Best Practices in Portfolio Management

Portfolio Prioritization & Selection for Business Value Maximization

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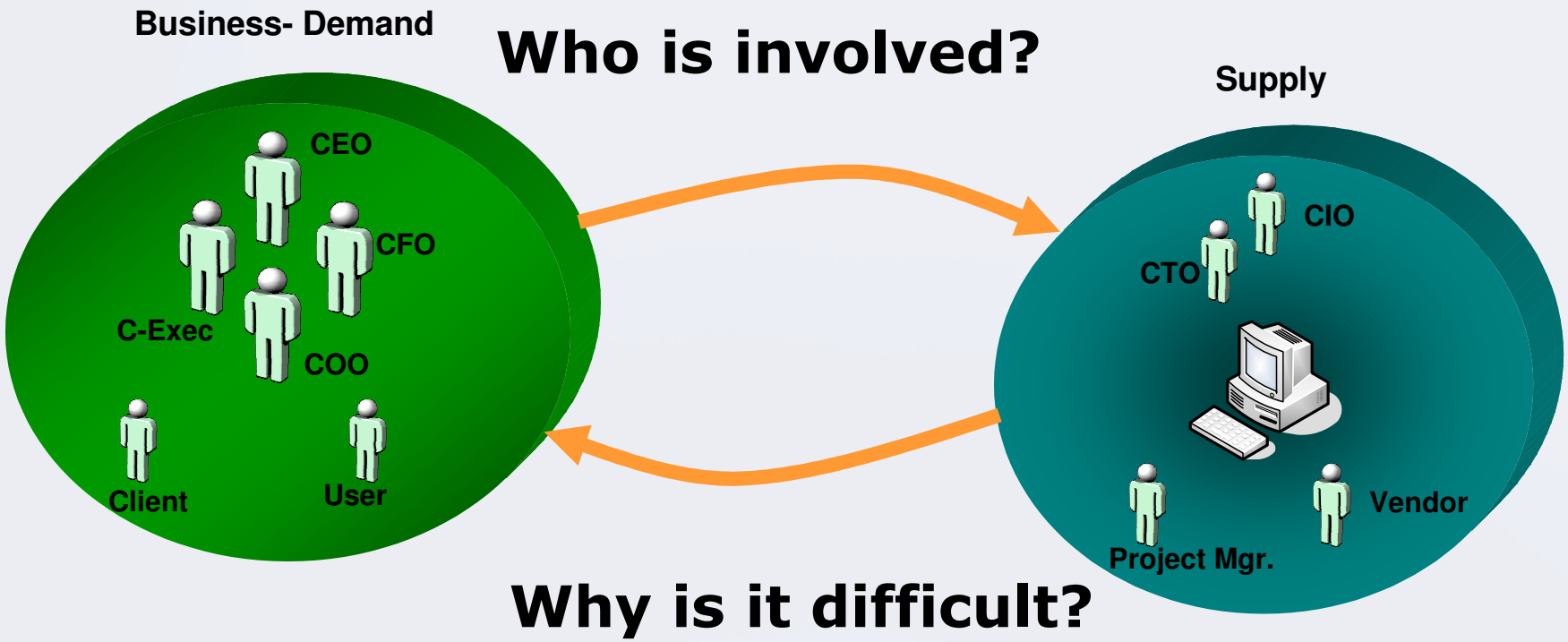
UMT Portfolio Management

Portfolio Management Transforms Resources into Business Value



Why is it difficult?

