

Seeing Really is Believing: The 6 Critical Elements for Improving Visibility and Control

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Improving visibility and control in six key areas enables project-based organizations to avoid surprises, achieve predictability and manage profit margins

Executive Summary

Financial expectations have changed dramatically over the last ten years for project-based companies! Survival of the fittest was never truer than it is in today's market. Unfortunately, many companies will fade into the sunset—yet the companies that realize competitive advantage awaits those who help their clients will make the most of every dollar. These successful organizations can best seize opportunities because they've implemented solutions that deliver comprehensive, timely visibility into and control over their operations, projects and financials. These solutions allow organizations to meet objectives that include:

- Finding the right opportunities and managing them through the pipeline
- Obtaining the right information at the right time
- Ensuring that teams follow processes
- Gaining confidence in data
- Eliminating time-wasting manual processes to collect information
- Managing with data, rather than by instinct

Visibility and control in six areas—Forecast Accuracy, Collaboration, Risk and Opportunity Management, Project Portfolio Management, Change Management and Actionable Information—are the centerpiece of these solutions. This white paper explains how project and financial management software delivers on all six of these critical components of visibility and control, to enable organizations to avoid surprises, achieve predictability and manage profit margins.

Visibility and Control Drives Competitive Advantage

Growth and profit...growth and profit...the new mantra for project-based companies. Regardless of where your company lies in the supply chain, this mantra holds true because the expectations are the same. Those organizations that chant the new mantra and help their customers squeeze the most from each dollar stand to cement their competitive advantage.

Organizations who thrive and grow have the unique ability to look, literally, deep within themselves. These organizations have found ways to meet their goals by obtaining the right information, ensuring that teams follow processes, gaining confidence in data, eliminating time-wasting manual processes to collect information, and managing by data, rather than by instinct. These successful organizations thus achieve comprehensive, timely visibility into and control over their operations, projects and financials.

Enterprise-wide visibility enables project-based businesses to better control their business because it:

- Gives everyone throughout the organization a clear and consistent understanding of what needs to be done, who needs to do it, when it needs to be done, where each task and project stands and how it impacts the future.
- Helps executives and operational project leaders see how well projects and programs are performing and where they can proactively provide help, facilitate collaboration or remove roadblocks.
- Keeps everyone focused on the things that contribute to organizational goals and provide value.
- Enables everyone to understand how each resource impacts the ultimate goal so they can better allocate scarce resources.
- Provides accountability. Project/program managers and executives see project status and costs at the summary and detail level to gain a realistic view, without having to rely on subjective evaluations or manual consolidation of data.
- Improves control. Executives with accurate and timely information can make sound business decisions and course corrections quickly. They thereby ensure projects are completed on-time and on-budget, minimize days sales outstanding (DSO)—and gain a competitive edge.

Disconnected Systems Furnish Disjointed Information

Where forward-thinking organizations have the visibility they need to manage risks by taking proactive steps to avoid potential problems and actively chase opportunities, their peers are hindered by piecemeal information. Many project-based businesses use disconnected systems to manage budgeting, forecasting, scheduling, resources, accounting, risk management and more. The result is like the proverbial blind men describing the elephant—the man feeling the leg says the elephant is like a pillar; the one who feels the tail says the elephant is like a rope; and the one who feels the trunk says the elephant is like a tree branch. Disconnected information leads to poor decision-making and mismanagement of resources. Indeed, the use of disconnected systems has far ranging consequences:

- Inconsistent or inaccurate reporting. Different applications create and present information in different ways.
- Time-consuming reporting. Executives typically need to call or email someone to get the information they need; managers manually enter data from different systems into spreadsheets.
- Out-of-date information. Creating reports manually is very time consuming, which means data is usually three to four weeks old.
- Lack of actionable information. Systems provide little to no accurate and complete information without considerable manual data manipulation.
- Data is buried in reports. Buried data makes it difficult to identify the information that reveals potential issues.
- Spreadsheet chaos. Multiple versions of the same spreadsheet proliferate, meaning that organizations have no single version of the truth.

The Six Elements of Visibility

To achieve complete financial and business control, organizations need visibility in six essential areas of their project management and financial operations:

- Forecast Accuracy
- Collaboration
- Risk and Opportunity Management
- Project Portfolio Management
- Change Management
- Actionable Information

Forecast Accuracy

Overall success for project-based companies depends largely on the reliability of its financial forecasting. The forecast represents the financial department's best guess of what will happen to the company in financial terms over the next year, based on historical internal accounting and sales data as well as an evaluation of external market and economic indicators.

