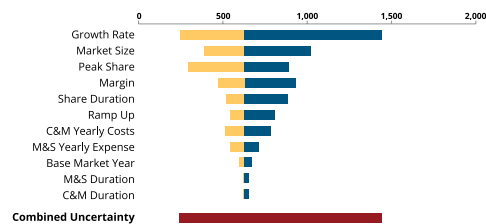


Profitable Pivots for Your Portfolio



Exploit Upside Factors

By focusing on the uncertain factors that drive the upside of a project, a team can often develop ways to dramatically increase its value.



The tornado chart, so named for its appearance, shows the overall range of the project valuation based on the uncertainties of different factors.

The bars show how each factor's uncertainty compares with the others'. The factors with the longest bars have the greatest sensitivity and therefore impact on the overall project valuation.

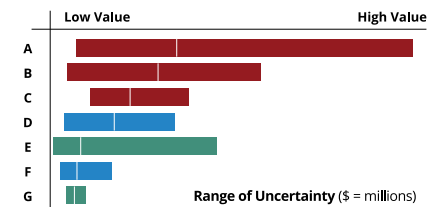
Moreover, the bars that extend furthest to the right represent the factors with the greatest potential for moving the project value to the upside. These are the areas where the portfolio and project managers can focus attention and resources to transform the project and exploit its upside potential.

1. For each factor, identify issues that drive upside and downside.
2. Assess the quantitative range on each. Create a tornado diagram.
3. Focus attention on the top uncertainties—create ideas on how to drive upside (and avoid downside).
4. Initiate test projects around these ideas.
5. If one succeeds, pivot main projects and drive upside.

Dynamic Portfolio Focus

Not all projects have equal potential, but each one gets a share of management attention. Sometimes the upside of a single project is bigger than many other projects combined, yet it is difficult to shift focus to this opportunity.

The Upside Comparison chart shows the valuation ranges of the various projects in the



portfolio. It takes the overall valuation of each project as calculated with the tornado chart and stacks them against each other. This gives a simple visual comparison of their upside potential and downside risk.

Though the bars are ranked in order of expected NPV (the small white line in each bar), that doesn't mean that they are ranked in order of desirability or priority. A bar that extends further to the right than the one above it may be a better opportunity because of the higher potential for upside growth.

Coupled with the sensitivity analysis from the tornado charts, the upside comparison chart helps the portfolio manager construct an upside exploitation plan for the portfolio as a whole.

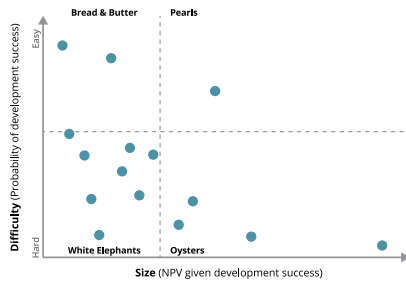
1. Understand range of potential value for each project.
2. Focus attention and resources on ones with the biggest upside (note: these may not be the ones with the biggest base promise) and invest in upside exploitation plans.
3. Increase resources to the big upside projects.
4. Decrease resources to low potential projects (or cancel them outright).
5. Repeat periodically as you learn more and gain better information (no full-life funding).



Shift Portfolio Mix

A good portfolio is not merely a collection of good projects. For example, a portfolio containing lots of risky projects can actually have lower overall risk than a portfolio of projects that individually have low risk. Lots of low-risk projects in a portfolio can create clutter and reduce your chance of meeting overall goals. Pivot by shifting the portfolio mix, not just individual projects.

The Innovation Screen maps the relative impact of projects against their relative difficulty. The Innovation Screen divides your innovation portfolio into four types of projects: Bread and Butter, White Elephants, Oysters and Pearls.



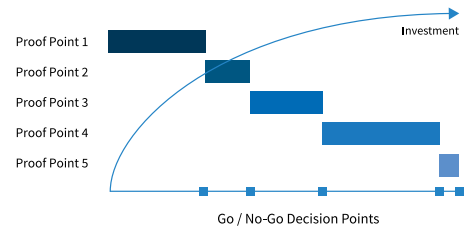
White Elephants have high difficulty and low impact. Bread & Butter projects are low difficulty and low impact and produce reliable, if unexciting, returns. Pearls are those rare home-run projects that make big contributions without a lot of risk. Oysters have the potential to become high-impact Pearls but must be proven before you have confidence they can deliver.

A very interesting insight from the Innovation Screen is that the mix of project types—that is, how many projects fell in each quadrant relative to the total—gives you an estimate the overall power of your innovation portfolio to drive growth. White Elephant projects drag down the aggregate portfolio power, and Oysters and Pearls boost it.

1. Rigorously place your projects on the Innovation Screen.
2. Invest more in Pearls to accelerate their development.
3. Since there typically are too many Bread & Butter projects, reduce clutter by eliminating some of the low-potential projects.
4. Reformulate White Elephants as Oysters, where possible (there are often big ideas hidden inside of small ones). For those White Elephants where it's not possible, kill them.
5. Invest in more Oysters. Create leaning plans. Relentlessly kill the ones that fail.

Learning Plans

Often teams only work on things in their comfort zone or design projects around showing accomplishments. Oysters projects in particular need to focus on proof. Move beyond execution plans: use learning plans to humbly pursue really big ideas.



The learning plan lays out the proof points in the sequence in which you will investigate them. The order is important: starting with the hardest proof points helps you avoid going down the path of confirmation when a showstopper is lying in wait for you.

Each proof point leads to a go/no-go decision. If a proof point fails, there is no sense in continuing with the learning plan as originally laid out. That's the time to re-examine the vision and determine whether there's a viable alternative vision to pivot to. If not, it's time to cut your losses and redirect your resources and focus to another opportunity.

1. Define one or more big visions for the project, even ones that may be a little unrealistic.
2. Identify proof points: what evidence would you need to see to believe the vision is achievable? Look at the problem outside-in, staying away from your areas of strength.
3. Assess the difficulty (probability of success and required investment) of demonstrating each proof point. Order the proof points from hardest to easiest to demonstrate.
4. Start with the hardest ones. Construct a learning plan to deliver evidence on the hardest proof points as cheaply and quickly as possible.
5. As the learning plan delivers each proof point, double down. If a learning plan fails to deliver a proof point, abandon it or pivot it to an alternative vision.

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