

The image features a large, rounded rectangular frame. Inside this frame, a stylized envelope is depicted. The envelope is oriented horizontally, with its top flap folded down. A bright green diagonal band runs from the top-left corner to the bottom-right corner, crossing the center of the envelope. The text is centered within this green band.

**A Case for
Project Revenue Management ©**

Peter Varani PMP

A Case for Project Revenue Management

PMBOK GUIDE (4th edition)	
Cost	845
Revenue	3

Unisys Annual Report (2008)	
Cost	174
Revenue	152

Balanced Approach to Cost & Revenue

- Shouldn't Project Managers place equal emphasis on cost & revenue?
- Shouldn't the PMBOK define a difference between cost management & revenue management?
- Isn't it time for Project Managers to be recognized as revenue generators?

Agenda

- Project Revenue Management Defined
 - Including the need for PRM and its benefits
- The Project Revenue Management Process
- Examples
- Summary/Q&A

PMI – 9 Defined PM Knowledge Areas

1. Project Integration Management
2. Project Scope Management
3. Project Time Management
4. Project Cost Management
5. Project Quality Management
6. Project Human Resources Management
7. Project Communications Management
8. Project Risk Management
9. Project Procurement Management
10. Project Revenue Management

Need for Project Revenue Management

- Not all projects produce revenue but some do
- Requires a management methodology
- Revenue is a critical project objective
- Not strictly for accountants anymore

What is Project Revenue Management?

- Active management of the revenue process by PM:
 - *Ensure revenue is recognized in a timely manner*
 - *Ensure revenue generates appropriate project cash flows*
 - *Ensure all payments & credits are closed out at project completion*
 - *Ensure scope changes are priced and integrated into the revenue process*

Project Revenue Management Benefits

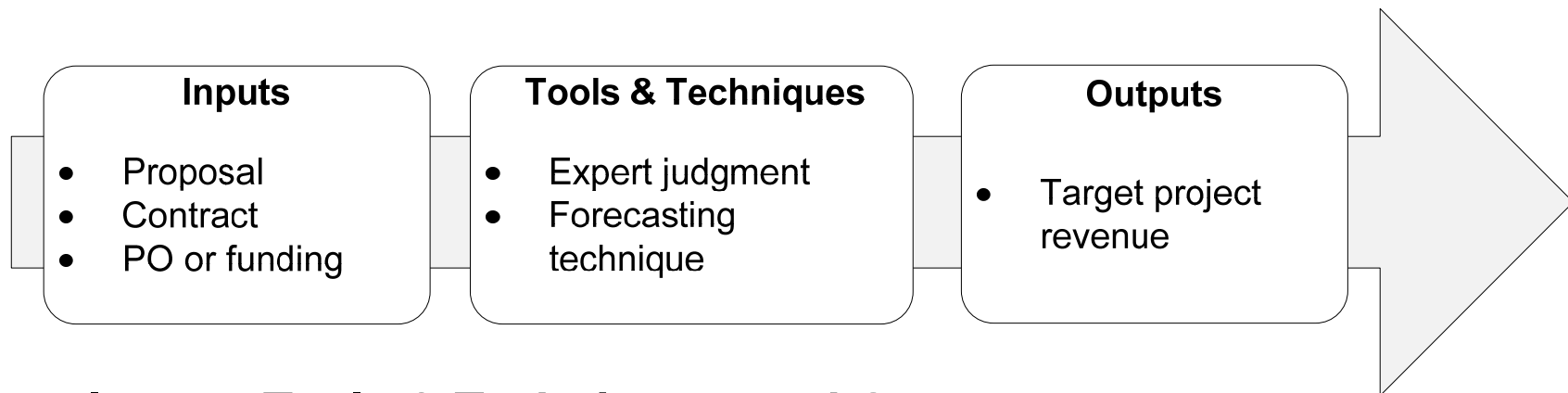
- Integrates the revenue processes into the project management processes consistent with business accounting and financial policies and procedures
- Provides the project manager with the necessary quantitative tools to effectively manage the revenue processes
- Changes the perception that project managers are strictly budget managers and do not contribute to the bottom line

Project Management Process Groups

Knowledge Area	Project Management Process Groups				
	Initiating Process Group	Planning Process Group	Executing Process Group	Monitoring & Controlling Process Group	Closing Process Group
Project Revenue Management	1 Identify target project revenue	2 Determine or confirm pricing 3 Identify revenue milestones 4 Develop project revenue plan	5 Recognize revenue	6 Submit invoices 7 Process payments 8 Conduct Revenue control	9 Close account

1 - Identify Target Project Revenue

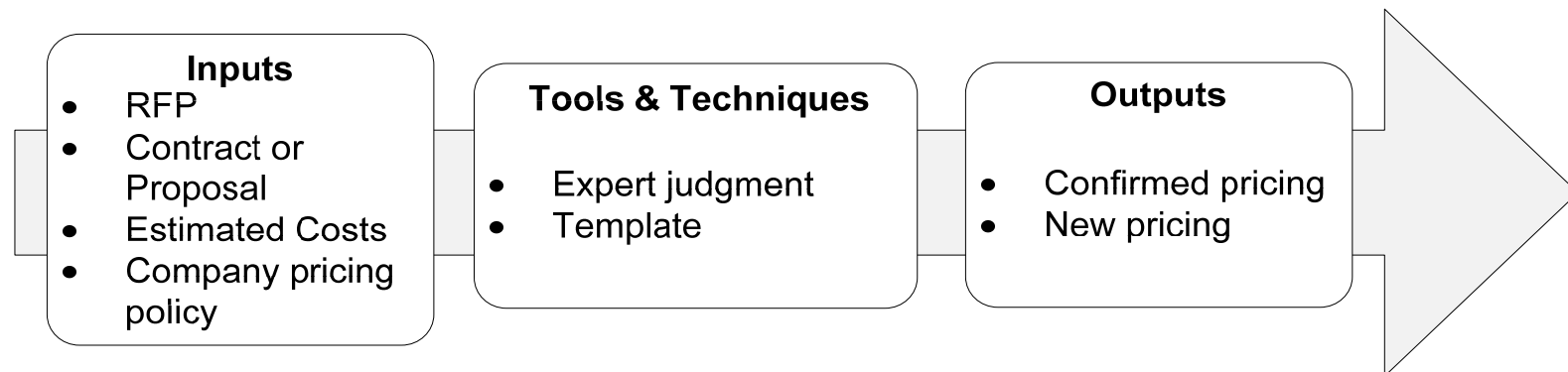
- Initiating process group
- Provides a forecast revenue
- Key project objective
- Listed as objective in Project Charter
- Communicate to all project stakeholders



Inputs, Tools & Techniques, and Outputs

2 – Develop/Confirm Pricing

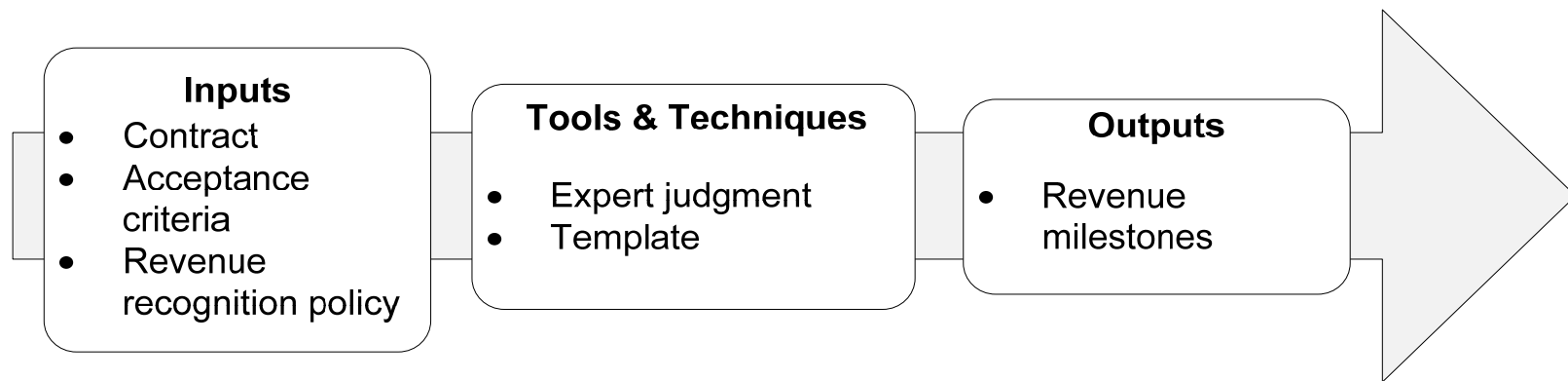
- Planning process group
- How much client pays for products or services
- Tightly integrated with:
 - Cost management
 - Risk management
 - Change control



