

Reset Your Innovation Portfolio to Reflect the **New Reality**

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Introduction

Crisis like the COVID-19 pandemic force businesses to reassess their strategy and investment focus, and to make urgent, often dramatic choices. Consider the case of Victorinox, the company that invented the Swiss Army knife in 1884 and built it into an iconic global brand over the past century. The Sept. 11, 2001, terror attacks hit this business particularly hard due to new restrictions on travel carry-ons and the impact on a primary distribution channel. In the words of Chief Executive Officer Carl Elsener Jr., “It was an absolute catastrophe for us. Until then our knives had sold very well in duty free shops and on-board planes. Then

suddenly this distribution was closed. It was zero.”¹ Almost overnight, the company lost over 40% of its business.²

To survive and thrive in the post-9/11 environment, the company needed to reexamine its investment priorities and make hard decisions about which projects to stop or defer to free up resources, which to continue or accelerate to maintain momentum, and which to start in response to emerging threats and opportunities. These decisions included doubling down on recently introduced growth platforms such as Swiss Army watches and Victorinox luggage, increasing the focus on

its traditional household knives business, and developing a new line of leisure wear. It innovated its human resources policies as well, launching a program that “loaned” Victorinox employees to other businesses in the area who were ultimately re-integrated as the company stabilized — resulting in not a single layoff.

This kind of portfolio reset is critical in times of crisis; but it’s important in normal times as well. In particular, top leadership needs to regularly review their current innovation bets and ask three questions:

- Are we doing **too much, too little or the right amount** of innovation?

¹Harding, Luke. “Cut Down.” The Guardian, July 5, 2005. <https://www.theguardian.com/g2/story/0,3604,1521345,00.html>.

²Koydl, Wolfgang. “How the Swiss Army Knife Survived 9/11.” Worldcrunch, July 20, 2013. <https://worldcrunch.com/culture-society/how-the-swiss-army-knife-survived-911>.

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- Are we doing the **right kinds** of innovation?
- Have we **optimized how resources are allocated** to innovation?

Answering these questions takes work, but if done right, it can unlock enormous near-term value while keeping options open for the long term. For example, one leading global enterprise software company was able to free up 40% of its total investment in new growth innovation projects after the leadership team undertook a systematic portfolio review.

Much of the value came from identifying projects that were no longer strategic, that focused on subscale opportunities, or that had subsisted in a “zombie” state for so long that chances of success were low. These results are not unique, as we’ve repeatedly seen cases where this type of review reveals close to half of total innovation spend that can be reallocated to higher-impact initiatives.

For such a review to be effective, leaders must prepare for and engage in a different conversation than business as usual, informed

by the right “portfolio views” that visualize the portfolio from a number of different perspectives to reveal actionable insights. An example is shown in **Figure 1**, a disguised example from our client work. Each circle represents an in-flight innovation project, with the circle size indicating estimated steady-state revenue and its horizontal position time to market. The projects are arranged in four rows corresponding to the size of the addressable market.

This picture revealed that 60% of all projects were focused on markets that were small relative to performance targets (bottom two rows) and therefore were candidates for stopping, redefining or shelving for future reference. Other projects to question were those 18-plus months from launch but with low anticipated revenues, as

