

Project Financial Control



The biggest industry drivers behind the growing need for excellent project financial control

Companies that are project-centric all have one thing in common—they all need their projects to be profitable.

Project margins vary by industry and sub-industry: For Oil & Gas and Marine Contractors involved in offshore services profit margins can vary widely based on project complexity, location, and market conditions. Generally, these contractors aim for project margins between 10% and 15%.

But due to factors like high operational costs, specialized equipment, and regulatory requirements margins can fluctuate significantly. With this high level of unpredictability, and fierce competition (both domestic and international), it does not take much to turn a profitable project into a loss-making project, putting the whole business at risk. In recent years, this challenge has been exacerbated by the economic climate, labor shortages, and supply chain disruptions. These alongside other longstanding industry challenges means that the risks continue to increase for organizations.

That is why the need for excellent project financial control is no longer a 'nice to have', it is a must have.



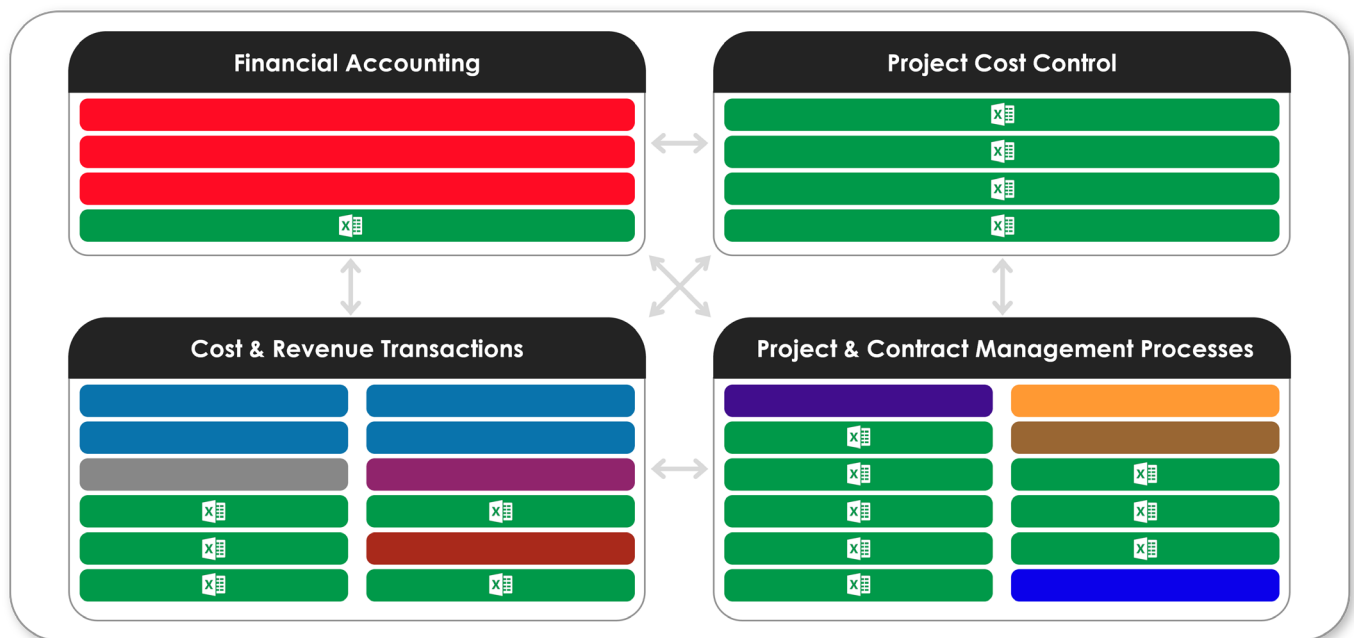
How well do companies manage project financial control today?