Inputs, Tools & Techniques, and Outputs

3 - Identify Revenue Milestones

- Planning process group
- Recognize revenue, submit invoices, and process payments
- Milestones are integrated into the project schedule
- Work closely with Finance or Project Control



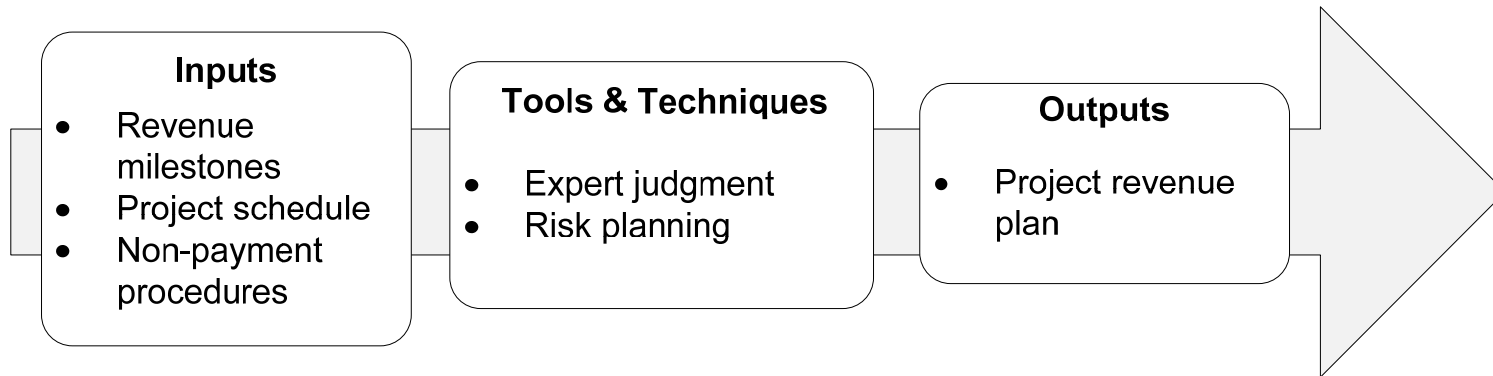
Inputs, Tools & Techniques, and Outputs

Revenue Recognition Criteria

SEC CRITERIA	Contract Terms	Order and Funding	Pricing (CLINs)	Project Milestones	Actual Work Performed	Acceptance Criteria (DD250)	Title Transfer
There is a contractual arrangement	√	√					
The price to customer is fixed or determinable	√	√	√				
Collectibility is reasonably assured	√	√					
Delivery has occurred or services have been rendered				√	√	√	√

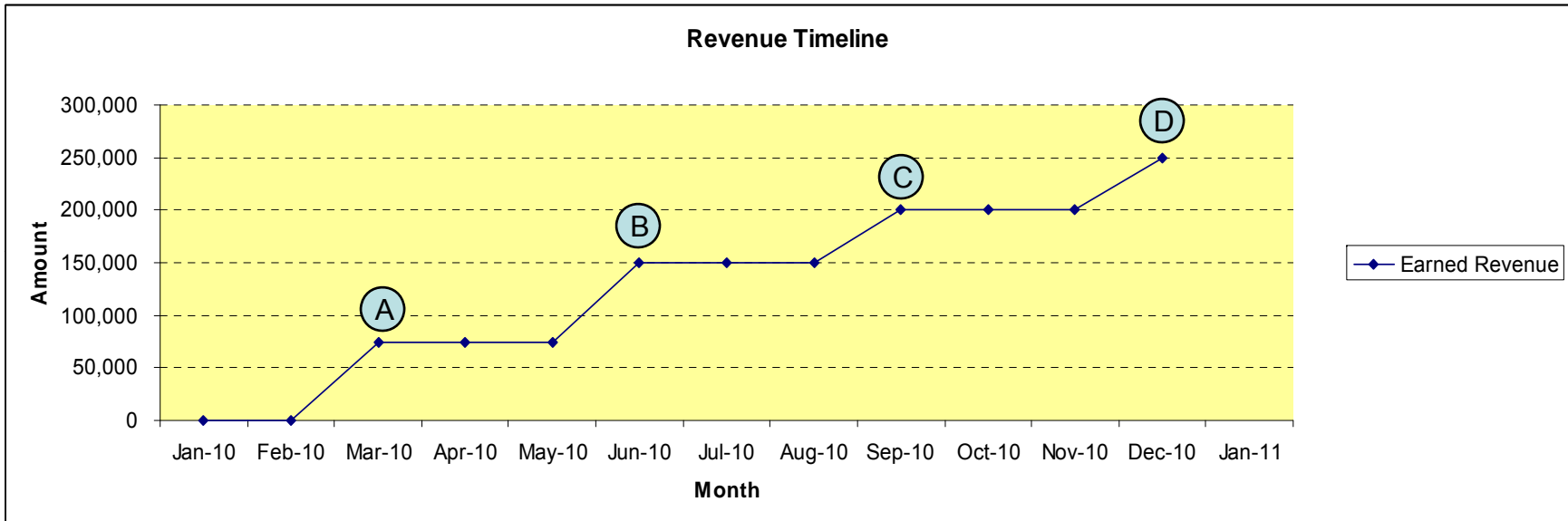
4 - Develop the Project Revenue Plan

- Planning process group
- Document revenue timeline and revenue risk plan
- Integrated with project management plan



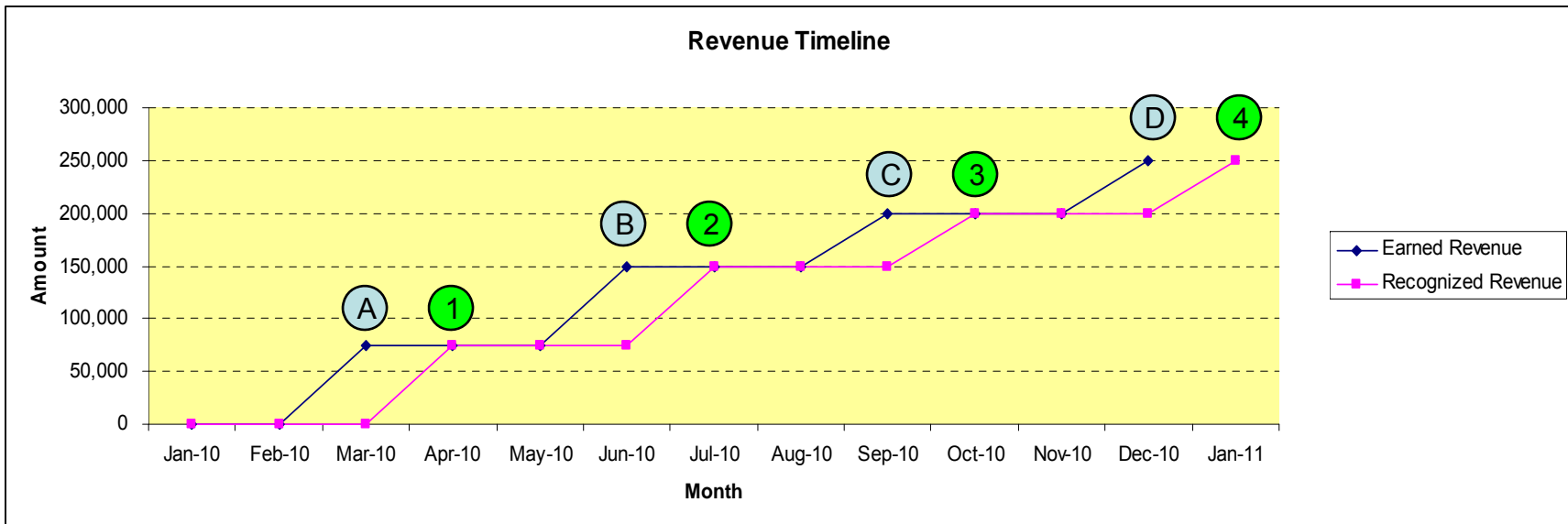
Inputs, Tools & Techniques, and Outputs

4 - Develop the Project Revenue Plan



- In March 2010, delivery Milestone A is achieved and the project will earn \$75,000 in revenue.
- In June 2010, delivery Milestone B is achieved and the project will earn an additional \$75,000 in revenue for total project earned revenue of \$150,000.
- In September 2010, delivery Milestone C is achieved and the project will earn an additional \$50,000 in revenue for total project earned revenue of \$200,000.
- Finally in December 2010, delivery Milestone D is achieved and the project will earn another \$50,000 in revenue for total project earned revenue of \$250,000.

