Closing the loop (profit & cashflow)

I was working with a client this week, they manage large projects. A disturbing picture came to light during the discussion.

First, they tender for the job. All tenders are "guesstimations" to some extent, but with this client the "guess" seemed to play the larger part.

Then the Project Manager puts his budget together.

There is no process within the company to allocate actual costs to projects as they are incurred. So at the end of the project, the Project Manager knows what the budget was, but has no idea of how much has actually been spent delivering the project.

And finally, there is no comparison of the tender to the actual cost of the project at the end of the process.

All of this of course means there's no way of measuring how effective tendering is, and how good delivery against budget is. And what we don't measure, we rarely improve!

There is a gut feel within the business that some jobs are very profitable, whilst others are appalling.

One particularly large contract went very badly, but the Project Manager was adamant that it had been a complete success: "The customer was really happy". When it was pointed out that the company had probably lost a shedload of money on it, the response was: "Oh. That's a shame!"

Tendering and budgeting are vital to our success. How do you find out how good your tendering and budget management processes are? How do you improve them?