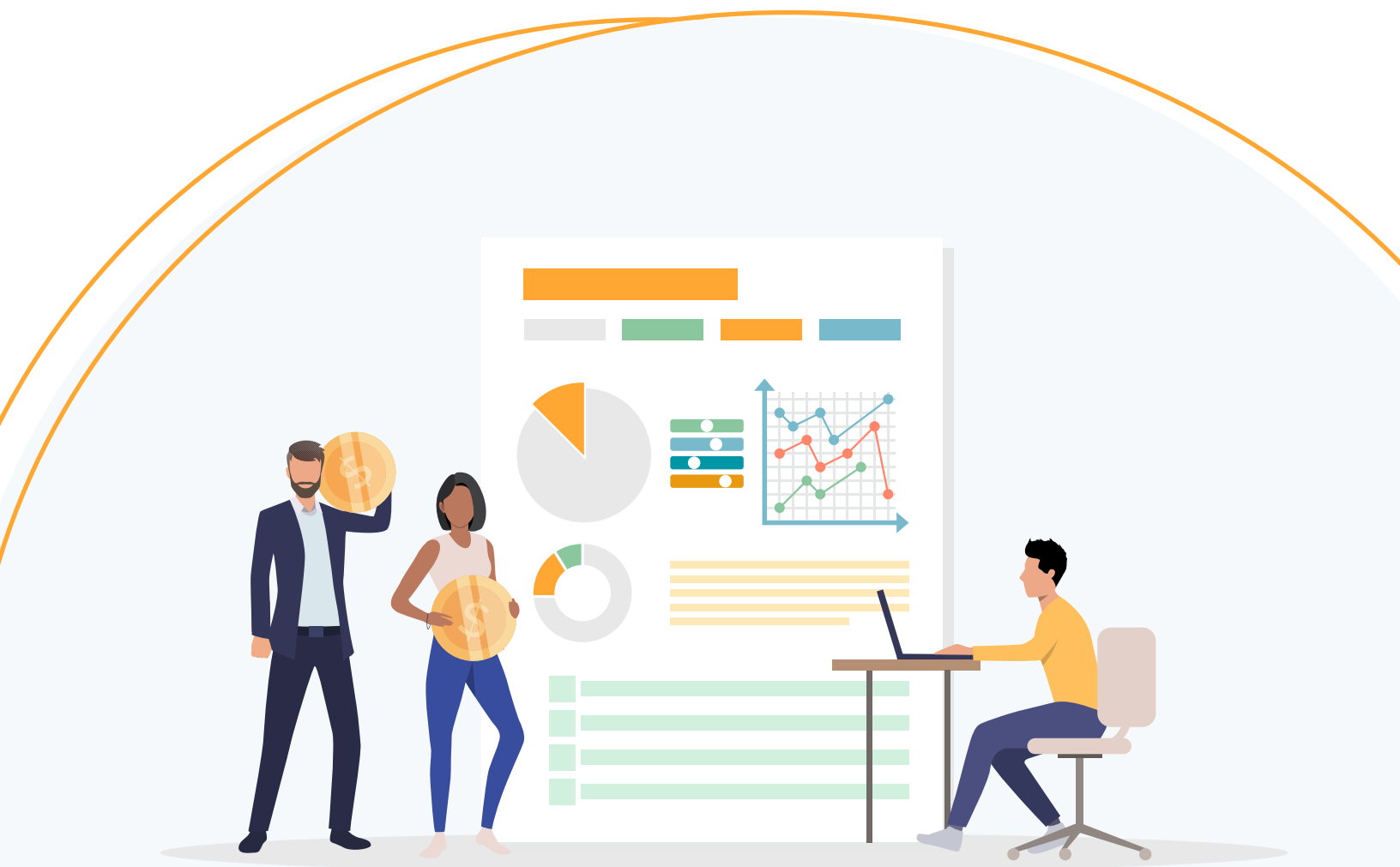




# The PPM Guide to Budget Management

How to Optimize Your Project, Program, and Portfolio-Level Budgets with Sciforma



# Summary

<b>Common Challenges in Cost and Budget Management</b>	<b>05</b>
Budgeting at the Crossroads of Project and Portfolio Management	05
Defining Cost and Budget	06
<b>Bottom-Up Project Cost Planning and Budget Management</b>	<b>08</b>
Cost and Budget Management with Sciforma	08
Automation for Cost Tracking	09
“Cost Centers” for Cost Consolidation	10
<b>Top-Down Program Budget Management</b>	<b>11</b>
<b>Optimizing Budgets at the Portfolio-Level</b>	<b>12</b>
Portfolio Ranking for Budget Management	13
<b>Conclusion</b>	<b>14</b>

## About the Author



Simon-Pierre Jooris, Subject Matter Expert at Sciforma, has led major implementations of PPM solutions for international companies.

