts to set them apart in their industry. First, companies need to tackle the root of inconsistent new product development performance - a lack of sound portfolio governance processes and the right information to make effective strategic decisions at each stage. Repeatable governance processes coupled with consistent evaluation metrics make this guidance actionable. This guidance enables project proposals to be vetted objectively at the very outset and either tossed out of the portfolio or included for further analysis and investment. As these proposals move forward to successive gate reviews, portfolio management solutions enable more in-depth analysis such as determining each project's potential reward in terms of predicted cash flow and then balancing this reward against commercial and technical risk factors. The real value in this work is in assessing the entire portfolio of projects at each stage and constructing what-if scenarios to determine which ones should be moved forward based on progress and limited resources. This assessment is when the crucial, if not difficult, decisions of killing projects while accelerating others is made to maintain a healthy funnel on the road to introducing new products.

SUPPORTING THE PLAN THROUGH EXECUTION

Executing on stage-gate decisions where the actual work is performed occurs seamlessly with the prioritization and selection of projects. As companies add new proposals and projects to their pipeline and stop, stall or accelerate others it is necessary to continuously ensure that the right people, skills, budgets and other resources are available to deliver the products to market. Understanding who is on staff, what their skills are and when they need to be available enables industrial manufacturers' to proactively manage adjustments to the portfolio to respond to market forces and stay a step ahead of their competition.

An effective project and resource management system provides tools to help companies stay on top of complex and changing requirements for successful execution. These systems allow resource managers to make the necessary trade-off decisions on whom to assign to which project; to ensure that the resources with the right expertise are available at the right time throughout the project's life especially after key decisions are taken that release incremental funding.

Sharing project and resource information with key stakeholders that helps measure progress and provides early warnings of increasing risk is paramount to new product development success. Project and resource management systems assist in managing the ground-level details of any major effort by providing visibility into the information employees need to carry out their role in the new product development process. Executives, for instance, need to access relevant summary information on the portfolio of projects via simple, graphical representations to analyze performance against budgets, risks, time lines, and strategy. Portfolio and

project managers want to model different scenarios to keep early stages of key portfolios or projects on track and to minimize the likelihood of adverse impacts to the timeline. Individual project contributors' want a real-time feedback mechanism to easily receive assignments, as well as indicate what has been completed and remains to be done. Front-line workers want to collaborate with peers on deliverables and documents, and identify and quickly resolve project issues and risks. Gaining the upper hand in managing these details can make a significant difference in how timely projects in the portfolio are delivered.

ORACLE'S PRIMAVERA PROJECT PORTFOLIO MANAGEMENT SOLUTIONS

Oracle's Primavera Project Portfolio Management (PPM) solutions offer the breadth and depth of functionality required to help companies institute an end-to-end portfolio governance process to deliver new product development success. Oracle's Primavera solutions do this within a collaborative, web-based environment that coordinates multiple contributors no matter their position in the company or role in the particular project. With Oracle Primavera, manufacturers confidently deliver value to their customers as well as their own bottom line.

Measuring new and existing project performance consistently with an objective set of evaluation metrics keeps the portfolio optimized through a balance between risk and reward. This objectivity makes difficult stage-gate decisions easier and reduces the latency in new product development that arises from lack of information and coordination. In addition, the ability to access the relevant information on strategic alignment, risk and reward against resource constraints enables calculated portfolio decisions to be made quickly outside of stage-gate meetings based on changing business dynamics. The byproduct of this greater information access is transparency and accountability that keeps the product pipeline healthy, prepares the organization to execute successfully on their commitments resulting in stronger customer relationships.

An important part of this execution is making project performance visible to everyone on the project team. Oracle's Primavera solutions increase productivity by making team members more accountable for achieving project deadlines and deliverables. Improved collaboration and feedback among the many project participants and stakeholders helps ensure that projects continue without any unnecessary rework or waste. What-if modeling and analytics help find better, faster, cheaper ways to analyze roadblocks and project schedules. Oracle's Primavera solutions make it easy to capture those practices that worked; and then provide governance and consistency that will help future projects be successful. Moreover, portfolio management solutions enable organizations to make effective time-cost-scope tradeoff decisions and spot potential problems and trends in time to correct them.

With Oracle's Primavera PPM solutions, contributors have the necessary information to confidently predict when projects will finish and how much they will cost. Managers can consider the risks inherent to any project and proactively put in

Oracle's Primavera PPM solutions help companies strengthen the focus and execution needed to achieve new product development success.

place plans to reduce the risk. Key performance indicators provide an early warning to anticipate problems before they have an irreversible impact.

Finally, open, standards-based technology makes it easy to integrate Oracle's Primavera applications with other systems and processes, so they can easily be configured to provide a platform for automating business processes that ensure the project and resulting products run smoothly from concept through to new product introduction and beyond.

CONCLUSION

Carrying new product development projects from idea to successful product introduction gives industrial manufacturers a competitive advantage in delivering value to their customers. Companies interested in achieving higher levels of return on investment in new product development, should focus on the quality of their investment rather than the quantity. Continuously evaluating proposed and existing projects with repeatable governance processes and metrics for funding and executing makes more of the project bets placed sure product winners.

While short term pressure to cut budgets for new product development activities will ebb and flow with fluctuations in the economic cycle, these pressures should be weighed against the cost to the company's longer term growth in not pursuing more of these activities. The discipline of Project Portfolio Management (PPM) provides industrial manufacturing companies a great opportunity to evaluate their new product development process and take actions to position themselves for future growth.

Oracle's Primavera PPM solutions can help industrial manufacturers consistently and effectively manage their new product development pipelines through each and every stage to deliver on strategic goals, profitability and market share projections and customer commitments. Oracle's Primavera solutions also provide the project and resource management tools that allow the business to make and forecast resource allocation decisions that help industrial manufacturing companies execute on their strategic decisions. Finally, Oracle's complete, open, standards-based technology makes it easy to integrate Primavera applications with other systems and processes.



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Oracle Corporation
World Headquarters
500 Oracle Parkway
Redwood Shores, CA 94065
U.S.A.

Worldwide Inquiries:
Phone: +1.650.506.7000
Fax: +1.650.506.7200
oracle.com

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