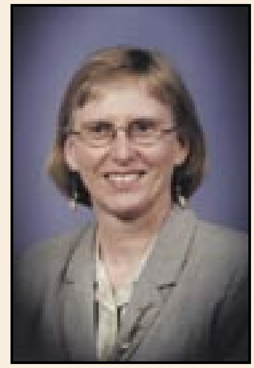
Project Management Tales –
Never Mind the Budget, Keep Working

By Debbie Gallagher



Debbie Gallagher

Each story in this series of Project Management Tales is true, but company names have been changed. Some stories occurred in Canada and others took place in the US and overseas.

Background

Acme Software Corporation was selling its billing and accounts receivable software to a new customer. The customer, Standard Inc., had a fixed budget including hardware, software, and customizations. The Acme salesman assured Standard that the customizations required could be done for $500 thousand, and the entire installation could be done for the budgeted amount.

Once the contract was signed, an Acme project manager and team were assigned. They began meeting with Standard to find out their specific requirements, and determined the customizations would cost almost $8 million! The salesman knew that that Standard was in a very different market segment than other Acme customers, but had not realized the extent of work required to add the new functions. Standard required several modules that did not exist in the Acme product, such as inventory tracking, work orders, and regulatory reporting.

Acme management was horrified and insisted the estimates be trimmed before being shown to Standard. By trimming estimates of effort, the new figure was $6 million, which Acme management thought was still too high. The Marketing VP was interested in this market segment and agreed to a thirty-five percent discount, bringing the number down to $4 million, which was presented to Standard.

Standard thought the estimate was completely unreasonable, but could not agree to eliminate any customizations.

Standard and Acme worked together to create a phased approach so that the most critical elements would be in phase one, with a budget of $2 million. The remaining work would be in phase two. Standard signed a revised contract based on the new budget, and insisted on a guarantee on the work included, the budget, and the delivery timeline of one year for phase one.

The Situation

For the first few months, the custom development went well, with progress and spending as expected. However, at the five-month mark, the project manager alerted Acme management and the Standard sponsor that the project was not producing as well as planned, and spending was over budget.

The Standard sponsor told the project manager not to worry about the budget for now, but just to keep generating code to make sure the project delivered on time.

For the next four months, the project manager continued to advise Acme management and the Standard sponsor that that project was continuing to run over budget and could not be completed for the expected amount.

Both Acme management and the Standard sponsor assured the project manager that she should continue to do the work and bill Standard.

Standard continued to pay the monthly invoices until the end of the ninth month, which brought the billings up to the budgeted $2 million for phase one. More than three months of work remained to be done.

The invoice for the tenth month was being processed at Standard just as Standard was taken over by a new owner. The new owner refused to authorize payment for the tenth month.

Action Taken

The Standard sponsor asked Acme to continue the work, and the sponsor would sell the new owner of the value of the project and obtain approval for payment. At Acme, it became known that Standard was not paying, and other projects began using resources from Standard's project to do paid work.

The project manager alerted Acme management and Standard that the project would run late as resources were dwindling. They encouraged the project manager to continue the project at whatever pace she could. By the end of the twelfth month (the original deadline) the estimate to complete was another five months.

Epilogue

Work and billings continued to the end of the fourteenth month, when the project fizzled out. Acme never got paid after month nine. Standard never installed the new product.

The work completed was rolled into the existing product and sold to other customers. Acme fired the project manager for allowing the project to run late and over budget.

Frank Soltis is Coming to Toronto!

November 4, 2002

Dr. Frank Soltis

Dr. Frank Soltis, is regarded throughout the world as one of the most significant computer scientists of the twentieth century. Based on his Ph.D. dissertation research, he created a revolutionary computer architecture which led to a totally new breed of computers. During the last decade he led the effort to define the architecture of the 64-bit PowerPC processors used in the IBM iSeries and pSeries servers. As the **IBM iSeries Chief Scientist** he continues to define future directions for the iSeries.

Currently based at the IBM Development Laboratory in Rochester, Minnesota, he travels the world speaking on IT trends and technology advancements. In addition to his IBM responsibilities, he is an Adjunct Professor in the Department of Electrical and Computer Engineering at the University of Minnesota where he teaches graduate courses on high-performance computer design. Dr. Soltis is an award winning author with several technical papers and other publications to his credit. He holds more than 25 patents and published invention disclosures related to computer systems.

Dr. Soltis will be in Toronto, speaking at an IBM sponsored session on November 4, 2002. To receive more information on this session, please send an email to Leela James, IBM Canada Ltd., at ljames@ca.ibm.com – or contact your IBM representative or IBM Business Partner.

Conclusion

Management at Acme did not accept their own responsibility for the problems that occurred on this job. The project manager was reporting and alerting them that the project was over budget and under productive. They also knew they weren't receiving payment. However, when the project ended disastrously, the project manager was fired.

More detailed customer analysis during the sales process would have made the salesman aware of the extent of the differences between Standard and the other customers that had installed Acme's product. Perhaps the situation could have been prevented if the salesman had called in an Acme business analyst during the sales cycle.
The early estimates by the project manager and team came to $8 million, twenty-five per cent more than the figure used as the project budget. It was trimmed because Acme management thought the figure was too high to present to the customer.

Unfortunately, unless the work is eliminated, reducing estimates of effort don't make the effort go away. This cut in the estimates was not based on reduced work, and could not be achieved. The project running over budget was predictable.

I wonder why Acme management did not arrange to meet with the new owner? A meeting with the person refusing to authorize payment would have allowed Acme to discuss the benefits of the project with the new owner.

Alternatively, the meeting may have made it clear earlier on that there was no hope of the project being completed and paid. Instead, Acme accepted assurances from the Standard sponsor, who no longer had authority to pay.

Debbie Gallagher is a Manager, Solutions at Deloitte & Touche LLP, Toronto. She can be reached at (416) 643-8767 or dgallagher@deloitte.ca.