



White Paper

Project Costing for Maximum Profitability

Companies Rely on Project-Based Timesheet Solutions to
Increase Profits and Surpass Competitors



To be competitive in most markets today, companies must have a way to manage costs accurately and understand profitability. More than ever before, companies and workgroups are looking for tools that will help employees and project managers track projects efficiently as well as provide quality cost and profitability data. By implementing a timekeeping solution for the purposes of accurate project costing, organizations are obtaining valuable insight into which projects are profitable and which ones are not. Project-oriented timekeeping data is also used by forward thinking companies to bid on future projects, stay within budgeted costs, allocate the appropriate number of resources, and track projects while they are underway. These project-oriented timesheet solutions deliver more than just an attendance tracking system. They provide organizations with the tools necessary to understand the impact of time and resources on project profitability.

According to Giga Information Group, the time tracking software market is growing at a rapid pace. Fueled by the Web and new software technologies, the market is expected to grow 25% annually and reach more than \$800 million by 2005. Studies show organizations have good reason to implement project-based timesheet solutions. According to the Center for Business Practices, over 97% of senior-level project management professionals stated that implementing project management tools added value to their organizations. In fact, organizations of all sizes in all industries reported improvement after implementing project management methodologies.

The Reasons Behind the Growth

As web-based technologies have improved, full automation of the time capture and analysis process has become a real possibility. Paper and spreadsheet-based processes are still in use, despite the fact that these methods are cumbersome and require manual collation of data. PC-based (“client-side”) software limits access to individual machines and still requires some kind of manual synchronization process. As server-based systems have grown faster, more scalable, and easier to integrate with other systems, automated project tracking has become the preferred choice for project-oriented companies.

Giga predicts that the market for time and attendance solutions will grow at a healthy 25% annual rate through 2005

For these reasons, more businesses than ever before are implementing timesheet applications to help them manage and track all projects as well as forecast current and future project requirements. This ongoing project tracking process leads to increased profitability, as companies have the ability to manage projects efficiently and to understand their most profitable processes/cost centers. With a company-wide timesheet solution, organizations can shift resources where needed and optimize existing resources as they are needed.

Why Traditional Project Costing Methods Fail

Traditional timekeeping processes require time clocks, paper time cards, and other clerical procedures to capture and analyze labor data. Some companies use paper and spreadsheet programs to track costs and time spent on various projects, but these methods have proven to be problematic. The data is often incomplete and/or incorrect, and most manual methods require extensive man-hours to input, filter, and organize the data. Additionally, these methods significantly limit company-wide access to timely data and reporting capabilities.

Manual Methods Result in Costly Mistakes

In addition to the drawbacks of limited data and increased clerical overhead, manual project costing methods increase the likelihood of mistakes such as inaccurate charge costs, duplicate entries, and general calculation errors. Manual systems do not provide methods of presenting dynamic and detailed hierarchical project lists, cost codes, and other important time reporting data. Further, manual methods have cumbersome approval processes, requiring employees to pass paperwork from desk to desk. This results in delayed payments, misplaced paperwork, and numerous other problems.

Related manual approval processes is the problem with employee notifications. Frequently, timesheets are turned in late by remote employees who are delayed due to travel and/or inability to access their computers or desks. When remote employees are late submitting project data, expenses, and timesheet information, their pay and expense checks are also delayed resulting in ongoing payroll problems. Additionally, project status and billable work information is not provided in a timely manner. With an automated process, reminders are sent, data is entered online, and information is routed for approval with one click of the mouse.

Manual methods are also undesirable because they require *double entry*-- the employee must enter/write down records, then accounting must re-enter the records into their system. Double entry increases the likelihood of duplication errors and costly calculation mistakes. Many companies have attempted to automate certain aspects of this process, such as data capture and summarization, but significant staff time is still needed to filter, integrate, and interpret the data; few companies invest the time needed to obtain the level of information project-oriented timesheet solutions provide automatically.

For companies who do invest the time to analyze project costing data manually, entering, collating, and analyzing the data is cumbersome and costs companies substantial non-productive man-hours. By the time these processes are complete, the information collected may no longer be relevant. Companies who have automated these process have a clear advantage from a time standpoint - - they are equipped with real-time project data and are able to act faster, bid smarter, and beat out the competitor who may still be gathering data from the last project.

