

# Where are my savings?

## Best Practices in Project Benefit Validation

**Julie Brignac**

*Executive Advisor and  
Independent Consultant*



**PowerSteering**  
by upland

# Discussion points

- What is a project benefit validation process?
- Discuss what works in companies regarding a project benefit infrastructure for all types of projects
- Share information as a best practice in this arena
- Peak interest in an otherwise boring (but necessary) subject



- Former executive with 20+ years experience in Procurement, Supply Chain, Quality and Lean Six Sigma with Fortune 100 companies such as
  - DuPont
  - Honeywell
  - Newell Rubbermaid
- Former Chief Procurement and Quality Officer for Australian-based Brambles Limited
- Procurement and Lean Six Sigma functional deployment leader
- Moved into consulting seven years ago – trademarked The RoSS Model®



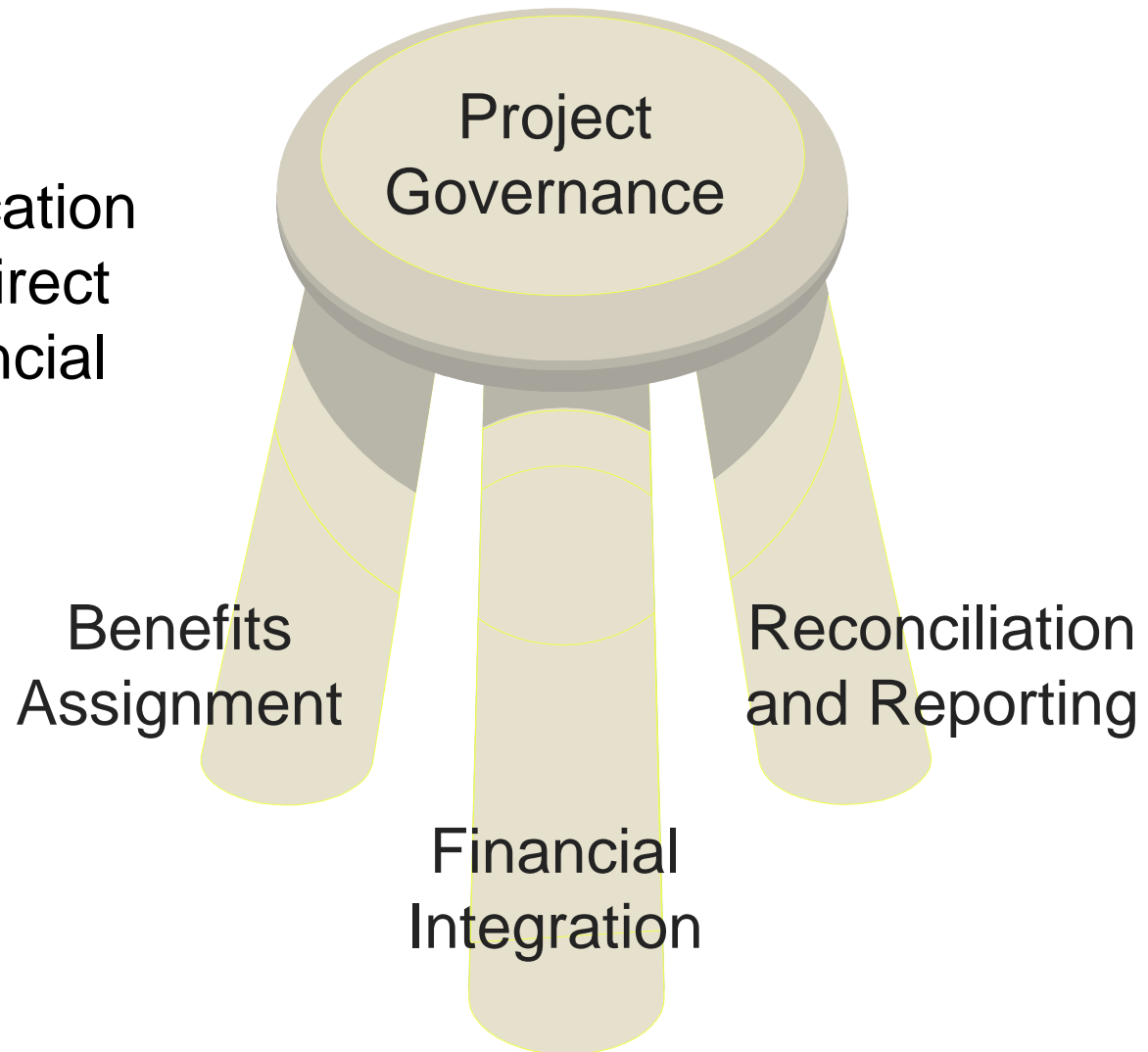
- Have you ever had the CFO say to you or a project leader:

*“I don’t see the savings that you say your project delivered.”*

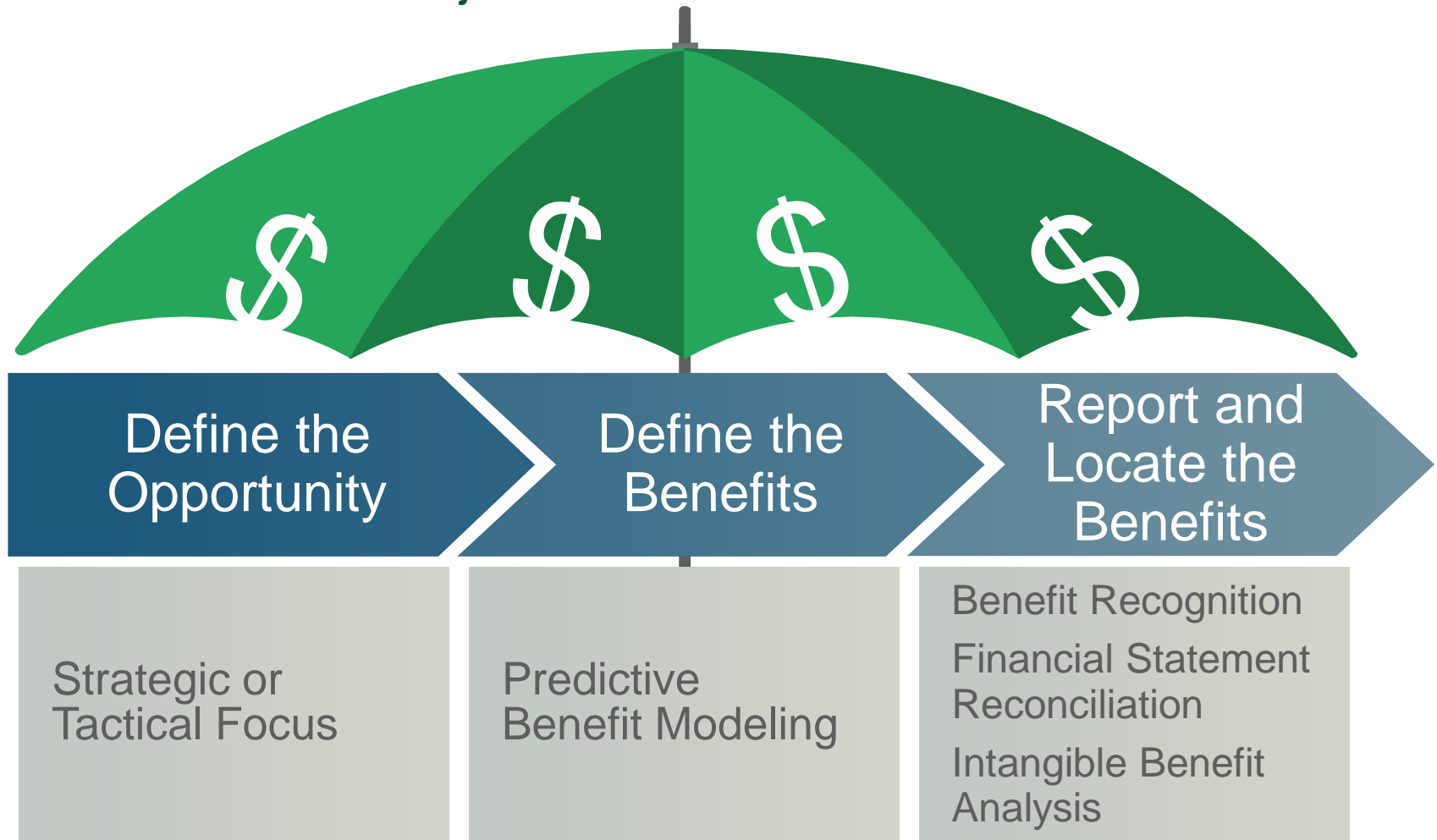


# What is a project benefit validation process?

A multi-faceted application designed to ensure direct linkage between financial reporting and project results



## Project Benefit Guidelines



# What the RoSS Model® methodology does

- Uses Throughput Accounting methodology to scope and prioritize projects and their benefits
- Quickly implements a robust project benefit reporting structure that can reconcile tangible (hard) savings to company financial statements
- Saves companies the time and effort of
  - Writing financial guidelines
  - Determining benefit definitions and categories
  - Building cost modeling templates at various stages of the project governance process
- Implements a measurement system that measures previously **immeasurable** benefits



# The necessary elements to implementing a world class project benefit infrastructure

- Definition of a Project
  - Project Governance Process
  - Enterprise Wide Council
  - Network Focal Point(s)
  - Project Benefit Guidelines
- Predictive Benefit Modeling
  - Matrixed Financial Representative Network
  - Financial Reconciliation Process
  - Project Management Portfolio System



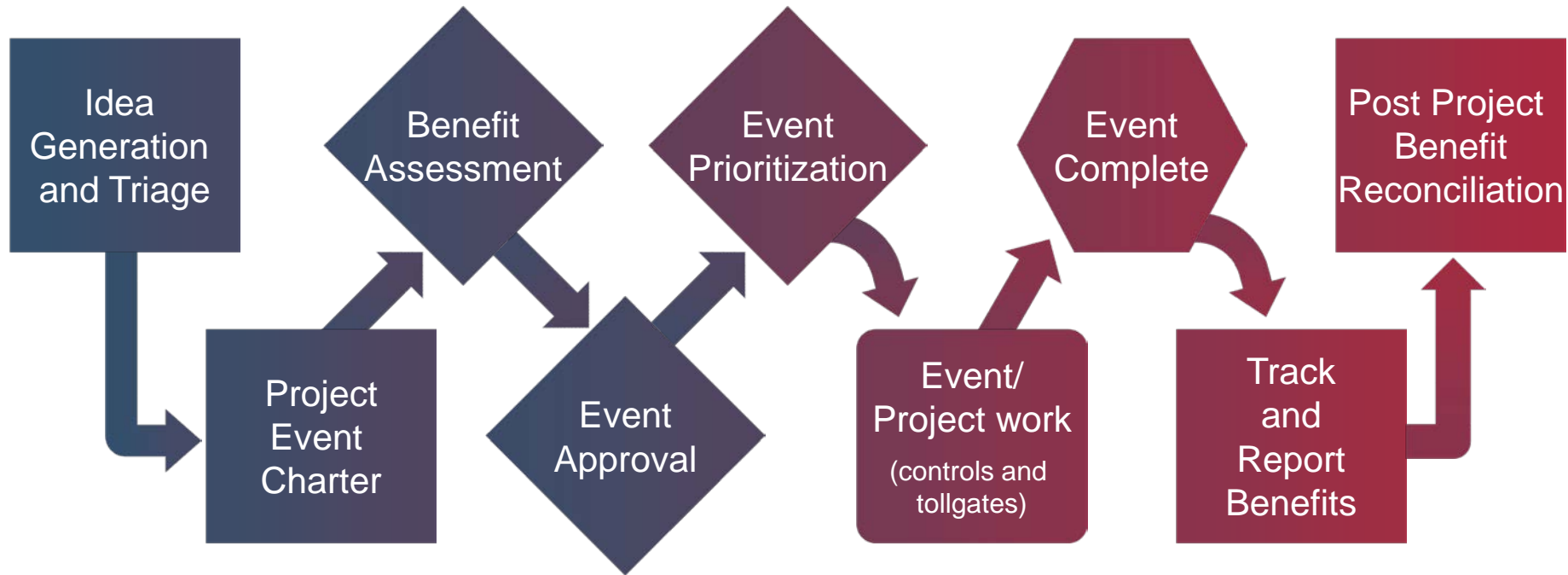


- If you have 30,000 employees in your company, you have 30,000 different definitions of what a project is
- Important to clarify because
  - Determine whether an effort needs to travel through the governance process
    - Hence requiring benefit validation
  - Also helps determine which projects go into your central project repository



