Strategic Portfolio Management (SPM)

Dirk Loop, November 2015
Content

Our Aim

- You will learn why project portfolios have to be managed strategically
- You will understand the value of a strategic approach to portfolio management
- We will show you how to ensure a balanced mix of strategic and tactical topics
- We will provide you with the information required to start
How it works

**Core Operation Process** (Priorization, Governance, Monitoring, Resources, ...)

**Ongoing Re-Callibration**

**Align**  
**Plan**  
**Execute**  
**Measure**

**Corporate Strategy**  
**Focus on Value**  
**Balance Risk vs. Value**  
**Regulatory Compliance**  
**Changing Priorities**  
**Project Changes**

**Optimal Resource Allocation**  
**Net Value Contribution**  
**Project Approvals**  
**Project Terminations**  
**Performance Tracing**  
**Improvements**
Why do SPM

Teams are overworked / under appreciated

Intense competition internally regarding resources

Low project performance

No priorization process for business requests

Focus on short-term success-stories

Out of control “costs” with 3rd party vendors

Excessive delays due to lack of resources

Missing strategic topics

Poor Return on Investment

No accountability of project success
Objectives of SPM

Facilitating a Strategic Portfolio Management by designing a sustainable budget split and clear steering and controlling processes

Easy to understand

Ensure a balanced execution of strategic mid/long-term topics as well as tactical topics with a dedicated budget

Reasonable mix of central and de-central decisions for...
- Mid/long-term topics with central decision body
- Tactical operations with de-central decision in demand units

Ensure a balanced roadmap targeting...
- Corporate-Strategy
- Customer experience objectives
- Financial goals
How it works

Corporate Strategy

Measure

Align

Plan

Execute

Non-Strategic-Topics
Imagine – all your projects would be companies.
Why divide Company Objectives – Interlude (1/4)
Corporate Finance – How to...

There is no „One way fits all“ when it comes to financing a company.

<table>
<thead>
<tr>
<th>Corporate Finance</th>
<th>External</th>
<th>Internal</th>
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</thead>
<tbody>
<tr>
<td>Equity</td>
<td>Venture Capital</td>
<td>Cash-Flow</td>
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<tr>
<td>Hybrid</td>
<td>Leasing</td>
<td>Free-Cash-Flow</td>
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<tr>
<td>Credit</td>
<td>Depth Finance</td>
<td>Discharge of Capital</td>
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<td>Subsidy</td>
<td>Subsidy</td>
<td>Streamlining</td>
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<tr>
<td>Internal</td>
<td>Free-Cash-Flow</td>
<td>Selling Assets</td>
</tr>
</tbody>
</table>

Why is there only one way when it comes to allocating project budgets?
Why divide Company Objectives – Interlude (2/4)
Comparison of Baselines

Baselines in **Corporate Finance** are always a compromise – like in **Project Management**

- **Example #1:** If you want a high return fast, you will have to take a great risk. Your investment is typically equity, like a share.
- **Example #2:** If you want a low risk and you should bring time and/or low expectation in return. Your investment is typically credit, like a bond.
- **Example #3:** If you want a project delivered fast and cheap, you will have to expect low quality.
- **Example #4:** If you want a project delivered fast and cheap, you will have to expect low quality.
Why divide Company Objectives – Interlude (3/4)

Treat projects like companies

If you do not provide a balanced mix between tactical and strategic projects you cannot compensate failures – both strategic and tactical alike.
Why divide Company Objectives – Interlude (4/4)
“Cash Cows never become Stars”

An efficient Project Portfolio Manager invests hybrid...
... like a Bank when investing in core assets to maintain operations.
... like a VC company when investing in future opportunities.

Chance-oriented Company

- Question-marks
- Stars
- Poor Dogs
- Cash Cows

Market Growth
Relative Market-Share

Interest-oriented Company

- Question-marks
- Stars
- Poor Dogs
- Cash Cows

Market Growth
Relative Market-Share

Strategic Investments
Tactical Investments
Step 1: Divide Company Objectives

Company Objectives

Tactical Targets
- Operational Requirements
- Replacements ("End of Life")
- Legal / Regulatory Affairs
- “Quick Wins”

Hybrid Targets
- Reduce Costs
- Increase Efficiency
- Simplicity

Strategic Targets
- Transformation
- Consolidation
- Integration, esp. Post-Merger
- Business Model Innovation
- Other Strategic Goals

Short-Term

Mid-Term

Long-Term
Step 2: Top-Down-Budget-Split

Budget separation for strategic long-term and tactical topics

**Top-Down Budget Split**

- **Tactical Targets**
  - Flex
- **Strategic Targets**
  - Innovation

**Tactical Budget Distribution**

- Demand Unit n
- Demand Unit III
- Demand Unit II
- Demand Unit I

- Top-down allocation on demand units
- Enables operational, tactical (IT) developments
- Key: Maintain operations