4 - Develop the Project Revenue Plan



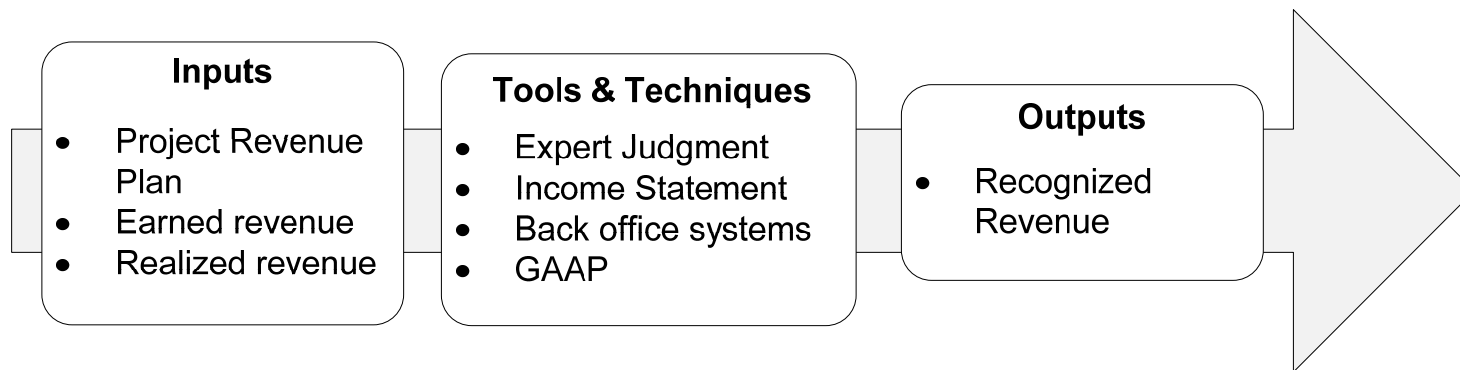
- In April 2010, Milestone 1 indicates that payment is due for Milestone A
- In July 2010, Milestone 2 indicates that payment is due for Milestone B.
- In October 2010, Milestone 3 indicates that payment is due for Milestone C.
- Finally in January 2011, Milestone 4 indicates that payment is due for Milestone D.

4 - Develop the Project Revenue Plan

Risk ID	Risk	Mitigation Strategy
1	Invoice rejected by client	Communicate to client prior to invoice submittal
1	Invoice rejected by client	Identify client's internal invoice approval process and ensure all approvers are identified as project stakeholders
2	Customer won't accept delivery	Identify quantitative acceptance criteria
3	Delinquent payment	Escalate to client management
3	Delinquent payment	Stop work
3	Delinquent payment	Legal action

5 – Recognize Revenue

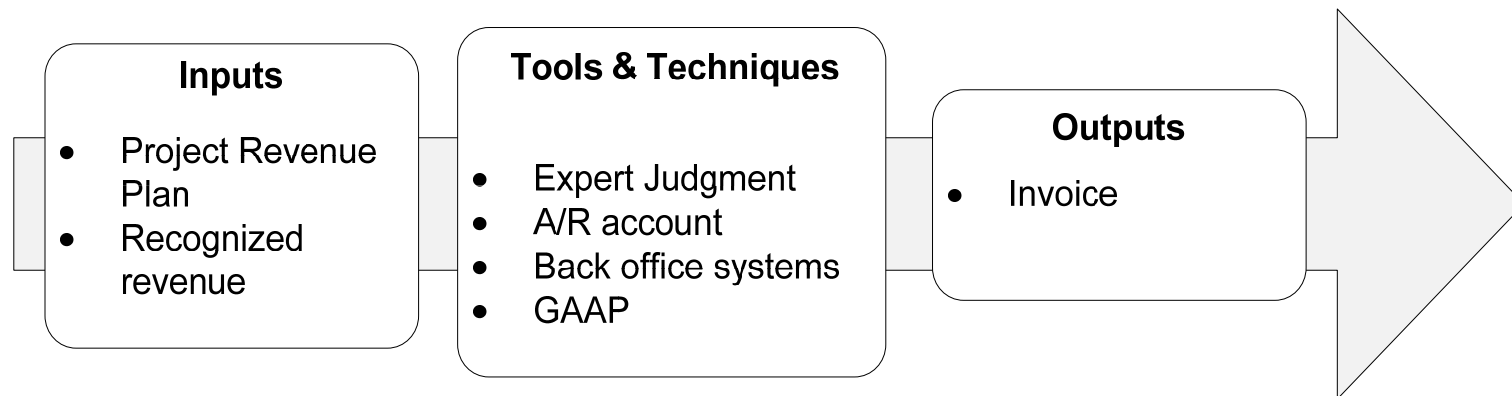
- Executing process group
- Record & report revenue in books and income statement
- Requires interaction with Accounting/Finance
- Include financial experts in project internal reviews



Inputs, Tools & Techniques, and Outputs

6 – Submit Invoices

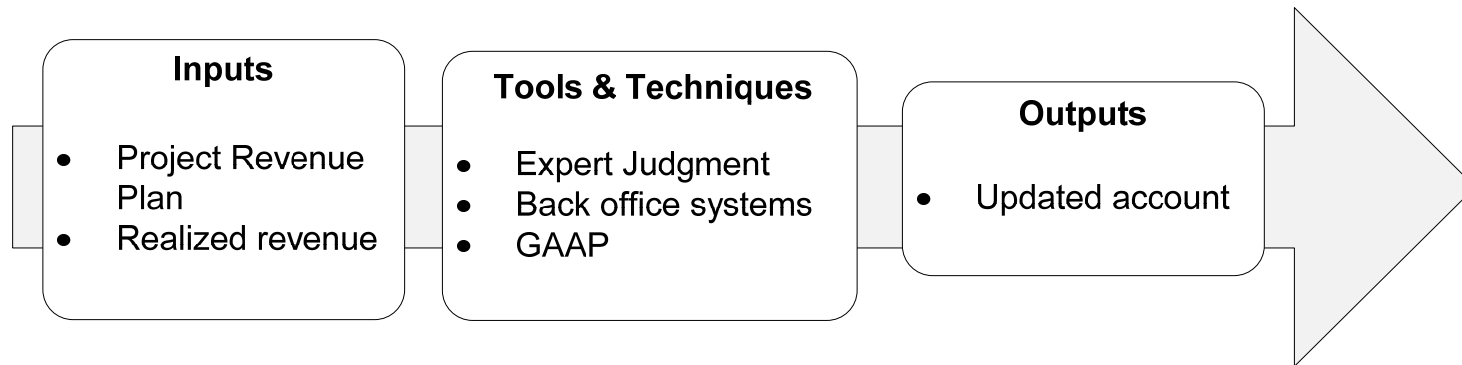
- Monitor and Control Process Group
- Requires Project Manager review and approval
- Communication mitigates invoice rejection



Inputs, Tools & Techniques, and Outputs

7 - Process Payments

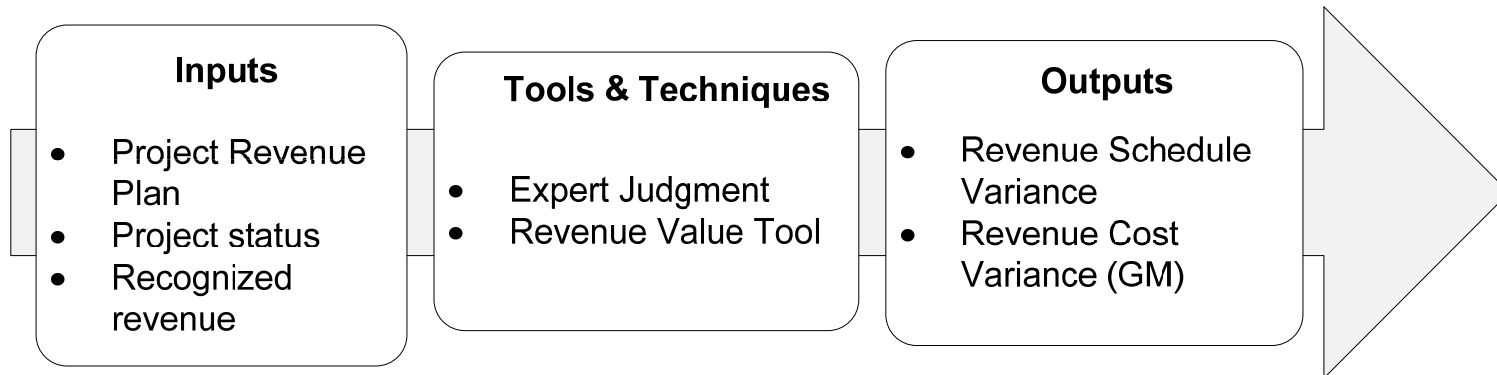
- Monitor and Control process group
- Receiving and accounting for client payments
- Contributes directly to cash flow
- Communication is critical
- Identify revenue stakeholders up front



