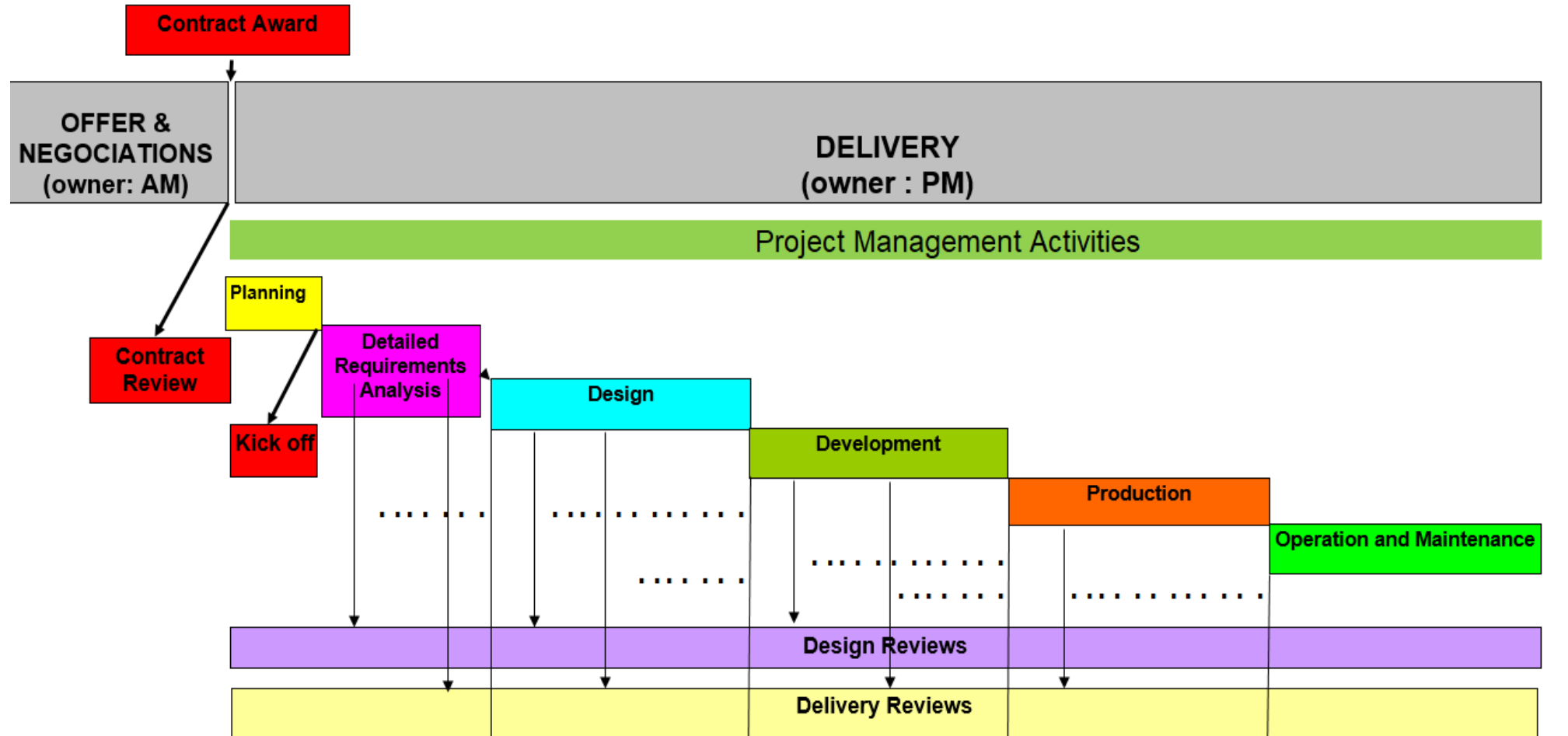


The IT Project Management

Lesson 3

Paolo Filauro

The Project Life Cycle



The Costs

Generally, the project costs should be estimate during the Proposal cycle

BUT

The Project Manager is now the Owner and the Responsible of the whole Project

THEN

The costs MUST be renegotiated with the internal and the external suppliers before their assignement to the right WP (for future control)

REMEMBER:

THE ESTIMATED COSTS ARE THE BUDGET OF THE PROJECT

Do not confuse the Budget with the Price: the budget is what you plan to spend to implement your project, the price is the money a Customer pays to get the result of the project

The time

Each activity included in a WP requires a certain time to be achieved.

The determination of the *HOW LONG it takes* is vital in the general design of the Project: most, if not all, of the project activities are dependent from each other, and the time schedule is one of the most important elements.

The time elongation of each activity **MUST** be discussed with its Responsible: it is a basic part of each WP, and an important element for the control of the project progress.

Something more

Before starting the Project detailed planning, two other elements **MUST** be considered:

The **RISKS** (Risk Analysis): remember Murphys ?!

The **EVA** (Economic Value Added): the project earns or loses money ? What can I do to generate wealth ?

Risk Analysis

Never heard about Murphy?



Risk Analysis/1

We prefer to think about WHAT we have to do to accomplish the Project target, and to minimize what should NOT happen to make more difficult the target achievement.

ERROR

We MUST think about the RISKS that we can (will ?) face during the development of our Project, and put in place everything we can do to minimize, if not eliminate, the adverse situations.

