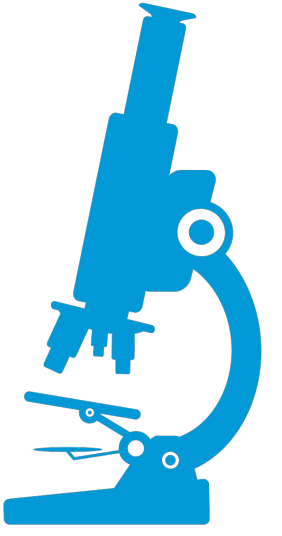
# Objective Project Valuation and Selection: R&D Portfolio Management Best Practice

Gartner asked R&D executives what about portfolio management they'd most like to change, and Objective Project Valuation and Selection was revealed as a top area for improvement

Here we profile a best practice for Objective Project Valuation and Selection to help you drive portfolio management rigor



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# First, drive objective valuation by classifying new product introduction projects by their intended outcome

Outcomes-Focusesd Project Classification

| Project Type / Components | Breakthrough[1] | Advancing[1] | Incremental[1] |
|---|---|---|---|
| **Intellectual Property** | Broad coverage of intended application area or exclusive (in)license or manufacturing know-how/trade secret | Patent(s) protecting specific development only or non-exclusive (in)license | No patent protection available |
| **Marginal Income** | ≥ 2Y% point improvement on average sub-BU or BU MI%; **OR** Product MI% is ≥ 2X% better than the average sub-BU or BU MI% **OR** MI% is ≥ Z% | **≥** Y% point improvement on average sub-BU or BU MI% **OR** Product MI% is **≥** X% better than the average sub-BU or BU MI% | < Y% point improvement on average sub-BU or BU MI% |
| **Peak Sales** | ≥ $2Q M **OR ≥** 10% of BU total sales | ≥ $Q M **OR ≥** 5% of BU total sales | < $Q M **OR** < 5% of BU total sales |

**Pushing Valuation Credibility Across Three Tiers**

1. **Individual Level —** R&D project teams receive basic financial training, arming them with the foundational knowledge and tools to create projections.
2. **Business Level —** At Idea Review Council meetings, the global BU director, technical director, and marketing director use their collective experience challenge numbers and stress-test assumptions. They also have an added layer of accountability, as these projections go into their budgets.
3. **Executive Level —** The division president and his leadership team review "pro forma" summaries of the top 15 projects to further refine financial projections at the highest level.

Source: Adapted From NewForce

[1] To mask actual dollar amounts and percentages, X, Y, Z, and Q have been used in the chart.

*Pseudonym for a North American chemicals company with $1-$5 billion in annual revenue and 5,000-10,000 employees.

NewForce*

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# Then, use standard criteria and explicitly defined scoring scales to select projects

## Scoring Standards

| Criteria | Sub-Criteria | Score (1–4) | |
|---|---|---|---|
| 1. Strategic Alignment | Business Fit | 4 | |
| | Expected Marginal Income[1] | 4 | |
| 2. Attractiveness | "Guesstimate" of Sales in Peak Year[1] | 3 | |
| | Growth Opportunity | 4 | |
| 3. Distinctiveness | Competitive Advantage | 1 | |
| | "Guesstimate" of IP Landscape[1] | 3 | |
| 4. Exposure | Capital Investment | 2 | |
| | Time to Reach "Peak Sales" | 2 | |
| 5. Technical Feasibility | Probability of Technical Success | 4 | 100% |
| | Ease of Manufacturing | 3 | 75% |
| 6. Commercial Feasibility | Probability of Commercial Success | 4 | 100% |
| | Ease of Commercialization | 4 | 100% |
| | Average Score | 3.25 | 75%[2] |

## Scoring Guidelines

| Criteria | Sub-Criteria | Score (1–4) Guidelines |
|---|---|---|
| 1. **Technical Feasibility** | Probability of Technical Success | 2. Technology unknown<br>3. Technology identified in a different industry **OR** technology path clearly identified within the project<br>4. Only minor adjustments needed on existing technology **OR** prototype created in the lab<br>5. Technology proven within NewForce **OR** development completed and move to scale up |

Source: Adapted From NewForce

[1] Shaded criteria factor into project classifications: Breakthrough, Advancing, Incremental.

[2] Technical Feasibility and Commercial Feasibility scores combine to form the project's probability of success.

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