

Driving Profitability With Lifecycle Project Management

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For years, business pundit Tom Peters has shared his belief that “successful businesses worldwide are moving away from a process orientation and toward a projects orientation” of operations, due to the notable benefits that result.¹ The most significant of these benefits is increased profitability. The relationship between successful project management and improved corporate performance is underscored by the dramatic membership growth of the thirty year old Project Management Institute – It has increased 427% over the past five years!²

The demand for systems supporting project management has grown commensurately over the same timeframe, and Oracle Projects has emerged as the leader in Enterprise Lifecycle Project Management. Oracle’s continued involvement with our customers, and the industry as a whole, has given us unique insight into the operating requirements and benefits achieved when Lifecycle Project Management is adopted across the enterprise.

In this document we’ll discuss

- The Importance of Lifecycle Project Management, and
- The Eight Keys to Success Across the Lifecycle

THE IMPORTANCE OF LIFECYCLE PROJECT MANAGEMENT

Projects generally move through similar phases, beginning with a concept and continuing until closeout. Much attention is focused on the execution or production phase, which for a contract project includes the period when direct costs are collected and invoices are generated. Yet significant costs can be associated with the earliest and latest phases of a project’s life. Some examples include the cost of winning a contract or the cost of maintaining a fleet of automobiles. Sometimes, these costs are overlooked. More often, they are relegated to the overhead cost pool due to the difficulty in capturing and allocating them. Indirect and capital projects, which do not result in customer billings, still impact the company’s bottom line. To drive profitability higher, it is imperative that companies have a true portrait of costs and profit over the full lifecycle of all project operations, across the entire enterprise.

direct cost of a project, gaining a more accurate picture of costs across the project's full lifecycle.

Design / Planning Phase: Green Light!



When you determine that you want to continue with the project, it's time for detailed design and planning. Milestones in this phase are commonly marked by the awarding of a contract or the funding of a project budget. During this phase you sow the seeds for success. While project failure or low profitability is often seen as resulting from poor execution, it is more likely that cost overruns result from poorly identified and managed work plans or budgets. Furthermore, where there is poor performance, it may very well be overlooked if all costs are not captured, or costs are not recorded against proper categories.

Project Systems Objective: Insure data consistency across all systems

This is one area where Oracle Projects delivers tremendous benefits. Using the Oracle Activity Management Gateway and Oracle Project Connect, planning, budgeting and scheduling information is seamlessly integrated and validated.

If during the concept phase you collected the costs of all your proposed projects in one large pool, you could now create a project specifically for managing the approved initiative and transfer the costs already accrued from the pool to the new project. This allows you to include the costs of planning the project on the project itself, whether or not you will invoice those charges, again providing a more accurate picture of the cost and profitability of your operations.

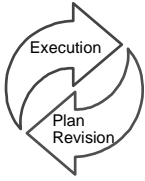
Execution Phase: Off and Running!



In the execution phase, you manage, collect and analyze transactions incurred against the project. For contract projects, you also generate revenue and create invoices. For capital projects, you may create new assets, place them in service, and start depreciating them while retaining the option to continue adding to the asset as the project continues. As in the earlier phases, you are managing the workscope, schedule, resources, and costs, continually re-evaluating strategies as you monitor performance against plan.

Project Systems Objective: Facilitate proactive performance management

In the execution phase your systems must allow you to collect all costs associated with the project, regardless of their source. You also need to issue accurate project billings at the appropriate time. But to drive profitability, more than anything, you must be able to manage from a proactive "windshield and dashboard" approach rather than the "rear view mirror" approach that General Ledger-based project systems provide.

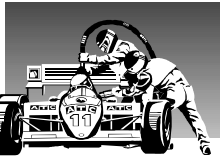


Revision Phase: Detour!

Things change over time. Revision will be an ongoing activity during much of the life of your project. In addition to changes in work scope and schedule, you must be able to track revisions to budgets and financial projections. You will need to adjust costs, markups, burden, bill rates, and many other factors. Adjustments may need to be date-effective, and new costs may need to be restricted while allowing pre-dated entries or retroactive corrections. Task-specific controls may need to be added to help ensure that data entry is accurate.

Project Systems Objective: Manage the unexpected

In the revision phase, you find out just how flexible and proactive your project management systems are. With the right system you will have confidence that things are under control, even when you are faced with the unexpected. Oracle Projects' state of the art technology allows you to manage on an exception basis, which maximizes your productivity. You can be alerted when issues require your attention, such as when project costs are approaching maximum budget, unbilled receivables are outstanding, or unearned revenue is growing.