Automating Reduces Errors by 75%

According to the Gartner Group, fully automating the timesheet process reduces errors and staff time by 75 percent or more. Automation technologies and practices reduce improper time tracking activities and associated costs by validating project/cost code lists and monitoring approval processes electronically. Additional savings are realized by eliminating paper costs, and policy and regulatory compliance is improved.

Typical costs of time tracking applications deployment, including software, hardware and implementation, generally range from \$50 to \$150 per employee. The Gartner Group states that companies can often recoup this investment within one year of deployment through the resultant increase in both efficiency and accuracy. Because project costing with a timesheet solution gives companies insight into whether or not projects are on track, costs are in line, and resources are properly allocated throughout the scope of the project, managers are able to adjust for problems before it is too late.

How Project Costing Software Increases Profitability

With a project-based timesheet system, actual costs are consistently tracked across the company and reported for current and future project forecasting. Project managers who begin using a timesheet system immediately notice significant discrepancies that may have gone undetected before. For example, a timesheet solution makes it apparent when the actual project hours worked is about to exceed the amount of hours forecasted. Awareness of these discrepancies and anomalies makes it possible for companies to resolve issues quickly and maintain profitability. Companies are able to pinpoint exact costs because they can see which employees are working on which projects, and how much time it takes each individual to complete specific tasks.

A project-oriented timesheet solution can help decision makers and project managers answer these kinds of questions:

- Is the project currently on time and on budget?
- Are actual project costs in line with projected costs?
- How much is being spent at each phase of the project?
- What percentage of total time is being spent on each phase of the project?
- Have enough resources been allocated to complete the project?
- How much is being spent per person?
- How much is being spent per project?
- How much is the actual cost versus the projected cost per resource?
- What types of projects have the highest return on investment?
- What types of projects consistently lose money?

With this level of information, companies can hire the precise number of staff required, establish predictable profit margins, identify comparatively high cost areas, and manage projects effectively from start to completion. Project costing using actual numbers, not estimated data, gives companies a significant edge over competitors. Organizations can capture potential business from competitors by knowing exact project costs, bidding on projects accurately, and accepting only the most profitable projects.

Automated Project Costing Benefits Everyone

Once a project-oriented timesheet system is in place, its value to employees, project managers, and the company as a whole is almost immediate. Employees can count on a more balanced workload, including well-defined, predictable project assignments. With a timesheet system, it is easier for employees to enter project and time data, and they can access personal and project team data quickly. Employees also enjoy more job security because the company has a clear understanding of the resource levels needed for current and future projects - - understaffing and overstaffing due to poor planning are virtually eliminated.

The benefits to project managers are countless. Through automated time entry project managers have support data to help them plan, coordinate, and complete each phase of the project on time and under budget. With automated project costing, determining how many resources and hours are needed to complete each project is simplified. Project managers are able to maximize the financial contribution and measure their personal value to the company. This also leads to an increased sense of job security because project managers have greater control over their results. Many will be able to identify problems before they occur by reviewing current data, such as roll-up reports by project and phase that allow a project manager to pinpoint excess time and money being spent.

The company's Accounting, Payroll and Human Resources departments reap the benefit of having an easy-to-use tool for tracking billable time, payroll, expenses, vacation, sick leave, and other pertinent administrative functions. The automatic transfer of data to accounting/HR systems eliminates the need for double entry, and the resulting increased accuracy reduces time spent on corrected invoices and payments.

Executives also benefit from the ability to compare and contrast time and resources spent on different projects to determine which are profitable and which are not. With company-wide project data, executives are able to identify problems and successes with ease. Executives and decision makers can assess the data on an ongoing basis and use the information to make vital business decisions that impact the company's bottom line.

Most importantly, project costing benefits the organization's customer, who receives products and projects delivered on time and within budget. Customers can also be given access to detailed work data that allows them to track the project progress, verify invoices, and avoid billing disputes.

Why Choose a Project-Based Timesheet Solution?