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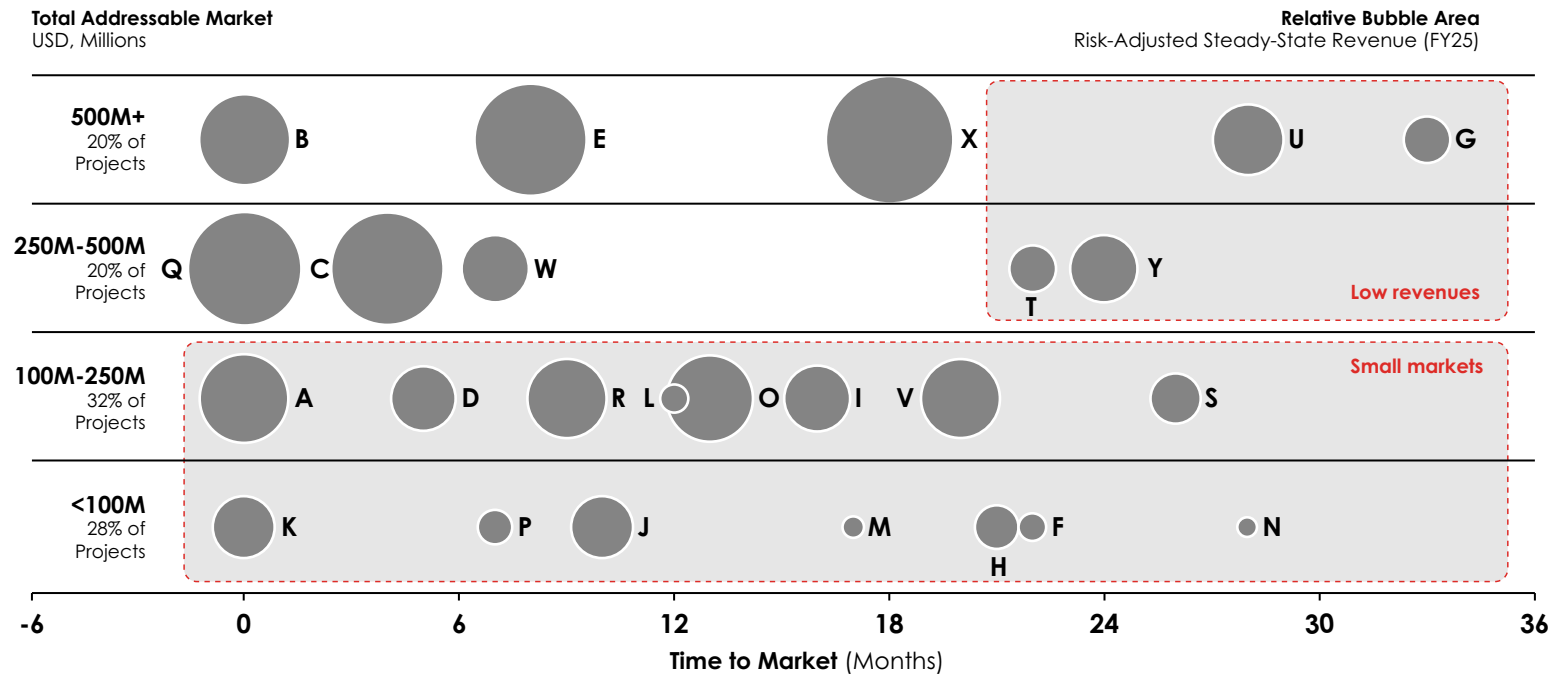
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Figure 1: Portfolio potential analysis



you would expect *higher* payoffs from projects that are further out and higher risk. Added up, nearly 75% of all projects were at least open to question (those in the two gray boxes).

Such portfolio views often allow leaders to make immediate, no-regrets decisions about projects to stop or put on hold —

crucial during a crisis when there is a need to free up resources. But they can guide other important decisions as well, such as the selection of promising initiatives to accelerate or new strategic projects to launch.

In this article we explain how your leadership team can prepare for

and conduct a strategic portfolio review that leads to decisive actions. There are three steps:

- 1. Align leaders on the problem and approach.**
- 2. Analyze the portfolio for insights.**
- 3. Review the portfolio and make decisions.**

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Step 1: Align Leaders on Problem and Approach

For a strategic portfolio review to result in consequential decisions, the top leadership team must be committed and engaged. This means they must first agree on why they are undertaking the review, the approach to preparing for it, and how decisions will be made. Here we'll describe a number of important considerations for reaching this alignment.

Defining the problem to be solved

There are many reasons an organization might decide to reevaluate its innovation portfolio. In normal times, it's a uniquely powerful way to assess if the organization is on track to meet its growth and other strategic

goals. Most companies expect a portion of their growth to come from existing businesses, then look to innovation to fill any remaining "growth gap" relative to long-term aspirations. A careful examination of the portfolio can highlight deficiencies and lead to resource allocation decisions that make achieving these goals more likely.

In times of extraordinary change, leaders often have additional, more urgent concerns. As outlined in "[The 'Big-Event Disruption' Playbook](#)," they must make moves that simultaneously **preserve the present** by staying operational and solvent, **create a rapid rebound response plan** for a post-crisis world,

and position the organization to **own the future** by making smart where-to-play choices for the long term. In this case, a strategic portfolio review enables leaders to evaluate how well the innovation projects underway support each of these three imperatives. They can then make decisions about how to free up, redirect or augment resources to support these imperatives further.

