



Program Management of Cost Reduction projects

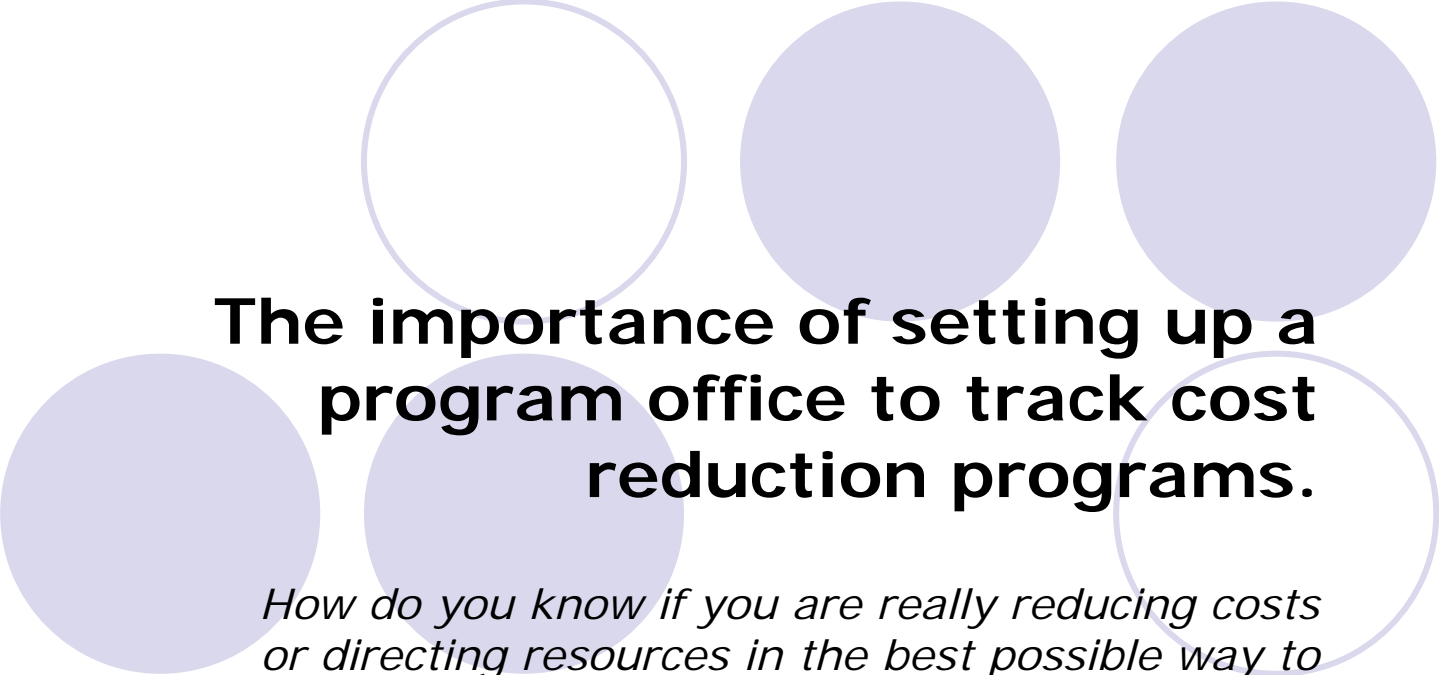
Some Key Learnings

GOLD COAST AIPM CPD EVENT
Claire Johnston – 24th August 2010

A decorative graphic consisting of two overlapping circles on the left and three separate circles on the right. The circles are light purple, with the overlapping ones on the left and the separate ones on the right. The word 'Summary' is written in a large, black, sans-serif font across the overlapping circles on the left.

Summary

- My Background
- The importance of setting up a Program Office to track cost reduction projects or programs.
- Critical Requirements to set up a Program Office.
- What does success look like?



**The importance of setting up a
program office to track cost
reduction programs.**

*How do you know if you are really reducing costs
or directing resources in the best possible way to
get maximum benefit for your organisation?*



The difference between delivering and “realising” savings

- Any project or initiative can claim a saving has been delivered, but not all can demonstrate that saving has been realised.
- It is critical to be able to measure for any cost reduction project:
 1. Your baseline performance
 2. Improvement Target
 3. Measurable achievement (which is sustained for longer than 12 months)

This leads to less instances of inflated claims of benefits or short term cost take outs that reappear later once the focus drops off. Once the project is complete, handover and ongoing tracking of the sustained achievement needs to be done with the business operations.

- Whilst savings need to be measurable by metrics or measures, you also need to see the actual \$ spend reduce. i.e. you can't realise a saving on productivity unless you either increase workload or decrease staff on existing workload to “realise” the productivity gain.
- A Program office is an important function that must be established (whatever size or structure) to track both the delivery and realisation of cost reduction savings.



Working with both internal review groups and external consulting firms on cost reduction programs

- Although not a traditional role of a program office, they have become a pivotal point within an organisation where internal or external consulting groups go to when conducting reviews of an organisation and looking for cost reduction opportunities.
- Program Offices are perfectly positioned to guide the information gathering phase to ensure existing projects are not duplicated, past benefits identified by other projects can be picked up and there is sound benefit rationale behind any of the new programs being proposed.