- Assess projects at each phase of the project to keep costs and resources on track.
 - Track current projects and use to accurately bid future projects.
 - Use project data to optimize staffing and hire the precise number of people.
 - Multiple users can contribute data across the company for the most accurate project costing data.
 - Use data to pinpoint the most costly phases of the project so improvements can be made
 - Automated approval process saves days or hours tracking down signatures.
 - Reduces paperwork errors by a factor of 75%
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Timesheet Solutions Give Organizations a Competitive Edge

Over the past two decades, rapid increases in efficiency, a more globalized economy, and significant advances in communication have allowed companies all over the world to compete for even the smallest amounts of business. To stay competitive, all industries must be able to deliver short product runs, operate as efficiently as possible, and sometimes survive on the slimmest of margins.

When companies have in-depth project data readily available, they gain a new understanding about their profitability. Organizations can change strategy to place more emphasis on revenue-generating projects and let go of low-producing projects. Projects are rarely underbid or overbid because historical and real-time project data is readily available for budgeting costs and resources accurately. Initially, a competitor may win the deal based on a lower bid or quicker time to completion, but may lose in the end because they have mistakenly underbid the project or underestimated the time needed to complete the job. With accurate project costing data, these kinds of errors no longer occur. Companies without automated systems may be driven out of business by taking on monumental projects that they can't deliver for the price quoted.

Over the past few years, CEOs in particular are seeing the value in managing the business by project. This trend toward *management by project* has allowed organizations of all sizes to compete on a more level playing field. Even a small organization can deliver an efficient project by having insight into their actual costs and resources being used across the company. With a project costing solution in place, divisions, directors, and project managers are easily able to demonstrate their value to the organization by consistently turning out profitable projects.

Choosing a Timesheet Solution for Project Costing

Many timesheet applications are not project oriented and focus too heavily on time card and payroll functions. Project managers are often frustrated with these timekeeping systems because they are not project-oriented in nature. Even many of the payroll timesheet systems that claim to *track tasks* often cannot link to the project management systems that are already in use, and do not have the depth or breadth of entry and reporting capabilities that project-oriented applications have. Implementing a project-oriented timesheet application is the fastest path to establishing a company-wide project costing system.

In most organizations, the timesheet application is owned by the Payroll or Accounting department and is used to manage employee hours, absences, vacation, and sick leave. Project managers, on the other hand, have little use for these payroll features; they want to track all phases of the project and know how much time each person spends on projects, and what tasks were worked on. The problem is most project tracking systems (usually desktop applications) do not mesh with the company's time tracking systems (usually centralized applications). It is important for companies to find a tool that integrates both accounting and project management requirements so the tool will be well received across the organization. The ideal solution is one that has all of the time tracking and project management features that will serve both project management and payroll. For maximum value, the tool should be able to integrate with existing accounting, payroll, and project management applications already in use throughout the company.

In addition to being useful to both project management and accounting, the application selected should be a highly intuitive program that automates everything for the employee. It should be effortless for the employee to enter timesheet information, employee expenses, projects, and tasks with little effort or training.

A Best-of-Breed Solution Delivers Maximum Value

In addition to considering a niche versus total time tracking solution, evaluators must also compare the benefits of stand-alone offerings versus product suites. The project-oriented timesheet applications categorized as *best of breed* provide distinct advantages for companies. These programs are focused on the time component, rather than offering time as an add-on to other software. These timesheet solutions bridge the gaps across the company and automate numerous business processes used by accounting, project management, executives, and employees. Best-of-breed solutions are also preferred because they leverage the company's existing infrastructure, so companies are not required to discard existing programs or make new investments in IT.

A best-of-breed solution should provide configuration options for a variety of entry environments for different types of employees. The configuration should be flexible enough to mimic the employee's existing time tracking process so it is adopted quickly and requires little to no training. Because some solutions can mirror the employees' existing project tracking process via the Web, web-based

applications are considered the best for overcoming the hurdle of access to the employee's entry environment anytime, anywhere.