**Strategic Budget Distribution**

- Topic n
- Topic III
- Topic II
- Topic I

- Top-down allocation on strategic topics
- Identify topics of relevance for strategic investment based on unit plan
Step 3: Top-Down-Budget-Split

Budget separation for strategic long-term and tactical topics with clear ownership

**Top-Down Budget Split**

- **Tactical Targets**
  - Demand Unit n
  - Demand Unit III
  - Demand Unit II
  - Demand Unit I

- **Strategic Targets**
  - Topic n
  - Topic III
  - Topic II
  - Topic I

**Tactical Budget Distribution**

- Top-down allocation on demand units
- Enables operational, tactical (IT) developments
- Key: Maintain operations

**Strategic Budget Distribution**

- Top-down allocation on strategic topics
- Identify topics of relevance for strategic investment based on unit plan

**Owner: Demand Units**

- Reduce process overhead
- Increase flexibility of individual budget allocation

**Owner: Strategic Budget Board (SBB)**

- Ensure long term goals and corporate strategy targets
- Focus on “Doing the right things”
Quarterly Board Meetings to get comprehensible decisions on which topics are strategic and which are not. Planned, facilitated & moderated by SPM to ensure neutrality.

<table>
<thead>
<tr>
<th>Category</th>
<th>Members</th>
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</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>CEO, Head of Strategy &amp; Transformation</td>
</tr>
<tr>
<td>Finance</td>
<td>CFO</td>
</tr>
<tr>
<td>Legal</td>
<td>Head of Legal &amp; Regulation</td>
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<tr>
<td>Development &amp; Operations</td>
<td>CIO</td>
</tr>
</tbody>
</table>

- **„Strategic Targets“**
- **„Economic Targets“**
- **„Other Targets“**

"Company Targets"
Step 4: Apply for Tactical Budget

How to apply for Tactical Budget autonomously managed by a Demand Unit

### Tactical Budget Distribution
- Top-down allocation on demand units
- Enables operational, tactical (IT) developments
- Key: Maintain operations

### Owner: Demand Units
- Reduce process overhead
- Increase flexibility of individual budget allocation

### How to apply

A. Give a brief overview on all required actions of the Demand Unit
B. Give a brief overview on the total budget-demand & benefit forecast
C. Have a overview on targets and starting points (at least by quarter)
D. Explain the overall necessity of the investment incl. ranking
Step 5: Apply for Strategic Budget

How to apply for Strategic Budget partially managed by a Demand Unit

Top-Down Budget Split

- Tactical Targets
- Flex
- Strategic Targets

Strategic Budget Distribution

- Topic I
- Topic II
- Topic III
- Topic n

- Top-down allocation on strategic topics
- Identify topics of relevance for strategic investment based on unit plan

Owner: Strategic Budget Board (SBB)

- Ensure long term goals and corporate strategy targets
- Focus on “Doing the right things”

How to apply

A. Inspire with your vision of the future

B. Pitch for budget like an entrepreneur / intrapreneur

C. Provide possible milestones for investment decisions (“Fail early”)

D. Explain why the (time of) investment should be now
How Budget is allocated

Budget Board works like a VC company investing on results – if Budgets not required to maintain operations

- **Strategic Topic I**
- **Strategic Topic II**
- **Strategic Topic III**
- **Tactical Topics**

### Tactical Budget Allocation
- Total Budget demand and split over quarters for the whole period should be certain in the Q1 BBM for Tactical Topics
- Later BBMs will only approve “Flex”-budget, if required

### Strategical Budget Allocation
- Total Budget demand and split over quarters for the whole period cannot be certain in the Q1 BBM for Strategic Topics
- Q1 BBM only approves budget to reach first milestone
- Later BBMs will approve next invests if milestone is meet
## Components of SPM Alignment Process Implementation

<table>
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<tbody>
<tr>
<td>Assessment on current approach to Portfolio Management</td>
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<tr>
<td>Guide to enhance the entrepreneurial spirit</td>
</tr>
<tr>
<td>Road to ensure a balanced mix of strategic and tactical topics</td>
</tr>
<tr>
<td>Tools &amp; Instruments to maintain sustainability with the approach</td>
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<tr>
<td>Process Implementation incl. training &amp; documentation</td>
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How it works

Corporate Strategy

Measure

Align

Plan

Execute

Non-Strategic-Topics
# Following Phases

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<tr>
<td>Budget &amp; Resources Alignment</td>
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<tr>
<td>Approvals &amp; Execution Processes</td>
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<tr>
<td>Tracking &amp; Milestones (Project/Process KPI-Management)</td>
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<td>Incremental Ongoing Re-Callibration</td>
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