

Project Initiation



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Project Management
Chapter 7: Project Initiation

Project Initiation

- Purpose of initiation phase
- Comparing project options
 - Total cost of ownership
- The project charter



The Initiation Phase

- Business problem or opportunity defined
- Solution is defined
- Project is formed

- Business case created
- Project team appointed



The Business Case

- Problem or opportunity: Detailed description
 - Introduction
 - Problem/opportunity statement
 - Assumptions and Constraints
 - Alignment with organizational objectives
- solutions
- Analysis of alternative sets of benefits, costs, and issues
- Description of the preferred solution
- Main project Requirements
- Potential risks
- Summarized plan for implementation
 - Schedule
 - Financial analysis



Comparing Options

Weighted Decision Matrix

Criteria	Weight	SJS Enterprises	Game Access	DVD Link
Educational	15%	90	0	0
Sports-related	15%	90	90	90
Secure payment	10%	90	50	50
	(rows left out here—see textbook)			
Weighted Project Scores	100%	56	14.5	12.5



Financial Considerations

- Can compare projects based on
 - Net present value
 - Internal Rate of Return (Return on Investment or ROI)
 - Payback Analysis



Net Present Value Analysis

- Considers the time value of money
- Costs for future years must be discounted to the present time
- Tangible benefits also discounted to the present time
- Must identify an appropriate discount rate
 - Take risk into consideration



NPV Calculation

$$\frac{R_t}{(1 + i)^t}$$

- t is the time of the cash flow
- R_t is the cash flow at time t
- i is the interest rate
- Apply the above formula to each annual inflow and outflow of cash
- Add all terms together to get the NPV



NPV Analysis

If...	It means...	Then...
NPV > 0	the investment would add value to the firm	the project may be accepted
NPV < 0	the investment would subtract value from the firm	the project should be rejected
NPV = 0	the investment would neither gain nor lose value for the firm	indifferent in the decision This project adds no monetary value. Decision should be based on other criteria, e.g., strategic positioning or other factors not explicitly included in the calculation.



Rate of Return

$$(\text{Total benefits} - \text{Total costs}) / \text{Total costs}$$

- Can be used to compare different options
- Organization may have a minimum acceptable rate of return for projects



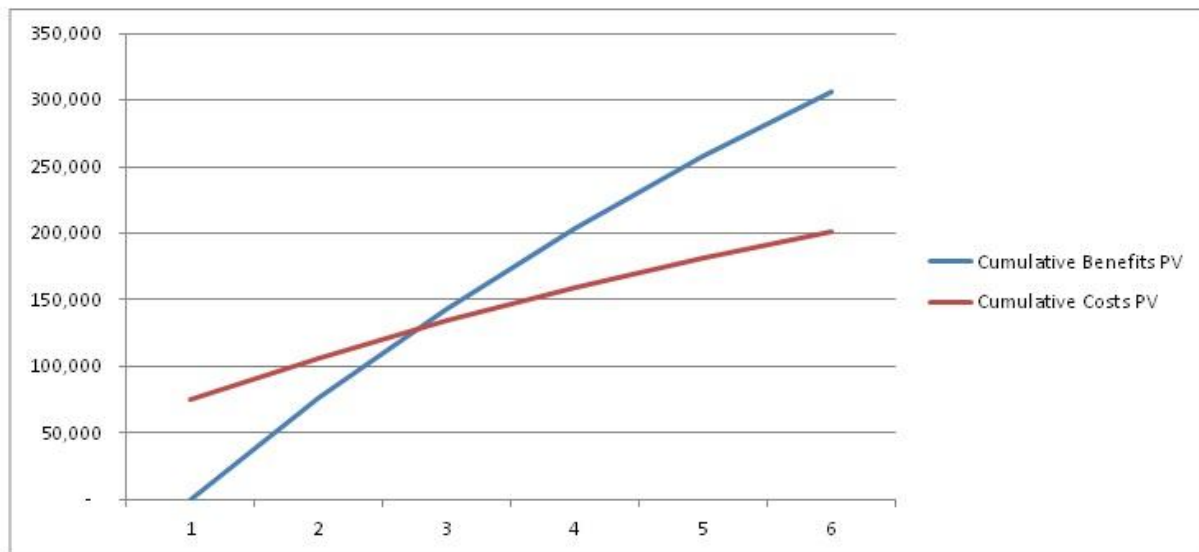
Payback Analysis

- Compares cumulative costs to cumulative benefits
- Easiest to see in graphical format
- Time on horizontal axis, money on vertical



Payback Analysis

Payback Analysis



Payback occurs in the 2nd year.

Payback (75,000.00) (30,350.00) 9,500.00 45,100.00 76,900.00 105,250.00

The Project Charter



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Chapter 7: Project Initiation

Purpose of the Project Charter

When signed off, you have approval to proceed to detailed planning, followed by carrying out your project.



Organizational Process Assets

- Is there a standard format for project charters?
- Is there a standard process for developing and getting approval for a project charter?
- What can the PMO do for you?
What does the PMO require of you?
- Are there applicable “lessons learned” available from other projects?
- If you are inexperienced, is there a mentor available?
- Etc.



Project Charter – Typical Contents

- Identification section
- Project purpose or justification
- Measurable project objectives and related success criteria
- High-level requirements
- Assumptions and constraints
- High-level project description and boundaries
- High-level risks
- Summary milestone schedule
- Summary budget
- Stakeholder list
- Approvals



Identification

- Name of the project—make it meaningful
- Name, title, department of project sponsor
- Name of project manager



Clear Objective

- SMART
 - Specific
 - Measurable
 - Acceptable
 - Realistic
 - Time based



Business Need or Opportunity

A concise statement of how the project's deliverables will contribute to organizational objectives



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Chapter 7: Project Initiation

Scope

- Clearly defines what is in and out of the project

Major Milestones

- Identifiable points in time
- Target dates will be added LATER



Major Deliverables

- Break down the overall objective into smaller measurable units

Assumptions

- Things you are not certain of but can proceed if you behave as if they are true



Constraints

- Anything that limits your ability to deliver or the range of acceptable solutions

Preliminary Cost Estimates

- How will the costs be defined and controlled



Risks

- High-level statement about risks identified so far
- Include the risk of NOT doing the project



Stakeholder List

- The stakeholders identified so far, including their roles

Approval

- A place for the project sponsor and the project manager to sign



Project Initiation: Summary

- The first phase
- Relationship of project to business objectives is key
- Compare alternatives using weighted matrix
- Financial analysis: NPV, ROI, payback
- Project Charter is the primary output;
 - it includes the stakeholder list
- Completion of Project Initiation is the signal that the project has approval to proceed to the project planning phase.



Questions?



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