



Place Your Bets

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Few companies have ever grown up as quickly as AOL, fueled by innovation and a fierce competitive drive. But the company's growth formula needed something more in the aftermath of the Internet boom — discipline, accountability and an ability to prioritize. Enter project portfolio management.

The late-90s' rags-to-riches-to-rags stories are now the stuff of legend and business-degree curriculum. But among the many Internet casualties were survivors and ultimately huge winners — large and small companies alike that managed to weather the rollercoaster of explosive growth, unrealistic expectations and widespread panic that marked the Internet boom and bust. And few companies, if any, are more closely linked to the Internet Age than America Online (AOL), the ubiquitous subsidiary of Time Warner Inc. Certainly few companies in the history of commerce have ever grown so large so quickly.

AOL remains a growing, fast-paced company in 2004, and recent revenue reports show overall stability where once there were ominous clouds. The organization, as a matter of competitive survival, continues to be driven by innovation. But something else has been added to the success equation — a much-needed discipline and accountability.

Simply put, AOL's project-based processes and resources had been struggling to keep up with its rapid growth and many new initiatives. In early 2003, AOL formed a team to do something about it. Led by John Sammarco, Director of portfolio management, the team set out to define and develop a comprehensive project portfolio management capability (PPM),

spanning methodology to training to support tools. A work in progress, the PPM initiative — dubbed "Placing Our Bets on the Winners" — has already delivered tangible successes. Here's an inside look at how AOL introduced PPM to its unique culture, including several valuable lessons learned along the way.

Homework, Home Cooking

From the outset, AOL knew a cookie-cutter approach to portfolio management wouldn't work across five lines of business, each with its own set of products, services, business strategies and market forces. But AOL's portfolio team recognized that it didn't need to spend time reinventing certain wheels. "Although we knew we would eventually tailor our PPM, we wanted to start in a place that was a good foundation, leveraging industry best practices and academically sound approaches." Sammarco says. "We also capitalized on the prior career experience that already existed within our team."

Once the team had researched and settled on some time-tested practices, the "AOL-ization" — or customization — of the PPM processes began, with input from across the company. "We recognized that this couldn't feel imposed on AOL. It had to be tailored to fit AOL's culture," Sammarco says. "We understood that [the lines of business] would need to assess competing project initiatives differently, and that a one-size-fits-all approach wouldn't work. So essentially, we said, 'Here are the best practices, now, let's work together to make it familiar with how you're already doing business.'"

But throughout the customization process, one overriding objective was upheld across all business lines, Sammarco says — "to bring more transparency and consistency to how project investments are made and managed."

Into the Mainstream

As AOL began to introduce the new PPM processes to the organization, there was palpable excitement. Done right, Sammarco says, it changes "the way a business does business." But AOL resisted the urge to rush the implementation in favor of gradual assimilation.

"We didn't want our PPM process to be a bolt-on to all of the existing processes, or to sit outside

the mainstream," Sammarco says. "For it to be successful, we recognized that it needed to be integral and integrated into the mainstream. As such, it was critical to introduce these concepts and approaches gradually, getting quick wins, building momentum, and making sure changes to process were understood and embraced, before taking the next step. In short, an incremental implementation rather than a Big Bang. In one example, it took six months to phase it in."

Score One for the Team

A key component of AOL's PPM capability design was to not only help teams make more justifiable decisions, but to also achieve rapid and binding decision-making. To do this, AOL needed to bring all the business functions — Business Leadership, Marketing, Finance, Legal, Technology and others — together on a regular basis to review, assess and select ideas, concepts and projects.

Equally important, AOL introduced new scoring models — based on a weighted hierarchy of objectives and measures. In doing so, AOL was able to expand decision-making criteria beyond revenues and EBITDA, aggregating and synthesizing quantitative data with qualitative judgments in real-time and in a group setting.

Using this technique, AOL was able to cross-prioritize project investments for the first time. And it accomplished this objective faster by just diving in instead of debating details. "When it came to the use of scoring models, we understood the importance of getting a solid model piloted quickly, knowing that it will evolve and improve over time." Sammarco says. "We didn't want to stay in committee trying to build a perfect scoring model when we recognized that our first step would constitute a quantum leap forward — and that getting the collaboration started sooner rather than later would ultimately do more to move the ball forward."

Represent and Facilitate

AOL now has seven portfolio management teams (PMTs) — five centered on the major lines of business and two (the Technology and Corporate Units PMTs) chaired by the CTO and CFO, respectively. Each business owner chairs their own PMT meetings, but since the PPM process is a cross-functional one, each PMT has

applicable executive representation from the Marketing, Finance, Legal and Technology functions as well.

