

*** Value-Based Management : Essential to the Financial Success of PLM ***

Over the last several years, says CIMdata in a recent white paper, "Product Lifecycle Management (PLM) has emerged as the common term used to describe the creation, management, and use of product related information and processes ... throughout the entire product lifecycle and extended enterprise."

And readers of 2PLM ezine will be aware of 2PLM's definition - "PLM is the business activity of managing an organization's products all the way across their lifecycles in the most effective way".

However PLM is defined, all too frequently there is a critical missing link in the "PLM chain": a rigid assessment of the "expected economic value" to be contributed by the product to the company, based on a clear understanding of the affect of risk and uncertainty on financial results. While check lists, score cards and other commonly used approaches often serve well for product extensions, incremental improvements and other areas where there is little uncertainty, they are totally inadequate when evaluating new product lines, completely new products and innovations that serve uncharted markets.

Value-Based Management is an approach to developing a clear picture of technical and commercial risks and uncertainties where there is a lot of uncertainty. For instance, a new product may be positioned at a new market where there is little or no data. Or a new product may depend on meeting a difficult technical hurdle that may or may not be achievable.

By acknowledging "what we don't know" and recognizing there is a range of uncertainty, e.g., the market could be as low as \$100 million or as high as \$500 million; the probability of achieving technical spec "x" is about 40%, and other uncertainties, we can calculate the impact upon the expected Net Present Value for the product. ("Expected Net Present Value" is NPV weighted for risk and uncertainty.) We can also see where the "tiger pits" lie and take early action to avoid them or minimize their impact.

Armed with this knowledge, management is in a much better position to (a) take steps to avoid or minimize downside risk and (b) allocate resources to focus on those few factors that can significantly improve upside value.

Adding Value-Based Management capabilities to the front end of PLM and revisiting the business model at key points throughout the development and commercialization process, companies can avoid unpleasant surprises while improving the financial returns on their investments in new products and product portfolios.

HP provides a good example of the benefits of applying Value-Based Management processes and tools. The success of their merger with Compaq created an opportunity to develop entirely new areas of the business. Executives realized that this would require exploring radically new ideas and managing the tremendous uncertainty surrounding moving into new businesses.

The head of the Imaging and Printing Division, one of HP's most successful businesses, stepped up to the challenge by establishing a New Business Creation (NBC) process to focus on building a portfolio approach to new growth.

Departing from a traditional project management approach, HP decided to rapidly explore a large number of projects to identify potentially high-return projects, all the while knowing there was a high degree of risk and uncertainty.

The Division President identified several target markets as diverse as life sciences and home entertainment, and unleashed high-powered teams to develop proposals to address them. His teams quickly came up with a pipeline of interesting, high-potential product proposals.

Said the business process owner, "Our big challenge was to get teams to see the upside potential in a constructive way so they could focus their efforts on a big win, rather than on easy-to-meet incremental goals."

HP selected SmartOrg project evaluation processes and software to help them deal with this challenge. The results were dramatic. For the first time - in a simple and practical way - project teams and their managers experienced the

impact of risk and uncertainty on their projects. They gained a new perspective on where to apply their efforts to create the highest business value.

Over the past year, say HP managers, the approach has helped them dramatically reduce waste and enable teams to "hit home runs with their projects."

For a detailed discussion of how HP uses Value-Based Management in their New Business Creation process, visit [SmartOrg Inc.](#) and click on "Turbo-Charging New Business Creation at HP" on the home page.

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