Aligning on which of these (or other) problems are important sets the whole exercise up for success, as it ensures everyone has the same expectations about the decisions to be made and their urgency. It also informs the types (and quality) of data required and the relevant

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analyses to conduct. Finally, discussions about the problem statement clarify and reinforce the desired mindset for the leadership team as it approaches the portfolio review (e.g., quick and “80/20,” customer-oriented, or rigorous and future-oriented).

Aligning on the approach

Once you’ve determined the “why” of your portfolio review, the next step is to align on key elements of the “how,” including:

- **The degree of rigor required**, in particular the need to accept “80/20” data and analysis. This is essential, as a major reason for failing to make decisions in portfolio reviews is pushback on the quality of data provided — even if the quality is more than sufficient for a strategic discussion.

- **Desired mindsets**, such as the willingness to overcome the “sunk cost fallacy” in discussions about which projects to continue versus stop.
- **Desired attributes** of your target portfolio, against which you will evaluate it. Key questions to consider include how much new growth you expect it to produce, from what sources and by when, as well as what strategic imperatives require a response. Your answers should reflect any updates driven by major changes in the external/internal environment (e.g., the emergence of a new type of competitor, underperformance in the core business, or a pandemic).
- **Expected decisions**, for example, identifying specific projects to stop, put on hold, merge, continue, accelerate or start.

Two tools we’ve found helpful in ensuring this alignment are shown in **Figure 2**, illustrated from our work with a global financial services company. The first is a “leadership compact” that describes what the review is and is not on a number of key dimensions. The second is a set of clear “performance criteria” that defines what (ideally) their portfolio was expected to deliver. Note that it’s important to establish these before you conduct the portfolio review, as you don’t want your definition of performance to be biased by the analyses you end up reviewing.

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Figure 2: Two tools to align leaders on the purpose and approach to a portfolio review

Leadership Compact

	IS	IS NOT
Orientation for Resource Allocation Decisions	"Where we want to play tomorrow" (our strategic focus areas)	"Where we play today" (our P&Ls)
Risk Management	Different risk profiles by innovation type	One risk profile across all innovation types
Time Horizon of Resources Considered	Present-future only	Past-present-future (sunk cost fallacy)
Purpose of Portfolio Review	Platform to make and monitor strategic decisions	Strategy development exercise
Expected Output of Analysis	Set of analyses to trigger relevant strategic questions and discussions	"One answer" to complex strategic questions
Reference Point	Performance of the portfolio and our internal "innovation engine"	Performance of business as usual
Granularity of Data	Good enough (80/20) to drive focused leadership discussion	100% aligned view with all stakeholders and functions
Validity of Data	~1-3 months	Real-time

Target Portfolio Attributes

Are we doing too much, too little or the right amount of innovation?	<p>"Where we want to play tomorrow" (our strategic focus areas)</p> <p>More projects/revenues in high growth BUs [BU A, BU B, and BU C]</p>
Are we doing the right kinds of innovation?	<p>Balanced mix based on risk profiles:</p> <ul style="list-style-type: none"> - Innovation Type 1: 50% projects; 40% revenues - Innovation Type 2: 30% projects; 35% revenues - Innovation Type 3: 20% projects; 25% revenues <p>Each project aligned to desirable goals and bounds criteria</p> <p>Transformed business mix ("tomorrow's core ≠ today's")</p> <p>Secured against threats and regulatory change</p>
Have we optimized how resources are allocated to innovation?	<p>Significant resources allocated only after completing "test, learn and adjust" stage of innovation</p> <p>~15-20 NEW "Early stage" projects, ~5-15 STARTING "Scale stage" (annually)</p> <p><1 year to pilot stage (first sales)</p>

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Step 2: Analyze Portfolio For Insights

The next step is to analyze the portfolio and develop the “views” necessary for the decisions you want to make. While leaders may not carry out the actual analysis, they have an essential role to play in guiding the process. In particular, they must ensure the right projects or initiatives are included in the portfolio and set expectations for data quality and rigor of analysis undertaken.

Defining the portfolio typically starts with the set of high-visibility, high-priority strategic initiatives that everyone in the organization is aware of. Beyond that, there are usually other context-specific projects consuming the organization’s resources and attention that

should be included. For example, an organization embarking on a reactive, crisis-driven exercise to free up cash might consider only projects above a certain threshold of expected investment. In contrast, a more proactive, strategy-led effort might focus on all investments associated with a certain risk profile, innovation type, region, customer type or set of strategic priorities. In most cases, we have found the portfolio will typically include no more than 20-30 initiatives, each significant enough that it could “move the needle” for the organization if it succeeds (or fails).

