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Project Portfolio Management – The Art of Saying “No”

Part 3 of 6: How to Select the Best Projects

By Jeff Oltmann

Selecting Projects

Effective project organizations say “no,” declining to do some worthy projects so they can focus their limited resources on a portfolio that contains only the best projects. They make and implement these tough project selection decisions by using a discipline called project portfolio management (PPM). This third article in the PPM series examines how to research potential projects, and then decide which ones to select into the portfolio.

Exhibit 1 shows the five-step PPM process. Step 1, which we examined in previous articles, builds a foundation for creating the portfolio by requiring all of the decision-makers to agree on strategic objectives, and then select a vital few valuation criteria that align with them. These valuation criteria are the important differentiators between projects, for example ROI, risk, efficiency, or strategic alignment.

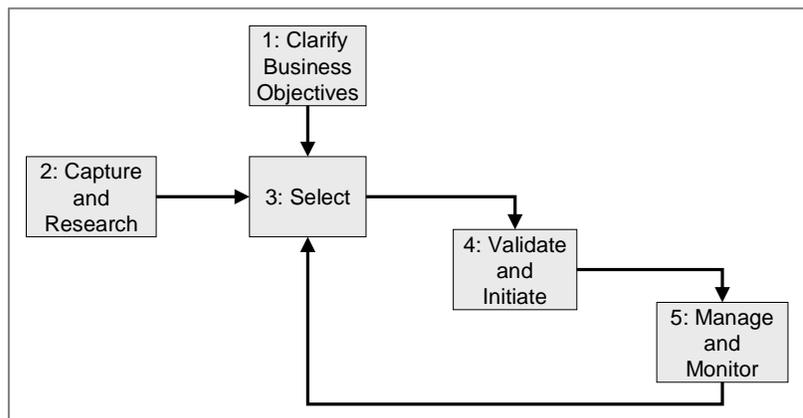


Exhibit 1: Portfolio Management (PPM) Process Follows Five Steps

Initially, step 1 can be difficult and time consuming. Fortunately, only periodic review and update of the objectives and valuation criteria are needed after that.

Now we will use these differentiators to select the highest impact projects, clear out the clutter, and set priorities. This allows tradeoffs to be made in a disciplined way, rather than allowing the loudest voice to win.

Do Your Homework

PPM step 2 builds on the PPM foundation by starting to create a specific portfolio. Exhibit 2 shows how to construct a tentative portfolio (Oltmann, 2007, p 36). The first two steps are research:

- Create an inventory of candidate projects for the portfolio. Include in-progress projects as well as ideas for new projects. Sources can include customer requests,

initiatives from strategic planning, regulatory requirements, and good ideas from employees and project managers.

- Gather data for each candidate project on the inventory. This includes data that will allow you to rate the projects against the criteria that you have developed. It may also include early estimates of dependencies and high-level resource requirements.

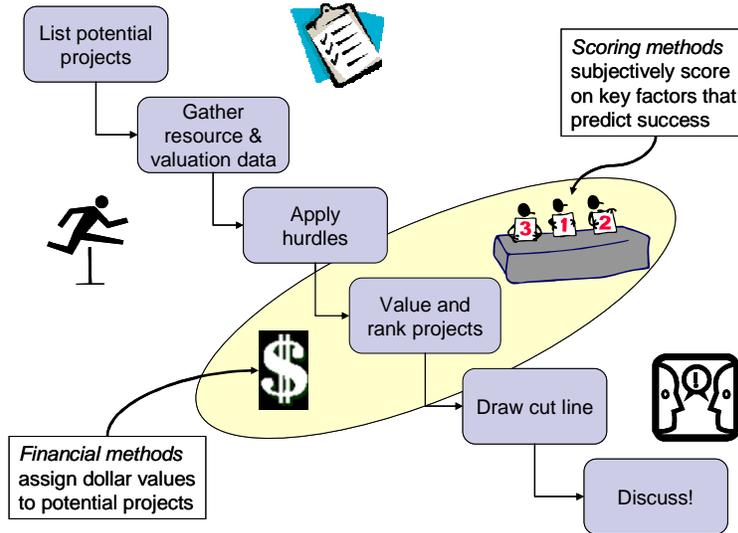


Exhibit 2: Constructing a Tentative Portfolio Leads to Valuable Discussion

At first, identifying and gathering data on all of the candidate projects may be a major challenge, requiring much investigation and interviewing. As an organization matures at PPM, this activity will get faster and easier.

