MoP Practice 2: Categorize. How to define groups or segments?

The purpose of the categorize practice is to organize change initiatives into groups, segments or sub-portfolios to make it easier for senior management to understand what initiatives are part of the portfolio and how they will contribute to e.g. the strategic objectives of the organization. It will also help to decide on the balance of the portfolio across the different categories and on the optimum use of available resources (funding, people). Allocation of available resources across the different segments must reflect the strategic alignment of each segment.
Each group or segment can have its own investment criteria to appraise and prioritize.

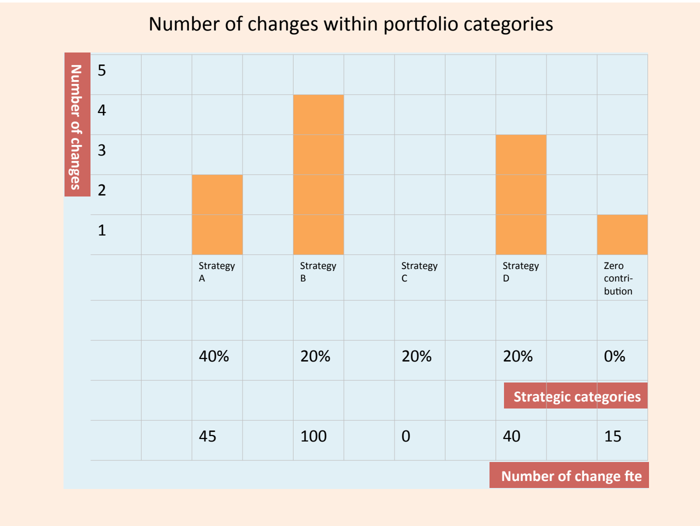

Figure 1: changes within portfolio categories

Reflection on a simple portfolio

Figure 1 shows a simple example with ten projects divided across different categories. Each category represents a strategy and the last category contains initiatives that do not contribute to one of the strategies. In this example there are no projects allocated to strategy C and one project can't be allocated to one of the four strategies A-D. Using pairwise comparison, the relative weight of the different categories can be defined (see my article about prioritization for an explanation on pairwise comparison). In figure 1 Strategy A is the most important one and the other three are equally important (40%-20%-20%-20%). It also shows the actual resources used in the different categories (45, 100, 0, 40, 15 fte).
If you use this information several questions will pop up:

- Why are no initiatives allocated to Strategy C?
- Why is there an initiative, which is not contributing to one of the strategies? What kind of initiative is that? Is this an opportunity and do we have to change the overall strategy or is this a 'pet'-project, which we have to stop? Or is it an initiative that is a pre-requisite for one of the initiatives that do contribute to one of the strategies?
- If strategy A is the most important one, why are only two initiatives contributing to this strategy? Also from a resource perspective you could ask yourself why less than 25% of the available resources are allocated to this strategy, you would expect around 40%?

- 50% of the available resources are allocated to strategy B. Why? Strategy B contributes only 20% to the overall objectives of the organization.

In figure 1, I used the number of resources but you can use the total change budget too and have similar questions as we have with the resource allocation.

Categories or segments

The allocation of initiatives in segments based on different strategies in an organization is just one possibility. You could use all kind of different categories and combination of categories.

Examples of groups, segments or categories (not limited):
- Legacy
- Legal
- Mandatory
- Transformational
- Innovation / innovative
- Strategic objective
- Key operational
- High potential
- Business support
- Line of business
- Geographical area
- Type of initiative
  - Infrastructure
  - Life cycle maintenance
  - Applications
- Cost savings
- Revenue generation
- Cross-organizational
- Experimental
- Product
- New investments and Business as Usual (BAU) initiatives

Agile development teams

Organizations who make use of agile development or Devops teams could make specific categories for all initiatives that will be managed by these agile teams.
Based on the strategy of the organization, resources (people, budget) must be allocated to this category.
The product owner could prioritize all initiatives, change requests, epics or user stories in this category by using his own criteria to appraise and prioritize. (See my article on prioritization). If you want to stop with the selling of a specific product it doesn't make sense to allocate a large part of your total change resources (budget, people) to this product. Portfolio management will help you to have these discussions when you are balancing your portfolio. If you don't decide, maintenance and development will continue on this out-dated product.