Inputs, Tools & Techniques, and Outputs

8 - Revenue Control

- Monitor and Control process group
- Assess how project is performing against the revenue plan
- EVM does not capture all variables

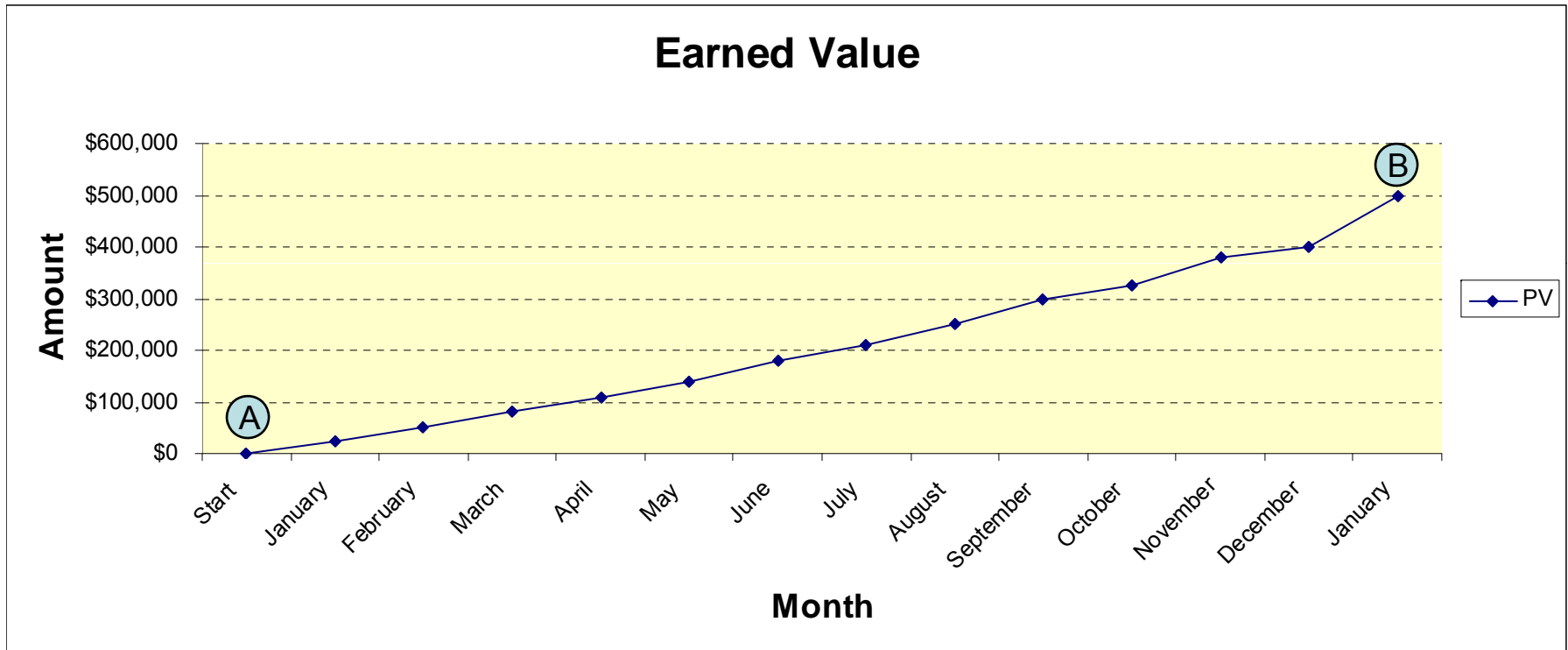


Inputs, Tools & Techniques, and Outputs

Limitations of Earned Value

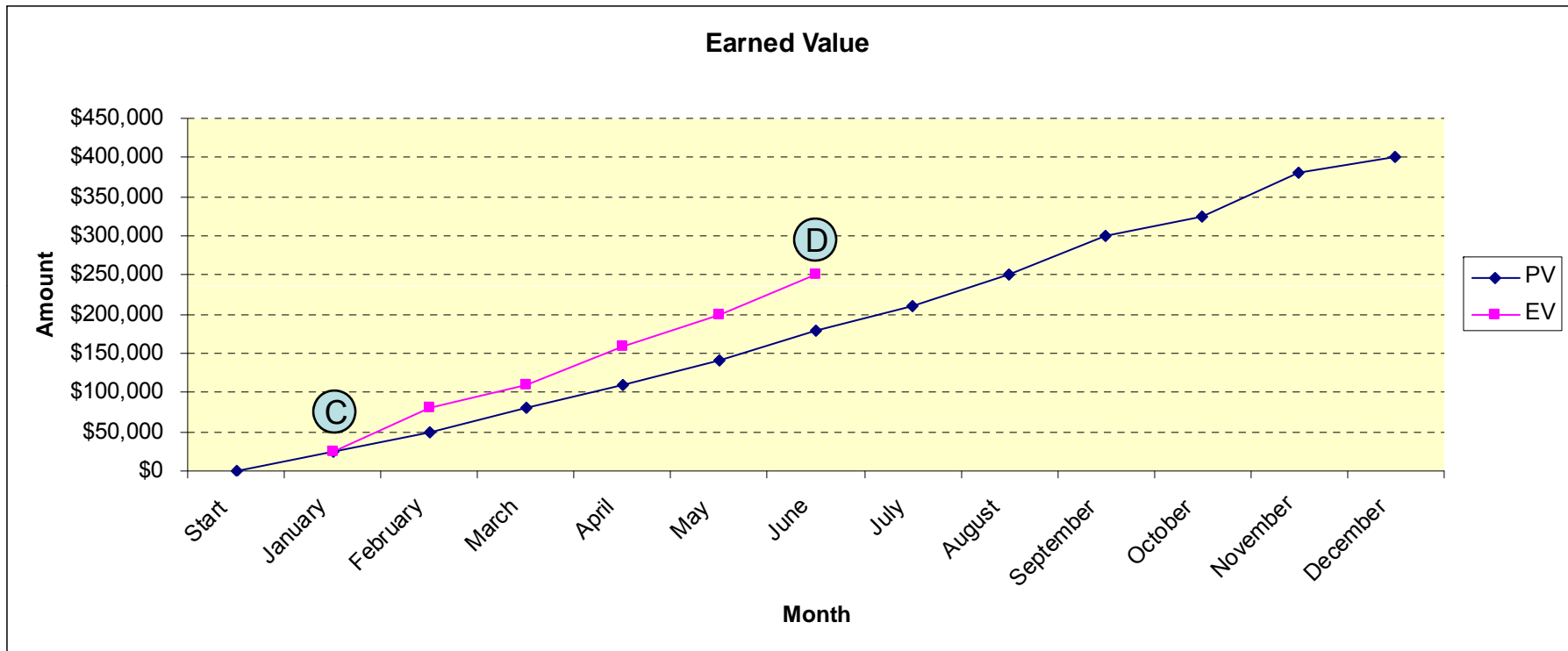
- EV does not consider revenue it is strictly cost based
 - Planned Value (PV) is budget assigned for a portion of work
 - Earned Value (EV) is actual value of the work performed in terms of approved budget
- EV measures schedule and cost variance
 - $SV = EV - PV$ (≥ 0 is good)
 - $SPI = EV/PV$ (≥ 1 is good)
 - $CV = EV - AC$ (≥ 0 is good)
 - $CPI = EV/AC$ (≥ 1 is good)

