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Managing the portfolio

More than 40% of executives recently surveyed by Datamonitor believe their companies are failing to commit adequate time and resources to portfolio management and futhermore, 25% believe their organizations have little ability to implement and execute portfolio management effectively, particularly in the specialty and midtier sectors.

As aggregate R&D investments continue to head north, roughly doubling every five and a half years, and productivity, as measured by the output of new molecular entities, continues to head south, portfolio management is an increasingly critical function. Portfolio management, which Datamonitor describes as a framework for facilitating the implementation and development of corporate strategy, is the one function within an organization that is equipped to provide an analytical assessment of each project in the context of corporate goals and strategies.

In the world of constrained resources in which all companies exist, more often than not they are unable to fund or invest in as many projects as they have in their pipelines or portfolios. Companies need to manage all assets carefully and must make informed and tough choices between the projects to be funded and those projects that do not have the revelant attributes worth pursuing.

Portfolio management is a discipline, and companies are recognizing and creating portfolio-management departments that consist of people with formal training in decision analysis.

"Companies in general need to make balanced investments across projects — different therapy areas, different development stages — subject to the risk and return profiles," says Michael Chang, executive director of portfolio and project management at CV Therapeutics Inc. "The way to integrate decision making and maintain balance is to have a continuous cycle of guidance and feedback and to include all of the relevant functions, including the head of research, the head of marketing, and key development executives."

The time for "nice-to-have" portfolios is gone. Companies will have to focus much more on products that really add medical benefit and add value for the customers. Portfolio management helps companies to better focus on these issues

The need to align portfolios and resources with the corporate strategy forces portfolio managers to assess how the company can best continue to maximize value in pursuit of its objectives without exceeding budgetary constraints.

"The industry has been very adept at adjusting resources to optimize the margin of any given product contribution," says Charles Saldarini, vice chairman and CEO of PDI Inc. "But to sustain the growth that investors are expecting, we believe pharmaceutical companies have to find ways to maximize every product in the portfolio."

According to Joerg Reinhardt, Ph.D., head of development at Novartis, to do portfolio management properly, companies need to evaluate different parameters, such as network values, risk levels, likelihood of success, and timing of projects in terms of launch schedules.

"It is also important to consider the balance between new molecular entities and life-cycle management activities and the balance between general products and specialist products," Dr. Reinhardt says.

"Portfolio management is about making the right decisions that optimize our resources and dollars, which allows us to invest in the pipeline and meet corporate objectives," says DeeAnn Yabusaki, associate director of portfolio planning at Genentech Inc. "It also helps frame the requirement for a consistent management focus and create a disciplined approach to investment decisions."

Taren Grom
Editor