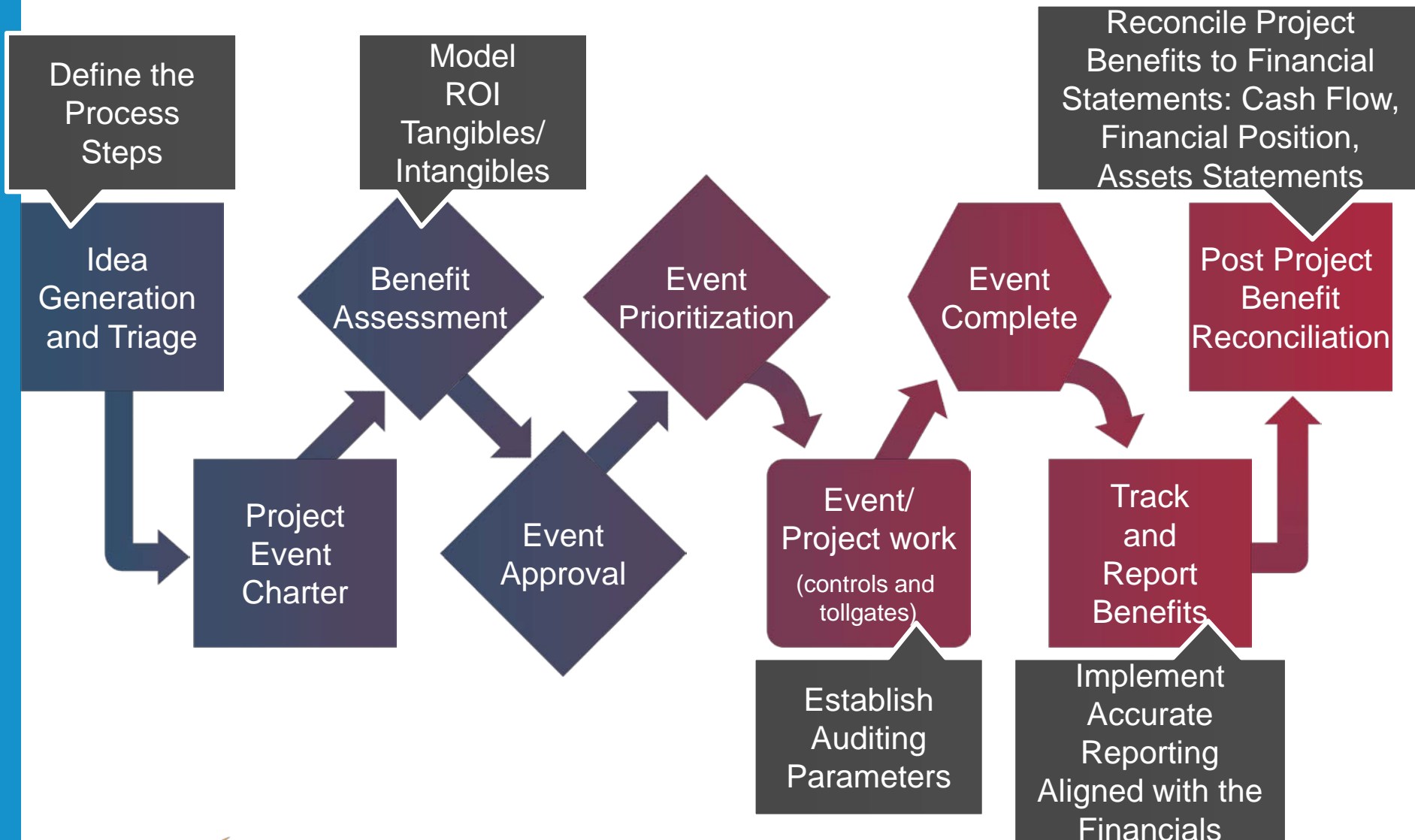
# Project governance process

## The RoSS Model®



# Project governance process

## The RoSS Model®



- Governing body of stakeholders who are accountable for accurate benefit reporting
- Typically consists of finance, project and functional leadership
- Primary role is to approve the overall definitions and categories for project benefits
- Different responsibilities than the Project Benefit Network
  - May have some of the same members but they play a related, but different role



- Even with a strategic enterprise-wide council and a project benefit network, designating a focal point for the network will help to
  - Keep the momentum moving for continuously improving the process and corresponding documents
  - Hold the business accountable
  - Exercise authority when a disagreement must be resolved



