



ERP Budget 101: Part III

Tracking and Controlling Your Project Budget

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This article is part three on budgeting for your Enterprise Resource Planning (ERP) project. In part one, we outlined the steps involved in assembling an initial planning budget for an ERP project. The second article summarized the steps involved in developing the detailed budget used to manage and track the ERP project expenditures. In this article, we focus on how to manage and control budget expenditures from the managing-level budget to ensure on or under budget performance.

Project Scope Change Management and Budget Control

A well-articulated project scope – what is and what is not included in a project – helps prevent *scope creep*. However, change is inevitable. A formal scope change management plan helps project managers effectively manage changes to a project's scope.

A project scope change management plan should include a section for project budget impact analysis. This analysis will ensure that any changes to the scope of the project are carefully analyzed for factors that impact both the project budget and the timeline. This analysis also ensures that stakeholders understand the impact that project scope changes may have on the budget. If the project scope is change, project managers should re-evaluate and adjust the project budget and/or the project timeline if needed.

Project Budget Tracking Tools

Tracking a detailed managing-level budget is not a simple task. Therefore, a software tool is extremely helpful in tracking and reporting budget variances.

One such tool is a Microsoft Excel spreadsheet that can be used to track and report on budget consumption rates and variances. A sample spreadsheet is available as the *tool of the month* in this newsletter and can be used for budget tracking. This tool helps simplify the processes of monitoring ERP budgets and expenditures and tracking monthly budget consumption.

Tracking and Controlling by Budget Categories

Your managing-level budget used for tracking and controlling is highly dependent on the categories and the level of detail. Some project managers track ERP project budgets on daily, weekly, monthly, or quarterly basis. We recommend monthly tracking to allow for a noticeable variance in expenditures.

A typical managing-level project budget is divided into three types of budget tracking and controlling groupings: one-time costs, planned costs, and unplanned costs.

(1) One-time costs includes ERP software licensing, additional third-party software licensing, database software licensing, reporting solution software licensing, ERP hardware costs, and all software maintenance costs.

(2) *Planned costs* include ERP implementation costs and consulting, additional third-party software implementation costs and consulting, ERP project management costs, and staffing backfill costs.

(3) *Unplanned Costs* include any additional third-party software costs, other hardware costs, other project costs, and an overall project contingency amount.

Methods, Tips, and Tricks for Tracking and Controlling

Following are recommended methods, tips, and tricks on how to track and control your ERP budget to ensure on or under budget performance.



One-time Costs

Based on vendor negotiations and contract finalization, project managers construct a managing-level budgets that include agreed-upon costs in several budget categories: ERP software licensing and maintenance, third-party software licensing and maintenance, and any related hardware. Project managers project the spending for these categories throughout the duration of the project.

Most of the dollars in these categories are spent within the first 12 months of the project. However, software and hardware maintenance may be distributed based on the number of project years and payment schedules negotiated for software maintenance.

Minimal tracking and control are usually required for this group of one-time budget categories. However, project managers do need to ensure that this group continues to be constant throughout the project.

Requests for additional third-party software or hardware need to go through formal scope change management processes to evaluate their impact on the project budget (and timeline). Once changes are approved and involve a budget increase or use of project contingency funds, we recommend adding new software or hardware categories. These categories are tracked outside of the original ERP software and hardware budget.

Planned Costs

During negotiations with the various ERP and third-party software vendors, the implementation and consulting costs are finalized and added to the budget under implementation cost categories. These implementation and consulting costs should be projected over the remaining project duration.

Three types of implementation contracts can be included in an ERP project: fixed price, variable time and materials with fixed travel, and variable time and materials.

(1) *Fixed Price Contracts*: This type of contract includes all costs including travel and expenses. Vendors estimate the amount of costs for travel and include those costs in their fixed prices. The vendors typically over-estimate the implementation costs to prevent overruns. The advantage to institutions with this type of contract is the guarantee of fixed implementation costs based on a project scope. Project managers will have minimal vendor billings and consulting hours to be tracked. The vendors assume any risks on project implementation and consulting costs.

(2) *Variable Time and Materials with Fixed Travel Contracts*: This type of contract estimates the implementation and consulting hours required to

complete the ERP project based on hourly rate and on the vendors' standards and experience. However, the institution elects to add the travel and expenses as part of the hourly rate. This type of contract requires rigorous tracking and control over a vendor billing and scheduling of visits. This type of contract will not require any tracking or controlling of a vendor's consultant travel expenses because they are included in the hourly rate.