Risk Analysis/2

First step:

Project Risk Analysis to measure the

RISK CLASS

The CLASS can be measured by:

- Identify the overall risks, through:
 - A standard check list: Country economical and political situation, Importance of the project for the Customer, Currency used, Economic Value, ...
 - A brainstorming with the stakeholder of the project (Sales people, Top Management, Technical Staff, ...)
 - Review of the past experience in the organization
- Assign a value to each identified risk (e.g. from 0 to 5)
- Sum up all the values: the final figure will give the RISK CLASS (depending on your organization rules)

RISK Class : a (real) example

Elenco delle domande previste

Valore (1-5/0 Non Significativo)

Diffusione territoriale degli impianti/servizi (1 sede in Genova, 2 Italia, 3 EU, 4 Europa, 5 extra Europa, 0 per le iniziative aziendali)	
Partecipazioni a Consorzi o RTI / subcontractor complessi (Verra' assegnato un valore da 1 a 5 a seconda del numero di attori, del ruolo, della posizione dell'azienda come mandante o come mandataria, etc.)	
Complessità (del processo da gestire, del prodotto/sistema da fornire, del servizio da erogare) (1 semplice, 2 medio, 3 complesso, 4 molto complesso)	
Esperienza sulla Tipologia di progetto (1=gia' fatto con successo piu' volte, 2 fatto piu' volte con qualche criticita', 3 fatto piu' volte con diverse criticita', 4 fatto poche volte, 5 prima volta)	
Valore Economico del progetto (1< 50 Keuro, 2 tra 50 Keuro e 500 Keuro, 3 tra 500 e 2500 Keuro, 4 tra 2500 e 5000 Keuro, 5>5000 Keuro)	
Margine del progetto (1>50 %, 2 compreso tra 30% e 50%, 3 compreso tra 20% e 30%, 4 compreso tra 5% e 20%, 5<5%)	
Rilevanza del progetto per il cliente (1=poco rilevante, 2 rilevante, 3 business critical, 4 life critical)	
Importanza del cliente (Verra' dato un valore da 1 a 5 a seconda della strategicita' del cliente)	
TOTALE	
DATA:	
FIRMA:	
AM	PM

Risk Analysis/3

Risk Analysis is a process designed to remove or reduce the risks that threaten the achievement of the project objectives.

The Risk Analysis can be split into **two steps**:

- **Qualitative Analysis**
- **Quantitative Analysis**

Risk Analysis: Qualitative

The **Qualitative Analysis'** main task is the **IDENTIFICATION** of the Risks.

Some large Companies usually use a check list (my former Company's version is several pages long !), which can be

- Generic, valid for all the projects
- Specific: tailored to the nature of the project

The second task is the assessment of the **OCCURRENCE PROBABILITY** (high/medium/low) and the **IMPACT on the project** (major/minor) should the risk materialise.

Risk Analysis: Quantitative

The **Quantitative Analysis** main task is to **QUANTIFY** the impact of the identified risks on time, costs, performances of the project.

One of the many, possible processes is:

- Quantify the TOTAL cost of the activities with identified risks: **TOTAL EXPOSURE**
- Compute the probability of occurrence and weight the cost with probability: **WEIGHTED EXPOSURE** (for each WP and Total)
- Identify the **ACTIONS** required to remove or minimize the Risk impact and **THEIR COSTS**. The actions can be:
 - Preventive: trying to eliminate the risk before it occurs
 - Containment: trying to reduce the risk impact on the project
- Compute the **RESIDUAL COSTS** and add them as **CONTINGENCIES** to the overall Project Cost.

Risks Table

RISK CLASS:										
TOTAL EXPOSURE K €:					WEIGHTED EXPOSURE K €:					
PREVENTIVE ACTIONS COST K €:					RESIDUAL RISK K €:					
RISK TYPE	RISK N.	RISK DESCRIPTION	PROBABILITY (1-3)	IMPACT			Risk Factor (1-3)	RISK EXPOSURE		
				Time (1-3)	Costs (1-3)	Performances (1-3)		Technical	Management	Economical - Financial
			(A)	(B)			(A*max B)			
	1									
	2									
	3									
	4									
	5									

Risk Actions Table

<i>PREVENTIVE Actions</i>									
Action N.	ACTION DESCRIPTION	Impacted Risks	Action Cost	Residual Risk	Responsible	Sart date	Endi date	Status and trend	N. of operation in the network
1									
2									
3									
4									
5									
<i>CONTAINEMENT Actions</i>									
Action N.	ACTION DESCRIPTION	Impacted Risks	Action Cost	Residual Risk	Responsible	Sart date	Endi date	Status and trend	N. of operation in the network
1									
2									
3									
4									
5									

EVA: Economic Value Added

A Company invests money to run a project: is it profitable ?

*The Economic value added (EVA) is a measure of a project's **financial performance** based on the residual **wealth** calculated by deducting its cost of capital from its operating profit, adjusted for taxes on a cash basis. EVA can also be referred to as **economic profit**, as it attempts to capture the true economic profit of a company.*

Essentially, it is used to measure the value a project generates from funds invested into it. If a project's EVA is negative, it means the project is not generating value from the funds invested into the business. Conversely, a positive EVA shows a project is producing value from the funds invested in it.

EVA: an example

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EVA: an example

SUMMARY

AVVIO

FORMAT

FORMAT PER LA VALUTAZIONE

Quadro riepilogativo

Riepilogo dati Significativi

K/Euro

Totale

%

VAE attualizzato al

30/9/02

1

K/Euro

Ricavi

32.000

100%

Totale Costi

26.000

81%

Margine Lordo

6.000

18,75%

EBIT

821

3%

Markup (margine / costi)

0,23

Punto di pareggio finanziario (anno)

2008

note sul punto di pareggio:

WACC= xx,yy

Periodo di vita della Commessa

30/09/02

- 31/03/08

(inizio)

(fine)

VAE att. ad inizio esercizio

1

K/Euro

Massima esposizione Finanziaria

-6.000

al 31/12/04

(K/Euro)

Firme di autorizzazione

Responsabile BU

Account/Client Manager

Controllo di Gestione