Optimizing the Move From Project to Product

By Lorri Callahan, Jim McGittigan
Optimizing the Move From Project to Product Funding

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Initiatives: PMO Evolution for Digital

Product-centric operating models are growing; however, financial practices based on project-based thinking are hard to leave behind. IT leaders must cooperate with finance to optimize business-case, budgeting and funding practices to achieve their goals in a product-based world.

Overview

Key Findings

- Annual budget processes distribute investments based on short-term projects, rather than a consideration of the life cycle phase of the products and a holistic view of customer needs.

- The traditional business case process impedes agility with too much overhead, and does not support incremental delivery.

- Project cost-tracking practices that manage discrete funds are invariably affected by change, causing cost overruns and financial management overhead.

Recommendations

IT leaders responsible for the adoption of a product funding model must:

- Strengthen the alignment of annual budget cycles and product life cycles by creating an approach to adaptive funding that meets changing customer needs.

- Recalibrate the information needed to inform investment decisions over shorter planning horizons by making the business case process leaner.

- Stop disaggregated, project cost-tracking practices by funding value streams with prioritized portfolio epics delivered via fixed-cost product teams.
Strategic Planning Assumption

By 2025, application leaders will manage 70% of their capabilities in a product model.

Introduction

This document was revised on 4 October 2021. The document you are viewing is the corrected version. For more information, see the Corrections page.

A recent Gartner survey shows that the trend for moving from projects to products is accelerating. Increasing customer satisfaction, speeding time to market, responding to changing requirements/priorities, and aligning funding and governance with business priorities are all top goals for a product-centric delivery model. Despite these goals, one of the most significant barriers to enabling a fully functional product funding model to thrive is the need to figure out how to effectively change financial governance processes. Without making the necessary shifts in these processes, benefits such as the ability to adapt to change quickly, to obtain value sooner and to release higher-quality products will be nearly impossible to achieve.

In a 2020 Gartner survey, respondents that have seen changes to support agile or a product model adoption included shifts in a variety of underlying financial governance practices, as shown in Figure 1. IT leaders who want to maximize the benefits of scaling product management across their organization need to collaborate with finance to optimize practices for funding, business cases and budgeting to support shared objectives in a product-based world.
Figure 1. Among Those That Have Seen Change, a Variety of Processes Have Been Shifted

**Among Those That Have Seen Change, a Variety of Processes Have Been Shifted**

Changes to Support Agile or Product Model; Multiple Responses

- The Business Case Process: 33%
- Value Tracking: 32%
- The Budgeting Process: 29%
- The Funding Process: 29%
- Cost Tracking, Including Labor Capitalization: 26%
- Others: 2%
- None, My Organization Has Not Changed Financial Governance Processes: 33%

n = 96 All respondents; excludes “not sure”

Q. Shifting now to financial governance processes, what has your organization changed to support a shift to agile or a product model?

Source: 2020 Gartner Application & Product Leadership Changes Survey; Gartner Research Circle members (ITL)

**Analysis**

Strengthen the Alignment of Annual Budget Cycles and Product Life Cycles

Annual budget activities are based on accounting practices. Product life cycle management is a philosophy, process and discipline for managing products. At the macro level, they both exist for the same purpose, to prevent the squandering of resources. Your organization needs to strengthen the alignment between these cycles, creating an approach to adaptive funding. Start with adopting the following five practices.

**Work With Executive Leadership:** Transform the strategic imperatives of the organization into a measurable format, such as objectives and key results (OKRs).
Establish Budget Guardrails: These should be informed by the Three Horizons Model (see Figure 2). These guardrails will help drive decisions for near- and long-term investments, ensure an appropriate mix of demand types (e.g., new demand, maintenance and innovation), and determine the approach for fixed/block or variable/incremental funding.

Aggregate All Planned and Known Incremental Investment: Create a view of the annual investments planned across the product portfolio.

Empower Product Managers and Product Owners: Prepare roadmaps at the epic level that will depict how solutions/applications/services/features will be enhanced or newly developed to drive the desired business outcomes during the next year.