Operations / Maintenance Phase: Pitstop!

This phase applies primarily to capital and indirect projects. Once an asset is placed in service, it must be properly maintained to provide maximum value to your firm, to keep operational costs down and contribute to overall enterprise profitability. You may want to track the use of equipment, facilities or vehicles, linking the usage to people and departments for analysis or charging purposes. You may need to be notified when routine service is needed, such as when shop floor robots have produced a certain number of units or a specified time has elapsed.

Project Systems Objective: Manage total lifecycle asset costs

Traditional project systems cannot manage this phase of capital and indirect projects, so your firm may be using a specialized maintenance system. With Oracle Projects, enterprise business rules and project data are exchanged with asset management and maintenance systems. In this phase you benefit from the seamless integration of Oracle Projects and Oracle Assets, as well as integration with partner systems via Oracle Activity Management Gateway. As a result, you can proactively manage the full lifecycle costs of your assets.



Retirement / Closeout Phase: Checkered Flag!

You've finally achieved your goals on the project. The customer has accepted the deliverables. The period of performance on your contract is at an end. The assets are in service or have been retired. The closeout phase is where you'll perform a project audit, resolve final issues, and make final payments to vendors.

Project Systems Objective: Analyze and repeat your success

In this final phase, you reap significant benefits that only an integrated lifecycle project system can provide. All the enterprise information you've collected across the project lifecycle is now available to help you streamline your project closeout. Final reports demonstrate that no deliverables are outstanding nor open items remaining. Closeout reports illustrate final project costs and profit.

More strategically, the integrated Lifecycle Project Management that Oracle Projects delivers now helps you analyze and repeat your success. You're able to determine why this project was more profitable than another, or why one division delivers consistently higher profitability. You can then replicate that success by using profitable projects as a template for similar opportunities in the future. Oracle Projects helps you make such continuous improvements.

EIGHT KEYS TO SUCCESS ACROSS THE LIFECYCLE

It's understood that operating from a projects orientation allows you to get a true picture of your costs and profits, by linking costs *and* revenue *directly* to the activities that generated them. Identifying activities that are not adding value allows you to eliminate them and to focus on profit-making activities. But that's just the high level picture. Getting more specific, you also need:

- to link remote teams and distributed project data
- the ability to proactively manage any type of project in your organization
- to minimize the administrative burden associated with project operations
- to collect project transactions at their source
- integrated financial *and* operational information
- flexible systems
- immediate and comprehensive views of your project operations, enterprise-wide
- to maximize cashflow

Link Remote Teams and Distributed Project Data

For many years, experts in the field of project management have discussed the concept of establishing a central project office that would oversee the management of all projects in the enterprise, regardless of their location around the globe. A central project office could analyze the impact of project management on the enterprise, even providing concrete answers to the question "what return do we realize on our investment in project management?"

Until now, this objective has been unattainable. Major barriers to success were the remote and distributed nature of project teams and the multiple, nonintegrated information system islands that contained project data. Oracle Projects, the first internet-enabled Enterprise Lifecycle Project Management system, has changed that. By linking dispersed teams and fragmented information, even complex global projects can be managed efficiently and profitably.

Proactively Manage Any Project Type

To drive profitability you must be able to manage any activity in your enterprise, not just your contract projects. Tracking internal processes and indirect projects help you identify those that add the most value, and those that should be eliminated or redesigned. It also allows you to identify costs so they can be accurately assigned to projects by usage. Efficient management of capital-development projects maximizes the utilization of your firms' resources, making significant contributions to overall enterprise profitability.





Minimize Administrative Burden

While operating from a project or activity orientation is the best way to identify the true costs of business processes, the “overhead” associated with this method of operation can be significant. Oracle customers have told us that minimizing this administrative burden greatly reduces end user resistance to adopting Lifecycle Project Management. Oracle Projects delivers on this goal through self service, automation and integrated project administration.

Minimize Administrative Burden Through Self Service

Your staff is able to enter their own time and expenses and check on the approval and payment status of their expense reports. This not only eliminates the non-value added activity of having your accounting staff perform status checks, it increases your front line staff’s efficiency and satisfaction by giving them immediate answers to their most common questions. For managers, self service translates to better monitoring and control of all the activities for which they are responsible. And on-line queries and reports put information in the hands of those who need it, when they need it, providing summary information or allowing drill-down into detail.