Leaders should align on inclusion criteria for the portfolio and consider:

- Types of innovation (e.g., core versus adjacent versus transformational).
- Significance thresholds (e.g., revenue potential, magnitude of resource allocation).
- Initiatives pursued organically versus through mergers and acquisitions (M&A).
- Operating expenses versus capital expenditure thresholds.
- Business units and geographies.

These criteria should be supplemented with a “manual override” option in the event that some major projects do *not* need to be included. For example, in a recent effort with

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a financial services client, the leadership team decided to exclude several large information technology transformation projects (which could have been included given their broad definition of what constituted an “innovation” project), as there were no strategic decisions that needed to be made about them in the near term.

As mentioned earlier, the main focus of preparation is the development of a set of “portfolio views” that provide new insights from different vantage points.

Figure 3 on the following page summarizes a number of the most useful views for portfolio discussions. Here we’ll comment on three that are particularly useful in times of crisis or major environmental change, when freeing up resources and ensuring they are directed to the most strategic opportunities are urgent priorities.

The first example we’ve already introduced: **the portfolio potential analysis (Figure 1)**. This view provides a snapshot of the full set of projects in the portfolio, arrayed by time to market (x-axis) and size of addressable market (y-axis). The size of each project is captured by the size of the corresponding circle on the chart. As discussed earlier, this view immediately highlights projects that are subscale, either in absolute terms or relative to their time to market and risk — any of which could be candidates for stopping or putting on hold to free up resources.

Projects with longer-term payoffs will naturally be reviewed critically in times of great change, as it’s common for companies to be spending *too much* on long-term opportunities relative to a *short-term* performance gap that must be closed to assure the survival

of the company. This is often the case when market conditions have changed so dramatically that near-term growth expectations are radically reset and much of the previous innovation spend is no longer needed or aligned with the new reality. However, this can be taken too far and result in a portfolio that is too focused on the short term. This is another reason having these big-picture views of the full portfolio is so important, as it enables leaders to have a balanced discussion about short- versus long-term needs.

The second example is a **strategic alignment analysis**, aimed at evaluating how the portfolio aligns with the strategic imperatives faced by the organization. Such questions are at the heart of many portfolio reviews and are the hardest for leaders to answer

Figure 3: Portfolio views

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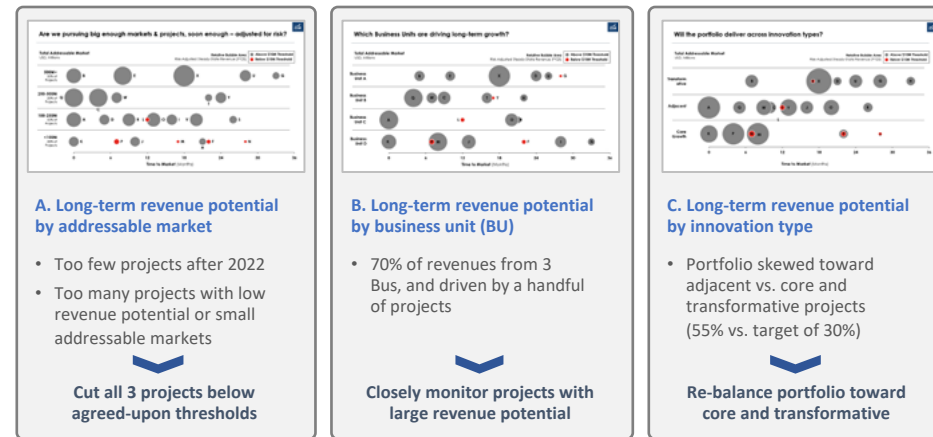
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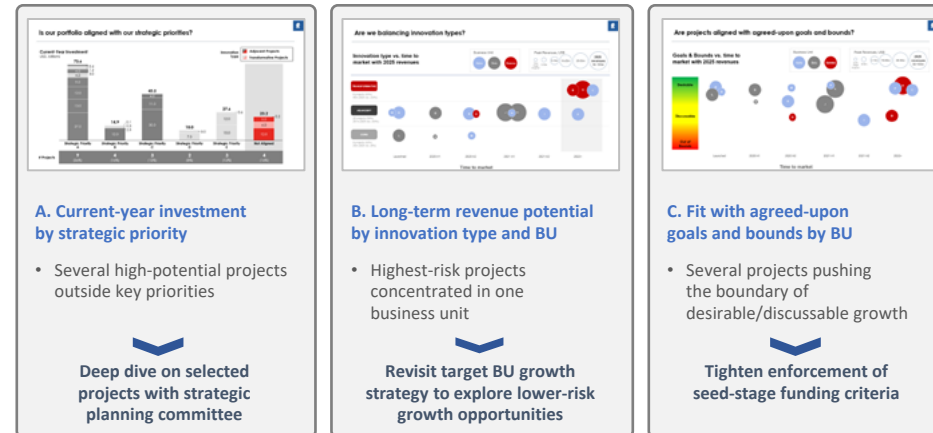
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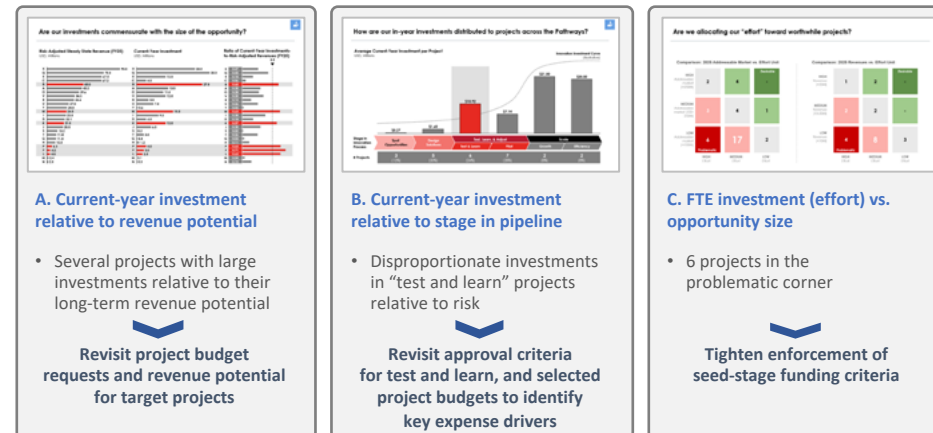
1. Are we doing **too much, too little or the right amount** of innovation?



