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FOUR REASONS PROJECT MANAGEMENT ROCKS:

Building a Strategic PM Function that Impacts Costs

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ISG WHITE PAPER

EXECUTIVE SUMMARY

Project Management (PM) typically plays a supporting yet very important role in enterprise IT projects, focusing on ensuring that timelines are met and that all the cross-functional teams involved in a complex IT program are coordinated and moving in lockstep.

While generally viewed as a support arm, the PM organization is extremely valuable to the procurement function, and can have a significant positive impact on procurement strategies and outcomes, specifically in terms of reducing costs.

Project managers are in the unique position of being directly involved in the initial planning and implementation stages of all of the factors critical to the success of an IT project. These include managing the scope, schedule, quality, cost, risk and resources involved. As such, PM is uniquely positioned to enhance procurement's ability to negotiate effective agreements, ensure collaboration between business and technical teams on requirements, mitigate risk and optimize spending.

This ISG white paper examines four key attributes of PM and how they can be leveraged to enhance sourcing strategy and improve supplier relationships.

#1: FIRST TO THE TABLE

PM has a unique in-at-the-ground-floor level of engagement in IT projects, and can play a key role in the success of IT programs by deploying the right resources at the right time.

Proactive and early involvement is imperative to launch a more effective procurement process. In many instances, the procurement function is bypassed during the initial stages of a project, when business stakeholders approach IT about a project that requires, for example, the procurement of software or hardware assets. Scope is discussed, requirements defined and potential vendors may be identified. When finally brought to the table to negotiate the contract, procurement often faces severe time constraints and may be perceived to be a bottleneck in the process. Requirements to perform due diligence, assess pricing and proposals and investigate alternative solutions may be resisted by IT stakeholders who have made their mind up based on previous discussions with providers around infrastructure requirements, hosting considerations and technical components that procurement was not involved in.

This dynamic is largely responsible for the deceptive and unfair – yet widely held – perception of procurement as a penny-pinching roadblock that can delay a project. In reality, the reason procurement often plays a constraining role in IT/business projects is because they are not involved in the process from the outset. When called upon at the last minute to sign off on the cost of assets or services based on a final pricing or deal construct they've had no say in developing, procurement executives are understandably reluctant to abdicate their primary area of responsibility, or to rubber stamp a proposal that can come back to haunt them.

From this perspective, getting procurement/sourcing in the loop earlier in the process is imperative. The PM function can be the missing link and act as a liaison between IT and business stakeholders to substantially increase the team's ability to drive cost out of the procurement of assets.

#2: CONNECTION TO BUSINESS *AND* TECHNICAL TEAMS

When investigating an IT project, procurement often discovers that business and technical requirements are not documented, or that either the business or the IT side is driving the project without adequately considering the requirements of the other side.

If the perspectives of both the business and technical sides aren't adequately captured, the project may struggle. ISG has observed many situations where a project team moves quickly to purchase software, and then 12 to 18 months later realizes that the software has not been deployed.

This dreaded "shelfware" scenario results when the technical environment cannot support the software, software functionality fails to meet business requirements, or additional licenses or hardware capacity are purchased without the accompanying business growth that requires use of the assets.

These problems can all be avoided if the business and IT teams communicate and align on growth, technical requirements, security, risk, current and future needs and other criteria. By working with both IT and business teams, PM is positioned to ensure that communication takes place and that these linkages are established at the conception of the project.

#3: BUDGET KNOWLEDGE

The PM function also enjoys a unique level of insight into project budgeting, and can leverage that insight into more effective negotiation and cost management. Specifically, PM can highlight how the differences between capital budgeting and expense budgeting can impact the negotiation process and drive a deal structure, a licensing arrangement or a hardware/software type that is more aligned with budgetary constraints.

ISG has seen many deals re-structured at the last minute to accommodate unexpected budgetary limitations. The contractual adjustments can be as simple as switching from a perpetual license structure (capital spend) to a software-as-a-service structure (expense spend), or can require a much more complex plan that involves capital carve-outs, credits, delayed support, no-cost support, staggered procurement and other negotiating tools.

Deploying these strategies can take time, and learning about budgetary constraints at the 11th hour can derail positive momentum or result in the loss of previously negotiated savings. Clarity into budget specifics can provide critical knowledge to structure an advantageous deal and avoid a last-minute bombshell that limits a team's negotiating leverage. If this clarity is lacking at the outset of negotiations, budget strategies can become misaligned and result in overspending or rejection of the project by financial leadership.

#4: THE GIFT OF TIME

The single most important factor that leads to overspending is limited time to strategize, benchmark and negotiate. By actively managing project scope, scheduling, quality, resources, cost and risk from the inception of a project, PM can link critical resources to be involved throughout the project lifecycle to ensure the engagement of procurement and other critical resources and stakeholders.

From procurement's perspective, having a seat at the table early in the process buys critical time – time that enables a significantly more effective approach to negotiations, one that yields measurable savings and bottom-line impact. When procurement's negotiating leverage is compromised, the typical result is that decisions are made based on “spend tolerance” – spending within budget parameters or based on previous discounts, rather than achieving the optimal price and an improved deal structure based on the leverage points surrounding the deal. While requiring time for detailed deal analysis, an improved deal structure often leads to greater savings than can be achieved through incremental discounts. In other words, the time invested by PM can turn pennies into nickels, nickels into dimes, dimes into quarters and quarters into dollars.

Ultimately, when PM and procurement work together and communicate early and often, the result is a corporate win that drives down project costs, eliminates cash drain situations, positively impacts the bottom line, delivers return-on-investment and has a major impact on business performance.

ABOUT THE AUTHOR

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Tyrone Magby has over 15 years of strategic IT sourcing, consulting, operations and crisis management experience and has led over 200 IT sourcing projects. He has worked in a wide range of industries, including financial services, retail and manufacturing, helping clients analyze IT environments to identify and realize IT cost reduction opportunities.

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