Maximize the Portfolio

With project data from PPM step 2 in hand, determine which combination of projects creates the highest total value for the portfolio, given high-level resource constraints. This is called *portfolio maximization* and is the first activity in PPM step 3.

To maximize, first rate each candidate project against the valuation criteria to compute the value of each project. This will be either a weighted score or a financial value. Next, rank the candidates from highest to lowest value. See exhibits 3 and 4 for examples (Oltmann, 2007, p 42).

		Scores on Criteria						
		1	2	1	1	0	0	< Weight
Project Code	Short Name	Resolve	Prevent	Guide	Grow	Skills	Tools	Score
AP01	Project 1	H	H	H	H	Y	Y	15
AM01	Project 2	H	H	H	H	N	N	15
AP09	Project 3	H	H	H	M	Y	Y	14
TK04	Project 4	H	H	H	M	Y	Y	14
AP02	Project 5	H	H	H	L	Y	Y	13
AM01	Project 6	H	H	M	M	V	V	12

Exhibit 3: Use Scoring Criteria to Rank Candidate Projects

Starting with the highest value projects, allocate available resources until they are exhausted. Draw the “cut line” at this point, creating a tentative portfolio. The portfolio is tentative because no valuation criteria, no matter how good, can capture all of the subtleties that must go into real-world funding decisions. The cut line becomes a starting point for vigorous discussion among the portfolio management team, as they use their real-world experience and judgment to tune the tentative portfolio. The process, criteria, and data form a framework that guides this discussion, instead of selecting projects by “loudest voice wins.”

Code	Project	Product Line	Project Type	Months to FCS	Payback Period (months)	NPV (\$M)	Resource Requirements (total remain)	Resource Requirements (next quarter)
InterK	Internet Kitchen Control Center	GourmetChef	Transform	11	15	\$40.0	\$2.0	\$0.5
BBQ	Premium BBQ Smoker	GourmetChef	Transform	2	8	\$35.0	\$5.0	\$5.0
Stove	Stove	ValueChef	Upgrade	8	9	\$29.5	\$8.3	\$3.8
BotRef	Bottom Freezer Refrigerator	GourmetChef	New	5	8	\$25.2	\$4.2	\$2.0
ComFrz	Commercial Freezer	ProChef	Upgrade	8	11	\$21.1	\$2.6	\$0.8
Chill	Chiller Oven	GourmetChef	New	15	17	\$18.7	\$3.8	\$0.8
SSRef	Side by Side Refrigerator	GourmetChef	Upgrade	5	6	\$18.0	\$2.0	\$1.5
Fryer	High Efficiency Deep Fryer	ProChef	Upgrade	2	4	\$15.4	\$0.7	\$0.6
BIRef	Built In Refrigerator	GourmetChef	Upgrade	1	2	\$13.3	\$0.5	\$0.5
Tando	Tandoori Oven	ProChef	Transform	13	23	\$12.0	\$6.2	\$1.2
VMicro	Microwave	ValueChef	Upgrade	12	17	\$10.1	\$4.3	\$1.1
Dish	Dishwasher	ValueChef	Upgrade	6	9	\$8.6	\$2.1	\$1.4
Grido	Griddle / Oven	ProChef	New	7	16	\$8.4	\$1.5	\$0.6
Ctop	Cooktop	GourmetChef	Upgrade	4	15	\$5.2	\$1.4	\$1.2
Amicro	Automated Microwave	ProChef	New	10	20	\$5.1	\$2.7	\$0.5
Cmicro	Microwave + Convection Oven	GourmetChef	New	17	25	\$12.7	\$5.7	\$1.1
SSDish	Super Silent Dishwasher	GourmetChef	New	4	37	\$1.6	\$1.0	\$0.8
TopRef	Top Freezer Refrigerator	ValueChef	Upgrade	24	30	\$30.0	\$3.1	\$0.3
	Total Requested					\$309.9	\$57.1	\$23.7
	Total Available							\$15
	Actual					\$202.9		\$15.0

} \$15M

Tentative “go”

Missed hurdles

Hold for resources

Exhibit 4: Use NPV and Resource Data to Draw a Cut Line

Endpoint

By this point, the portfolio management team has made a lot of progress. They have identified strategic drivers, agreed on valuation criteria, researched candidate projects, and selected and maximized a tentative portfolio. However, the portfolio is not complete yet. Although theoretically maximized, it may be out of balance or not feasible for the project teams to actually carry out. Solving those problems is the topic of the next article.

Oltmann, J. (2007, May) *Portfolio Management of Projects*. Class, Center for Professional Development, Oregon Health and Science University, Portland, Oregon.

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