Product Portfolio Management: Marketing's Contribution for Improving New Product Success and Organizational Performance

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Most of us know that new products suffer from notoriously high failure rates. Some research suggests that the new product failure rate is as high as 80%. Yet, for many companies current revenue is increasingly dependent on new products developed in the last few years and future revenues depend on new products in the pipeline.

Many new products fail, not because of technical shortcomings, but because they simply have no market and/or they are poorly positioned. Positioning has to do with how you want the product perceived either on its own and/or relative to the competing brands in the market. Regardless, most studies indicate that the primary reason new products fail is due to lack of information around customer preferences, requirements, and buying criteria. Timely and reliable knowledge about customer preferences and requirements, the domain of marketing, is the single most important area of information necessary for product development.

Successful new product development typically entails the following eight steps, all in which marketing plays an integral role:

1. **Idea Generation**: New product development starts with idea generation. Ideas for new products can come from the company's own research and development department, customers, competition, employees, sales people, independent inventors, and top management.
2. **Screening**: Potential new products are screened against pre-defined success criteria, such as the size of the market, and how well they fit the company's mission and/or objectives. Those products that do not meet the criteria are eliminated.
3. **Business Analysis**: Those ideas that make it to this step are then analyzed to determine the degree of investment required compared to their potential for making any money.
4. **Concept Testing**: To test the product idea, prospects are given information about the proposed product and asked whether they would buy the product.
5. **Product Test**: A sample of customers is given the product to try (in B2B this is often called an alpha test) and are then asked whether they would buy it in the future. In the consumer space the product test may come in the form of samples.

6. **Market Test**. In the consumer world, a market test often entails introducing the product in a select group of cities comprised of consumers who are representative of the target market. This kind of test is generally conducted in two or three cities and lasts about ten months or so to understand trial rates, repurchase rates, etc. This type of test also allows a company to test various marketing strategies (e.g., different ways of positioning a product). In the B2B space this may actually be a beta test or proof of concept with a specific set of customers and/or prospects.
7. **Review and Revision**: The results of the market test are analyzed to determine what modifications if any are needed and then a go-to-market strategy is finalized.
8. **Commercialization**: All the final steps commercialize the product are completed and the product is launched to the general market.

It's easy to see that developing a new product or service requires a significant investment. How can a company manage this process to ensure the investment pays off? One approach is for companies to leverage portfolio management as a way to make strategic decisions about product development and ensure the company is developing the right products for its customers.

Portfolio management is a business process that involves formulating, modifying, and implementing an investment strategy that will provide the greatest value and contribution to the strategic interest of the organization. Given that the success of new products often hinges on marketing, the marketing organization should take a leadership role in evaluating, prioritizing, and selecting the new products in which the organization will invest and bring to market. Integrating portfolio management into the product development process will enable you to select those products that are most aligned with the company's strategic objectives and that will deliver the most meaningful value to the business.

Product portfolio management is just like managing a financial portfolio; it includes a mix of investments that are constantly monitored to assess which investments should be continued and which should be stopped. The purpose of the effort is to improve your company's confidence that you are making the right product investments. And just like a financial portfolio, product portfolio management enables the organization to maximize the value of investments while minimizing the risk. Product portfolio management also improves the communication and alignment between marketing, product management, sales, and the executive team.

There are a variety of ways to approach product portfolio management and numerous models, tools, and methodologies. Just as with the product development process, there are series of logical steps marketing should engage in as part of the product portfolio management process.

This article outlines the four primary steps associated with product portfolio management and the role marketing plays in each step.

1. **Conduct a Product Inventory**: Portfolio management is concerned with gathering a detailed list of all of your company's products and services. Each product and service should be added to a database and information included about the target market, positioning strategy, pricing strategy, profitability, market share, competitive advantage, channel strategy, cost to market, cost to sell, cost to support, cost to develop, cost to manufacture, average order value, sales cycle time, share of preference, purchasing trends, etc. This information should be collected for both existing and potential products and services. Most of this information is the responsibility of marketing.
2. **Identify Gaps and Overlaps**: Once the inventory is taken, marketing should analyze the information to identify any gaps and overlaps among the products and services.
3. **Score and Categorize the Products**: It is not uncommon at this step for companies to realize they have more products and services than they can actually fund and support, and several products and services aimed at the same market with the same value proposition. Therefore, once all the products are inventoried and evaluated, the next step is to prioritize your investments.

A common and fairly easy technique to apply during this step entails creating a scoring methodology. In this approach, a set of criteria for example, such as risk, profitability, market place fit, market attractiveness, technical feasibility, strategic alignment, product line coverage, financial returns, probability of success, etc are developed. Again, market and customer factors comprise some of the evaluation criteria and it is Marketing's responsibility to define the criteria and the information to be tracked for each product and service.

Each criterion is given a score and weight. A cut off score is established and then each product is evaluated against the criteria and given a score. This approach also enables you to prioritize the business value associated with each of the products. Those with scores below the cut off can be culled. Products with scores higher than the cut off score are kept on the list for further investigation and management. Figure 1 below provides a possible template for this step.

If you are just starting out, we recommend keeping the criteria to a manageable list and developing a simple scoring scale. As you become more sophisticated you can adopt more complex methodologies.

Figure 1: Product Scoring Worksheet Example

		Specific Product		
Sample Criteria	Acceptable Ranges, scored as 0, 1, or 3	Range score – this will be a 0, 1, 2, or 3 based on how the product stacks up against the pre-defined ranges	Weight – this is % determined prior to evaluation. Weights must add to 100.	Score – multiply the range score by the weight to determine the score

Product fits company strategy				
Product leverages company's core competencies				
Product meets explicit customer requirement				
Product serves an attractive market				
Product leverages existing technical expertise				
There are minimal technology or skill gaps				
Anticipated margin meets required threshold within specified timeframe				
			Total	100

Complete the chart for each product and log each products score on a separate worksheet. Those products that have a score above the cut-off number are added then prioritized (Figure 2).

Figure 2: Product Prioritization Worksheet Example

Product	Score = Cut off score = X	Priority

4. **Active Management**: Most of our businesses exist in dynamic fluid markets. Customer preferences and competitive threats change like the wind. Therefore, it

is important for Marketing to actively manage the product portfolio. Products and services, especially new products in the early stages of development that require significant additional investments should be reevaluated against the criteria at some regular interval, preferably quarterly.

As shows and described in this article, portfolio management takes discipline. Done well, companies can use it to choose and manage the best mix of product investments designed to strengthen the company's capabilities and propel its growth. It is important to remember that portfolio management is not a project, but rather a process that consists of tracking the market, monitoring the level of investment, and applying standard criteria to these investments in order to maintain the best product mix to accomplish the organization's strategic initiatives.

When implemented effectively, product portfolio management improves organizational alignment and performance, reduces waste, and improves customer satisfaction and loyalty. With product portfolio management, everyone understands what products are being invested in and why. Marketing plays a strategic role and is responsible for capturing, tracking, scoring, and prioritizing customer preferences and requirements. Product portfolio management gives the leadership team valuable insight into how existing and new products are positioned to increase their company's revenue.