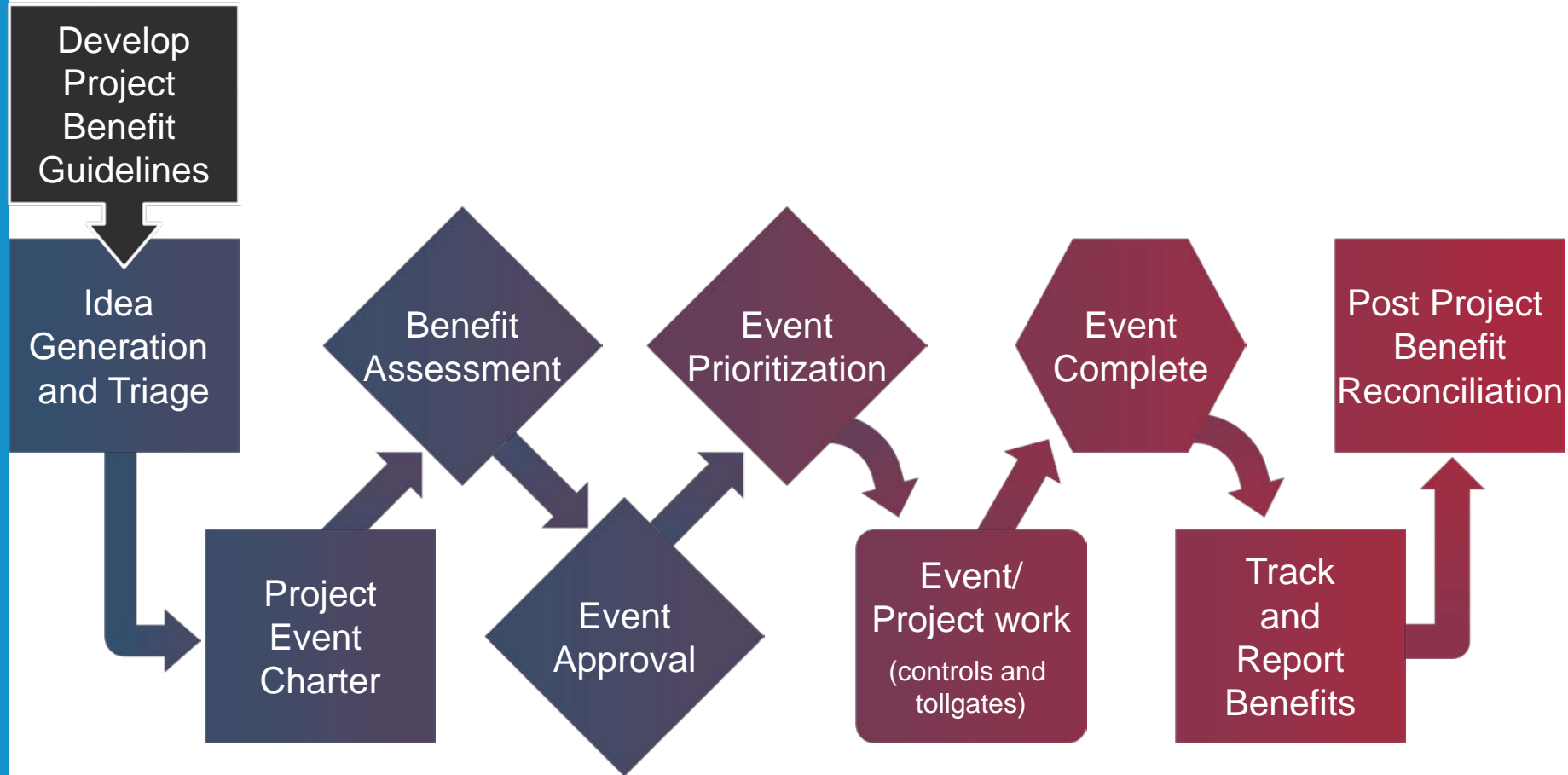
# Project benefit guidelines

- The intent of this document is to give project leaders and financial representatives in your business
  - Guidelines to understand project benefit categories
  - A process for assessing benefits in a project
  - The method of calculating project benefits
  - Model and examples to reference so that consistency in prediction, reporting and reconciliation is maintained



# Project governance process

## The RoSS Model® including guidelines



- Guideline document purpose statement
- Sample financial definitions for project benefits
- Sample general rules for benefit calculation
- The project benefit governance process
- Specific benefit categories and calculations
- Examples
- Tools & templates
  - Reference guides
  - Financial reconciliation
  - Sample reconciliation model
- Financial network representatives
  - Roles and responsibilities





# Illustrative sample benefit categories

## Tangible definitions



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**Tangible Benefits** — benefits that impact the financials, improve productivity, or change cash flow. All have a baseline, are measurable, and can be reconciled to the financials

- **Revenue Growth** — Projects that improve operating margin due to incremental revenue from volume or price increases, or revenue recovery
- **Asset Productivity** — Projects that improve the utilization of current assets (i.e., process or productivity enhanced so that capital expenditures for new assets are avoided)
- **Cost Savings / Reductions** — Projects that result in year-over-year savings or cost reduction
- **Capital Expense Reduction or Working Capital** — Projects that improve working capital (inventory, receivables, payables)

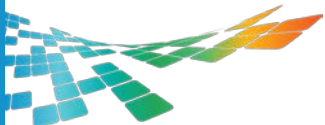


# Illustrative sample benefit categories

## Intangible Definitions

**Intangible Benefits** — benefits that may or may not be measurable or validated after project completion.

- **Risk Mitigation** — Projects that reduce a business risk or threat and may or may not have a direct financial impact (can impact all benefit categories)
- **Cost Avoidance** — Improvements are made that avoid additional costs to the current process, but do not take cost out of the process or have a direct financial impact (can impact all benefit categories)
- **Customer Satisfaction** — Projects that improve customer satisfaction, but often have no measurable impact on financials or metrics
- **Reduce NVA (Non-Value Add)** — Projects that deliver process improvements or other improvements that have no measurable benefits
- **Employee Satisfaction** — Improve employee satisfaction