Features to Include as Requirements

A best-of-breed project oriented timesheet solution should include all of the following characteristics:

- **Remote Access.** Choose a solution that allows full access from remote locations so mobile workers and employees in various locales can login to a centrally maintained system. In addition to web accessibility, the solution should include offline options for time capture (i.e., email submission, telephone/voice entry).
- **Web-Based Application.** Choose an application that can be installed at one location and requires nothing more than a web browser to input and access data. The application should be scalable across multiple locations. This will reduce IT and ongoing maintenance costs, as well as the time and trouble it takes to upgrade the system. *Web-enabled* software is not the same as *web-based* software. Web-enabled software is client-side software with a limited set of its features available via the Web. Only web-based programs allow companies to bypass the problems with client-side programs which are not remotely accessible, must be installed on many individual machines and are extremely time-consuming to upgrade. Web-based applications will always result in a substantially lower total cost of ownership.
- **Automated Approvals.** Selecting an application with customizable approvals reduces a formerly lengthy process down to minutes. The tool should include a non-static workflow engine to automate the approval process so that it essentially runs by itself once it is configured. Ideally, the engine should be capable of being customized to match the various approval methods of the company, project, and/or department. The engine should also include options for approval reminders and late notifications.
- **Integration with Existing Systems.** Choose a best-of-breed time application that meets the time data requirements of the various parties within an organization *and* integrates well with existing corporate systems. Many software vendors require the customer to replace existing software and buy an entire suite of products to get only a portion of the functionality that comes standard in a best-of-breed time solution. Best-of-breed time applications do not replace other corporate systems. As a result, they must include open and flexible integration tools, including support for open standards such as XML and web services.
- **Flexible Installation and Deployment.** Installation and deployment should be very straightforward. Select a product with an architecture that minimizes maintenance costs and is easy to deploy across multiple locations. In order to leverage current IT investments, the

application should be supported on multiple platforms including a variety of browsers, databases and operating systems. Additionally, the vendor should offer hosting services for those who choose not to maintain the application internally.

- **User Friendly and Intuitive.** The application should automate everything except the initial data entry for the employee. It should also include configuration options that allow the administrator to emulate the current project/time/expense tracking process of each employee or department. With this type of solution, little employee training is needed and user acceptance is extremely high.

Products to Avoid

There are some timesheet systems on the market that have specific shortcomings with respect to time capture for project costing. These characteristics can result in a lack of acceptance, increased administration costs, customization fees, and other ongoing problems that can significantly reduce the ROI for companies. Products that are not categorized as project-oriented or *best of breed* should be avoided.

Narrowly Focused Applications

Many time tracking systems only capture time for a single purpose. They may focus more on tracking employee time for payroll purposes or professional billing. In order to realize the greatest gains in terms of project efficiency and overall corporate profitability, a broader time reporting solution should be selected.

Client-Side Applications

Some products claim to be web-enabled but hide behind a thin web veneer. Web-enabled is not the same as web-based. Most products that present themselves as “web-enabled” require a client-side component. Web-enabled applications can only offer a limited set of their features for access from a remote location. The full functionality can only be accessed on the specific machine on which the client component is installed. Client-side architecture is more difficult and costly to maintain than the web-based counterparts.

Weak Reporting Features

The timesheet application should have flexible report creation and modification abilities, as well as prepackaged reports. Products that provide only a set of canned reports may require the customer to pay additional fees for custom reports or supplemental software to create reports to fit their needs.

Limited Scalability

Company-wide time tracking systems must be able to handle large and complex sets of data. Most of the software on the market today cannot scale for thousands of projects and employees.

Additionally, they do not support the deep levels and work breakdown structure of the project-task hierarchy that are required for a typical project plan. Without a robust interface and support for enterprise quality installation options (i.e., support for multiple technology platforms) the timesheet application will not be able to expand as the company grows.

Measuring Time is Imperative to Profitability

It is essential that companies have a system in place that houses dynamic project, cost, and profitability data. Today's competitive players need to be smarter, faster, and more accurate in forecasting projects and allocating resources. Without an automated timekeeping mechanism in place, it is difficult for organizations to understand and improve the many time and project-related variables that affect a company's profitability on a daily basis. Companies who fail to recognize the need for efficient project costing may not survive in the long-term. Organizations who implement a best-of-breed timesheet solution are in the most advantageous position because they have the data needed to understand how time, projects, and the people who work on them impact their profitability.

"Time is the scarcest resource and unless it is managed nothing else can be managed."

- Peter F. Drucker