2. Are we doing **the right kinds** of innovation?



3. Have we **optimized how resources are allocated** to innovation?



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in the absence of the types of views shared here. There are many ways a business might define the appropriate set of strategic priorities. Important questions to consider include:

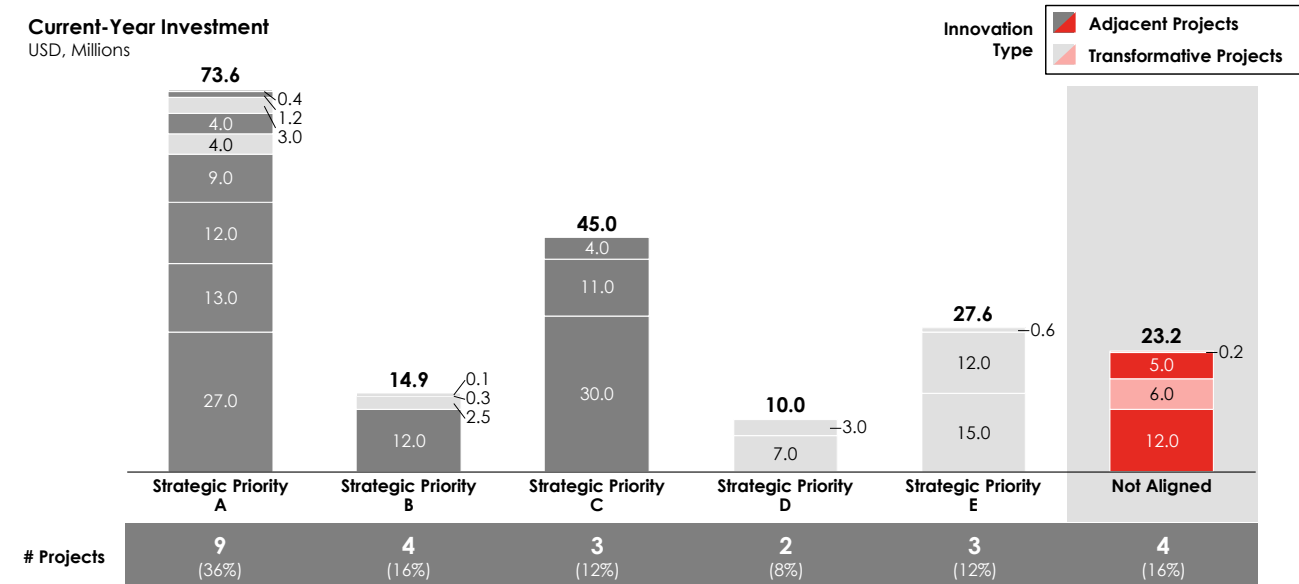
- Are we secured against emerging threats, opportunities, risks or regulatory changes?
- Are we focused on high-value, priority markets?

