Using Project Portfolio Management to Increase Profit

Is your project portfolio optimized to drive profit? Are projects aligned with your business strategy? Is project risk a part of your decision making process? Do you say no to "good" projects with limited upside so you can apply resources to those with higher returns? If you are not comfortable answering these questions affirmatively, it is likely you have the opportunity to generate additional profit through project portfolio management.

Potential project opportunities arise from many sources. Some common avenues are customer and sales requests for new products or enhanced features, internal ideas for cost savings and manufacturing improvements, and responses to competitive threats. These opportunities are typically reviewed for merit and projects initiated if they pass a ROI threshold. Once initiated, rarely are projects cancelled or put on hold due to resource conflicts or lower than original profit expectations. The result is a development organization that is overloaded, sluggish, and generates less than their potential value. The key to success is implementing a robust process for evaluating potential projects and selecting those that generate the highest return based on their use of limited resources.

Here are Some of the Key Elements From My Experience…

1. Spend whatever time and resources are necessary to fully explore opportunities before starting a project. Although this might seem counter intuitive to being efficient, a relatively small investment at this stage can pay big dividends. I have seen this process result in halting low-value or non-strategic opportunities before they absorb resources and produce little or no profit. Often, the original scope is modified or expanded adding significant value to the final project charter. An additional benefit is that project teams receive a much clearer set of deliverables resulting in improved time-to-market and resource utilization.

2. Use a consistent format for evaluating potential projects. Identify the factors that are important to your decision making process and build a consolidated 1-page document. Typical sections of this document include the project description/benefits, strategic ranking, financial analysis, risk analysis, resource estimates, and normalized outputs for comparison. Generate numeric values for strategic alignment and risk analysis that can be used for comparison. Net present value (NPV) is the preferred method for financial analysis and allows straight forward comparison of dissimilar types of opportunities.

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3. Using the aforementioned output, develop charts and graphs that decision makers can efficiently use to evaluate and select projects based on value. My favorite data point is risk adjusted NPV/resource requirements which is basically how much profit will be generated for each hour spent working on the project. If you don't have more potential projects than you have resources, spend time generating and evaluating additional opportunities. Use your business strategy as a starting point for research and brainstorming events.

4. Develop a resource evaluation/tracking tool. During the project selection process it is imperative that decision makers understand when specific resources can take on new projects. Pairing project value with available resources is starting point to generate additional profit. It is better to delay the start of a project than to overload resources which generates inefficiency.

The project development process is a value stream which needs to be managed carefully to maximize output (i.e. profit generation). The first three elements are targeted at increasing the value of what is being worked on while the forth is focused on increasing throughput. Using a data-driven process based on these principles will drive additional profits to the bottom line. Document your "current state", track the results as you implement these changes, and watch your profits grow.

For information on how GaMEP can help you create a project portfolio management tool, contact:

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