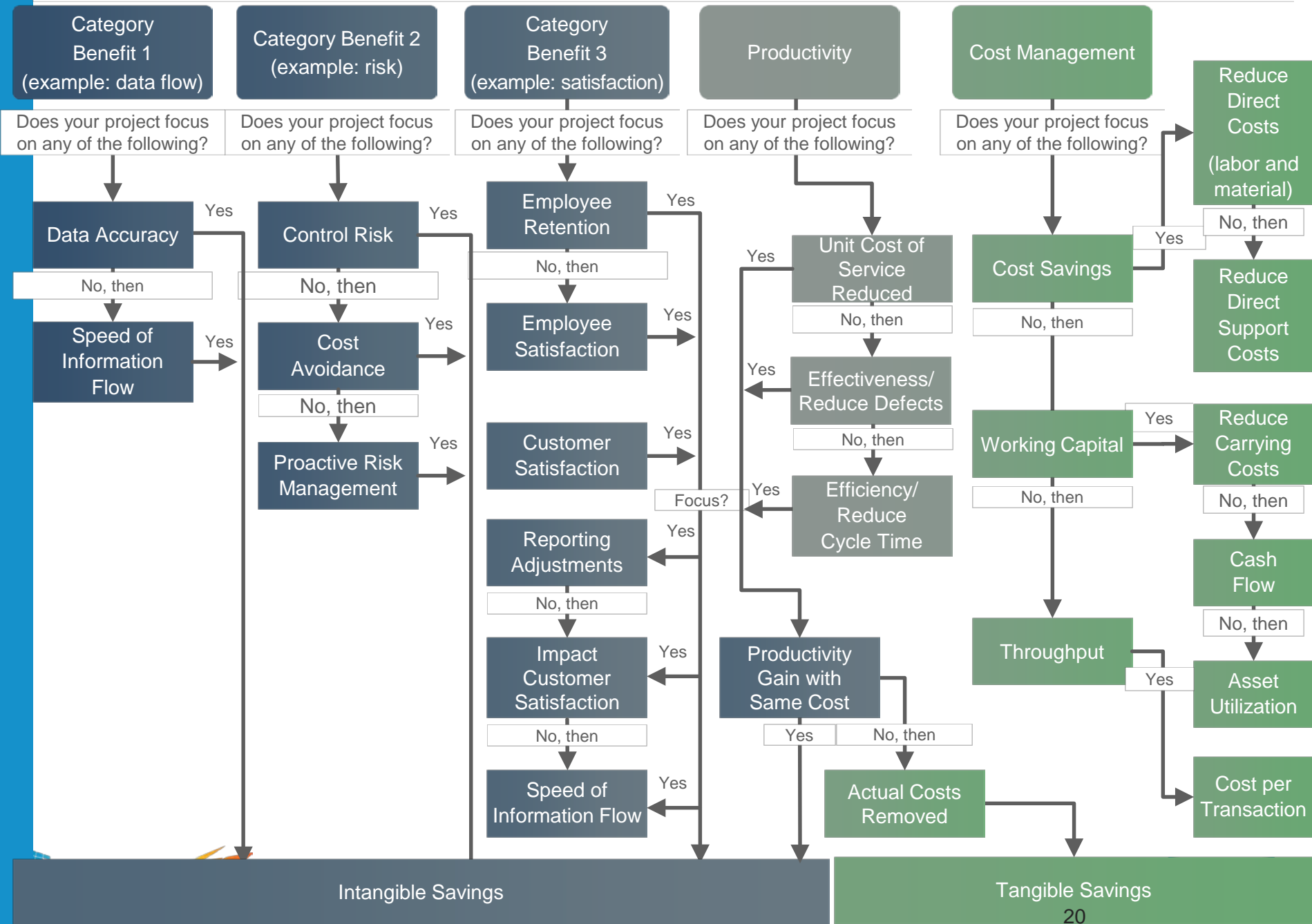
# Illustrative sample general rules

## Headcount and Labor Calculations

- Savings for headcount reductions may be included if:
  - A specific project is identified for process improvements to cover the reduction (headcount must be physically eliminated)
  - The reduction in headcount savings has not been included in restructuring benefits. If headcount reductions have been included in restructuring benefits, then headcount reductions for the projects must be categorized as cost avoidance to avoid double counting benefits
- No retroactively counting savings for headcount reductions in previous periods
- Labor savings should include the fringe rate (\$ paid by employer for each employee – payroll taxes, medical, etc.)
- Labor-related cost savings can be counted if you can clearly link a reduction in census or reduction in overtime pay to the project



# Financial Validation Decision Tree — Example



# Illustrative predictive model inputs

## Department Headcounts and Annual Salaries

Department name	Full dept. headcount (from Finance Operating Exp. Summary)	Working days per year (Standard per Finance)	Hours per day (Standard per Finance)	Benefits (from Operating Expense Summary)
Operations	133	242	6.5	\$ 8,518,970
Sales	223	Departmental Headcount	Annual Salaries and Benefits	\$ 43,984,522
Logistics	443			\$ 32,944,386
Procurement	554			\$ 47,464,902
Administrative services	123			\$ 1,529,870
Information services	443	242	6.5	\$ 5,419,966

## Process Step Times

Process	Touch time in minutes (Single piece)	Time in hours
Process Step Times	2.00	0.03
	3.60	0.06
	4.80	0.08
	0.00	0.00
Process Step 5	0.00	0.00
Process Step 6	5.00	0.08

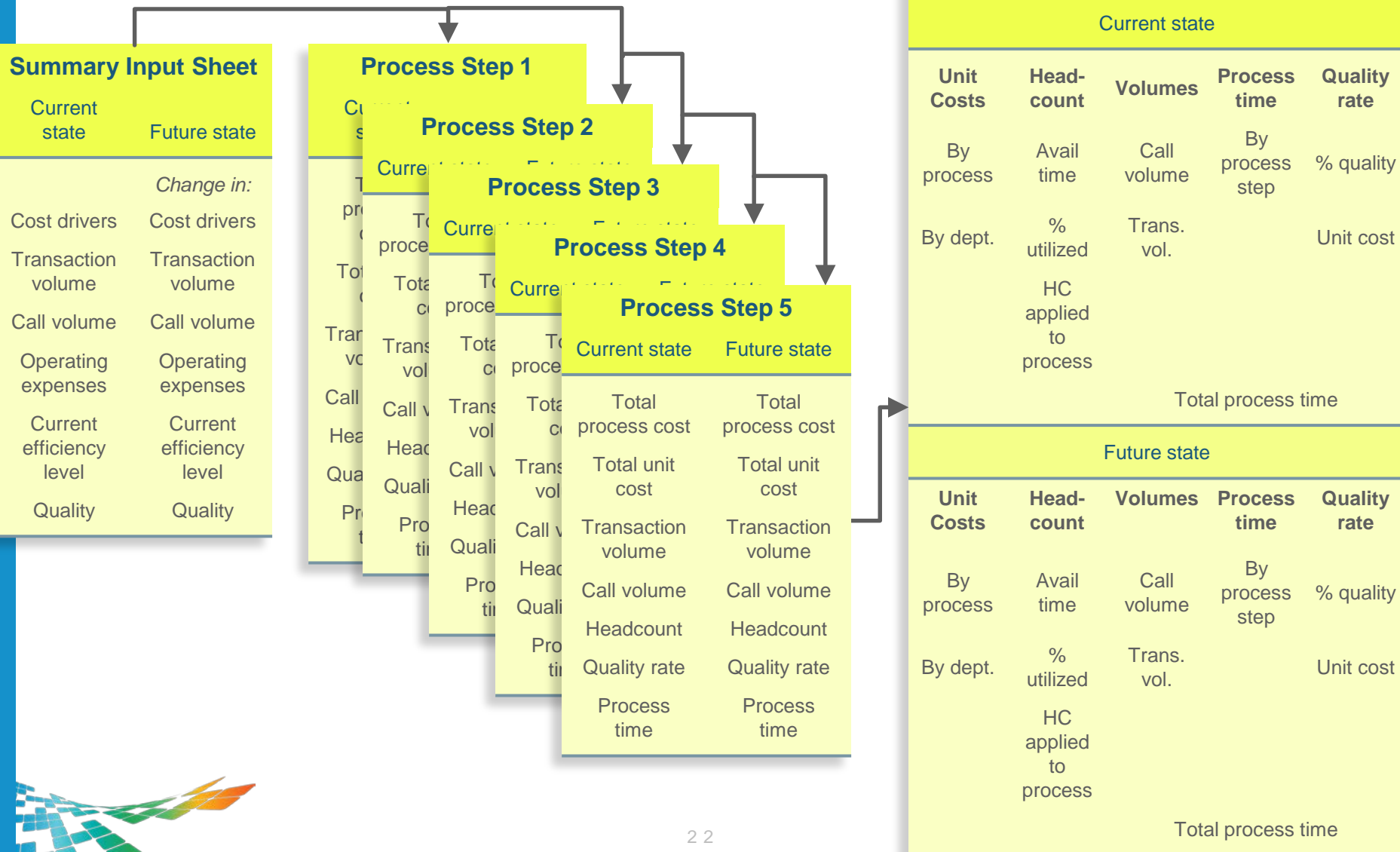
## Input Volumes

Volume number	Volumes
Volumes	133,233
	12,543
Volume 5	
Volume 6	

## Expense line items

Expense line items	Operations	Sales	Logistics	Procurement	Administrative services	Information services	Quality	Finance
Rent and occupancy charges	\$ 91,611	\$ 5,397,047	\$ 4,857,414	\$ 3,000,597	\$ 1,897,456	\$ 860,968	\$ 335,289	\$ 189,275
Operating Expenses	—	\$ 20,506	\$ 17,283	\$ 100,480	\$ 509,055	\$ 149,258	\$ 1,339	\$ 1,637
	—	—	\$ 0	—	—	\$ 866,440	—	\$ 45
	\$ 1,647	\$ 16,974	\$ 14,528	\$ 272,194	\$ 866,440	\$ 1,184,101	\$ 2,999	\$ 2,266
	\$ 13,767	\$ 107,000	\$ 438,772	\$ 48,471	\$ 1,184,101	\$ 14,994	\$ 490	\$ 10,306
Storage	\$ 460	\$ 206,215	\$ 332,370	\$ 22,422	\$ 14,994	\$ 5,696	\$ 5,344	\$ 34,128
Marketing	—	\$ 55,659	\$ 287,174	—	\$ 5,696	—	—	—
<b>Total expenses</b>	<b>322,627</b>	<b>14,194,16</b>	<b>14,382,500</b>	<b>14,966,007</b>	<b>2,596,509</b>	<b>13,810,834</b>	<b>1,173,638</b>	<b>708,103</b>