- Are we balanced across the different types of innovation (and their different risk profiles) as defined in the long-term corporate strategy?

Leaders can identify a set of strategic priorities based on exploring these questions and state them as imperatives or “focus areas” they can use to evaluate the portfolio.

Figure 4 is an example of a **strategic alignment analysis** based on work with one of the largest global chemical companies. This portfolio view shows how much investment was being focused on each of the strategic priorities the organization had identified, both in terms of current investment and number of projects. In the leadership conversation that ensued, it was observed the

Figure 4: Strategic alignment analysis



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portfolio contained a number of projects that were not supporting any stated strategic priority (the red bar at the right) and that were therefore candidates for shutting down. Moreover, investments in two of the priorities (D and E) were transformational in nature but assessed to be too small in potential payoff relative to the higher level of risk incurred.

In this case, the team was surprised that so many projects had emerged that were either outside of the stated strategy or were subscale, and was able to engage the leaders of those projects on a conversation about whether those projects were examples of appropriate pivots, smart opportunism or undesirable distractions. As a result, the team was able to make no-regrets decisions to shelve a number of projects, identify several to explore further, and postpone

decisions about others because the context had not changed.

The last view we'll describe aims to identify "zombies" (projects that have been stuck in development for excessive periods of times), as these are often good candidates for freeing up resources. **Figure 5** is a **pipeline velocity analysis**, which shows how long each project has remained in a particular stage of the company's innovation process. As expected, most projects would spend less than six months in the first two stages before graduating to some form of in-market testing, but the chart highlights three projects in the "zombie zone." These were characterized by extended time in the pre-revenue, early stages; sustained senior leader sponsorship; and burn rates just low enough to avoid too much attention —

even though their cumulative investments were significant.

In the past there had simply been no visibility into these projects, and so leaders called upon their team leads to either quickly justify or kill these projects and repurpose their investments against those opportunities where the return on investment would be higher.



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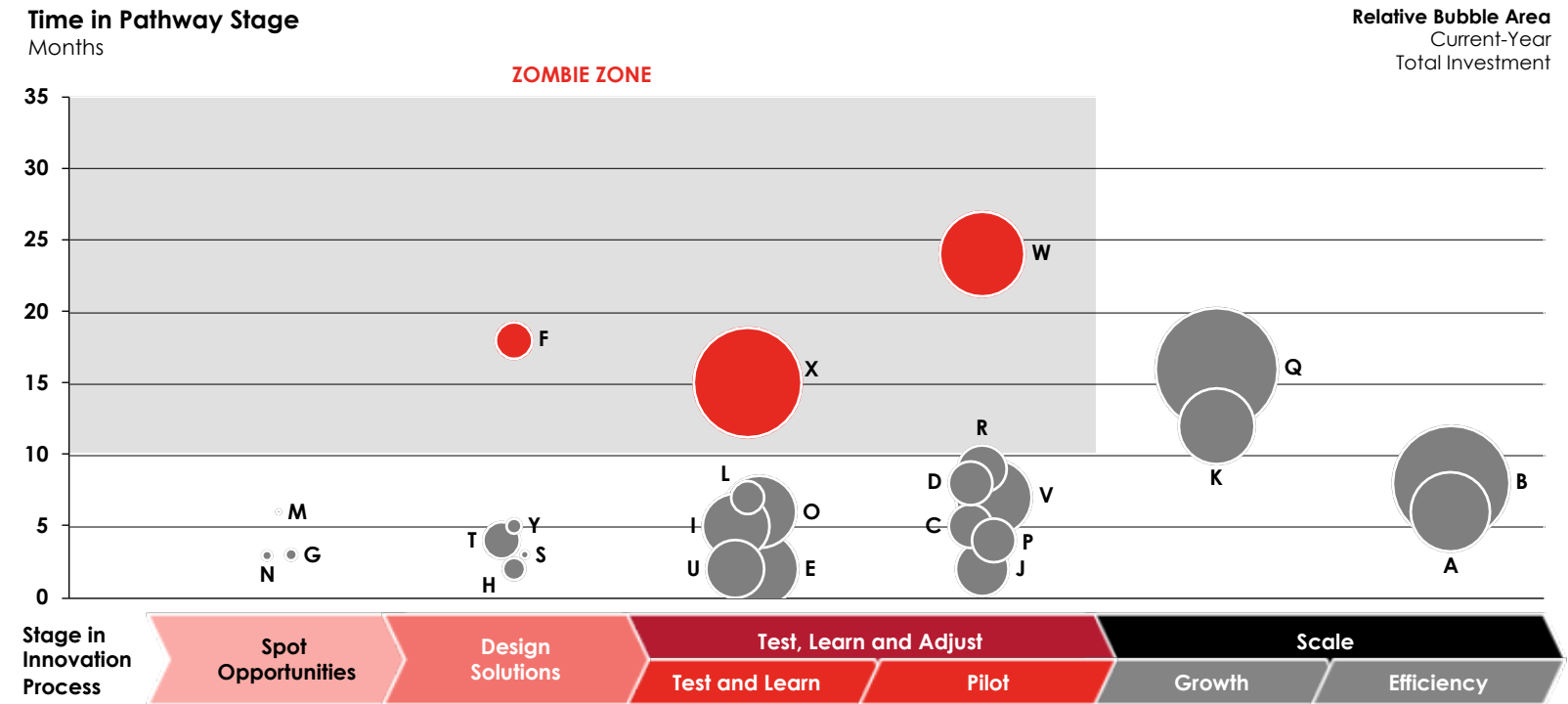
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Figure 5: Pipeline velocity analysis ("zombie" analysis)