Earned Value Example



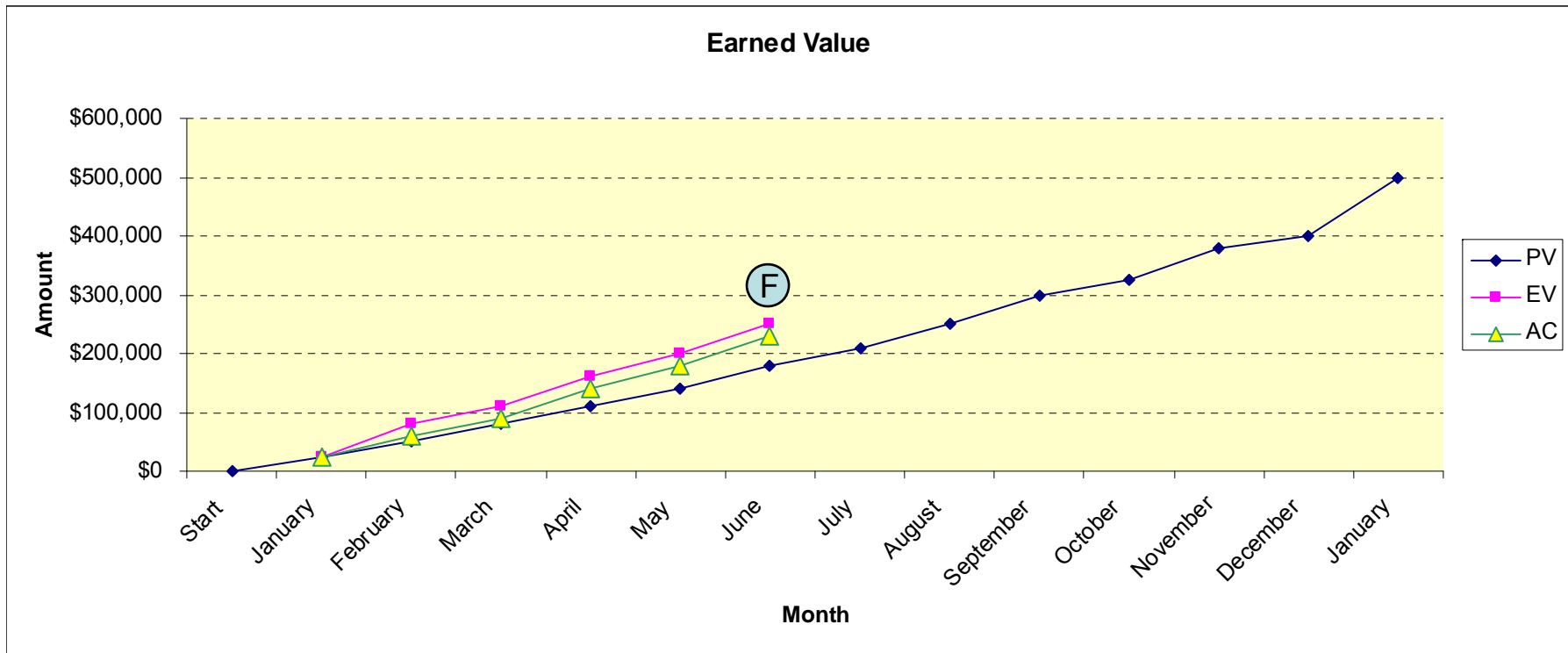
- Ⓐ Planned Value is zero at project start
- Ⓑ Project Value is \$500,000 at the end of the project

Earned Value Example



- Ⓒ In January, PV and EV are equal resulting in a SV of 0 and SPI of 1. Project is on schedule.
- Ⓓ In June, EV is \$250,000 and PV is \$180,000 resulting in SV of \$70,000 and SPI of 1.4. Project is ahead of schedule.

Earned Value Example



(F) In June, EV is still \$250,000 and we find that Actual Costs are \$230,000 resulting in a CV of \$20,000 and CPI of 1.09 indicating we are ahead of our budget.

Is this a financially sound project?

Have we recognized revenue?

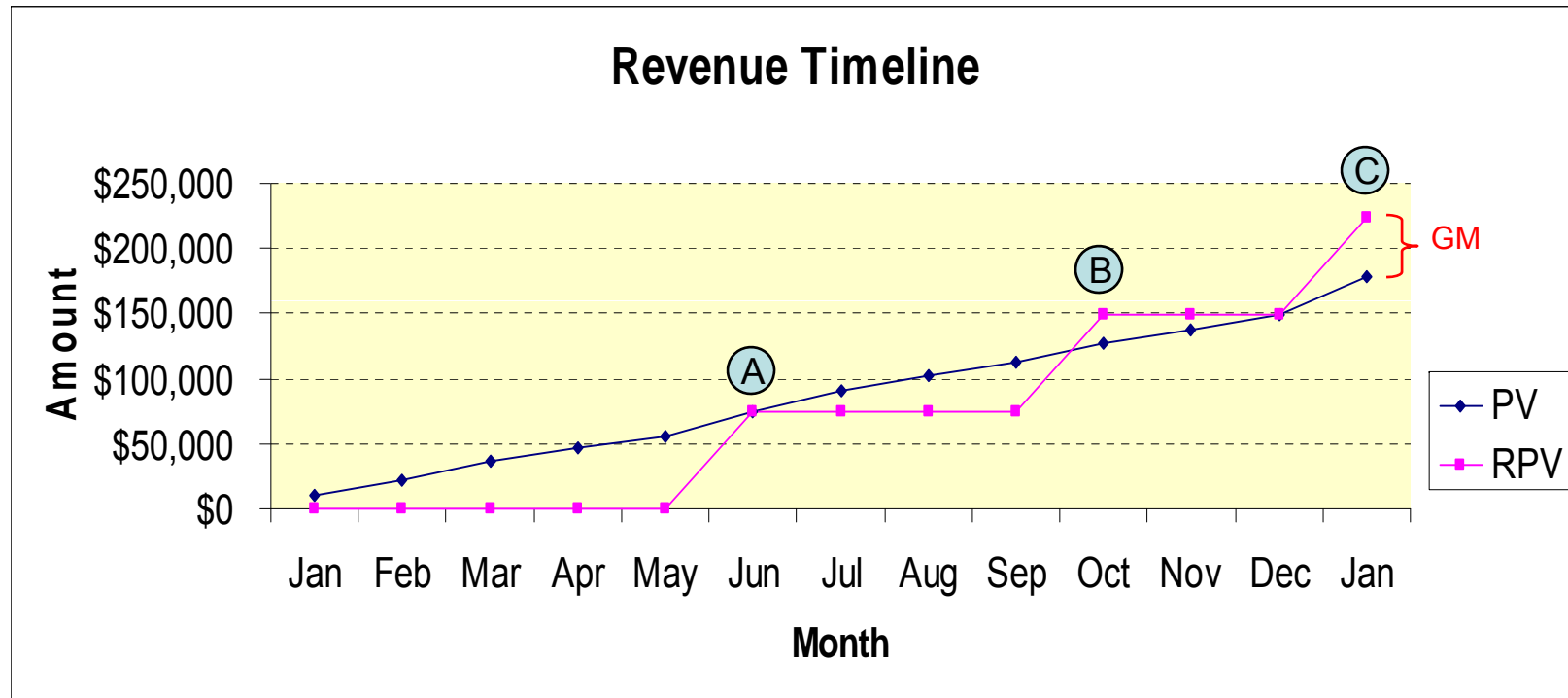
Have we invoiced client?

Have we received any payment?