Key Learnings

- Engage Early – don't hide or refrain from sharing information. Be careful about simply sending data and make sure information is appropriately positioned and they understand the context.
- Position your team to be valuable to these groups, by gathering information for them.
- Take the opportunity to sell the benefits already identified or put forward ideas to these teams to help them form an accurate picture of your business.
- Aim for a collaborative approach so there are no surprises and you are working to a common outcome or goal. This leads to less wastage of resources.



Critical Requirements for an Effective Cost Reduction Program Office

*Anyone can set up and run a program office, but
what does it mean to be “effective” and not just be
seen to be adding more “red-tape”.*



Critical Requirements

- **a) Management Support and buy-in**

- Top level management sponsorship is critical to get the right “skin in the game”, remove blockers and engage support from the right groups to participate.
- The Program Office need to have access to and ability to interface at highest level of management in their area to be effective. Regular forums recommended both with and without Project Leads.
- Interfaces at the lower business level areas flow on from these contacts and also feed back up into them so they can be used for a dual purpose.

- **b) Skills of the people in the program office team**

- Important to have people who can be seen to add value and assist in the delivery of outcomes on the program, not simply become the “compliance police”.
- Program Managers need to walk the line between knowing enough detail around where a project is heading vs. being across as much detail as the PM itself. Maintain that higher level view across all projects noting the key high level deliverables, timelines and risks.
- Program Managers need to be able to intuitive enough to pick up on when risk is occurring, or benefit realisation is at risk (despite a project lead telling them otherwise). There is always a reluctance to call out risk and under-forecast savings.



Critical Requirements Continued

- **c) The engagement model within the business**
 - The importance of regular governance meetings that are seen to be adding value/ have purpose instead of just an information dump or update.
 - Important for governance meetings to include key stakeholders that have the ability to influence the business, have a vested interest in the outcome and can break down blockers.
 - A mixture of informal and formal catch-ups work effectively.

- **d) The tools, metrics and reporting frameworks**
 - This can be terribly over-done if there are multiple layers of an organisation needing to be kept informed.
 - A single program management system does not work, when it is trying to be too many things to too many stakeholders.
 - Often the best form of communication and project update or reporting is through a simple excel spreadsheet with the basic fields:
 - Milestones Progress
 - Risks and Issues, status and mitigation strategies
 - Benefits Progress
 - Any tool needs to have the basics that can easily be replicated for whatever reporting audience or format. You don't want PM's spending half their project life filling out templates.

Critical Requirements Continued

● e) Measuring risk

- Many different ways you can measure risk. The main components in cost reduction projects are:
 - Potential duplication with other projects, interdependencies and dependencies.
 - Milestone delivery
 - Benefit realisation
- Additionally there are different levels of benefit risk based on the point at which the project is in its life-cycle. For example, you could have a project that is complete, but there are issues realising the benefits delivered due to a HR issue. Or the alternative is that a project has not met its first few critical milestones so may not get off the ground to deliver and realise benefits by the required date.

P/ Risk	Project Status		Secondary Risk			Secondary Risk Criteria
Low	Realisation	In Control/ Tracking	High	Medium	Low	No positive movement in the Business Plan Drivers - presenting risk to realise benefits in the LCB. Project Forecast > LCB Realised Benefits
						Business Plan driver movement presents opportunity in the LCB to realise proposed forecast savings
						Benefits realised in the LCB via the movement of FTE / costs
Medium	Pre-Engagement	LCB Sign Off	High	Medium	Low	Missed/ Potentially Missed more than One Milestone/ Operational Enabler
		Benefits Profiled				
		Active				
		LCB Approve in Principle				
High	Generation	Pre Define	High	Medium	Low	Missed/ Potentially Missed One Milestone/ Operational Enabler
		Idea Registration				

Often a multi-tiered risk approach is required to assess the level of risk and this may be slightly different for the types of programs or projects you are tracking or the organisation or industry you work for.



What does success look like?

- **a) Ongoing benefits visible in the business**
 - You can see a sustainable improvement on your key business indicators YOY.
 - No other metrics are being negatively impacted by your improvement and eroding the business benefit.
 - Multiple initiatives are claiming benefits in one area and you can determine the impact and effectiveness of each.
 - A balanced scorecard approach is in place to ensure the overall health of the business is not suffering.
 - The program office is starting to build up a database of history and can use this data to project forward where future cost savings could be targeted from.
- **b) Transfer of skills back into the business**
 - Developing champions within the business with skills and knowledge around benefit tracking help make the role of the program office much easier.
 - There is a constant push for centralising functions or decentralising program office functions in most companies. Key is to keep the business empowered and working with you, but maintaining a level of IP and independence that helps the business be see the program office as being to provide objectivity in decision making around cost reduction initiatives.
 - The Program Office role can evolve into more forward looking program generation activities and be involved in making strategic decisions around where future cost reductions can come from.