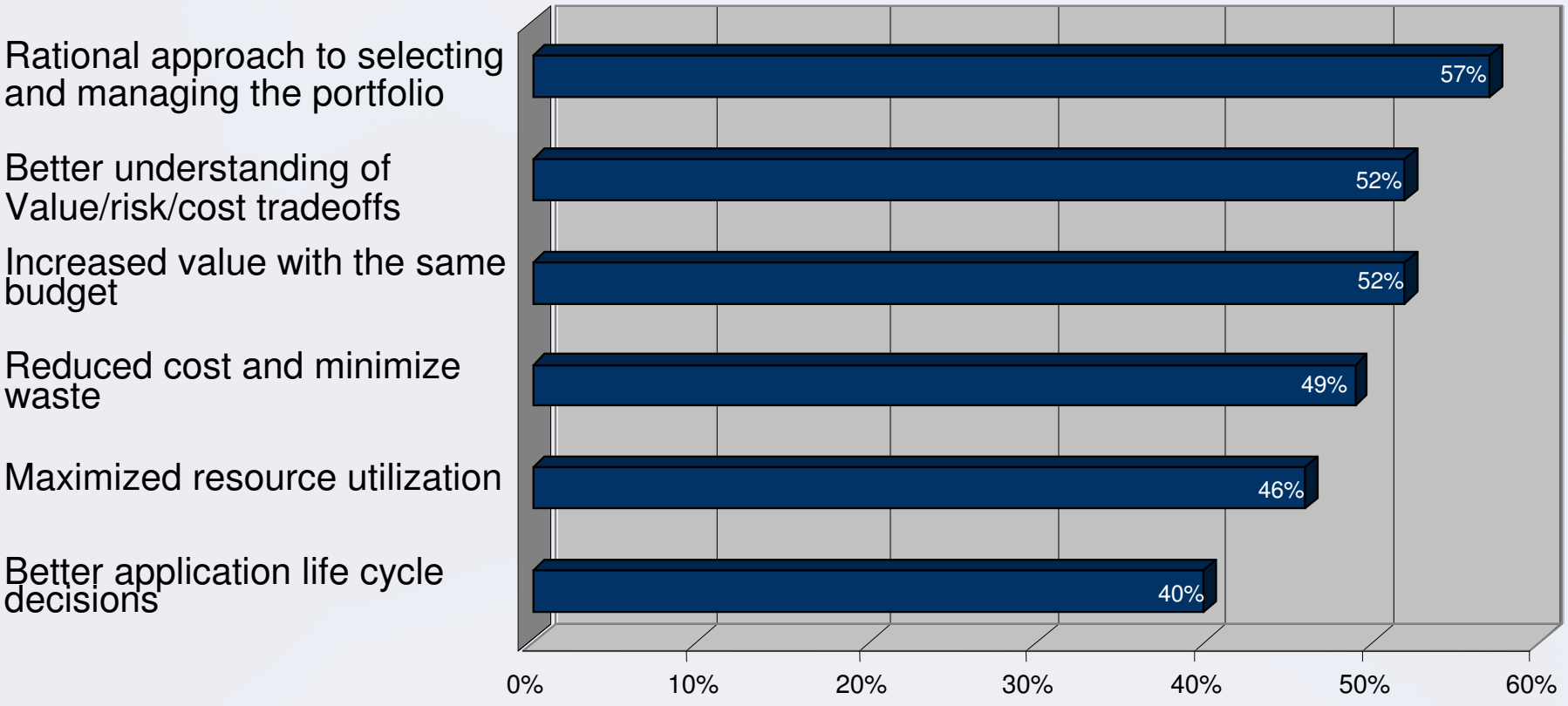
- Portfolio valuation
- Optimize constraints
- Measurements and metrics

- Communication
- Group decisions
- Motivation

- Governance
- Oversight
- Process

What Types of Benefits do You Expect from Portfolio Management?

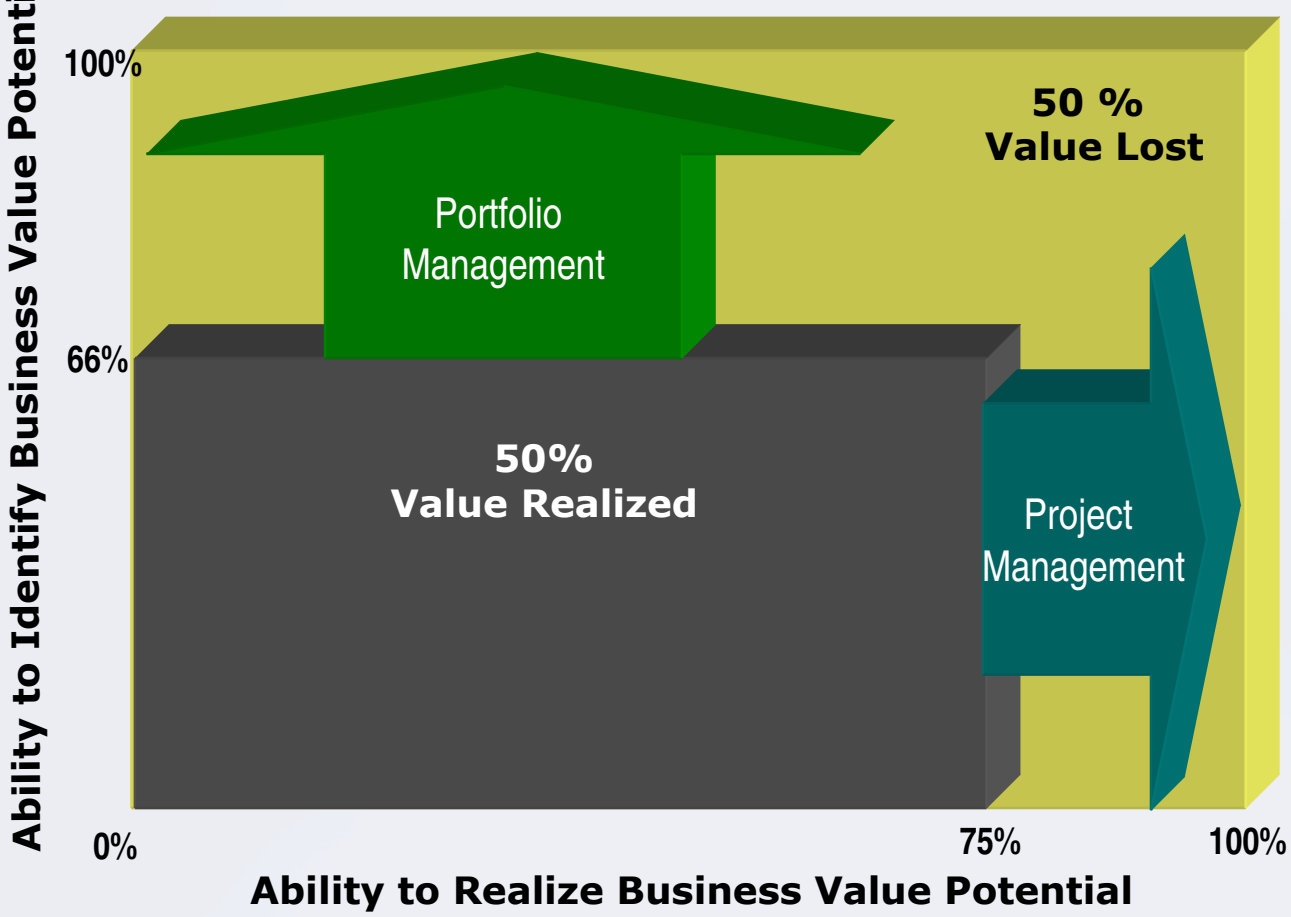
Portfolio Selection rationalization is one of the key benefits expected from Portfolio Management



