

ROI – Building The Case For Project Portfolio Management

Kimberly McDonald Baker
Vice-President
Project Partners LLC

About Project Partners LLC

- Founded in 1997 by former chief architect of Oracle Projects
- Former Oracle developers, consultants, support technicians, etc.



- ~300 successful customers
- Expert services
- Products to extend Oracle and Primavera solutions

What is Project Portfolio Management?

- **General:** System to analyze and manage projects based on numerous key characteristics
- **Software:** Automated, integrated capabilities to set-up, manage, control & report on projects
- **Example:** Billable project span includes
 - Initial opportunity identification
 - Proposal and planning processes
 - Staffing and executing the work
 - Collection of costs
 - Recognition of revenue
 - Invoicing the client
 - Knowledge management
 - Collaboration with internal team and client representatives.
- Single end-to-end, scalable system

Oracle Just Acquired Primavera



What Does Oracle Say PPM Is?

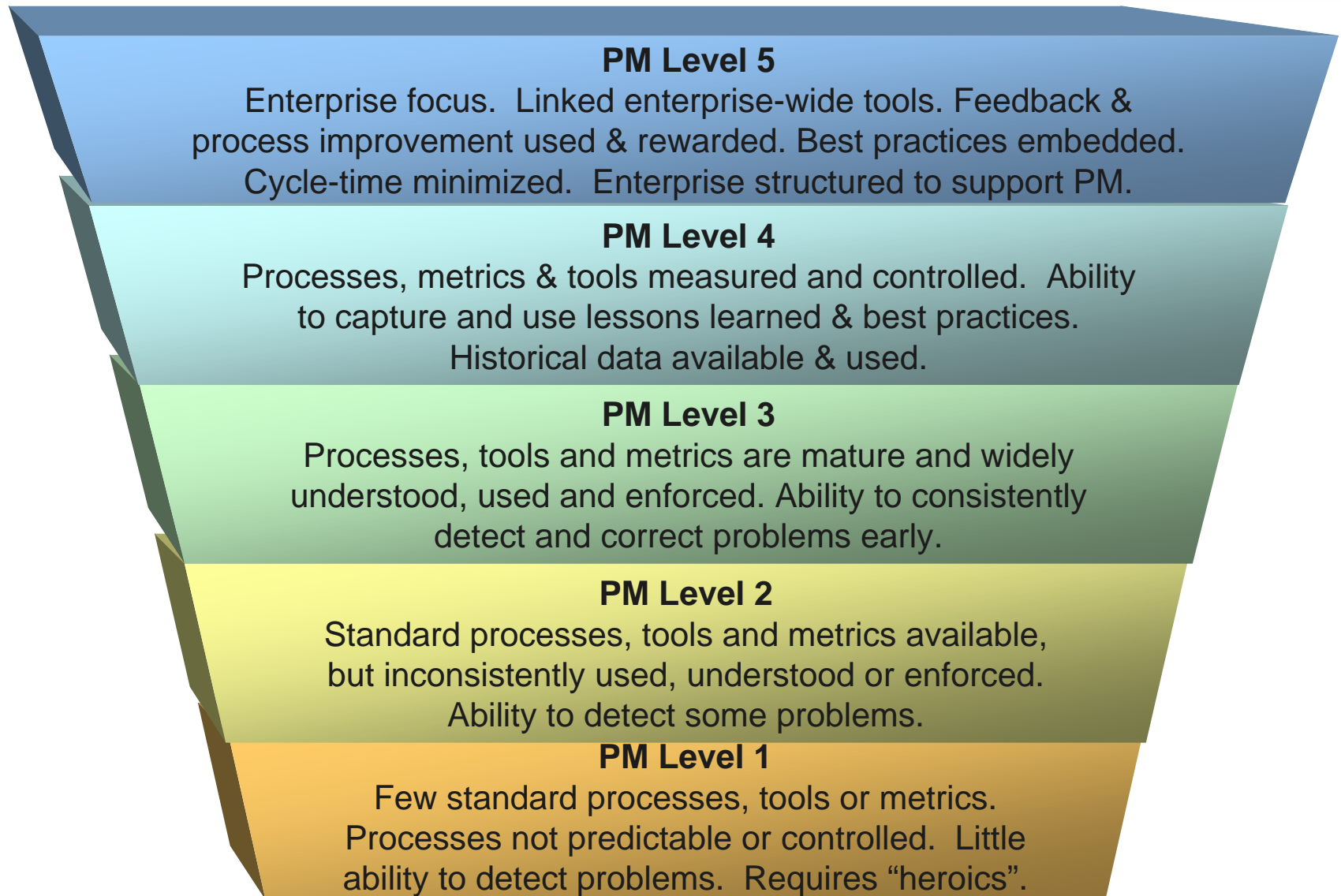
- New term: Enterprise Project Portfolio Management
- “Primavera's PPM products, together with Oracle's project financials... provide the first, comprehensive Enterprise Project Portfolio Management solution.”

