

Project Management Budgeting & Cost Control

Presented to the Waukesha County Technical College
Project Management Certificate Program Students

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Who am I?

Chip Nickolett's Background

- Graduated from WCTC (then WCTI) back in 1984
- I've been managing software projects since 1987
- The largest effort was a program for a multi-billion dollar global company
 - Several large projects to upgrade, rehost, and standardize ERP systems used in the Americas and Asia/Pacific (APAC) and Japan regions (Europe was excluded)
 - Many complications (languages, cultures, customs, procedures, goals and bias, etc.)
 - 50 person team at peak of the project
 - Many technical issues (incompatible double-byte language sets, different currencies, time zones and other localization issues, incompatible hardware platforms, many versions of the DB in use)
 - It took 17 months (\$6.5+ million) to complete the various related projects (Australia - managed by the client; APAC back-end; APAC front-end; Americas back-end; Americas front-end; Japan). The project was a complete success.
- Began standardizing our PM practice in 2000, focusing on gathering metrics, standardization of documents and procedures, and continual process improvement
- Became a PMP in 2005
- Earned a MBA with concentrations in Project Management (2006)



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Common Business Myths

1. Somehow things will work out
2. You need to spend money to make money
3. You get what you pay for

Business Reality

1. Projects fail far too often
2. You make money through creativity, wise investing, and careful management of assets

Scope

- Understand what needs to be accomplished for the project to be successful
- Define the impact to all areas affected by the project
- Identify the specific resources, tools, and products that will be required to make the project a success

Parameters: What's included?

- Is the initial project analysis included?
- Are training costs part of the project?
- Are infrastructure costs (including things like conference lines) a cost of the project?

Parameters: How are items measured?

- Human Resources
 - Actual cost (loaded or unloaded cost)
 - Blended cost (team, department, project)
 - Average cost
- Who pays for downtime / delays?

It is very important to know WHAT is being tracked / counted, and WHEN it is accrued

Alternatives

- There are usually multiple alternatives to any problem
 - Identify alternatives
 - Define Pros & Cons of each (include Cost Benefit Analysis)
 - Identify the ROI scenarios for each alternative (see next slide)
 - Recommend the solution that makes the most sense for your project
- Never assume that an item, or the cost of that item, will be taken care of by someone else!



ROI Estimates

| Acme Manufacturing | | Project: OpenSource Ingres Migration | | |
|--|------------------|--------------------------------------|-----------------|-------------------|
| Item | Year 1 | Year 2 | Year 3 | Cumulative Impact |
| Depreciation (the 35% tax value of the full depreciation amount) | \$7,490 | \$6,673 | \$6,673 | \$20,836 |
| Savings - Software Support | \$15,000 | \$15,000 | \$15,000 | \$45,000 |
| Savings - Software Licenses | \$10,000 | \$0 | \$0 | \$10,000 |
| Savings - Hardware Support / Maint | \$6,500 | \$6,500 | \$6,500 | \$19,500 |
| | | | | \$0 |
| | | | | \$0 |
| | | | | \$0 |
| | | | | \$0 |
| | | | | \$0 |
| Expected Net Cash Flows | \$38,990 | \$28,173 | \$28,173 | \$95,336 |
| Initial Investment: | -\$64,200 | Internal Rate of Return: | | 24% |
| Cost of Capital: | 10% | Net Present Value: | | \$15,696 |



Develop the Project Estimate

- Good estimates are a critical part of assessing earned value, and tracking progress
- The project estimate should be the basis for the budget, including time frames for those expenses
- Don't forget about RISK! (see example next slide)
- Please see http://www.Comp-Soln.com/EVM_scope.pdf and http://www.Comp-Soln.com/EVM_estimating.pdf



Comprehensive Solutions: Project Pricing Worksheet - Company Confidential

Client: Acme Manufacturing
Project: OpenSource Ingres Migration
Date: 01/05/07
Prepared By: John Smith
Approved By: Chip Nickolett
Status: Pending

| Task ID | Rate | UOM | Quantity | Upcharge | Reason | Total |
|----------------------|------------|-------|----------|----------|--------------------------|-------------|
| SOW2-001 | \$1,000.00 | Day | 5.00 | 1.00 | | \$5,000.00 |
| SOW2-002 | \$1,200.00 | Day | 15.00 | 1.00 | | \$18,000.00 |
| SOW2-003 | \$1,200.00 | Day | 5.00 | 1.10 | Risk - Client Dependency | \$6,600.00 |
| SOW2-004 | \$150.00 | Hour | 36.00 | 1.25 | Weekend w/Nights | \$6,750.00 |
| SOW2-005 | \$3,500.00 | Month | 1.00 | 1.00 | | \$3,500.00 |
| Analysis / SOW Prep. | \$500.00 | Total | 1.00 | 1.00 | | \$500.00 |

Grand Total **\$40,350.00**

Est. Capitalized Costs (Customer): **\$23,850** (Used for NPV/IRR Calculations)



Identify Contingency Reserve Needs

- Risk based
- Often forgotten or overlooked
- Can be a difficult “sell” at many organizations
- Best practice is to define “how used” scenarios, and the approval process to release the funds

Finalize Budget

- Estimates total project cost and contingency reserves
- Define likely accrual / payment schedule
- Seek formal (written) approval
- Identify the approval date required in order for the project to proceed as planned

Progress Reporting

- Define standard method of tracking task progress
- Identify costs and risks due to delays
- Define acceptable schedule and medium for reporting
- Address the what's and when's that were identified earlier in the process

Trust Earned Value Management

- Be consistent with your metrics
- Look for anomalies
- Look for trends
- Anticipate potential problems!

Summary

- Correct and complete scope definition is required
- Accurate estimates lead to better EVM
- Stay on top of the details. You're not done until the project has been successfully closed.
- Communicate frequently to set expectations and avoid surprises
- Identify and track the metrics that are most important in your environment



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Questions?



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