*Source: UMT Webinar June 16; 63 Global 500 Respondents

The Opportunity of Portfolio Management

Portfolio Management to identify and select the investments that will maximize business value



Project Management to successfully deliver the selected business value opportunities

Case Study:
Financial Services Organization – "LargeBank"

Overview of LargeBank LOB1:

- Size and Scale is significant
- Strong Brand
- Key Core Competencies include:
  - risk management practices,
  - mergers and acquisitions,
  - low cost provider / scalable organization

The structure of LOB1:

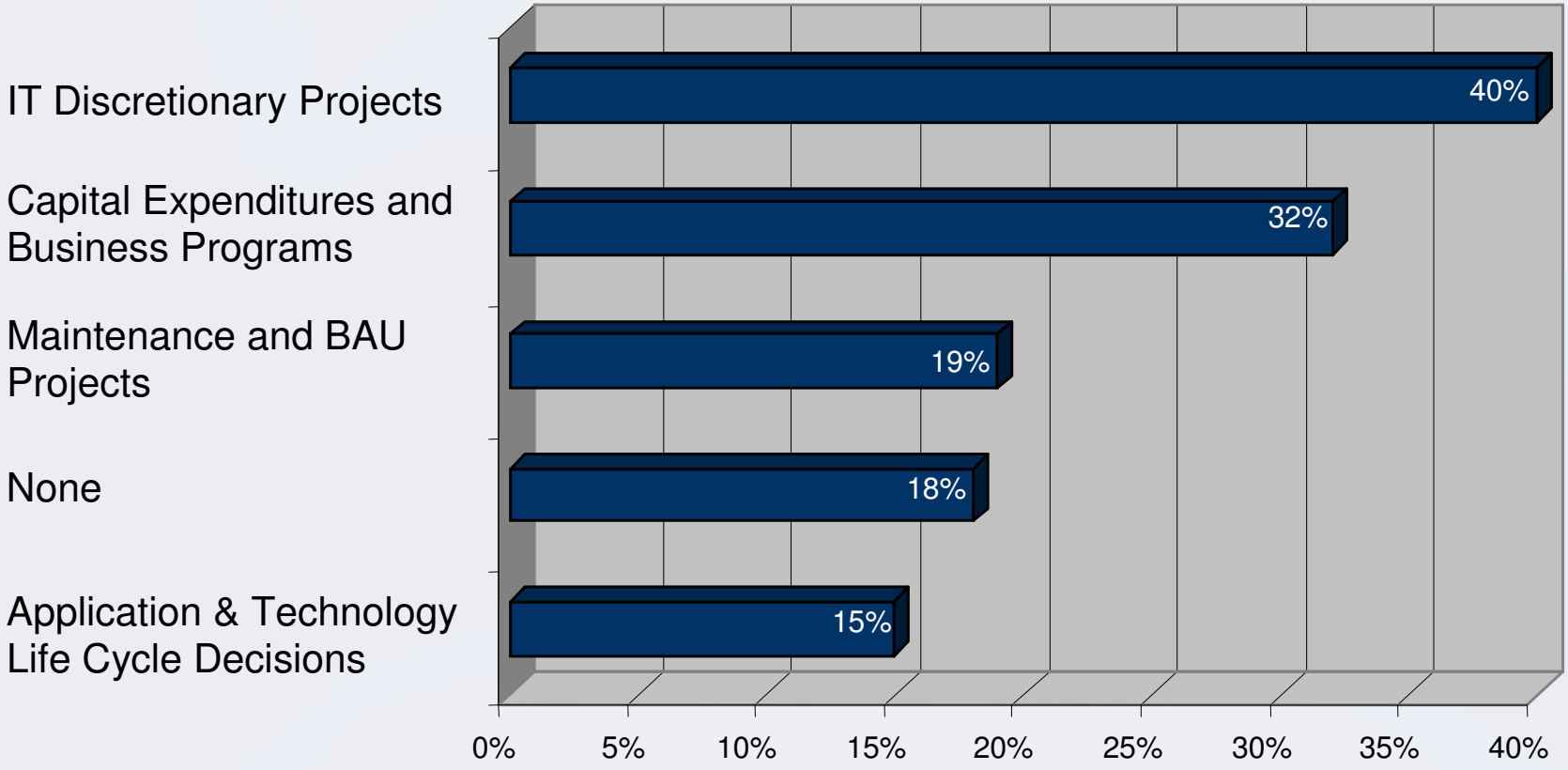
- Markets and Strategic Business Units (SBU's)
- Centers of Excellence aligned and partnering with all Markets and SBU's
- Operations and Technology is shared across the LOB