Your Firm Is Thinking About PPM – Where Do You Start?

- Budgets are tight, this will be a significant expenditure of time and money. Will we get a return on this investment?
- What things do we focus on when looking at implementing a PPM system?
- I need a business case to present to the board. How do I create this? Where do I turn for help?

Assess Your Firm

- Start: examine where your firm is today
- PM skills are critical; must understand how measured and importance to overall firm success
- 5 levels of Project Management Maturity



Third Party Studies

Bradford K. Clark, USC

A one-increment improvement in Project Maturity resulted in a 15% to 21% reduction in effort

THE EFFECTS OF SOFTWARE PROCESS MATURITY

ON SOFTWARE DEVELOPMENT EFFORT

by

Bradford K. Clark

A Dissertation Presented to the

FACULTY OF THE GRADUATE SCHOOL
UNIVERSITY OF SOUTHERN CALIFORNIA

In Partial Fulfillment of the
Requirements for the Degree
DOCTOR OF PHILOSOPHY

(Computer Science)

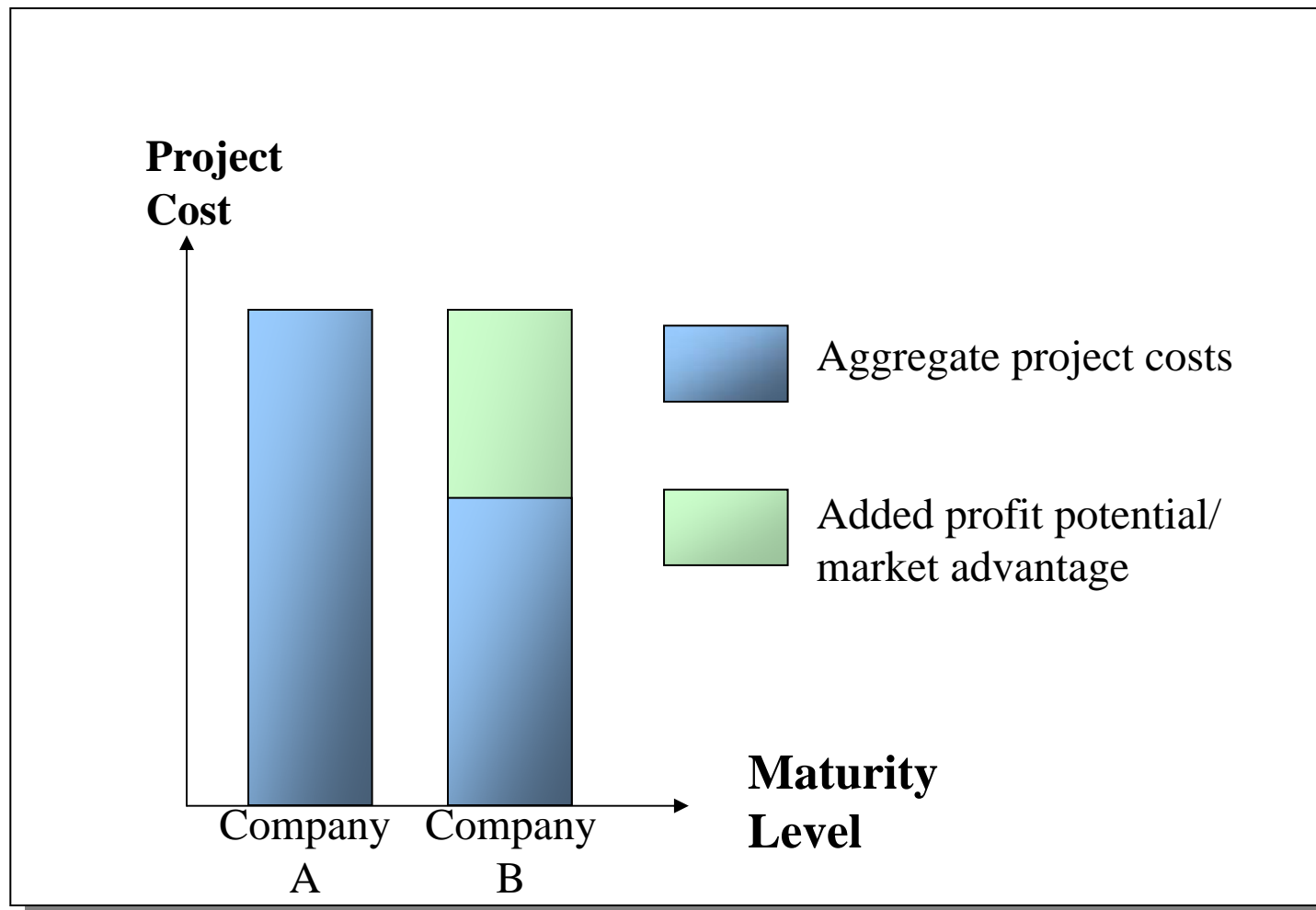
August 1997

Version 1.0

Copyright 1997 Bradford K. Clark

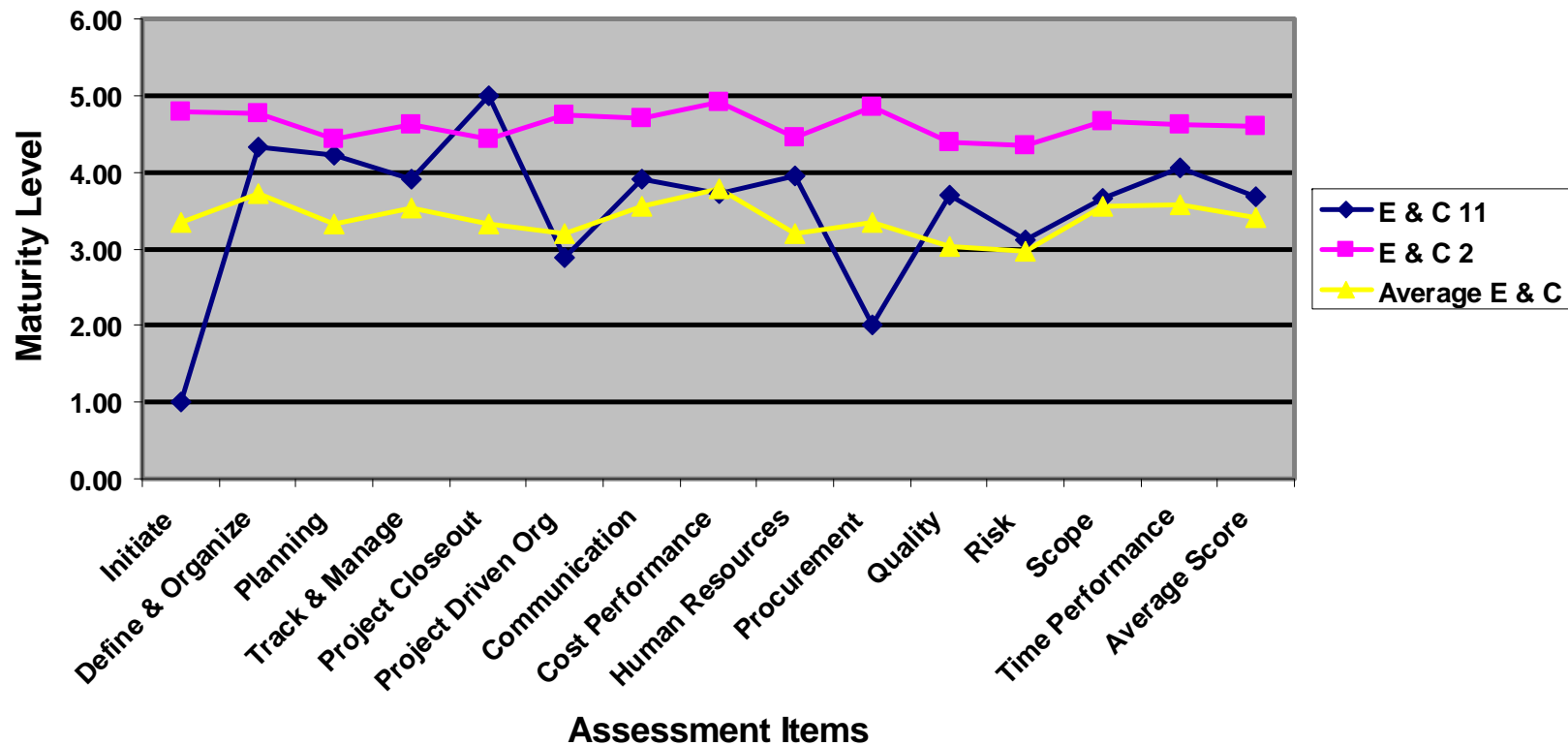
Dr. William Ibbs University of California, Berkley