The seven PMTs are at various stages in their implementation, according to Sammarco, who facilitates the Corporate Units team. "Each one of the PMTs has someone, whose role is similar to mine, to facilitate the entire PPM process so that the chairperson and team members can make effective decisions."

This group of facilitators convenes periodically to share best practices and discuss common challenges. The seven teams are officially tied together at the top of the organization by an Investment Review Board (IRB) consisting of senior executives, including the CEO, two vice chairs, the CFO and other business leaders. The IRB commissions PMTs and allocates resources, while the PMTs commission project teams and allocate resources. The project teams are then accountable to the PMTs, and the PMTs are accountable to the IRB.

Manageable Complexity

Though it emphasized a flexible, user-friendly approach as it rolled out the new portfolio management capabilities, the implementation team knew the processes would not initially be seen as simple due to a general unfamiliarity with PPM throughout the company. But rather than risk diluting the potential power of PPM for the sake of simplicity, the team decided to strive for a "manageable level of complexity," instead.

"We didn't want to over promise and say this was just going to be intuitive; because it's not right away," Sammarco says. "We wanted to build the capability and experience base, gradually to keep the buy in."

When it came to AOL's choice of tools, including an advanced PPM solution developed by Expert Choice, a similar philosophy was adopted. "Whenever possible, I try to shield the executives from the behind-the-scenes complexity that can sometimes accompany use of support tools," Sammarco says. "We don't expose them to the lower level intricacies of building rating scales for our objectives and measures or require them to generate their own reports. That's better left to a portfolio analyst to be done offline and validated or shared with

the executives. I prefer to keep the executives focused on exercising their leadership and judgment, and setting the objectives for the portfolio."

The Process in Action

In practice, technology plays a key role in managing the complexity. After the presentation of a business case during a PMT meeting, the PMT members share their judgments using handheld transmitters, which are displayed for all by a projection system. They then discuss their perspectives before finalizing their assessment. This approach builds consensus without creating an obstacle to move forward, Sammarco says. "Expert Choice technology, which is based on the Analytical Hierarchy Process, provides the capability to measure a project's business value to a set of weighted objectives. It is one of the very few tools that provide the capability to aggregate non-similar judgments from a group."

Using a scoring model based on weighted objectives allows the PMTs to modulate the portfolio to map to the strategic priorities of the business. For example, in one PMT, a particular objective was a predominant factor in the scoring model, "It stood to reason that the projects that contributed strongly to that objective fared better than those that didn't," Sammarco says. And at a subsequent quarterly portfolio review, it was evident to all that the portfolio was indeed aligned with the PMT's strategic objectives, and that the key objective was well covered.

"It's been my experience that a PMT typically knows the top few projects that they absolutely *must have*, and that they also often know those bottom-few that are, at best, *nice-to-have* projects. Where the methodology and tool has the most benefit is to prioritize the middle — the 60 percent or 80 percent of *should-have* projects."

Beginning Winning

Project portfolio management is now helping AOL in significant, tangible ways. "One of the harsh realities of a PPM process is that the PMT often rejects an idea, which is actually a good thing," Sammarco says. "By rejecting ideas, it conserves resources for the most deserving ideas, some of which may not have yet surfaced. In addition, it helps the business by

giving them clarity. With a "no" in hand, a project requestor can begin to implement a backup or workaround plan. Now that we have a good vetting process, we have gotten to the point where business leaders are doing "corporate euthanasia" — a term that was coined for killing one's own project. Although these "pull-backs" don't always show up in our metrics, we do see that everyone is doing their share to "thin the herd."

In early 2004, one of AOL's PMTs had about 200,000 hours of demand on the table. In the past, the PMT would have increased its technology resource supply to meet the demand. But every time it did, demand would only increase, according to Sammarco. This time, for the first time, "we actually managed our demand down to our resource capacity," he says. "Through prioritization and selection, we took 200,000 hours of demand down to our resource capacity level, which was about 120,000 hours for our corporate units."

Sammarco says the process allowed the team to optimize a Plan of Record for what it was going to accomplish this year without having to hire additional head count. "In addition, for the first time ever this year, we ranked all the projects across corporate functions, so that our technology group has a clear set of priorities and knows exactly what to focus on via a 1-to-n project-priority list. Before, they would get numerous No. 1s and numerous No. 2s from each corporate function. It has helped tremendously."

ON DECK: After establishing PPM guidelines and objectives, AOL evaluated tools to complement its methodology. AOL selected Expert Choice, an Analytical Hierarchy Process (AHP)-driven solution that builds models for evaluating the business value of projects to help prioritize and optimize the portfolio. Read about this tool, its implementation, and the AHP approach in "Tool of Choice," which can be found in our **WareAbouts** section later this month.

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