# Illustrative predictive model



- To provide project resources specific contacts who are responsible for validating their project benefits per the guidelines
- Roles and Responsibilities
  - Project Governance Process should dictate a project benefit assessment at:
    - Charter stage → Build initial benefits model
    - Periodic auditing throughout project to clarify benefits
    - Final signoff by Finance of validated benefits
      - Reconciliation to P&L, if applicable



- Develop and/or modify reporting in tangible/intangible terms, reflecting project categories defined in the Guidelines
- Ability to reconcile tangible benefits to the financial statements
  - P&L, Income Statement, Balance Sheet
- Create customized analysis reporting for intangible benefits





- Significance of building a model and process to reconcile the benefits to the bottom line
- Refer back to definitions
  - Tangible vs. Intangible
  - Preferable to not use “hard” and “soft” benefit terminology
- Key things to consider:
  - Big arguments can occur regarding benefit buckets
    - Emphasizes importance of guidelines, global focal point(s) and reconciliation to P&Ls
  - It's ok if everything doesn't fall to the P&L
    - But you then understand better what does fall and what doesn't



# Financial statement analysis

## YOY Productivity Calculation Plan

Price	(2.0%)		
Product Costs Inflation	2.0%	33.0% Mat'l % of Product Cost	
Other Costs Inflation	2.0%	2.0% Material Cost Inflation	
		2.0% Other Costs Inflation	

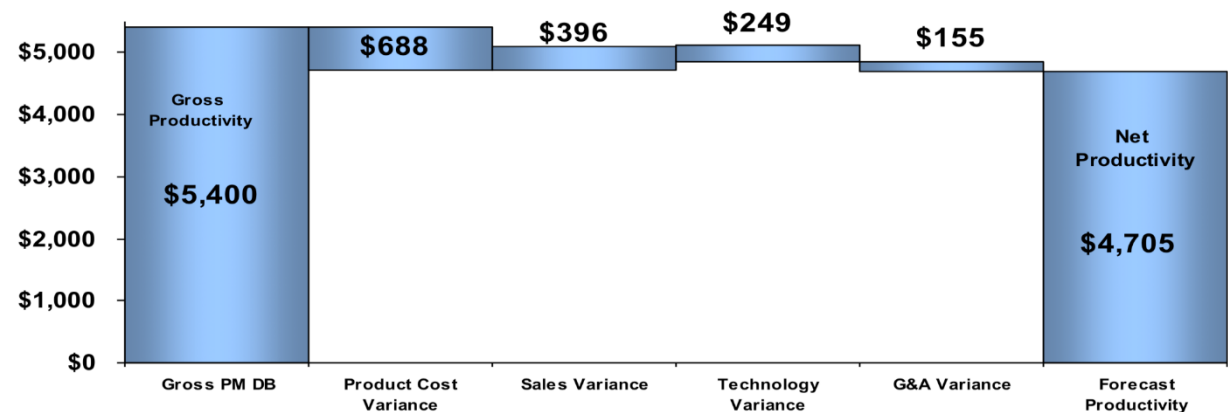
= Data Input Required  
 = Data Input from Project

	Prior Year	Price	One-Time*	F/X	Volume	Inflation	Productivity	Current Year	V%
External Sales	100,000	(2,020)	-	6,000	1,020			105,000	5.0%
Adjusted Product Costs**	50,000		-	4,000	510	957	(2,667)	52,800	5.6%
Other Costs	5,000		-	300	51	94	(345)	5,100	2.0%
RD&E	15,000		-	300	153	298	(251)	15,500	3.3%
Selling	20,000		-	1,000	204	392	(596)	21,000	5.0%
G&A	5,000		500	300	51	94	(845)	5,100	2.0%
Op Income (Meas)	5,000	(2,020)	(500)	100	51	(1,835)	4,705	5,500	10.0%

Are You Taking Out Costs?		
Productivity	Actual	Plan
Total Productivity	5.0%	5.0%
Overhead Cost Productivity	4.2%	4.2%
Variable Cost Productivity	5.5%	5.5%
Volume vs Cost Productivity		
Cost Productivity	4.5%	4.5%
Volume Productivity	0.4%	0.4%
Productivity Dollar Savings		
Gross Productivity \$	4,705	4,705
Cost Productivity \$	4,297	4,297
Volume Productivity \$	408	408

Are You Taking Out Costs Fast Enough?		
% of Sales	Prior Year	Current Year
Product Costs	50.0%	50.3%
Other Costs	5.0%	4.9%
Variable Costs	55.0%	55.1%
RD&E	15.0%	14.8%
Selling	20.0%	20.0%
G&A	5.0%	4.9%
Overhead Costs	40.0%	39.6%
Operating Margin (Meas)	5.0%	5.2%

## SBU Year Productivity Gross vs. Net



# Electronic project repository

## Project management portfolio database

- Requirements
  - Web-based access for all business units
  - Lifecycle management for all projects
  - Estimating model, particularly for capital intensive projects
  - Robust reporting including project dashboard, including benefit analysis
  - 12-month forecasting of project benefits for active and pending projects
- MUST have governance process in place prior to system
  - A system will not drive your process
  - The system must MIRROR your process and meet your requirements
  - Don't think of the system as an antidote for any lack of process(es)