- Studied 50+ firms, some over 20 years, including prominent engineering and consulting firms
- Summary of findings
 - “The \$\$\$ Value of PM (Can good PM Cost Less?)”
 - Increased PM Maturity leads to:
 - Better cost and schedule management
 - Less expensive PM
 - Improved *PM/ROI*SM



Berkeley Project Management Maturity Model

Project Maturity Comparison



Building the Business Case

- Appraisal of your firm today
 - DIY approach using tools such as OPM3 from PMI
 - External firms such as Ibbs Consulting
 - Consulting firms with PMP's familiar with project-centric organizations

Examine Your Current Services P&L Projections

Vision Professional Services Projections

	2006	2007	2008	2009	2010	2011	2012	2013
Services Revenue Growth Rate	Baseline	15.00%	20.00%	15.00%	15.00%	10.00%	10.00%	10.00%
Net Sales - Services	50,000	57,500	69,000	79,350	91,253	100,378	110,416	121,457
Cost of Sales								
Internal Billable (30%)	15,000	17,250	20,700	23,805	27,376	30,113	33,125	36,437
Internal non-utilized (8%)	4,000	4,600	5,520	6,348	7,300	8,030	8,833	9,717
Subcontractors (25%)	12,500	14,375	17,250	19,838	22,813	25,094	27,604	30,364
Other (6%)	3,000	3,450	4,140	4,761	5,475	6,023	6,625	7,287
Total Cost of Sales	34,500	39,675	47,610	54,752	62,964	69,261	76,187	83,805
Gross Margin Services	15,500	17,825	21,390	24,599	28,288	31,117	34,229	37,652
Percent	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%
GS&A								
Service Operations Payroll	4,500	5,513	7,166	8,779	10,754	12,367	14,222	16,355
Practice Overhead	2,500	2,688	2,956	3,178	3,416	3,587	3,766	3,955
Sales Commission	4,185	4,813	5,775	6,642	7,638	8,402	9,242	10,166
Total GS&A	11,185	13,013	15,898	18,598	21,808	24,356	27,230	30,476
Net Services Contribution	4,315	4,812	5,492	6,000	6,480	6,761	6,999	7,176
Percent	8.6%	8.4%	8.0%	7.6%	7.1%	6.7%	6.3%	5.9%