He builds on his extensive experience in the Agile field as a Sciforma product expert, where he analyzes “user stories” based on customer feedback and suggestions and builds new Sciforma releases. He is also responsible for Sciforma’s implementation best practices.

# Introduction

According to a study by the Project Management Institute, only 59% of projects stay within budget. Despite this, managing project budgets is one of the most critical ways organizations can drive their business forward.

This eBook presents the main concepts of project and portfolio budget management, as well as the associated methods and processes. We'll look at how an organization can improve its budget management at three different levels:

- 1 Estimating, planning, monitoring, and re-evaluating project costs from the bottom up
- 2 Effectively managing project budgets from the top down
- 3 Optimizing budget management at the portfolio level

This presentation will be supported by use cases based on the Sciforma project portfolio management solution. A powerful PPM tool equipped with the appropriate budget management functionalities can considerably help an organization with:

- ✓ defining the various costs associated with projects
- ✓ arbitrating between projects in the same portfolio, and choosing which projects to launch
- ✓ confirming that projects are on budget
- ✓ simulating upward or downward budget trends
- ✓ and much more

**So, let's talk costs and budgets!**

# Common Challenges in Cost and Budget Management

## Budgeting at the crossroads of project and portfolio management

Project budget management is at the crossroads of various challenges and objectives.

For the project manager, the challenge is to accurately estimate the quantity and types of resources to be mobilized for each of the project's activities. The portfolio manager or PMO, on the other hand, must ensure that each project's budgets and costs are in line with the budgets allocated to the more largescale portfolios.

Let's take a closer look at the respective expectations and responsibilities of these stakeholders.

The project manager needs and wants to:

- ▶ Estimate projected project costs to draw up a budget
- ▶ Monitor actual costs against planned costs — and therefore re-plan any remaining work to be done (since project management is essentially about managing contingencies)
- ▶ Check that incurred and projected expenses are always aligned with the approved budget



On the other hand, the portfolio manager (or PMO, depending on the organization) will:

- ▶ Draw up the portfolio budget
- ▶ Check that projects are on budget
- ▶ If necessary, arbitrate between projects in the same portfolio
- ▶ Simulate budget changes (both upwards and downwards)
- ▶ Select projects that can be launched within budget

In the following pages, we'll explore how a PPM tool like Sciforma can reconcile these two points of view and provide a shared solution to these sometimes-divergent issues.

## Defining cost and budget

In everyday life, there is often confusion between the notions of cost and budget, and distinguishing between the two is absolutely essential to project management.

Let's start with **costs**. We commonly distinguish between direct costs, overheads, and administrative costs:

Direct costs	Overhead costs	Administrative costs
Expenses directly related to production/the project, such as: <ul style="list-style-type: none"><li>• Salaries of team members</li><li>• Materials</li><li>• Supplies and equipment</li><li>• Travel required to carry out the work</li><li>• Subcontractors working exclusively on the project</li></ul>	Expenses attributed to labor but not contracts, such as: <ul style="list-style-type: none"><li>• Office rental</li><li>• Social charges</li><li>• Paid leave</li><li>• Employee benefits</li><li>• Training and education</li></ul>	Expenses that keep the organization operational, such as: <ul style="list-style-type: none"><li>• Business insurance</li><li>• Taxes and accounting</li><li>• Board expenses</li></ul>

Sciforma also allows you to distinguish project-related costs by classifying them into three main categories:



**Resource allocations**  
(whether nominative or generic)



**Materials/Tools**



**Transactions**

Within these cost categories, it is critical to distinguish between estimated (and thus budgeted) costs and actual costs.

The **budget** of a project represents the money allocated to its realization. Of course, the challenge is to ensure that costs remain below or equal to the allocated budget, as failing to do so would require either renegotiating the budget or taking necessary measures to bring costs below the prescribed threshold.

# Bottom-Up Project Cost Planning and Budget Management

## Cost and budget management with Sciforma

When it comes to PPM platforms, Sciforma's competitive advantage revolves around **automation**.