# Project summary and predictive benefit modeling

XXXX Process	Headcount	Day / Yr	Hrs / Day	Available Time (hrs)	Actual Time Used in Process	% of Total Available Time	Headcount Applied to Process	2012 Annual Salaries & Benefits	Avg. Salary per Head	Salaries & Benefits assigned to process
Write Up Report 1 by Department 1	14	242	7	23716	1046.64	4.41322%	0.62	\$ 2,551,159.47	\$ 182,225.68	\$ 112,588.36
Write Up Report 1 by Department 2	11	242	7	18634	2328.48	12.49587%	1.37	\$ 1,937,883.03	\$ 176,171.18	\$ 242,155.30
Write Up Report 1 by Department 3	9	242	7	15246	1642.44	10.74711%	1.11	\$ 1,482,001.00	\$ 164,647.00	\$ 182,944.50
Write Up Report 1 by Department 4	6	242	7	10164	1194.48	11.73207%	0.71	\$ 870,233.00	\$ 145,038.83	\$ 102,270.36
Write Up Report 1 by Department 5	7	242	7	11858	1411.2	11.90083%	0.83	\$ 1,002,150.00	\$ 143,164.29	\$ 119,264.13
Perform Risk Assessment	10	242	7	16940	2091.6	12.34711%	1.23	\$ 1,491,697.00	\$ 149,169.70	\$ 184,181.43
Develop and Release Audit and Controls Report	12	242	7	20328	2570.4	12.64463%	1.52	\$ 2,212,852.00	\$ 184,404.33	\$ 279,806.91
Finalize Report - Department 1	14	242	7	23716	1666.08	7.02513%	0.98	\$ 2,575,853.00	\$ 183,989.50	\$ 180,957.04
Finalize Report - Department 2	11	242	7	18634	1330.16	7.14050%	0.79	\$ 1,949,804.00	\$ 177,254.91	\$ 139,225.67
Exit Meeting - Department 1	14	242	7	23716	261.66	1.10311%	0.15	\$ 2,575,853.00	\$ 183,989.50	\$ 28,419.54
Exit Meeting - Department 2	11	242	7	18634	206.59	1.10311%	0.12	\$ 1,949,804.00	\$ 177,254.91	\$ 21,512.30
Send Exam Mail - Department 1	14	242	7	23716	211.68	0.89256%	0.12	\$ 2,575,853.00	\$ 183,989.50	\$ 22,991.08
Send Exam Mail - Department 2	11	242	7	18634	194.04	1.04132%	0.11	\$ 1,949,804.00	\$ 177,254.91	\$ 20,303.74
Total Hours Assigned, Percentage, % of Salaries and Related Benefits				243936	16394.85	6.72096%	9.68			\$ 1,636,660.37

XXXX Process	Headcount	Day / Yr	Hrs / Day	Available Time (hrs)	Actual Time Used in Process	% of Total Available Time	Headcount Applied to Process	2012 Annual Salaries & Benefits	Avg. Salary per Head	Salaries & Benefits assigned to process
Write Up Report 1 by Department 1	14	242	7	23716	816.3792	3.44231%	0.48	\$ 2,575,853.00	\$ 183,989.50	\$ 88,668.95
Write Up Report 1 by Department 2	11	242	7	18634	1816.2144	9.74678%	1.07	\$ 1,949,804.00	\$ 177,254.91	\$ 190,043.05
Write Up Report 1 by Department 3	9	242	7	15246	1468.3032	9.63074%	0.87	\$ 1,522,482.00	\$ 169,164.67	\$ 146,626.34
Write Up Report 1 by Department 4	6	242	7	10164	931.6944	9.16661%	0.55	\$ 870,233.00	\$ 145,038.83	\$ 79,770.88
Write Up Report 1 by Department 5	7	242	7	11858	1100.736	9.28264%	0.65	\$ 1,002,150.00	\$ 143,164.29	\$ 93,026.02
Perform Risk Assessment	10	242	7	16940	1631.448	9.63074%	0.96	\$ 1,491,697.00	\$ 149,169.70	\$ 143,661.52
Develop and Release Audit and Controls Report	12	242	7	20328	2004.912	9.86281%	1.18	\$ 2,212,852.00	\$ 184,404.33	\$ 218,249.39
Finalize Report - Department 1	14	242	7	23716	1299.5424	5.47960%	0.77	\$ 2,575,853.00	\$ 183,989.50	\$ 141,146.49
Finalize Report - Department 2	11	242	7	18634	1037.8368	5.56959%	0.61	\$ 1,949,804.00	\$ 177,254.91	\$ 108,596.03
Exit Meeting - Department 1	14	242	7	23716	204.0948	0.86058%	0.12	\$ 2,575,853.00	\$ 183,989.50	\$ 22,167.24
Exit Meeting - Department 2	11	242	7	18634	160.3602	0.86058%	0.09	\$ 1,949,804.00	\$ 177,254.91	\$ 16,779.59
Send Exam Mail - Department 1	14	242	7	23716	165.1104	0.69620%	0.10	\$ 2,575,853.00	\$ 183,989.50	\$ 17,933.05
Send Exam Mail - Department 2	11	242	7	18634	151.3512	0.81223%	0.09	\$ 1,949,804.00	\$ 177,254.91	\$ 15,806.92
Total Hours Assigned, Percentage, % of Salaries and Related Benefits				12787.883	75.04142%	7.55				\$ 1,282,505.46

Dept. Number Y	Savings Opp.
Other Salaries and Benefits not in process	\$ 192,360.00 \$ -
Materials and Supplies	\$ 2,832,516.00 \$ -
Equipment	\$ - \$ -
Software	\$ - \$ -
Shipping	\$ 6,500.00 \$ -
Travel	\$ 63,000.00 \$ -
Communications	\$ 60,510.00 \$ -
Building	\$ - \$ -
Other	\$ 152,590.00 \$ -
Total Other Direct Expenses	\$ 3,307,276.00 \$ -
Total Direct Expenses	\$ 5,858,417.47 \$ -
Net Allocations	\$ 969,167.15 \$ -
Total Budgeted Operating Expenses	\$ 6,827,584.62 \$ -

Headcount "Free - Up"	Salaries & Benefits	Other Expense
2.15	Total savings (12 mos.) \$ 194,154.91	\$ -
	Classification	Intangible
		Tangible

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Important Links Last Visited Search

Where Am I?