Four Success Measures

- Revenue Production
- Productivity Enhancement
- Risk Reduction
- Improved Cycle Times

Use the baseline assessment of your firm to identify the greatest weaknesses and pain points

Vision Professional Services

- High subcontractor use
- Low utilization of internal resources
- Struggle to be Level 1 project maturity
- Service Operations growing faster than sales

Services P&L Projections with Opportunities

Vision Professional Services Projections

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Improve Utilization		-	-	-	(46)	(100)	(110)	(121)
Improve Effectiveness (internal)		-	-	(1,190)	(2,738)	(3,011)	(3,312)	(3,644)
Subcontractor to Employee				(218)	(502)	(552)	(607)	(668)
Total Cost of Sales	34,500	39,675	47,610	53,343	59,679	65,597	72,157	79,372
Gross Margin Services	15,500	17,825	21,390	26,007	31,573	34,781	38,259	42,085
Percent	31.0%	31.0%	31.0%	32.8%	34.6%	34.7%	34.7%	34.7%
GS&A								
Service Operations Payroll	4,780	6,400	8,320	10,192	12,485	14,358	16,512	18,988
Practice Overhead	2,627	2,400	2,640	2,838	3,051	3,203	3,364	3,532
Sales Commission	3,067	4,813	5,775	7,022	8,525	9,391	10,330	11,363
Slow SO Payroll Growth		-	-	(75)	(158)	(244)	(335)	(431)
Total GS&A	10,474	13,613	16,735	19,977	23,903	26,708	29,870	33,453
Net Services Contribution	5,026	4,212	4,655	6,030	7,670	8,073	8,389	8,632
Percent	10.1%	7.3%	6.7%	7.6%	8.4%	8.0%	7.6%	7.1%

Assumptions Behind Improvements

- Modest improvement in Service Operations
- Modest improvement in utilization of 1%
- Significant change in reducing the use of subcontractors and more employees
- Significant change in effectiveness of internal employees

Build Out Implementation Cost Estimates

- Consider the following:
 - Additional software and support costs
 - Training
 - Change Management
 - Development of interfaces, extensions and reports
 - Travel
 - Contingency

Build Your Roadmap

- In the Vision Professional Services example
 - Changes to existing HR, Procurement, Project Cost, Project Billing, OTL, iExpense required
 - Implementation of new Oracle Project Management (PJT) and Project Resource Management (PJR) modules
 - Capture multi-year, multi-project effort in a single high level roadmap

Assemble Project Return On Investment Summary

PROJECT RETURN ON INVESTMENT

Project Benefits (Describe Above)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Increased GPM		\$ 1,408,463	\$ 3,285,090	\$ 3,663,788	\$ 4,030,167	\$ 4,433,183	\$ 16,820,690
Decreased Costs		75,000	157,500	244,125	335,081	430,585	1,242,292
Other		-	-	-	-	-	-
Total Benefits		\$ 1,483,463	\$ 3,442,590	\$ 3,907,913	\$ 4,365,248	\$ 4,863,769	\$ 18,062,982