Revenue Value

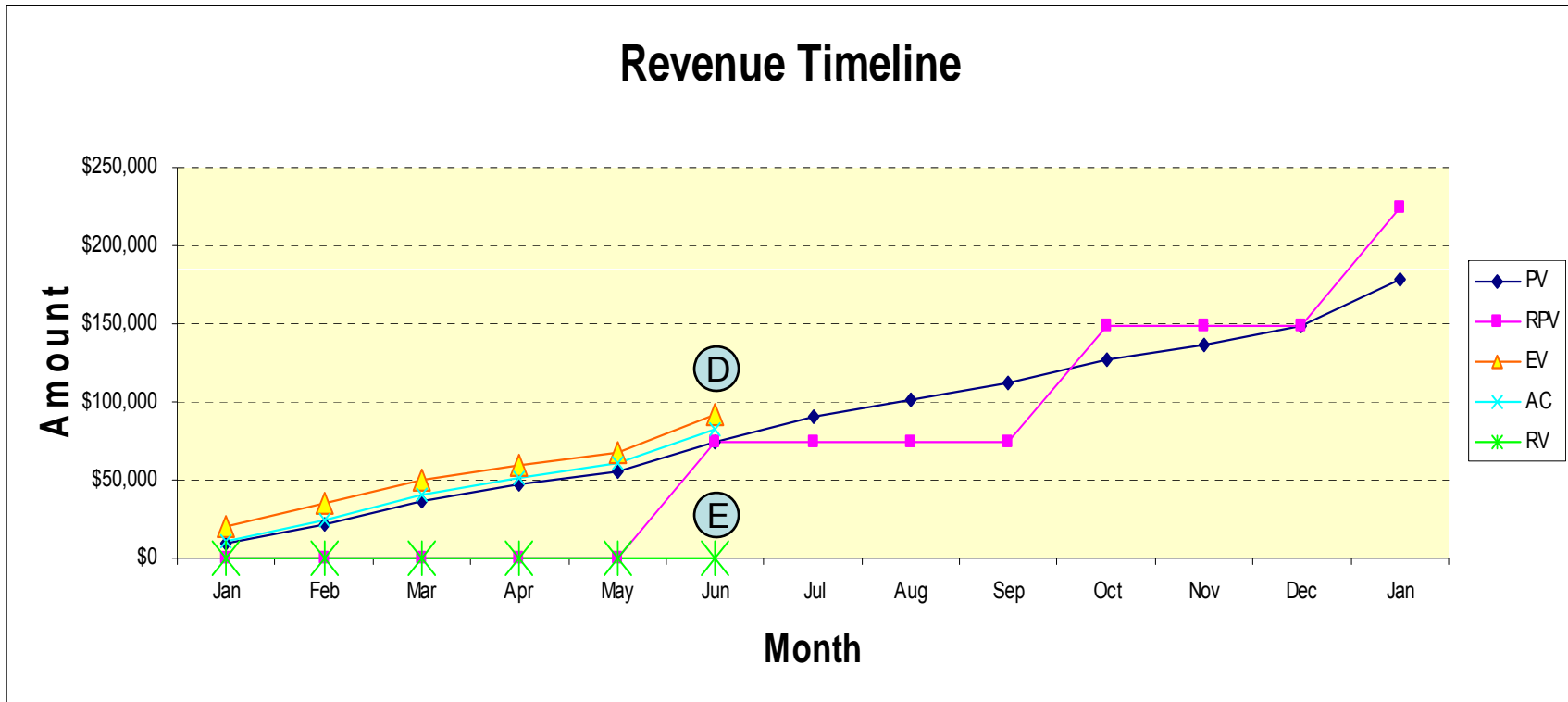
Earned Value	Revenue Value
PV – budget for assigned work	RPV – planned revenue for work
EV – value of work performed	RV – actual revenue recognized
AC – actual costs are actual costs regardless of EV or RV	
SV = EV – PV (≥ 0 is good)	RSV = RV – RPV (≥ 0 is good)
SPI = EV/PV (≥ 1 is good)	RSPI = RV/RPV (≥ 1 is good)
CV = EV – AC (≥ 0 is good)	RCV = RV – AC (depends on target GM)
CPI = EV/AC (≥ 1 is good)	RCPI = RV/AC

Planning Phase



- (A) In June, the project recognizes its first revenue traunch and is at breakeven
- (B) In Oct, the project recognizes its second revenue traunch and is now profitable
- (C) At project completion, the final traunch of revenue is recognized

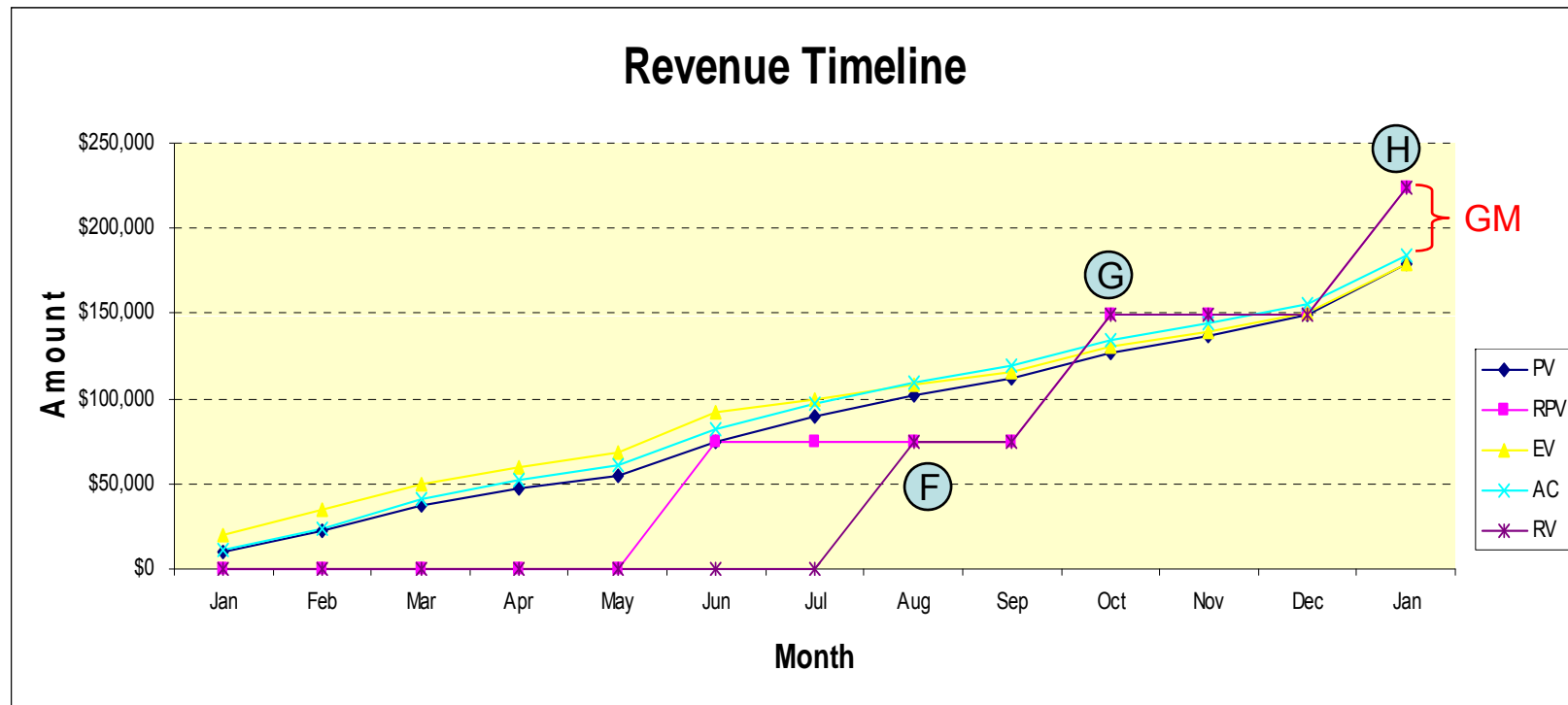
Execution Phase



Ⓓ *SV and CV are both greater than zero (ahead of schedule and under budget)*

Ⓔ *RV = 0, resulting in a RSV that is less than zero (behind revenue plan)*

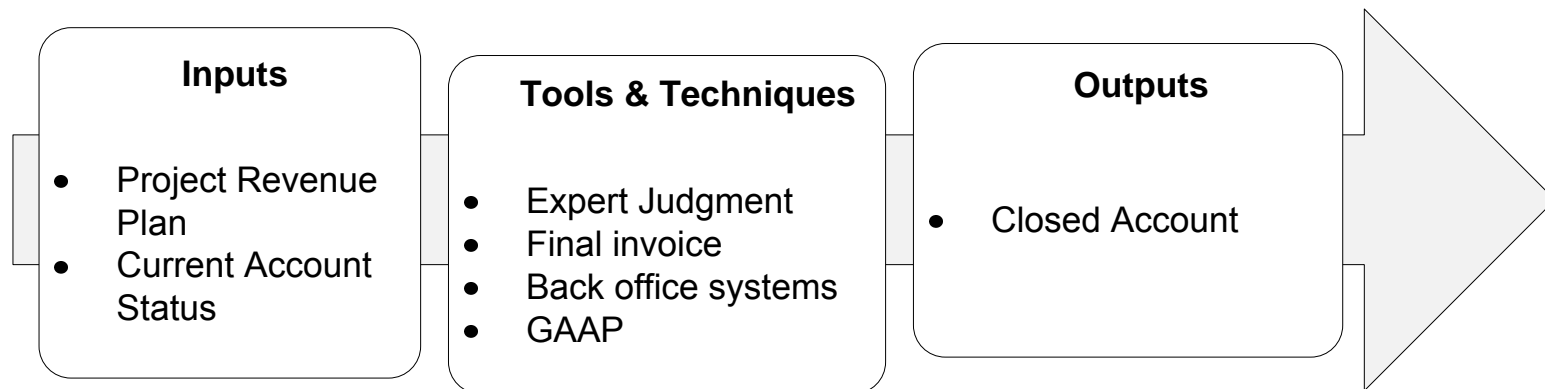
Closeout Phase



- Ⓕ In August, the project recognizes its first revenue traunch
- Ⓖ In Oct, the project recognizes its second traunch of revenue and is now on revenue plan
- Ⓕ At project end, the project recognizes its final revenue traunch