Creating an organizational forecast starts with project-level forecasting. Each project needs an accurate Estimate at Completion (EAC) to measure the expected total cost of a particular activity, control account or the project as a whole. The organization then rolls up the EACs for all of its individual projects to create its overall financial forecast.

Forecasts must be verified throughout the year. Any change from the initial projections can have a significant impact on the organization's financial results, and may require management to take appropriate action. For example, a substantial increase in the net operating deficit may require managers to reduce certain expenses.

Financial and project management software solutions improve forecast accuracy by allowing finance and project/program managers to view timely and accurate information about all historical costs, labor utilization, materials and so on from previous projects, programs and product

lines. Organizations can incorporate information about risks and opportunities for costs or savings into their projections to further improve accuracy. Throughout the year, financial and project managers can compare forecasts with accurate and current costs and results. This timely visibility allows managers and executives to take necessary actions quickly and proactively.

Collaboration

Not long ago, a project known as the Big Dig became famous for its cost increases—the original estimate being \$2.56B and the final EAC rounding out to \$14.8B. At five times the original estimate, this example perfectly demonstrates the issues associated with not keeping a project on track. Yet, problems of this magnitude rarely come out of the blue. Project and program managers are usually well aware of situations that put a project at risk of overrunning or missing schedule goals. This surprise could have been avoided if team members had better communicated how well each project was progressing, were accountable for completing their assigned tasks and could solve problems collaboratively.

Financial and project management software solutions enhance collaboration and communication. When team members wish to collaborate, each one can easily log into consolidated views of vital information and see the same information at the same time.

Automated business processes allow teams to see who's performing what step and the status of each task. Role-based views provide appropriate access to all the information necessary manage a project and allow executives to easily track project performance. Everyone sees the same facts to gain a realistic view of project performance without having to rely on subjective evaluations.

Alerts that warn managers of problems that can impact the schedule or costs and Key Performance Indicators (KPIs) that monitor how well various measures of project performance are faring compared with

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predefined standards enable teams to proactively address problems. These capabilities ultimately improve accountability and help reduce surprises.

Risk and Opportunity Management

Now, project-based organizations are being asked to provide their services at a lower cost and more new contracts are being awarded on a fixed-price basis, which shifts risks to the 'executer' instead of the 'buyer'.

Even as pressures on organizations mount, customers are less tolerant of poor performance. A project that doesn't add value or exceeds expected budgets or schedules is at risk of being terminated. Organizations need visibility to manage risks and take advantage of the opportunities proactively.

Risk management solutions provide the requisite visibility. Organizations can perform quantitative and qualitative risk analysis and make these risk evaluations available to everyone who needs them to promote a culture of communication. By providing risk information to the right role at the right time, organizations can improve decision making and enable proactive planning throughout the organization.

Financial managers can use risk information to improve the accuracy of their forecasts. Because risk information can be integrated with schedule and cost systems, project and program managers can improve execution to complete projects on time and on budget. Managers can do a better job of opportunity and issue management as well as more effectively allocate resources. And executives minimize the risk of being blindsided by surprises.

Project Portfolio Management

A project-based business is dependent on a healthy pipeline, and that requires constant care and feeding. To maintain and grow their business, organizations need visibility into the status of existing projects and the mix of projects

in the pipeline. For example, a project-based business may want to diversify the customers it works with in order to avoid concentrating all of its business—and risk—with a single customer. Organizations also need visibility and control over the bidding process and over the projects/programs themselves, all while measuring project performance in compliance with earned value management requirements.

Project management software solutions provide visibility into historical information about project and pipeline performance to enable organizations to choose the right projects on which to bid. These solutions also help manage the bidding process itself. And once a bid is won, these solutions can be used to create accurate EACs and key performance indicators to keep the project on track. Comprehensive views are available of all the information project managers need to manage costs, schedules and resources, while earned value is calculated automatically. Program managers can roll up information from individual projects to gain a consistent view of status across their project portfolio. Executives have instant access to both summary and detailed project information, which allows them to make resource adjustments where necessary to maintain profitability.

Change Control

The one consistent thing we know about project management is that there will be change—and potentially many changes—to the project during performance. For example, when a project-based business is manufacturing an item, the customer may make changes to drawings, designs or specifications, the method of shipment or packing and the place of delivery. If the change increases contract costs or impacts the schedule, the project-based business is entitled to an equitable adjustment to the contract price.

Financial and project management software solutions can improve the efficiency and accuracy of adjustments to project prices and schedules.

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Watch the video!