Project Costs	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Initial Investment	\$ 35,000	\$ 112,000					147,000
Internal IT Implementation Cost							
	Hours	Rate					
PM	3,600	\$ 75	135,000	135,000			270,000
BA	7,500	\$ 75	337,500	225,000			562,500
Developer	2,200	\$ 75	45,000	120,000			165,000
DBA	400	\$ 75	26,250	3,750			30,000
Other	-	\$ 75	-	-			-
Total Hrs	13,700						
Total Internal IT Implementation Cost	543,750	483,750					1,027,500
Outside Consulting	621,000	460,000					1,081,000
Training - Core Team	45,000	45,000					90,000
Training - Organizational Development	30,000	40,000					70,000
New Software Support Costs	-	12,000	42,000	42,000	42,000	42,000	180,000
New IT Help Desk/BA Support		50,000	100,000	105,000	110,250	115,763	481,013
Patch/Upgrade IT Internal Cost			100,000	105,000	110,250	115,763	431,013
Other							-
Contingency	123,975	109,075	24,200	25,200	26,250	27,353	336,053
Total IT Cost	1,398,725	1,311,825	266,200	277,200	288,750	300,878	3,773,578
Business Implementation Cost							
	Hours	Rate					
Bus PM	4,000	\$ 50	100,000	100,000			200,000
Bus PA	4,000	\$ 50	100,000	100,000			200,000
Accounting	900	\$ 50	25,000	20,000			45,000
SME	3,800	\$ 50	130,000	60,000			190,000
Total Hrs	12,700						
Other		90,000	90,000				180,000
Patch/Upgrade Business Internal Cost			50,000	52,500	55,125	57,881	215,506
Contingency	44,500	37,000	5,000	5,250	5,513	5,788	103,051
Total Business Cost	489,500	407,000	55,000	57,750	60,638	63,669	1,133,557
Total Project Costs	\$ 1,888,225	\$ 1,718,825	\$ 321,200	\$ 334,950	\$ 349,388	\$ 364,547	\$ 4,907,134

Net Project Cash Flows	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Net Cash Flows	\$ (1,888,225)	\$ (235,363)	\$ 3,121,390	\$ 3,572,963	\$ 4,015,860	\$ 4,499,222	\$ 13,085,848

1.) Total Initial Project Costs	\$ 1,888,225
2.) Cost of Capital	15%
Net Present Value	\$6,217,045
3.) Internal Rate of Return	85%

Opportunity Still Exists

- In this example, a modest productivity enhancement drove the numbers
- Additional opportunities still exist in
 - Revenue Production
 - Productivity Enhancement
 - Risk Reduction
 - Improved Cycle Times

Leverage KPI's in Your PPM System

- Key Performance Indicators assist in continuous process improvement
- Real-time monitoring maximizes performance over shortest time period
- Be SMART in use of these tools

Specific

Measurable

Achievable

Realistic

Timely

KPA's In Project Opening Page

ORACLE Projects Project List Diagnostics Home Logout Preferences Help Personalize Page

Project Resources Workplan Control Financial Reporting

Home Overview Directory Attachments Relationships Setup

Home: Feasibility Study-Imaging (Feasibility Study) Shortcuts -----Project----- Go

Customer **Imaging Innovations, Inc.** Sales Opportunity Value **20,000,000.00 USD**
 Organization **Services-East** Project Manager [Cochran, Mr. Bob](#)
 Project Type **Cost Plus** Start Date **01-Jan-2000**
 Status **Active** Finish Date **31-Dec-2008**

General Tasks And Deliverables Change Control Performance

Key Performance Area Summary Refresh Key Performance Areas

Overall Performance Status ✘

Key Performance Area ▲	Status	Score	Score Threshold		Critical		At Risk		On Track		Last Recorded Date
			From	To	Count	Score	Count	Score	Count	Score	
Financial	✘	251	226	450	1	90	1	151	1	10	01-Aug-2006 12:13:48
Health	✔	75	0	150	1	75	0	0	0	0	01-Aug-2006 12:13:48
Schedule	✘	160	151	300	2	150	0	0	1	10	01-Aug-2006 12:13:48

[Show Status Indicator Keys](#)

KPA's In Project Performance Reporting Screens

ORACLE Projects
Project Feasibility Study-Imaging (Feasibility Study)