Conduct Portfolio Reviews to Govern the Portfolio With Data-Driven Decision Making: This approach can occur on a varying frequency basis with different emphasis. Examples include a monthly focus:

- Review leading indicators/key performance indicators (KPIs) to monitor risk and assess work in progress
- Address coordination needs (e.g., dependencies and risks)

The quarterly focus includes:

- Update OKRs to reflect completed work and confirm the benefits realization
- Review and approve the next epics to be tackled
- Ensure roadmaps are updated accordingly
- Adjust funding investments, based on results achieved and new/changed priorities

Develop a pilot approach to work on each of these changes incrementally, enabling the shift toward the adoption of a continuous governance model informed by critical feedback loops to govern investments. Conduct periodic retrospectives of each subsequent cycle to evaluate the growing maturity. Select two or three lessons to implement into the next cycle, fostering a continuing improvement culture.
Adopt a Lean Business Case Process

The project funding model, optimized for predictable, slower-moving work efforts, is predicated on lengthy business cases that travel through a series of approval cycles. A recent Gartner survey indicated that 79% of all respondents indicated the length of their business cases were three or more pages in length. Despite the effort and detail put into these business cases, time spent analyzing past performance data can quickly highlight the lack of accuracy of key business case elements, such as project costs and benefits realization.
Agile development is based on the decomposition of large work efforts into smaller components known as epics. When defining a new product or solution, the proposal for the funding for that work is best expressed in a lean business case format that defines the minimum viable product (MVP) that forms the epic. The level of detail, time and effort required to assess the viability of this smaller increment of work is substantially reduced for both the epic submitter and the approvers. Subsequent funding decisions for the new product or solution can shift to a block funding approach.

Start by assessing the components of the traditional business case used in your organization, and then recalibrate it to reflect the essential information needed to assess the epic being proposed (see Figure 3). Pilot the new format and test it for efficacy in the decision-making processes. Make adjustments to the template periodically, as appropriate.

**Figure 3: Lean Business Case Example**

### Lean Business Case Example
Example of Streamlined Content

<table>
<thead>
<tr>
<th>Proposal: Description of proposed work.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hypothesis</strong> to be tested by the MVP.</td>
</tr>
<tr>
<td><strong>Impact assessment:</strong></td>
</tr>
<tr>
<td>• Customers</td>
</tr>
<tr>
<td>• Internal users</td>
</tr>
<tr>
<td>• Adjacent departments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description of Epic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hypothesis</strong> to be tested by the MVP.</td>
</tr>
<tr>
<td><strong>Impact assessment:</strong></td>
</tr>
<tr>
<td>• Customers</td>
</tr>
<tr>
<td>• Internal users</td>
</tr>
<tr>
<td>• Adjacent departments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scope and Constraints</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope:</strong> Items in and out of scope of the effort, including features/capabilities of the MVP.</td>
</tr>
<tr>
<td><strong>Known constraints:</strong></td>
</tr>
<tr>
<td>• Budgetary</td>
</tr>
<tr>
<td>• Regulatory</td>
</tr>
<tr>
<td>• Legal</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Financials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment for the development of the MVP:</td>
</tr>
<tr>
<td>• <strong>Initial</strong> “t-shirt size” further refined later with each subsequent iteration</td>
</tr>
<tr>
<td>• <strong>Full cost</strong> of implementation if MVP performance supports perseverance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Leading/Lagging Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leading indicators</strong> that provide insight to potential future outcomes; evaluate MVP performance:</td>
</tr>
<tr>
<td>• Quality</td>
</tr>
<tr>
<td>• Financial</td>
</tr>
<tr>
<td>• Customer</td>
</tr>
<tr>
<td><strong>Lagging indicators</strong> that provide insight to actual outcomes of the MVP:</td>
</tr>
<tr>
<td>• Return on Investment</td>
</tr>
<tr>
<td>• Net Promoter Score</td>
</tr>
<tr>
<td>• Customer Lifetime Value</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expected Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business outcome, value and/or benefits to be realized as a result of the work effort:</td>
</tr>
<tr>
<td>• <strong>Outcome:</strong> Increased retention rates (long-term gain)</td>
</tr>
<tr>
<td>• <strong>Benefits:</strong> Sales increase, cost savings, productivity gain (shorter term advantages)</td>
</tr>
<tr>
<td>• <strong>Value:</strong> Customer loyalty</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Stakeholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Named epic owner who will shepherd the work effort from beginning to end through active participation and leadership</td>
</tr>
</tbody>
</table>