9 - Close Account

- Closing process group
- Reconciling and processing all invoices, credits, and payments
- Must include a revenue lessons learned



Inputs, Tools & Techniques, and Outputs

9 - Close Account

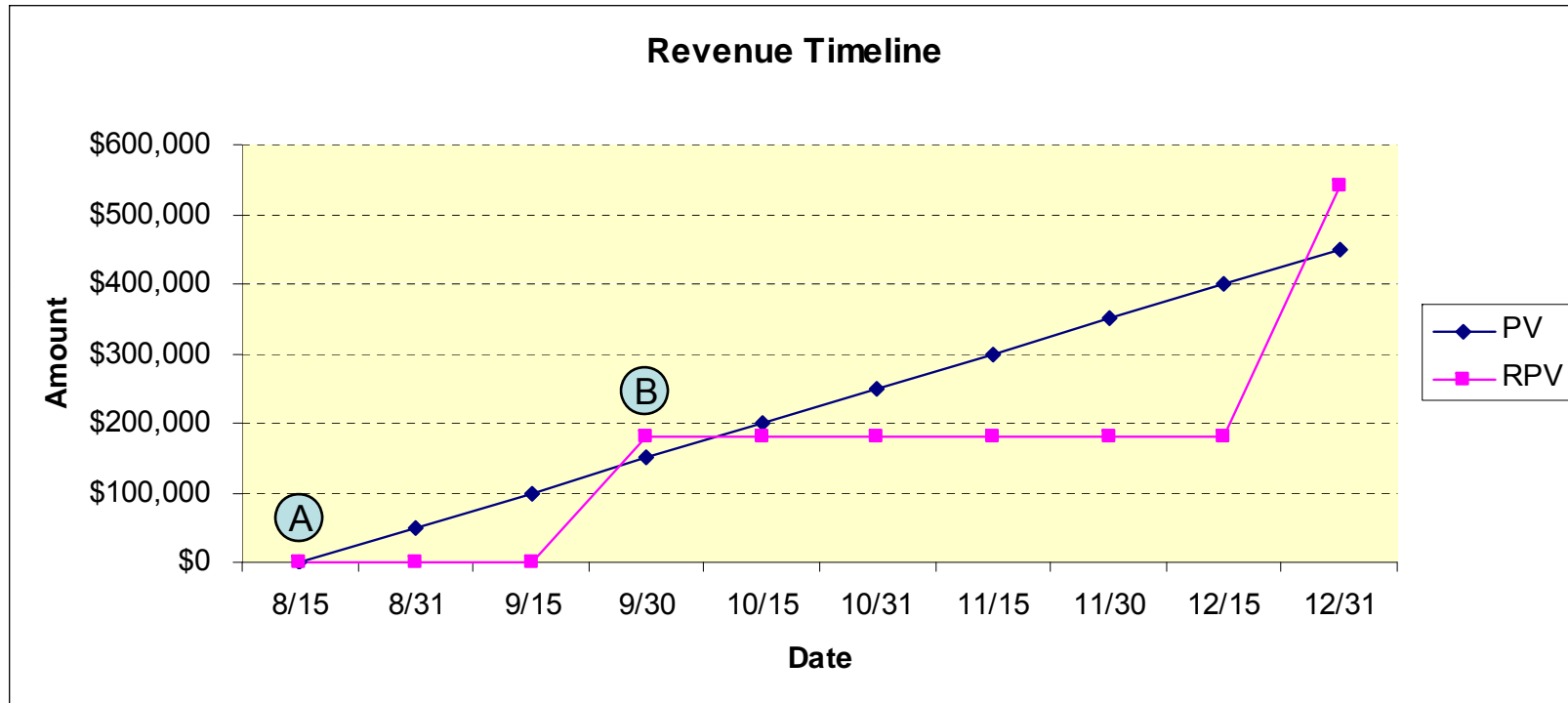
- Did the project recognize revenue on schedule?
- What issues arose that impacted the revenue plan?
- Where these issues identified as risks to the revenue plan?
- What resolutions were employed to solve these issues and have they been documented in the risk register?
- What was the project's profit and loss performance?
- Did the project meet its planned gross margin?
 - If not, was the issue an ability to meet the planned revenue or the ability to control or accurately forecast the project's cost?

EXAMPLES

Example – Contractual Arrangement

- August 15th Company P executes an LOI with Customer A
- Company P commences work immediately based on Customer A's timeline
- Contract is executed on October 4th with effective date of August 15th
- Can Company P recognize revenue in quarter ended September 30th for work performed through September?
- No
- LOI does not equate to a contractual arrangement
- Execution of contract in October results in transaction for fourth quarter
- Revenue would be recognized on December 31st

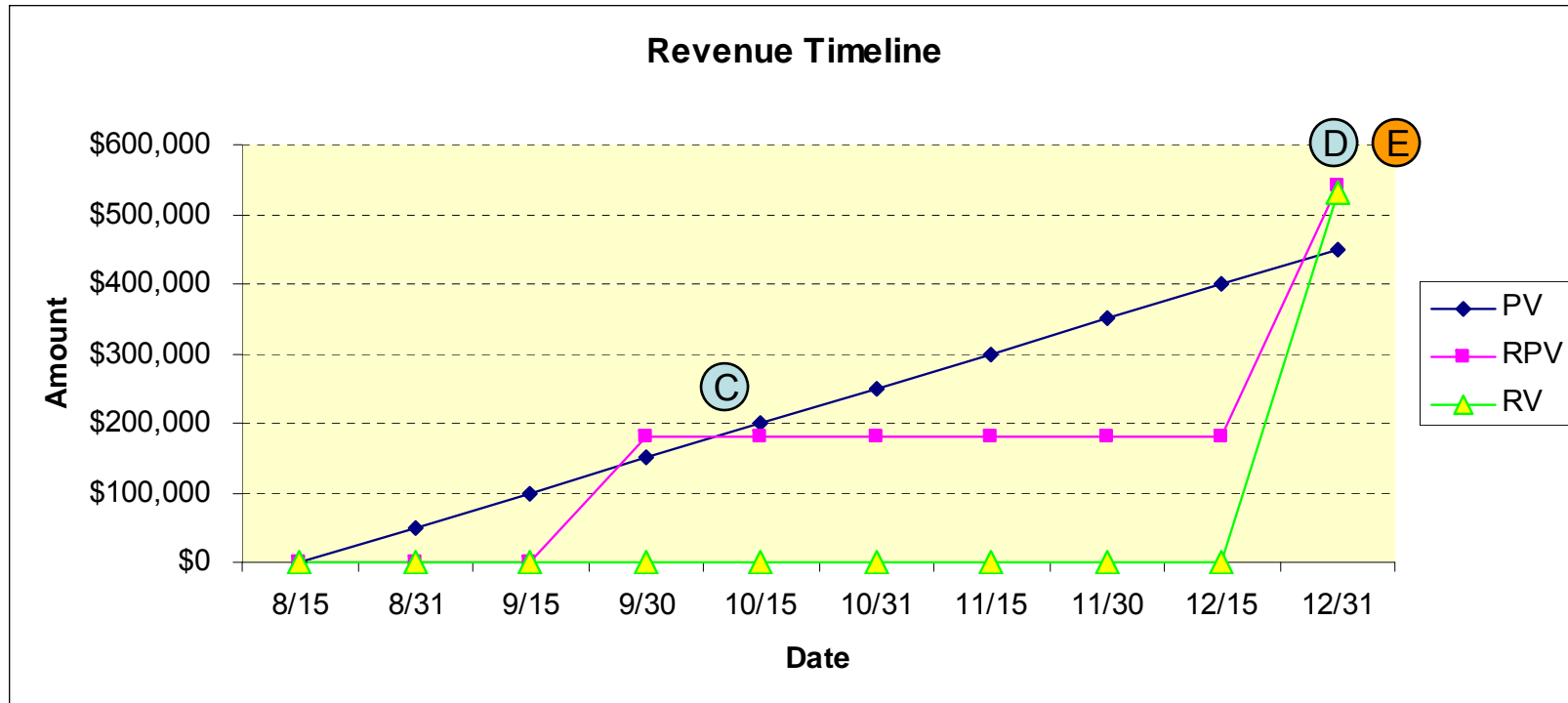
Example – Contractual Arrangement



(A) LOI executed on August 15th

(B) Project plans on recognizing revenue at the quarter end on September 30th and is profitable