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“What if” analysis capabilities simplify the process of determining the impact of a particular change on schedules, costs and resource requirements. The optimal scenario or agreed upon result can then be incorporated into a Work Authorization Document (WAD) that includes the details about the new tasks and the associated budget. Workflow capabilities automate the authorization process and incorporate authorizations into the WAD.

Project scope changes are incorporated the Performance Management Baseline (PMB), with appropriate changes automatically flowing through to the Management Reserve (MR) and the Undistributed Budget (UB). By automating data entry for change processes, organizations can keep project tracking systems updated with accurate information and minimize the risk of billing mistakes that can cause cash flow delays—thus reducing days sales outstanding (DSO).

Finance departments for organizations with projected rates also gain visibility into how contracted rates compare with actual costs. This information is necessary for accurate billing for cost plus contracts, determining the optimal pricing for bids, and understanding whether target rates are adequate. As a result, organizations can better manage profitability and stay competitive.

Actionable Information

Every project experiences pitfalls and risks. And problems that impact one project can affect others. For example, if one project has problems with its titanium supplier, this problem is likely to impact other projects that use titanium. The challenge is to identify, plan for, evaluate, communicate and manage obstacles, particularly when projects are large and complex. Yet, it takes valuable resources to create reports and, nonetheless, project managers are often drowning in so much information that it is impossible to pinpoint issues that require immediate attention. It takes valuable resources to provide reporting that can simply be replaced with a role-based

dashboard that provides the same level of information.

Financial and project management software solutions provide role-based dashboards that furnish instant visibility into information organizations need to understand the health of their business in an easy-to-use manner. Managers and executives can see both summary and detailed information to trace the cause of problems; because information is available instantly, they can quickly assess the overall status of a project and make decisions at the speed of thought. Systems that monitor projects and schedules and provide warnings about current and future issues make it faster and easier to address the most important issues proactively. The result is that minor problems are prevented from having a major impact.

Benefits: Better Visibility Means Greater Control

When organizations that perform projects for external customers implement solutions that deliver these six elements of visibility, they provide their financial and program managers as well as executives with the tools they need to improve predictability, avoid surprises and better manage profit margins.

Greater Predictability

Successful organizations take a skeptical 360 degree view of their programs to better predict what might happen before it derails their success. They pinpoint risks and opportunities while understanding where to focus attention and what to ignore. Project and financial management software solutions that provide comprehensive visibility into past, present and future project and financial status, performance—and risks—along with a culture that emphasizes proactive risk management are critical to delivering on-time, on-budget projects.

Fewer Surprises

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With existing disconnected solutions, it can take days or weeks to pull together accurate information about schedules, costs and profit by project/ program. This leaves plenty of room for surprises in terms of missed deadlines, cost overruns and backlogs that can jeopardize individual projects—and potentially the profitability of the entire organization. Financial and project management software solutions give the entire team complete and timely visibility into project and financial status, as well as risks and opportunities. Alerts proactively warn executives and project/program managers about potential cost overruns and schedule slippage, without requiring them to wade through lengthy reports. This timely information reduces surprises and allows organizations to take proactive actions to address issues before they impact, schedules, costs, or revenues and margins.

Tightly Managed Profit Margins

Managing margins is critical. Setting the right prices for bids is the first half of the equation for managing profit margins. Visibility into actual historical project costs, performance and risks is critical to setting prices that will neither lose the contract nor cost the organization in the long run. The second half of the profit margin equation is ensuring that projects are well run. Organizations must manage the project proactively to ensure that they keep costs in line with revenues to maintain expected margins. Financial and project management software solutions enable organizations to create accurate forecasts that support profitable bids and ensure that projects—and changes to projects—are executed in a manner that maintains margins.

Deltek Solutions

Deltek offers a full range of financial and project management software applications designed specifically to deliver the six elements of visibility and control to project-based businesses. Our solutions are purpose-built for project-based organizations and are tailored specifically to organizations that have projects in their DNA. These fully integrated solutions streamline all organizations' internal operations— from business development to accounting, procurement, project management and invoicing. Project/ program and finance managers as well as executives gain instant visibility into all of the key project and financial information from these systems. Seeing really is believing!

Conclusion

Project-Based Businesses need visibility in six key areas in order to proactively manage their business—forecasting, collaboration, risk and opportunity management, project portfolio management, change management and actionable information. Financial and project management software applications from Deltek deliver this visibility to financial and project/program managers and executives alike. Organizations who adopt these solutions find that they are able to avoid surprises, enable predictability and better manage their profit margins.

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