The Need for Portfolio Management & Prioritization …

- Scale creates hundreds of project opportunities every year
- Clearly needing a linkage between business strategy /objectives and project selection
- Profit and loss centers with aggressive growth and business objectives
- Launching multiple projects on a continuous basis

In What Areas are You Currently Applying Portfolio Management?

IT Discretionary projects and Business programs and capital expenditures are the main area for application of Portfolio Management practices



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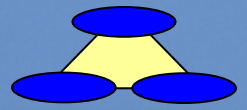
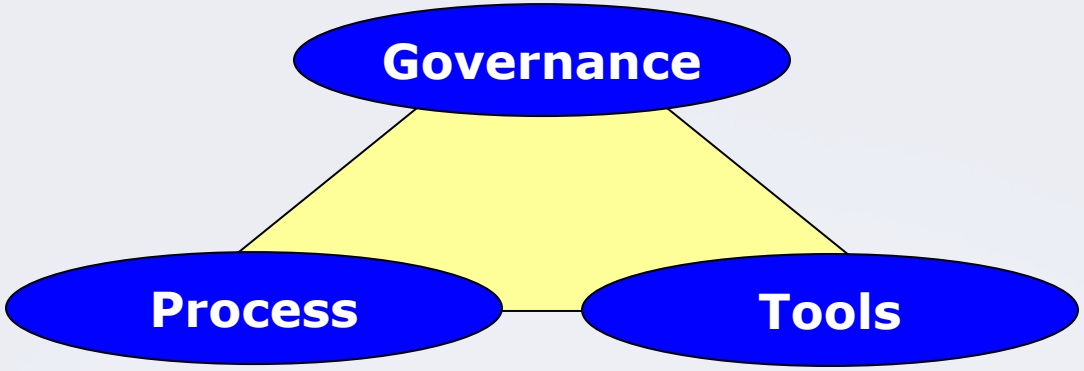
Response: Portfolio Management Model



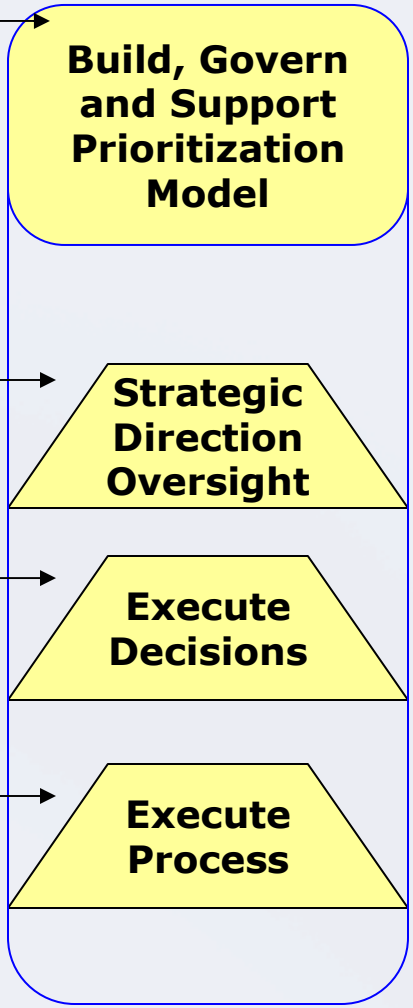
- **Governance** to orchestrate the building, implementation and management of the Prioritization model
- **Process** to allow organizational adoption, data availability and environmental linkage
- **Tools** to enable data analysis, subjective criteria and value maximization