Project List Diagnostics Home Logout Preferences Help Personalize Page

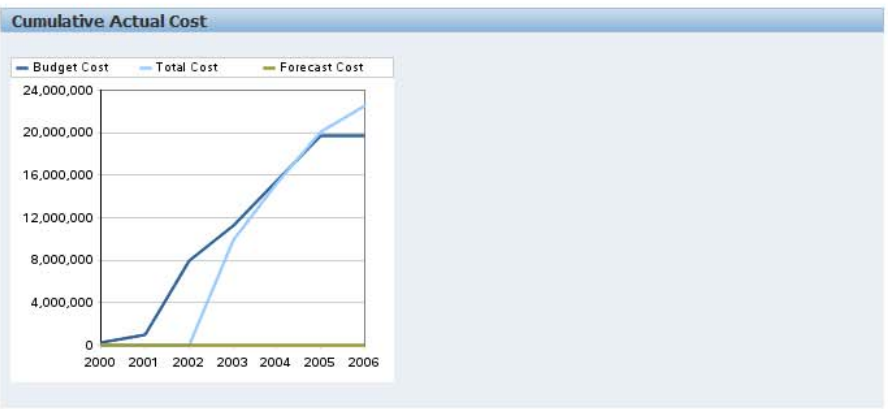
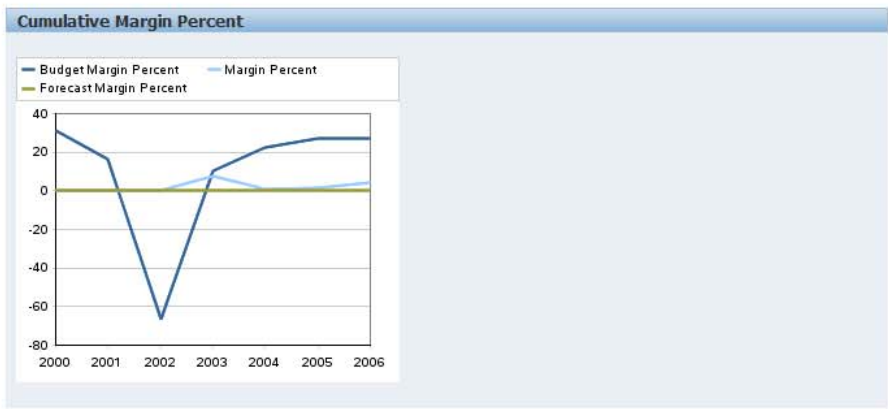
Project Resources Workplan Control Financial Reporting

Performance Exceptions Status Reports Setup

Performance Overview

[Printable Page](#) View Task Summary

[Show Details and Parameters](#)



Financial Performance

Indicator	At Completion			Period To Date			Inception To Date		
	Budget	Forecast	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Revenue	27,175,400.00			0.00	321,754.41		27,175,400.00	23,525,282.68	-13.43%
Cost	19,756,500.00			0.00	272,803.82		19,756,500.00	22,550,761.83	14.14%
Margin	7,418,900.00			0.00	48,950.59		7,418,900.00	974,520.85	-86.86%
Margin %	27.3%				15.21%		27.3%	4.14%	✘ -23.16
People Effort	0			0	64		0	5574	

Example Client A

- Several diverse business groups
- Conducted web based survey in advance
 - Some divisions were high maturity, others with semi-skilled project managers
- Scaled back features and functionality for rudimentary groups
- Focused advanced functionality on those in a position to leverage it effectively
- Held down overall cost of implementation while aligning with user community needs

Example Client B

- No formal assessment; project sponsors aware of limited PM capability in initial pilot group:
 - Small teams with few tools, limited staff, small repetitive projects
- Not in scope: advanced PM group with large, long duration projects, wanting advanced functionality – now!
- Sponsors resisted scope creep, so pilot was successful
- Advanced user group accelerated start of their own project

Example Client C

- Conducted detailed formal assessment
- Project included multiple continents, teams with widely ranging skills and environments
 - Europe: group & market mature, highly skilled and experienced project managers, smaller projects
 - China: rapidly growing market, large teams and projects, limited skills and experience
- Training programs, employee evaluation and transfers insured better match of skills and abilities to positions needed
- 5 years later: strongest PM practices were in China, result of comprehensive approach

Conclusion

- Tools assist an organization in introducing standards and common practices, provide visibility into and measure performance
- Baseline and periodic new assessments provide objective measure of impact
- Continuous improvement is true basis of successful PPM efforts
- Successful PPM will provide a strong ROI

Questions?
Answers!

For more information

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