Analytical or graphical summary reports give an instant cost overview of the various internal or external resources mobilized to work on project tasks (including the cost of the project manager), as well as the equipment used.

When resources are allocated to a project, the Sciforma platform **automatically calculates and displays the associated costs**. In the case of pre-assignment of a "generic" resource (i.e. a resource profile), the system delivers an average estimate—which will be automatically refined later when the generic resource is replaced by a designated resource.

In a similar vein, you can also instantaneously view the costs associated with the various production resources (e.g. a computer server or a laboratory) and transactions (e.g. sub-contracting packages) required to complete the project.

The tool also shows the evolution of costs over time and encourages **direct comparison with initial forecasts**: as the project progresses and tasks are completed, the actual costs (those already expended) are deducted from the remaining costs, which can then be re-evaluated.

With the help of software like Sciforma, tracking and managing project costs is simple and intuitive. But there are a few important questions to be answered first:

- ▶ How can I guarantee high-quality cost tracking?
- ▶ How can I consolidate my project- and portfolio-level costs?

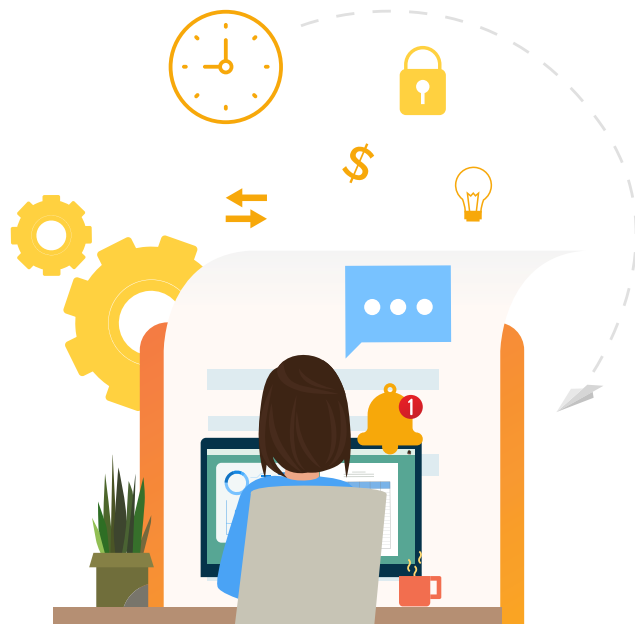


## Automation for cost tracking

Once costs have been estimated, they need to be updated regularly for the clearest picture of both planned and incurred costs.

In the case of human resources, progress is based on **automated time sheets** filled in by employees at regular intervals. In the case of other production resources, the project manager is responsible for monitoring and reporting progress. Along the way, the project manager must, of course, maintain up-to-date reporting on the status of costs against budget.

The added value of a Project and Portfolio Management platform comes in the form of **alerts**, with which the system reminds project managers to carry out updates and reports any anomalies.



## “Cost centers” for cost consolidation

To better classify various project costs, Sciforma suggests using “**cost centers**”— in other words, general categories that can be used to classify project costs.

For example, many organizations utilize four cost centers:

- ✓ Internal resources (employees)
- ✓ External resources (external agencies and outsourced contracts)
- ✓ Other operating expenses
- ✓ So-called “strategic” expenses

But others will want to differentiate between operating expenses (OPEX) and capital expenses (CAPEX), or choose to establish cost centers at the subsidiary level... The possibilities are endless, and each customer is free to configure the types of cost centers best suited to their needs.

Regardless of how it is configured, establishing this list of cost centers will clearly consolidate costs by both project and portfolio, following a bottom-up approach. Using pre-configured rules, the system will automatically aggregate costs and expenses by cost center to give a more global view. This, in turn, will make it easier to track and assess budgetary changes and challenges.

# Top-Down Program Budget Management

This notion of cost centers will also be useful for allocating budgets to projects and portfolios, in a top-down approach. The Sciforma platform provides an overview of the amounts allocated to each project, by cost center and budget period (generally by year), and graphically illustrates the difference between budget and consolidated costs.

At the start of a project, the budget is generally equal to (or slightly higher than) the estimated costs. But the ups and downs of life—and of project management—can lead to shifts or changes that necessitate a review of budget planning or cost center allocation. For example, in the case of projects spanning several fiscal years, or in the event of project slippage, it is important to bear in mind the difference in timing between project costs and budgets, which are calculated on an annual basis.