Minimize Administrative Burden Through Automation

Oracle’s AutoAccounting uses your business rules to map project transactions to your financial accounting system, behind the scenes. This increases the productivity of your operations team yet ensures the Finance department has all the information they need to drive profitability, too. Transaction Controls proactively ensure that every charge is made only to an appropriate activity and account. Workflow automates approvals and identifies business rules that must be met prior to changing a project’s status or approving a budget. Billing Events and Controls ensure that the right charges are billed at the right time. All this automated intelligence is invisible to users, so they can just focus on executing their projects.

Minimize Administrative Burden Through Integrated Project Administration

Allowing project managers to use their favorite planning and scheduling tools minimizes retraining and speeds full adoption of a Lifecycle Project Management system. Oracle’s project templates ensure consistent application of an organization’s best practices, and are accessible even when projects are initiated in external systems. Oracle’s Activity Management Gateway delivers real-time integration with external planning and operational systems, invisibly ensuring compliance with business rules and providing better control across the enterprise.



Collect Transactions at Their Source

Another key factor in project success is the ability to collect transactions at their source, whether that's on the shop floor or at a customer site. Data that is recorded and validated as it occurs decreases the cost and improves the accuracy of transactions, and gives you confidence in the accuracy of your operational information. When existing collection tools are used, there is also less resistance to adopting Lifecycle Project Management across the enterprise. Self service time and expense entry are one key to success. Additionally, Oracle Projects' unsurpassed gateways accept and validate information from any external system.



Integrated Financial and Operational Information

For profitable Lifecycle Project Management, you also need integrated cost management and financial reporting, with complete access to operational performance data. In addition to managing project costs and billings, you also need the ability to collect performance data that can be used for operational analysis and per-unit measurements. Oracle's integrated central repository ensures the accuracy of data that is ultimately used for operational analysis. The information is available to a wide variety of users in formats that are useful and relevant to them. The same central repository results in GL-based reports for accountants, and project or organizational reports for line management.



Flexible Systems

System flexibility is a critical element in lowering costs and increasing enterprise profitability. You need flexibility to set up projects in unique Work Breakdown Structures that reflect the way you want to execute each project, not the structure of your General Ledger chart of accounts. Your enterprise project system must also reflect your company's business processes and practices, rather than requiring you to revise operations to match your information systems. You also want to avoid what analysts call "Version Lock" - you need information systems flexible enough to easily accommodate company reorganizations, new lines of business, and the reengineering of business processes. Oracle Projects meets all these needs, because we understand the rapid changes that occur in agile, project-driven companies.



Immediate and Comprehensive Views of Project Operations

You can't afford to wait until the month has closed to review performance. You need to see how you're doing today, so that you can make changes proactively and ensure goals are met. You need easy, online project queries, with the ability to drill down into details. You also need to analyze data across projects, across your enterprise, to determine which organizations should perform certain types of work, and which contracts are most profitable. Once you identify patterns that lead to success or failure, you can modify your business practices to optimize performance. Oracle Projects' information access is online and unsurpassed.



Maximize Cashflow

Profitability improves when you maximize your cash flow with the right billings generated at exactly the right time, based on the terms and conditions you negotiated in each contract. Calculate percentage complete and earned value using the sophisticated methods in your project management tool, then use Oracle Projects to produce certifiable progress billings. Flexible revenue recognition capabilities allow you to recognize revenue differently for each project, ensuring that you are able to operate in the most efficient manner possible. You can easily track unbilled receivables, or you may choose to accrue revenue only after you invoice the project. Retroactive rate changes automatically result in credits or new invoices while maintaining a complete audit trail of previous billings. Online review and adjustment capabilities simplify and shorten the invoicing cycle and allow project managers to easily view collection activity for invoices.

A SYMBIOTIC RELATIONSHIP

Oracle's expertise in Lifecycle Project Management continues to grow, in large part, due to our exposure to our customers' operations. This increased understanding results, in turn, in our ability to deliver software that offers our customers the opportunity to make continuous process improvements within their organizations. We know that it is our customers who have made us the leader in Enterprise Lifecycle Project Management.

Endnotes:

¹ Oracle Applications User Group Conference, April 24, 1996, Keynote Address, and various Tom Peters publications.

² Eva Goldman, Project Management Institute Headquarters; growth from November 1993 to November 1998.

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