

Project Management Tales – Measure Twice, Cut Once

By *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 U.S. and overseas.



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Background

The City of Yorktown had decided to replace its financial and human resources software. The city had a history of technology projects that were completed late and over budget, and the sponsor for this project was determined that this ERP project would be different.

The project manager spent time researching what other cities had done and what had worked well. As a result of this research, there were some things she decided were important to Yorktown's ERP implementation project: (a) all departments would be involved in and committed to the preparation of the business case; (b) the structure of the contracts with the various vendors involved would try to ensure one vendor was responsible for managing all of the vendors; (c) the vendors would be treated as business partners; and (d) the budget would have plenty of contingencies.

Before choosing a software package and vendors, the business case and requirements were prepared. In every department at Yorktown, the department heads signed off on the cost savings and other benefits expected from the new system, including agreement that specific budget cuts would be made to the department once the system was implemented. The cost savings and budget cuts would be made over a five-year period as staff retired, since there were to be no layoffs.

The RFP was issued with a requirement that the vendors bid together as a team, and that the system integrator take some responsibility for managing the other vendors. The bid was to include software and hardware recommendations.

The Situation

After the package and vendors were selected, the business benefits were reworked, taking into account the specific package that had been chosen and its particular capabilities. Again, each Yorktown department head signed off on the business benefits, including the planned budget reductions. At the same time, the costs were refined, based on current information about the package, the infrastructure and the implementation fees.

The contracts with the vendors were negotiated. There were a few key elements that the Yorktown project manager especially wanted included in the contracts: (a) the system integrator was to have implied responsibility for managing the software and hardware vendors; and (b) the vendors were asked to put up some extra contingency dollars. The additional dollars were not laid out in the contract itself but were negotiated at the same time and were to be managed outside of the contract.

The project manager knew that each vendor would already have included some unallocated budget in their own bids, in order to ensure they were not out-of-pocket on this fixed fee price. She too had a miscellaneous category in her own project budget.

However, she also wanted all parties to provide additional assurance by sharing costs for situations on the project where the responsibility for picking up the extra costs could not be clearly defined. She felt this would prevent cost overruns and also lead to better focus on the city and vendors acting as partners instead of each protecting their own budget.



The shared contingency dollars were to be spent on a case-by-case basis when agreed by all parties during the project. The total of the shared miscellaneous budget was approximately one percent of the project budget

Action Taken

The implementation was to take seven months. Almost immediately, Yorktown and the vendors used nearly a quarter of the shared reserve of funds, as additional hardware requirements were identified during the set up of the infrastructure.

During the rest of the project, several smaller items were agreed to be paid out of the shared reserve fund. Most of the remainder of the reserve was used for additional processors, storage, and database licensing.

In each case, when an issue arose that would cost more money, Yorktown and the vendors would, as expected, try to negotiate so that another party would pay for the new item. However, when it became apparent that some items could not be agreed upon, the parties agreed to pay out of the shared reserve.

Epilogue


The ERP system went live on time and on budget, and is expected to deliver the planned business benefits. Yorktown and the vendors did maintain a collegial relationship during the entire implementation.

Conclusion

The time the project manager spent on planning and research was time well spent. The project manager learned a lot from her discussions with other cities. She focused on making sure the key success factors were in place and that potential points of failure were mitigated.

She ensured commitment from the business users by involving them in defining the system requirements and having them take responsibility for budget reductions related to implementation of the new software. The contracts were structured so that one vendor could manage the others, reducing the conflict that can arise when no one vendor is responsible for the outcome.

The shared reserve was an innovative concept that allowed the project manager to honour her commitment to city council to complete the project without going over budget. Just as important, because the reserve was shared by Yorktown and the vendors, there was more of an implied partnership between the parties. They had a means to resolve budget issues that might otherwise cause each to dig in their heels to protect their own budget.

It seems that much of the shared reserve was used for hardware – an especially unpredictable project cost. In the case of this project manager, who built in an extra contingency, when each party already had a contingency, the old expression should be “Measure Twice, Cut Once – And Have Money Handy For More Lumber!” 

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