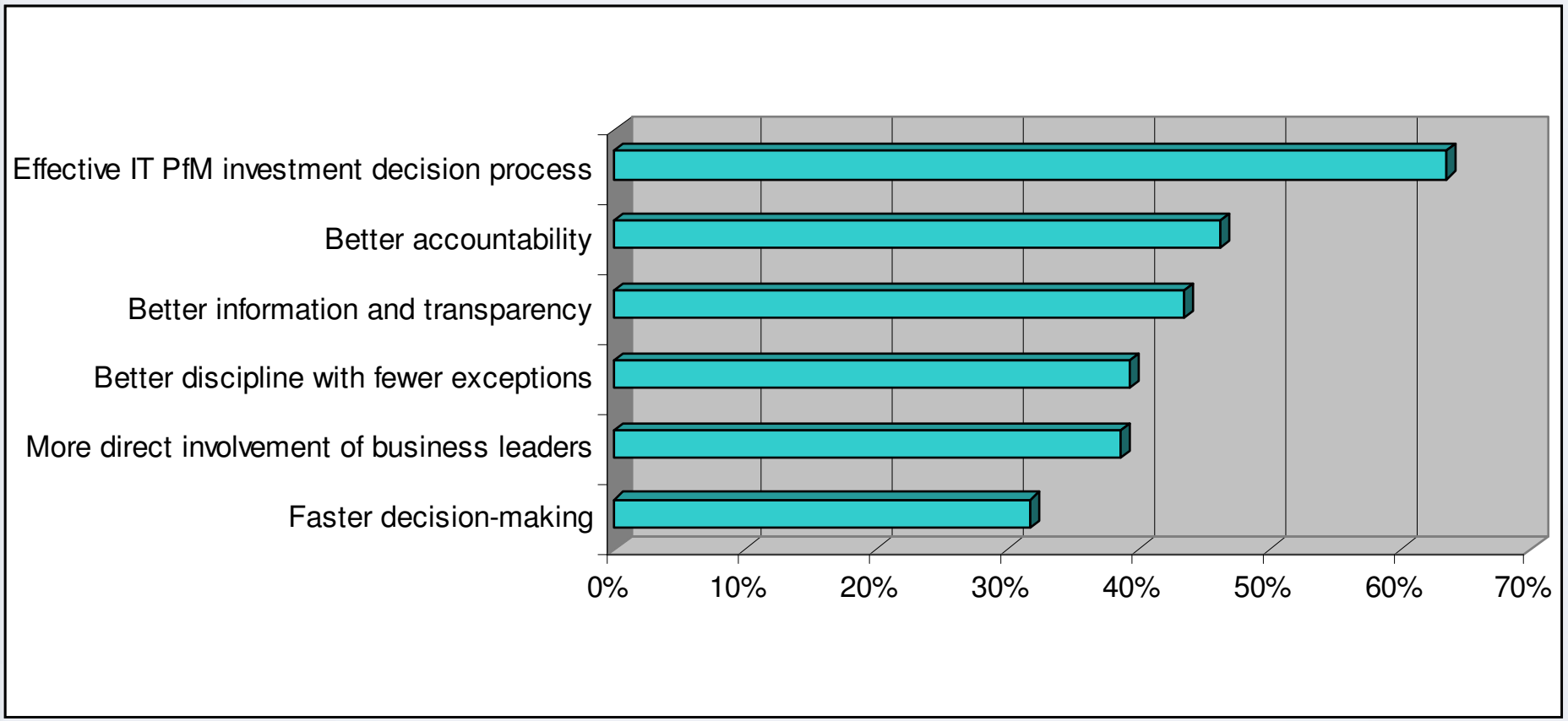
Portfolio Management Governance

Key components of the Governance structure

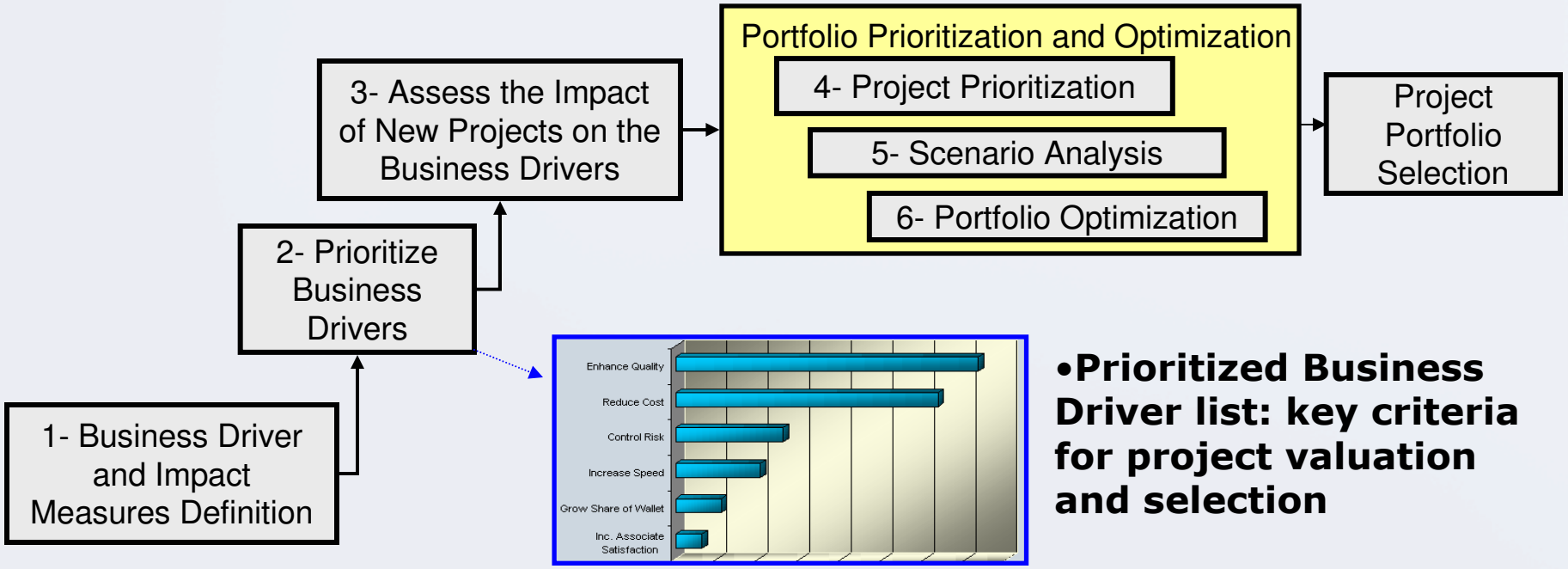
- **Central Prioritization Group**
  - Building of prioritization model: enable process and tool environment across the organization
  - Lead adoption across all groups, manage change dynamics
  - Facilitate ongoing prioritization and selection of new projects
- **Senior Executive Board**
  - Provide top leadership direction and strategy for project portfolio selection
- **Senior Decision Makers**
  - Own prioritization within their markets
  - Participate in project selection decisions at LOB level
- **Functional Delegates**
  - Provide input for intra-market prioritization
  - Coordinate Market-level process



What are your expectations from Governance for Portfolio Management?



Portfolio Management Process



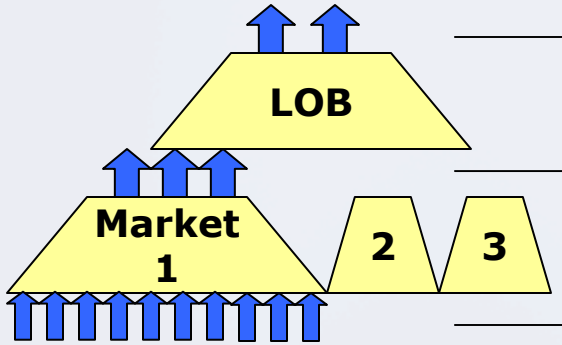