Broadly speaking, the simple answer is poorly! Effective Project Financial Control requires much more than an accounting system, and it needs to support 4 key areas:

- Financial Accounting
- Cost and Revenue Transactions
- Project and Contract Management
- Project Cost Control

Every established business has an accounting system, but managing project financial control effectively is far more complex, so implementing a robust accounting system alone is not enough. The four key areas are not standalone requirements—they need to interact with each other to provide a complete and totally integrated project financial control solution. A standalone accounting system also fails to manage all elements that influence the current and future position of a project, including risks, cash, contract changes and forecasts to ensure project margins remain on track. A standalone accounting system also fails to manage all elements that influence the current and future position of a project, including risks, cash, contract changes and forecasts to ensure project margins remain on track.

Typical Non-integrated Business System Landscape



Unfortunately, most companies are attempting to manage project financial control with a solution landscape like the one graphically displayed above, with a wide assortment of best-of-breed systems and hundreds of disconnected excel spreadsheets.

This results in information that is slow and inefficient, as well as inaccurate and is open to manipulation, meaning that management is presented with a distorted version of the truth. Building the complex integrations to support all the necessary interaction points between these disparate systems, and keeping them updated, would require dedicated IT experts. Plus, the software solutions are built on different data structures and technology architectures, so information will not transfer accurately between systems, nor would integrations with static spreadsheets result in real-time data sharing.

The four key pillars of effective project financial control

1. Financial Accounting

A world-class accounting system is a critical foundation. Particularly, it must support project accounting and integrate with the source cost, revenue transactions and the project cost control areas. It is also highly desirable that it supports group consolidation, as most companies have multiple legal entities and joint ventures.

2. Cost and Revenue Transactions

While having a functionally rich financial accounting solution is an essential foundation for complete project financial control, to be effective it needs to be fully integrated with all the cost and revenue transactions, so that the data can be trusted. This eliminates the need for manual journals and accruals, improving efficiency dramatically. Additionally, management can analyze the source transactions in real-time, enabling them to understand a project in more granular detail.

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We had a litany of spreadsheets filled with duplicated, outdated or inaccessible data and simple management reports were taking seven weeks to finalise. With IFS, we now have immediate access to data across the business, and the processing time for management accounts has been dramatically reduced. Ultimately, the operational overhaul has enabled us to resource more efficiently; IFS has brought Clancy Docwra's business processes and reporting systems up-to-date.”

Matt Mussell, Financial Director,
Clancy Docwra



For project-centric companies the software solution needs to support all the transaction types—not just standard purchasing, but also sales and subcontract management, claims and certification, time and expenses, and internal and external equipment rental processes and transactions.

3. Project and Contract Management

This is a critical area that is usually heavily supported by standalone excel sheets, which is not a satisfactory solution. Some organizations will refer to this as Commercial Management. The solution must support areas such as sales and subcontract management, contract and project change management (often referred to as variations). Additional areas such as Risk and Opportunity management, estimating and pre-contract support, are also especially important. Project progress tracking and the ability to measure earned value are also critical. Finally, the project plan should also be integrated with the ability to hold sub plans such as engineering, procurement, manufacturing, labor plans, equipment rental, and construction site plans. These are all needed to provide the foundation for accurate project cost and revenue forecasting.

4. Project Cost Control

This area breaks down further into four subheadings: 1. *project budgeting*, 2. *project cost monitoring*, 3. *project periodic reviews and forecasts*, and 4. *project cash plans*.

Many would regard this as the most critical area as it is where we set a project budget and forecast the future outcome of the project. It feeds off information from the other three areas, so to be effective and accurate it should be fully integrated. For example, the project estimate should be used as the basis for the budget. The current sales and subcontract values should provide critical information to forecast future project costs and revenues. In addition, approved and unapproved contract changes and variations should be automatically picked up by the project forecast. The sub plans should also be used to drive a more accurate project financial forecast.