By providing a detailed history of changes, a tool like Sciforma Vantage will enable you to maintain budgetary control of the project, with budget summary screens offering a **global overview at a glance**.

When several separate projects need to share a budget, Sciforma allows them to be combined into a single program. The budget is then allocated at program level, with each of its comprising projects as the subject of a specific budget contribution contract.



# Optimizing Budgets at the Portfolio Level

The next level up is the consolidation and management of budgets at the portfolio level.

A portfolio can be compared to a tree whose purpose is to bear the budgets of the various projects it encompasses. As with projects, it is possible to allocate a defined budget to a portfolio and consolidate all costs at the portfolio level, breaking them down by cost center, to ensure a balanced budget-cost relationship.

When the initial budget is drawn up, a portfolio's budget is generally equal to the sum of its projects' budgets. But, as we all know, things don't always go according to plan.

In the Sciforma PPM platform, a color-coded system immediately shows the correlation between the sum of costs, project budgets, and portfolio budgets, with **adjustable thresholds to fit your needs**.

The wealth of information provided by these comparison tools makes it possible to more easily validate the correct distribution of budgets, and to make the right decisions in the event of discrepancies.

For example, overruns on certain projects may be considered acceptable if they are offset by good budgetary performance on other projects within the same portfolio.

## Portfolio ranking for budget management

As portfolio budgets evolve, budget “what if” scenario functionalities enable project leaders and executives to model and simulate different strategies and reflect the potential impacts on individual projects. If, for example, a portfolio’s overall budget is truncated by 10%, it may make sense to defer the cut to the least essential projects, rather than applying the reduction across the board and thus cutting critical projects. The tool also makes it possible to apply the chosen scenario at the click of a button, taking into account the breakdown of budgets by cost center.



# Conclusion

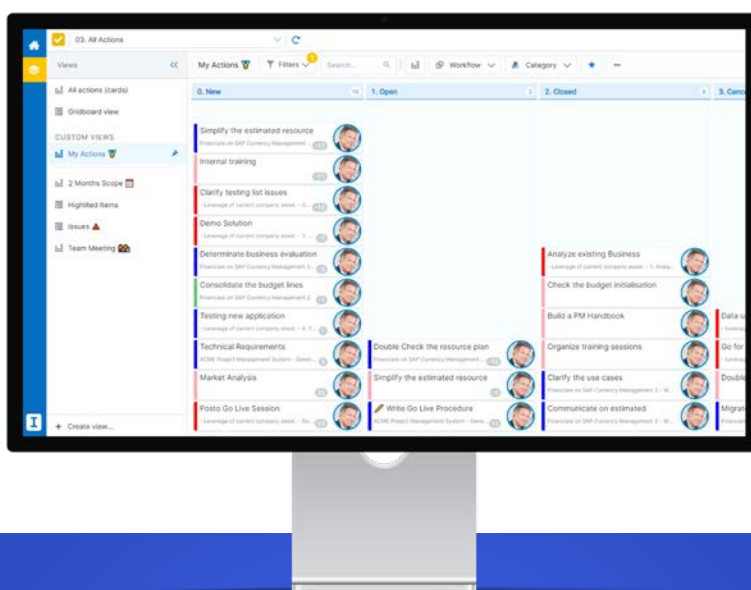
There are 1,001 ways organizations can budget their projects and portfolios.

Software such as Sciforma—which also offers revenue, cash flow, and ROI management functions—is flexible and easy to configure, enabling companies to adapt it to their unique constraints and requirements for optimal budget management.

But, as we often say at Sciforma: **while a PPM solution is necessary, it alone isn't sufficient.** Organizations must also equip themselves with the right methodological framework and train and support their users to guarantee compliance with best practices and data quality.

Sciforma is an adaptive enterprise PMO software solution, with over 30 years of experience serving thousands of mid- to large-size organizations across 20 countries.

With capabilities in managing, reporting, and executing on strategic initiatives, Sciforma's enterprise-wide solution helps ePMOs, executives, and functional work teams improve strategy and program execution, ensure visibility and accountability on business priorities, and optimize resource utilization across portfolios. The company stands out from its competitors by providing the optimal balance of usability and robust functionality for solving challenges with strategic communication, planning, tracking, execution, and more.



Would you like to know more about our solution?

Contact our team!

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