Decrease Container Costs

Summary

Owner: Michele Miller Status: On Track % Complete: 25% Updated: 03/15/2011

Parent: Aerospace Project ID: BR549 End (Constraint): 06/08/2011

Define Measure Analyze Improve Control

Define: Active Skip

Details Metric Summary



QSix (USD)

Track Period	Grand Total
View	Forecast
Tangible Savings	\$1,087K
Overhead Reduction	\$324K
Revenue & Direct Costs	\$0K
Fixed Assets Productivity	\$103K
Working Capital Productivity	\$660K
Intangible Savings	\$0K



# Financial capture

[Plan](#)
[Forecast](#)
[Actual](#)

From:  
To:  

[Copy from view...](#)

Monthly	2011													
Name	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2011	
Tangible Savings	\$82K	\$82K	\$185K	\$82K	\$82K	\$82K	\$82K	\$82K	\$82K	\$82K	\$82K	\$82K	\$1,087K	▲
Overhead Reduction	\$27K	\$27K	\$27K	\$27K	\$27K	\$27K	\$27K	\$27K	\$27K	\$27K	\$27K	\$27K	\$324K	
Revenue & Direct Costs													\$0K	
Fixed Assets Productivity			\$103K										\$103K	
Working Capital Productivity	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$55K	\$660K	
Intangible Savings	\$0K	\$0K	\$0K	\$0K	\$0K	\$0K	\$0K	\$0K	\$0K	\$0K	\$0K	\$0K	\$0K	
Risk Mitigation													\$0K	
Customer Satisfaction													\$0K	
Cost Avoidance													\$0K	

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*Implement auditing parameters during project work to fine-tune the savings*



# Validation lock

Edit Properties

Properties

Display the following

Ready for Rollup:

☐

Metric Lock:

☒

Period Prior To:

03/24/2011

Update

Cancel

## YOY Productivity Calculation Plan

Price	(2.0%)
Product Costs Inflation	2.0%
Other Costs Inflation	2.0%

33.0%	Mat'l % of Product Cost
2.0%	Material Cost Inflation
2.0%	Other Costs Inflation

	= Data Input Required
	= Data Input from Project














	Prior Year	Price	One-Time*	F/X	Volume	Inflation	Productivity	Current Year	V%
External Sales	100,000	(2,020)	-	6,000	1,020			105,000	5.0%
Adjusted Product Costs**	50,000		-	4,000	510	957	(2,667)	52,800	5.6%
Other Costs	5,000		-	300	51	94	(345)	5,100	2.0%
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Selling	20,000		-	1,000	204	392	(596)	21,000	5.0%
G&A	5,000		500	300	51	94	(845)	5,100	2.0%
Op Income (Meas)	5,000	(2,020)	(500)	100	51	(1,835)	4,705	5,500	10.0%

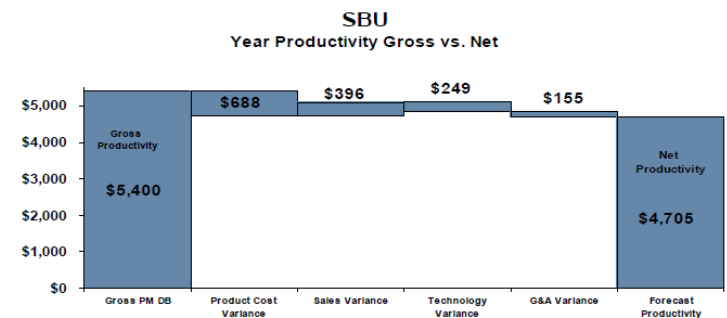
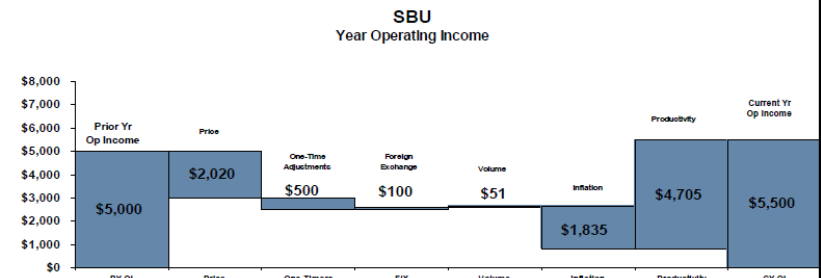
Are You Taking Out Costs?		
Productivity	Actual	Plan
Total Productivity	5.0%	5.0%
Overhead Cost Productivity	4.2%	4.2%
Variable Cost Productivity	5.5%	5.5%
Volume vs Cost Productivity		
Cost Productivity	4.5%	4.5%
Volume Productivity	0.4%	0.4%
Productivity Dollar Savings		
Gross Productivity \$	4,705	4,705
Cost Productivity \$	4,297	4,297
Volume Productivity \$	408	408

Are You Taking Out Costs Fast Enough?		
% of Sales	Prior Year	Current Year
Product Costs	50.0%	50.3%
Other Costs	5.0%	4.9%
Variable Costs	55.0%	55.1%
RD&E	15.0%	14.8%
Selling	20.0%	20.0%
G&A	5.0%	4.9%
Overhead Costs	40.0%	39.6%
Operating Margin (Meas)	5.0%	5.2%



# Standardized work template reinforces financial validation process

Actions <span>▼</span> <span>Apply</span>			
<input type="checkbox"/>	#	Name	Status
<input type="checkbox"/>	1	 DMAIC ▼	🟢 On Track
<input type="checkbox"/>	2	 Define ▼	🟡 Not Started
<input type="checkbox"/>	3	💬 Use the Similar Project Search Feature, or ▼	
<input type="checkbox"/>	4	 Complete Charter ▼	○ Proposed
<input type="checkbox"/>	5	⚙️ Calculate and Enter Financial Plan ▼	○ Proposed
<input type="checkbox"/>	6	 As Is Process Map ▼	
<input type="checkbox"/>	7	 Customer Segmentation ▼	
<input type="checkbox"/>	8	 Stakeholder Analysis ▼	
<input type="checkbox"/>	9	 VOC ▼	
<input type="checkbox"/>	10	 SIPOC (Supplier, Inputs, Process, Outputs) ▼	
<input type="checkbox"/>	11	⚙️ Enter Financial Forecast ▼	○ Proposed
<input type="checkbox"/>	12	 Storyboard ▼	
<input type="checkbox"/>	13	 Measure ▼	🟡 Not Started
<input type="checkbox"/>	18	 Analyze ▼	🟡 Not Started
<input type="checkbox"/>	22	 Improve ▼	🟡 Not Started
<input type="checkbox"/>	27	 Control ▼	🟡 Not Started



- Tools and Templates

- Financial Guidelines
- Predictive Benefit Modeling Templates
- Auditing Parameter Guidelines
- Tracking and Reporting Guidelines
- Financial Reconciliation Templates
- Training Documents for
  - Financial Representatives
  - Project Leaders

- Knowledge

- Customization on all templates and guideline documents
- Customized Excel templates are incorporated into project management portfolio software
- Consulting to implement into other area projects outside of Process Improvement
- Enhancement of and integration into current project reporting software





# Summarizing points

- Define your organization that will be benefit assessed
- Have a central governing council and focal point for project benefits
- Important to have project benefit guidelines and a network corporate wide so everyone talks the same language and reports the same way
- Let the process govern the system, not vice versa
- Quick implementation of significantly improved project benefit financial rigor
- Consistent calculations and definitions for all project benefits
- Applicable to all project work
- Fully integrated model that develops robust project benefit reporting



# SYSTEM DEMONSTRATION



Thank you very much for your attention

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