•Prioritized Business Driver list: key criteria for project valuation and selection

Business Value Opportunities

- **Strengthen the Linkage with Strategy**
- **Provide an economic model**
- **Maximize financial return**
- **Enhance Accountability (Business Metrics and consistent criteria)**
- **Balance resource supply and demand**

Portfolio Management Process: Multi-level Selection

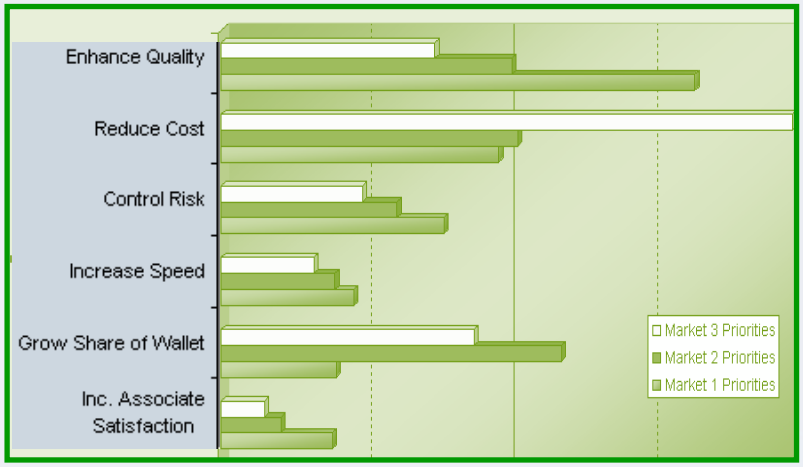
Model Fundamentals



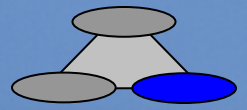
- **LOB selection of the final list for value maximization(Inter-market prioritization)**
- **Market level prioritization utilizing the LOB criteria and Market priorities(Intra-market prioritization)**
- **Each of the Markets proposes a list of projects each quarter**

Prioritization Criteria

- **Same framework and criteria (Business Drivers) for Portfolio Prioritization at multiple organizational levels**
- **Different criteria weighting (Business Drivers priorities) to account for differences**