Building your segmented portfolio
To build your portfolio you have to take several steps:

- Select the categories or segments to use.
- Allocate resources (budget, people) to the categories reflecting the relative organizational priorities and experience from the past.
- Use decision conferencing to get agreement on the different segments and allocation
- Tailor the investment criteria to suit each category

Figure 2 shows a simple set-up of this model.

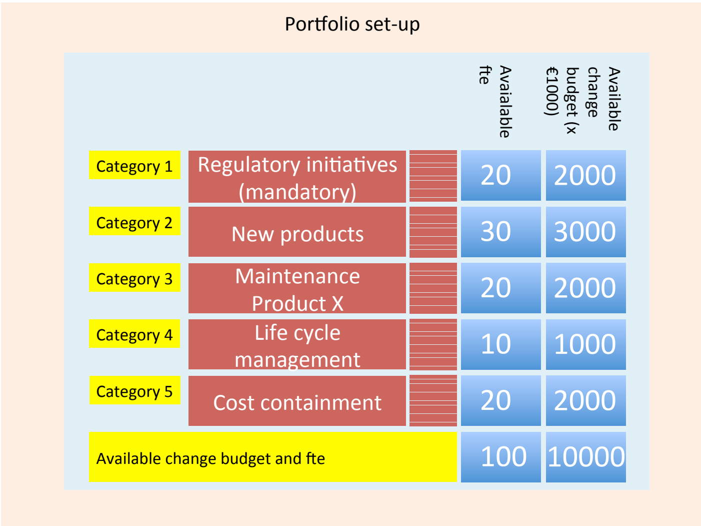

Figure 2: Portfolio set-up

This portfolio set-up shows that 100 fte are available for all change initiatives and €10 M change budget must divided across the different categories or segments. If the last year(s) showed that 10% of your resources were needed for life cycle management or 20% was needed for regulatory changes you could assume that you will need this capacity for this year too. The construction of the segmentation together with the allocation of resources of your portfolio is an important step to build your portfolio. To have senior management commitment decision conferencing is key.

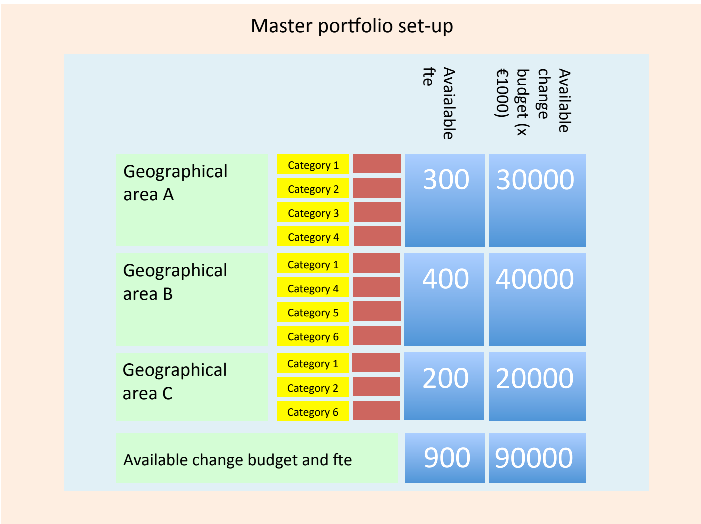

Figure 3: Master portfolio set-up based on geographical sub-portfolio's

If the organization is geographically organized you can start with a master portfolio set-up. Figure 3 shows such a construction where the first allocation of resources is across the different geographical sub-portfolios. Each sub-portfolio (geographical area) can have its different segmentation or categorization. Sub-portfolio's can have the same or different segmentation.

Keys to successful categorization

Use categorization to assess strategic alignment: Data on allocated budget or spend by category provides a high-level check to ensure that resource allocation reflects the relative organizational priorities.

Categories should suit the circumstances: Every organization will select their own categories reflecting the strategic objectives.

Be creative in presenting formats: Be creative with the way criteria or segments are presented. Graphical presentations can be very useful to present key messages in a clear and concise manner.

Be sensitive to how the analyses may be perceived: Ensure that relevant stakeholders are involved. Make use of decision conferencing when the criteria and relative weights are set. Be aware that some initiatives ('pet'-projects) could not be allocated to a specific category. The owner will not like it. Make sure all owners are involved in the selection of the categories to avoid these surprises.

Tailor the investment criteria: See the keys to successful prioritization were it is stated that each segment may have its own prioritization-scoring model.