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Step 3: Review Portfolio and Make Decisions

The final step is to conduct a portfolio review workshop, during which leaders should push to make *concrete decisions* leading to *actions* that reset and strengthen the portfolio. The most important decisions are about:

- What projects to **start** to fill in strategic gaps or better balance the portfolio.
- What to **continue**, including ways to accelerate or strengthen important projects.
- What to **stop** or put on hold to free up resources.

Figure 6 illustrates the types of decisions and actions coming out of a portfolio review. Leaders

should also evaluate the resulting portfolio to ensure it is robust against uncertainty, with the right mix of big bets, option-creating moves and no-regrets moves.

Although in many cases the decisions to be made are quite clear, this type of portfolio review is often the first time a

leadership team is able to see the “big picture” of the total portfolio and therefore able to have this level of clarity on how to strengthen it. It’s quite common for many innovation projects that were inadvertently unfolding “undercover” to be revealed to the full leadership team for the first time in such a review.



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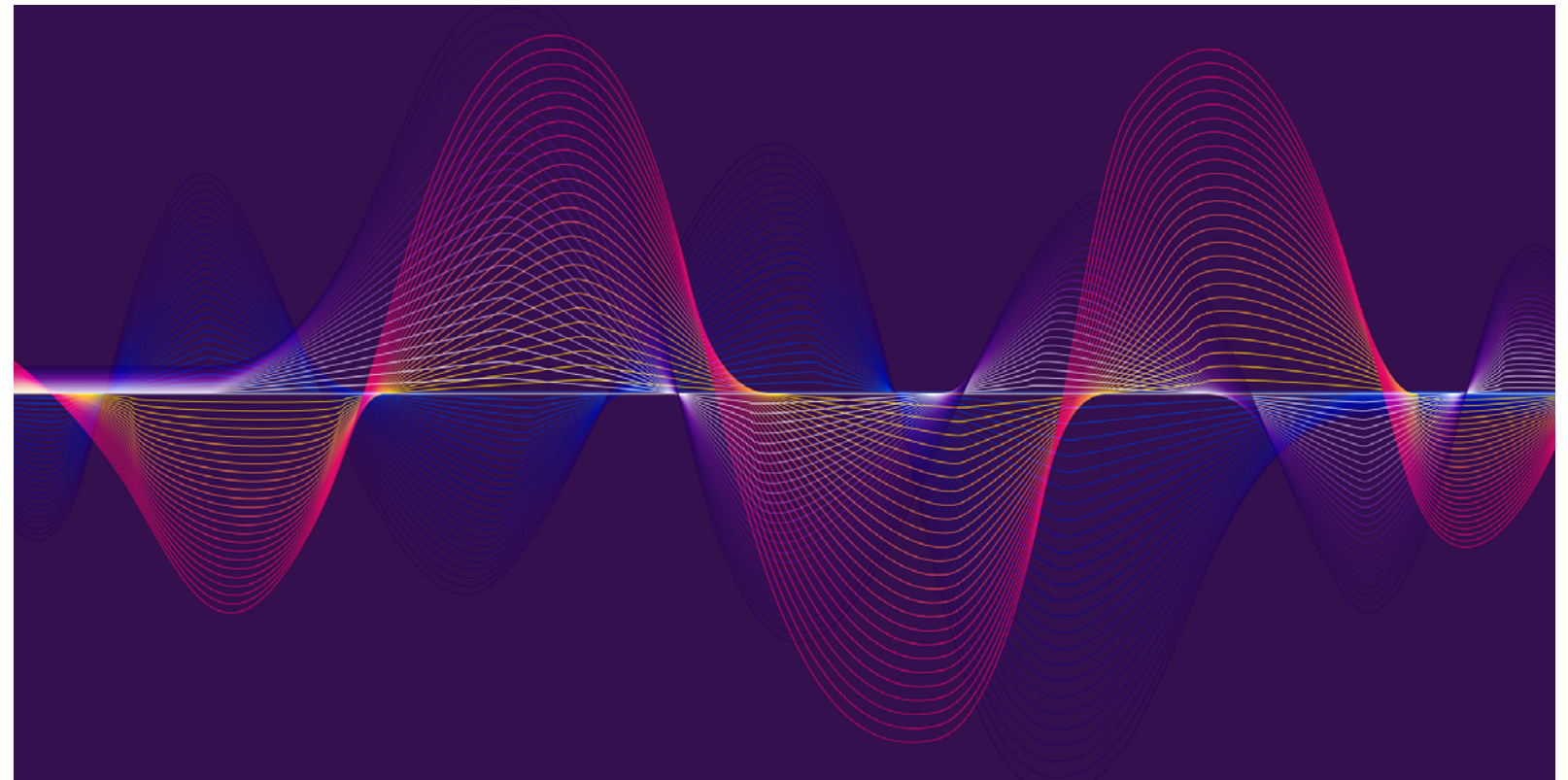
Figure 6: Actions to start, continue, stop

START ...	CONTINUE ...	STOP ...
<ol style="list-style-type: none"> 1. Closely examining projects with large revenue potential (>25M) and maintaining a "watch list" (Currently 8 projects with >\$200M in FY2025 revenues) 2. Re-balancing portfolio away from adjacent innovation projects (Share of adjacent currently at 45% (projects) / 50% (revenues) compared with 30%/40% outlined in strategic imperatives) 3. Reviewing resource allocation, including business unit and IT effort, against strategic priorities and reallocate where necessary (Project opportunity and allocated resources are not always correlated) 4. Filling pipeline with more midterm-oriented (2022-2023) and high revenue potential projects (>\$25M) (8 projects in pipeline for FY22 or later; per strategic imperatives portfolio should contain ~20) 5. Increasing the number of early stage transformative projects significantly (Likely only 15% of projects in spot/design will succeed) 	<ol style="list-style-type: none"> 6. Ensuring full portfolio alignment with strategic focus areas priorities 7. Pivoting "discussable" projects "north" to "desirable" (Currently 7 "mostly discussable" projects) 8. Pursuing each type of innovation in every business unit while evaluating if threatened BUs have "enough" Type 1 to defend the core (Sub BU 1, 2, 3 and 5 are pursuing all 3 types) 9. Applying "inclusion criteria" and "goals and bounds" to ensure all projects meet minimum thresholds for impact 10. Evaluating each business unit portfolio against their strategic plans 	<ol style="list-style-type: none"> 11. Pursuing projects with low revenue potential (<\$10M) and uncertain strategic value (~7 projects to reevaluate) 12. Pursuing "out of bounds" projects that cannot be pivoted (Currently 6 "mostly out of bounds" projects) 13. Progressing projects through pathways stages without thorough evaluation (Currently 9 projects for which "underreporting" suggests need for review)

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Conclusion

Conducting a strategic portfolio review is essential in times of crisis to ensure the organization is well positioned to weather the storm and emerge in a position of strength. Beyond this, portfolio reviews are a powerful management tool to incorporate into the ongoing cadence of leadership conversations, as they enable leaders to ask better questions, have higher-quality discussions and make better decisions.



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