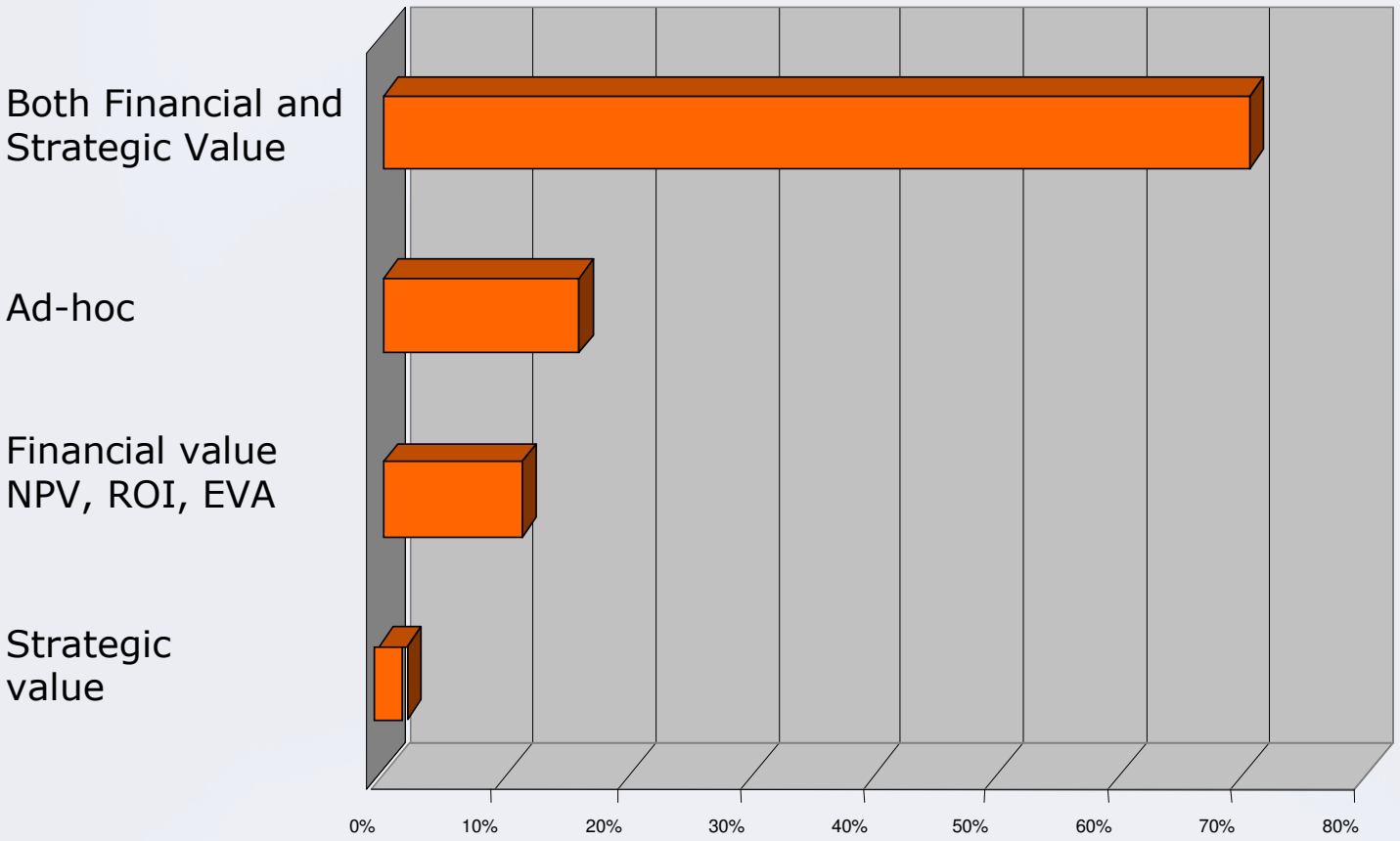
Portfolio Management Tools



Objectives of the tool environment:

- Support automation of prioritization process
  - Criteria for prioritization
  - Project prioritization against criteria
  - Project selection to maximize value
  - Allow multi-dimensional graphical analysis
- Central Repository for Project Requests
- Enhanced analytical capabilities
- Provide a communication vehicle for decision-makers
- Catalyst for change

