



TenStep Supplemental Paper

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Apply These Six Techniques to get an Overbudget Project Back on Track

Project managers need to manage schedule and costs on their project. The sponsor has agreed to pay a certain amount of money for a certain solution. If the solution ends up costing more than anticipated, the solution may or may not make as much business sense. Many organizations also have much less flexibility dealing with budgets. After the budget is allocated, it may take much more work to try to have it increased if the work is costing more than anticipated.

If you monitor costs regularly, you should know very quickly if you are trending over your budget. This control process is somewhat more difficult than managing the schedule, because there could be a variety of reasons why your financial information is not as good or as accurate. With scheduling, you know right away if you missed an end date. With the budget, you may not always know. First of all, you rarely spend money at a constant rate. So, you need to understand what you expected to spend during the period, as well as what you actually spent. In most companies, financial information also comes in on a lag. For instance, you might not know the financial status of your project for one month until the second week of the following month when the budget reports are released.

Timing is another problem. You need to know when you recognize expenses. You might recognize an expense when you receive an invoice, or perhaps not until you pay an invoice, which may be much later. If your company uses purchase orders, your project may actually get hit with a project charge when the purchase order is generated, even if the actual invoice is not paid for until weeks later. Depending on your budget, this may cause expenses to hit early and may make it appear that you are trending overbudget, when really you are not. (The expenses are just hitting your budget earlier than you had planned.)

So, if you feel your project is trending overbudget, you must first validate the cause. If you can determine the cause, you will have a much better idea of what options are available to try to get back on track. There are a number of techniques you can apply to try to rein in spending to get back within your budget.

(1) Work Unpaid Overtime

This option takes advantage of the situation where your employee staff does not get paid for overtime. It is usually the first place to look, and a team may rally around overtime to get a project back on budget in the short term. The logic is that you can get more work done for the same cost, since you do not have to pay your internal resources for the overtime. If you are toward the end of the project, you also may be able to issue comp time after the project is completed. However, this is usually not a good solution for very long.

(2) Swap Human Resources



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If you were trending over your deadline, you may want to swap resources to get your project back on schedule. In this case, you usually want to swap inexperienced and less productive resources for ones that are more productive and more experienced.

However, when you are dealing with an overbudget situation, you have a different motivation. You may need to see if there are less expensive resources that can be applied to activities instead of higher paid resources. In fact, if cost containment is more important than the deadline, you may be willing for the work to take a longer time if it ultimately can be completed successfully at a reduced cost.

(3) Eliminate or Replace Non-labor Costs

Just as with people, it may be possible to utilize less costly materials, supplies or services than what was originally budgeted. For instance, you may ask travelers to stay at a discount hotel chain instead of more upscale accommodations. You can see if team members can utilize existing upgraded hardware instead of new machines. You can substitute less expensive computer-based training, or team mentoring, instead of formal training. You may have to send one person on a traveling activity, instead of the two that were previously planned. In each of these cases, you are attempting to satisfy the original need, but by using a less-costly alternative.

(4) "Zero Tolerance" Scope Change

This technique can be applied to help remedy a project that is over deadline or overbudget. Many projects begin to trend over their budget because they are doing more work than they originally committed to. This could be a result of poor scope change management, or it could be that small changes are being worked in under the radar screen. However, if you are at risk of missing your budget, the project manager must work with the client and team members to ensure that absolutely no unplanned work is being requested or worked on - even if it is just one hour. All energy should go into cutting costs and completing only the core work that was agreed to.

(5) Use Budget Contingency (If You have it)

If you are lucky, your initial budget included a contingency to account for the uncertainty and risk associated with your estimate. For instance, it would not be unusual for a project to include a 10% contingency. The contingency is separate from the project budget. If you can complete the project within your initial budget, the contingency should all be returned to the company. If you find that your overbudget situation is caused by activities that are costing more than estimated, the contingency budget can be tapped. When you do this, make sure your sponsor and key stakeholders know so that you manage expectations about the amount of contingency funding remaining.

(6) Scope Back the Work

One option that is usually available for both an overbudget and over-deadline situation project is to look at the work remaining and negotiate with the client to remove some of it from the project. If the remaining work is all core to the solution, this discussion still might need to take place as a last resort. There may be options to complete this project



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on-budget with less than 100% functionality, and then to execute a follow-up project to complete the remaining requirements.

Summary

This paper pointed out six areas to look at if you are trending overbudget. If you have tried all the easy project management responses, you should talk your sponsor about the budget risk. Your sponsor may have budgeting flexibility, and may choose to provide more funding to complete the work as scheduled. In the YR2K projects, for instance, companies were usually willing to spend more money to ensure that the project deadlines were met. However, the assumption here is that the budget is important. Some of these techniques described may end up making the project go longer. If you find that the schedule and budget are both fixed, your options are more limited, and you may need to negotiate with the sponsor to scale back the work. Once you know the cause of the problem and your schedule flexibility, you can determine the best actions to undertake to get you back on track to hit your budget.