(3) Variable Time and Materials Contracts: This type of contract is similar to the Variable Time and Materials with Fixed Travel Contract; however, it excludes the fixed travel and expenses. In this type of contract, the vendors will estimate the travel costs for the implementation so the institution becomes responsible for ensuring that travel expenses and costs are managed. This type of contract adds a higher level of tracking and controlling to prevent budget overruns.

Tracking & Controlling Implementation Contracts

Following are several recommendations to help in controlling expenditures, tracking vendor billings, controlling vendor scheduling, and tracking travel and expenses costs:

- *Project and track your backfill costs in the early phases of the project.* Ensure that every temporary position that will be filled is budgeted for and approved by project stakeholders. Track backfill utilization costs on a monthly basis and ensure costs do not run over projected monthly expenditures.
- *Schedule all project vendor consultant visits in advance during the planning phase of the project.* This planning will provide better control over the schedule and allow you to manage project resources accordingly. Scheduling visits early will also help you manage your project implementation costs over the duration of the project - matching monthly budgeted to monthly actual.
- *Track and verify vendor consultant billed hours to ensure proper billing and control over implementation and consulting hours.* Use a tracking tool such as the Monthly Project Hours Tracking Spreadsheet tool found with this month's newsletter to track consumed and planned hours in each implementation category.
- *Project weekly or monthly vendor implementation consulting hours* and track them based on vendors'

monthly invoices for verification and accurate consumption rate reporting.

- *Include a clause in your contract to allow for vendor consulting visit cancellation and rescheduling within an appropriate agreed upon period of time.* This agreement will allow you to have flexibility in your implementation schedule and might reduce wasting or over utilizing consulting visits.
- *Include advance communications in project schedules to help project leaders and their teams be prepared for vendor consultant visits.* This effort may help eliminate the need for additional consulting visits. Unbudgeted and unplanned consulting visits are one of the major causes for budget overrun. Therefore, the better control you have in this category, the better control you will have overall on your ERP budget.
- *Finalize travel procedures/policies and submit to vendors for enforcement.* Ensure that you have a clause in the contracts that enforces adherence to your travel policies. Attempt to negotiate with hotels, car rental companies, and airlines to guarantee savings in your travel budget. Monitor and ensure all vendors and consultants use the preferred hotels, car rentals, and airline carriers based on your travel policy and/or pre-arrangements or direct billing when applicable.

Unplanned Costs

The final group of costs in a project budget includes tracking and controlling for unplanned spending categories: additional third party software, other hardware costs, other project costs, and a project contingency amount. Because most ERP projects only include minimal amounts for these categories, you must ensure that budget contingencies are only used on approved unbudgeted ERP project spending and not on operational expenditures. Following are some recommendations on how to control and track items in this group:

- **Additional Third-party Software Costs:** Project budgets usually include moderate dollar amounts for additional third-party software to cover IT needs-driven software that may not or could not be finalized or considered during the planning phase. Examples include database management tools and address cleanup and verification tools. Additional third-party add-on software costs may also come from the project contingency budget which usually includes more dollars.

- **Other Hardware Costs:** This category could include special printers, special scanners, and other special hardware that were not included in the initial planned hardware category. Ensure expenditures from this line item are approved for your ERP project usage and not departmental operations costs.
- **Other Project Costs:** This category includes project office rental costs, project management office expenditures, project lab setup costs, and other miscellaneous expenditures. We recommend that institutions project costs for this budget category for the duration of the project. Billing and expenditures should be recorded at least on a monthly basis for tracking and reporting. Furthermore, ensure that any charges to this line item are approved.
- **Project Contingency Budget:** Institutions should create a comprehensive analysis and approval process to approve funding used from the project contingency budget. A clear tracking technique allows a project manager to move funds from the project contingency budget into new categories for approved project scope changes. For example, if additional third-party software is approved and it was not included in the original additional third party software category, a new category for the scope change/additional software should be created. The estimated funds for this software licensing and implementation should then be moved from contingency to the newly created category. By doing so, you ensure that the project contingency remaining balance is accurate and is not over spent.



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