How do you calculate value?
A Shift Towards a Multi-Perspective View



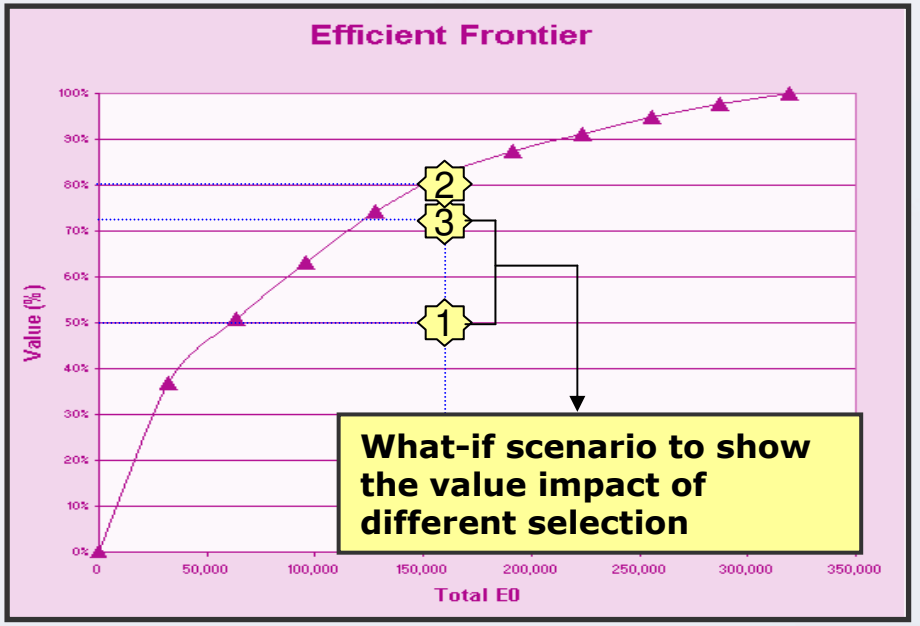
*Source: UMT Webinar December 8, 2004; 72 Global 1000 Respondents

Portfolio Management: Analysis for Value Maximization

Projects	Priorities	Total Cost	Original Selection Design Variables 1	Optimal Selection Design Variables 2	Recommended Selection Design Variables 3
Customer Relationship Management	11.8677%	3,495.62	●	✓	✓
ATS Application Target Arch	8.6192%	1,386.29	●	✓	✓
IBM Server Strategy	8.2821%	963.98	●	✓	✓
SLA Measurement System	7.6460%	1,388.01	●	✓	✓
Storage Design - Large Data Center	7.5780%	635.87	●	✓	✓
Internet Based IPSEC Rem Acc VPN	6.2649%	914.18	●	✓	✓
Service Delivery Project	6.2071%	1,300.91	●	✓	○
Tech Direction for Office Printing	6.0849%	500.82	●	✓	✓
Asset Management	5.0562%	3,000.8	●	✓	✓
Blades	3.9634%	1,989.83	●	✓	○
Storage Design - Mid Size Data Cent	3.3496%	2,427.77	●	✓	✓
Windows 2000 Rollout	3.2832%	2,492.27	●	○	○
Voice Over IP (VoIP)	2.7845%	1,799.45	●	○	○
Technology Direction for Mass Print	2.3195%	3,270.62	●	○	○
Oracle / Linux	2.0566%	473.85	●	✓	✓
Tablet PC / PDA	2.0566%	502.9	●	○	○
Email	2.0566%	1,827.85	●	✓	✓
Network Mgt Tools Framework	1.9544%	1,090	●	○	○
Quality of Service	1.8143%	617.89	●	✓	✓
EGTRRA Regulatory Compliance	1.5560%	2,459.76	●	○	●
CA Brightstor Storage Mgt	1.3288%	1,303.64	●	○	○
Defining LAN Strategies	1.1285%	726.5	●	✓	●
BrightStore Vantage ROI Analysis	1.0283%	863.09	●	○	●
IBM MVS Tools	1.0283%	1,177.81	●	○	○
Application Security (Comp)	0.3428%	1,124.99	●	✓	✓
Compliance (C/O)	0.3428%	3,155.02	●	○	○
	Limit Vector		51.9035%	82.3179%	74.7317%

Final project selection is based on what-if selection considering:

- **Project priorities**
- **Project cost**
- **Different resource/budget levels**
- **Legal and business "mandates"**
- **Value maximization**



LargeBank LOB1: Value of a Portfolio Management Model

- **Reduction in projects entering the final portfolio selection decision point (Reduced by 50%)**
- **More Senior Management involvement in the prioritization process**
- **Enhanced discipline and structure**
- **Project Assessment aligned to Strategic Drivers**
- **Enhanced awareness with process owners around value versus constraints at portfolio level**
- **Traceability of decisions and metrics**
- **Improved consistency in project valuation**

Conclusions

- It is the successful interaction of Governance, Process, and Tools that enables an organization to optimize its investment portfolio.
- A clear understanding and articulation of business drivers is the cornerstone of project portfolio alignment.
- A best practice prioritization process is able deal with both scale and complexity effectively.
- Communication and involvement of key stakeholders is essential to establish, confirm, and focus on business priorities.
- Business driver alignment, prioritization, and dynamic optimization are the foundation for the creation of business value from IT and business investments.

Q&A

The UMT Portfolio Manager™ Suite was ranked as the performance market leader in the META Group May 2004 Portfolio Management Tools METAspectrum™ Report.

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