Source: Gartner
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Build Budgets Informed by Cascaded, Product-Based Epics

Product-based budgets should not be rigid, allowing for flexibility to respond to the decisions made during portfolio review meetings. Budget flexibility can be enabled through trade-off discussions in a product line after the investment decisions across all product lines have been finalized. In scenarios in which there is not enough funding to be secured through trade-offs, there may be a need for a second tier of governance to support discussions in exchanging budgets across product lines.

With the budget decisions made, attention needs to shift to dividing up the capacity of product teams for a given time period, as the cost of the product team becomes a fixed, predictable expense for long time frames. As needed, additional resources may be added to or modified to optimize the product team, but these incidental changes should not materially affect the budget for the product team. Their product backlogs will be composed of a balanced mix of epics that cover all categories of work (e.g., new demand, maintenance and innovation). Your organization needs to move away from time and labor tracking to understanding the cost of fixed user stories.

Start by establishing the fixed cost elements of the budget by defining the costs of the product team(s) to be assembled and in place for the planned cycle of work. Next, in the monthly portfolio review meetings:

1. Build an agenda that enables a discussion around a balanced set of proposed epics, a combination of “run the business,” “grow the business” and “transform the business” buckets, for a given time frame.

2. Identify the interdependencies/sequencing considerations of the epics to inform the optimal backlog of portfolio epics.

3. Use the forecasts for each epic as the means to establish the flexible component of the budget.

The incremental delivery cadence will provide continuous updates on the business/customer outcomes achieved and the lessons gained by the teams about the customer. These insights will enable adjustments to the flexible allocations of the budget on a periodic basis.
Pilot the fixed and variable approach to budget building, and test it for efficacy based on the business outcomes delivered. Make adjustments to the flexible portion of the budget upon the completion of each quarter of work delivered. Adjust the fixed portion of the product team budget periodically based on the stage of the product life cycle, and adjust staffing models up or down accordingly.

**Figure 4: Fixed Funding of Teams Versus Flexible Allocation of Capacity by Epic**

**Evidence**

1. We conducted an online survey from 25 May to 15 June 2018, among Gartner Research Circle members — a Gartner-managed panel of IT and IT-business professionals. In total, 110 members participated fully in the survey. Qualified participants included business end users with an IT or IT-business focus to their primary role. They needed to be involved in software delivery decisions. The survey was developed collaboratively by a team of Gartner analysts. It was reviewed, tested and administered by Gartner’s Research Data and Analytics team (see Survey Analysis: IT Is Moving Quickly From Projects to Products).

2. The 2020 Gartner Application & Product Leadership Changes Survey was conducted online from 10 August through 18 August 2020 with 100 Gartner Research Circle members — a Gartner-managed panel.
Participating organizations were required to have fully adopted a product-centric model for software delivery or plan to adopt one either fully or partially a product-centric model for software delivery. The survey was developed collaboratively by a team of Gartner analysts and was reviewed, tested and administered by Gartner's Research Data and Analytics team (see Survey Analysis: Change Funding and Improve Value Tracking to Enhance IT Product Model Success).

3 This research is based on an online survey conducted between October and December 2020 among 310 respondents in North America; Europe, the Middle East and Africa (EMEA); and the Asia/Pacific (APAC) region. It involves industries and functions from organizations with $500 million or more in annual revenue. Respondents were responsible for managing (i.e., involved in resource allocation, funding and prioritization decisions) a portfolio of IT and/or digital initiatives, or external, customer-facing IT or data products or services in their organizations. The likelihood of achieving effective strategic portfolio management (SPM) is calculated by comparing two statistical estimates:

- The predicted value when the effectiveness of a driver is relatively “high” versus “moderate”
- The predicted value when a driver is “present” versus “absent”

The effects of all drivers are modeled using various multivariate regressions (see Effective Strategic Portfolio Management Drives Better Business Outcomes).

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