Example – Contractual Arrangement



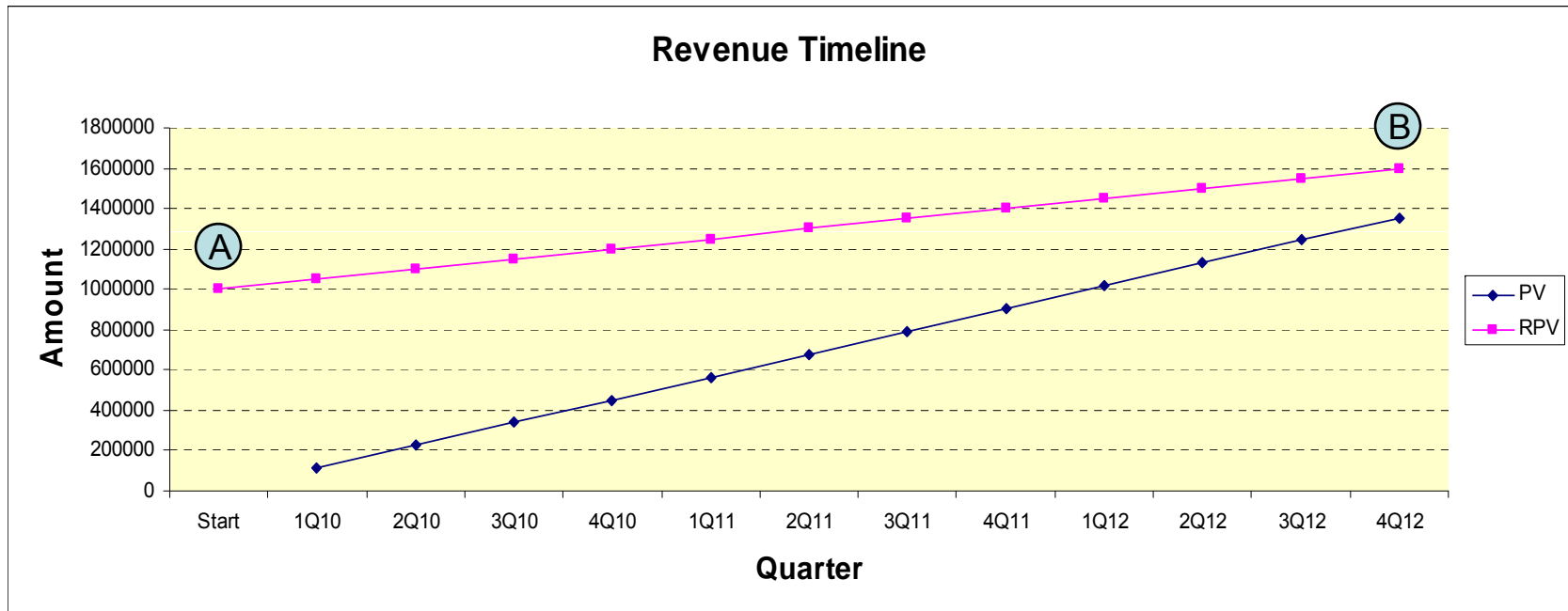
- (C)** Contract is executed on October 4th
- (D)** Revenue cannot be recognized until quarter ending December 31st
- (E)** Results in a three month lag in revenue recognition impacting quarterly financial results

Example – Delivery and Performance

- Company P enters into a multi-year outsourcing deal with Customer B
- The terms require Customer B to make a \$1M non-refundable payment upon contract execution
- This payment is intended to help cover costs to cover the transition to a new infrastructure needed to provide the service
- Customer B will also make monthly payments of \$50,000
- Can the revenue relating to the nonrefundable up front fee be recognized when received?

- No
- The up front fee is not in exchange for a product delivered or service performed
- Customer B is paying for the expected benefit of a service that will be delivered over time
- Therefore, the fee must be recognized as revenue across the full term of contract

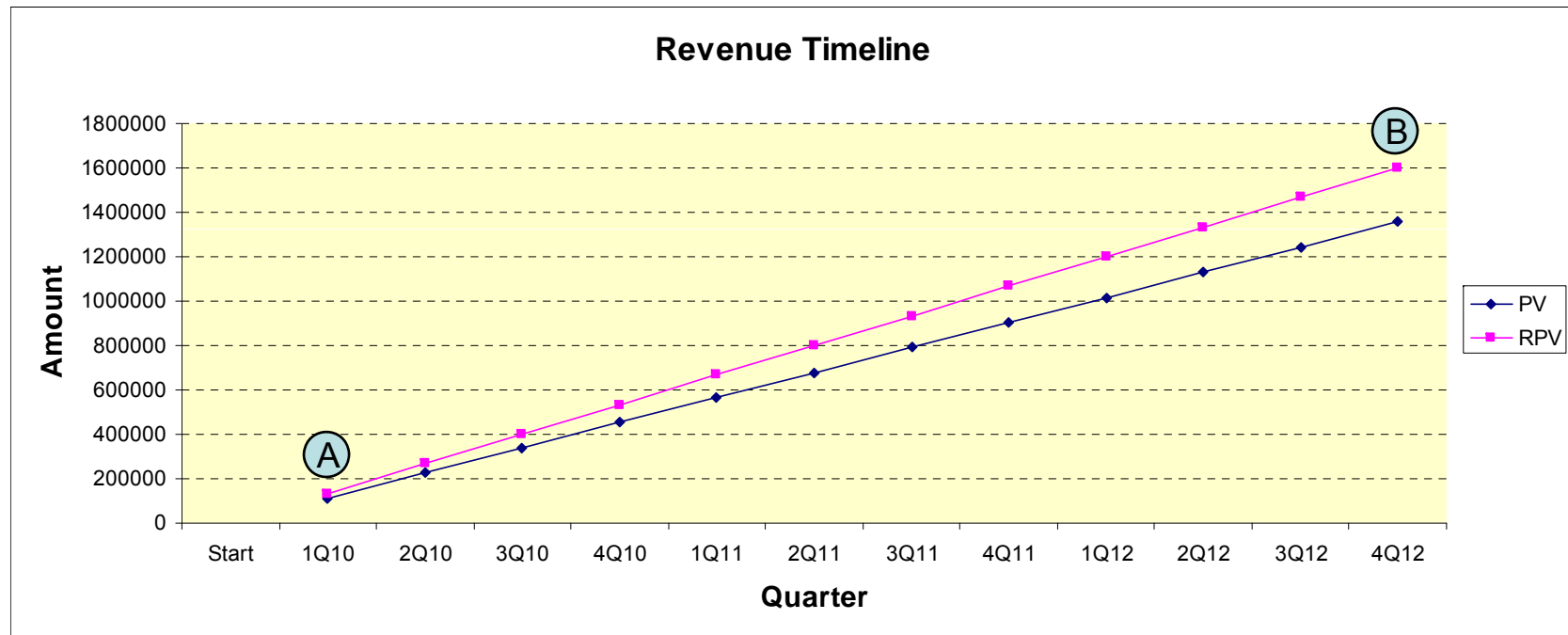
Example – Delivery & Performance



Ⓐ Plan on recognizing \$1,000,000 at start plus \$50,000 per quarter for three years

Ⓑ Total revenue plan is \$1,600,000 at project runs high margins until final 2-3 quarters

Example – Delivery & Performance



- Ⓐ *Actual revenue plan should spread \$1,000,000 over three years plus \$50K per quarter*
- Ⓑ *Total revenue plan still equals \$1,600,000 but margins run much tighter for first half of project*

Summary

- Projects require active revenue management
- PRM © allows PM to manage project revenue objectives:
 - *Ensure revenue is recognized in a timely manner*
 - *Ensure revenue generates appropriate project cash flows*
 - *Ensure all payments & credits are closed out at project completion*
 - *Ensure scope changes are priced and integrated into the revenue process*
- Earned Value does not consider revenue
- Project Managers are revenue managers

Thank You

*please send comments and feedback to
peter.varani@unisys.com*