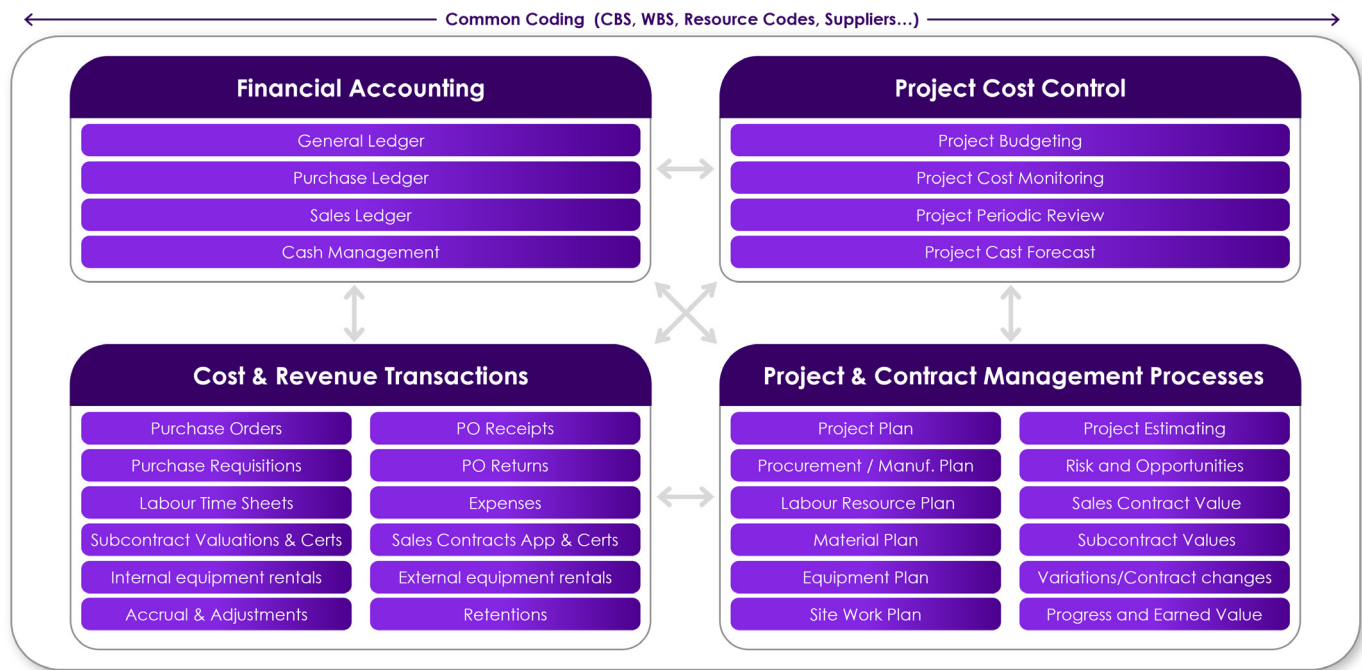
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IFS gives the customer confidence because all the materials, subcontracts, costs and labor are all captured by the solution. The level of detail and ability to drill down if needed works for everyone involved."

Barry Logan, ERP Solutions Manager,
Babcock International

The goal is to move to a world where the project cost control solution can automatically generate a project cost and revenue forecast with minimal intervention from the user.

IFS Delivers Integrated Project Financial Control



Companies who are looking to implement best-in-class project financial control recognize that they need an integrated solution. The diagram above shows how IFS delivers a holistic and integrated project financial control solution, providing accurate, timely and trusted information with one single version of the truth.

A fully integrated project financial control solution delivers many benefits:

- Improved control and governance
- Improved efficiency, profitability and project margins
- Reduced project and business risk
- More informed and timely decision-making

See diagram below for a breakdown of all the key benefits:



IFS develops and delivers cloud enterprise software for companies around the world who manufacture and distribute goods, build and maintain assets, and manage service-focused operations. The industry expertise of our people and of our growing ecosystem, together with a commitment to deliver value at every single step, has made IFS a recognized leader and the most recommended supplier in our sector.

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