

Project Business Management

You Manage Customer Projects? – Let's Talk Money!

Oliver F. Lehmann

*"Without supplies, no army is brave."
Frederick II of Prussia, called "The Great"*

Summary

Based on a recent case of a defaulted project provider in the United Kingdom, the author recommends to put a stronger focus on profitability of customer projects, a topic that is rarely discussed in project management. This profit is needed to protect the performing company and also people and other organizations that depend on its health.

Customer Projects between Need and Greed

A Major Project Vendor Goes Insolvent

On January 15, 2018, the United Kingdom's second-largest² construction company Carillion PLC collapsed. The company was a global major player in building, infrastructure, and services. Carillion employed 43,000 people worldwide, including 20,000 in the UK. It was reported that "the company was hit hard by cost overruns on projects" as well as delayed payments from customers³ that turned these projects into loss-bringers. The company was a



Figure 1: The famous donut shaped Headquarter of British GCHQ intelligence service was a Carillion project (©GCHQ 2014)

¹This is the 6th in a series of articles by Oliver F. Lehmann, author of the book "[Situational Project Management: The Dynamics of Success and Failure](#)" (ISBN 9781498722612), published by Auerbach / Taylor & Francis in 2016. See full author profile at the end of this article.

² (TCI, 2017a)

³ (BBC, 2018)

contractor in major construction projects, including the headquarter of the British GCHQ intelligence service and the Tate Modern building. It also provided ongoing services for public hospitals, road maintenance, provision of school meals and ran even prisons. The portfolio of the company was wide, the core business however was obviously construction and therefore project management.

According to the information that is publicly available, the company has been knocked out by a double-whammy:

- Loss-making projects ruining the profitability of the company
- Late payments from customers, battering its liquidity

Carillion did not make enough profit to build the reserves that would have allowed the company to cope with late payments without running into liquidity problems. At the same time, the company suffered from shortage of liquid money in customer projects, a sticky situation that commonly leads to decisions that are not made in order to support long-term profitability and ensure a happy customer, but to survive the current day and still be able to report some process at any costs.

The problem is not limited to Carillion and its customers, most of them obviously public agencies. The company's default also hits its estimated 30,000 subcontractors⁴. One may carefully assume that about half of them worked for Carillion in projects. This gives an impression of the jobs that are at stake on top of those inside Carillion. Many of these subcontractors are waiting for payments for orders that they have fulfilled or for which they have ordered goods and booked resources that they will need to pay for, but the default of their customer Carillion will have to make them write off the majority of the invoiced amounts. Even the complete loss of their outstanding payments is something they must consider. In addition, most of them will have resources blocked for future work at Carillion, making them unavailable to gain income from other projects and are now facing idle times or lay-offs.

Many of these subcontractors may in turn have sub-subcontractors, and so on, and the loss of income from the project business at Carillion is trickling through this network of vendors distributed over various tiers. The number of jobs at stake in Carillion's project supply network (PSN) is probably much higher than the jobs lost inside the company, and the effect on the pensions of current and former staff will also be massive.

It is even more alarming, when one looks at the company's turnover and its pre-tax profit and margin⁵. According to the British "Construction Index", Carillion was on the second place in UK regarding turnover, but on the first place regarding profit in absolute numbers. The company was on the 48th place in margin (profit as a percentage of the turnover), which means that among the top-100 British construction companies, 99 were less profitable in

⁴ (Goodley, Sabbagh & Kollwe, 2018)

⁵ (TCI, 2017b)

absolute numbers, 52 when one puts these numbers in relation to their turnover. These companies are in an even worse position to cope with sudden problems like delayed payments or defaulting customers. Among their customers may possibly even be Carillion, if they worked for the company as a subcontractor.

Former transport minister Andrew Adonis is quoted: “It is a bit like Lehman Brothers⁶. You don't know what the impact will be. A very large part of Carillion's work was project management where subcontractors do the work, but these subcontractors don't know if they will be paid.”

Carillion is used here as a recent example. The same problems can be found in other countries, other industries and at other times. Project Business Management is high risk business for all parties involved, and while the lure to tap resources of other companies is high, the dependencies that come with them can easily amplify problems of organizations and make them problems of other organizations too.

Greed or Need?

Media speak of “Greed”⁷ in the context of this bankruptcy, and greed of individuals may well be present in the case, something the public and possibly courts will have to decide, when more details will be known. A company on the way into insolvency is often a victim for looting, as people do not perceive it as an asset that merits loyalty and as a blessing for the own future as an employee or business partner. Many perceive such a company rather as a burning house, that can be plundered without remorse, the valuables taken away would otherwise be lost in the fire anyway.

As a company, Carillion was probably not too greedy, but it was not profitable enough. Excessive profit-orientation of a company that acts in one or more projects as a contractor for customers can be a manifestation of greed and damage a project. In most cases however, making profit is rather a need, in order to avoid a disaster such as the Carillion insolvency. This need comes together with the other need of making the customer happy.

The need to make profit mostly relates to the present, because the profit is needed to let the company survive. The happy customer relates more to the future, where the easiness or difficulty of winning new business—and particularly winning good business—depends very much on a success record and on the credibility and trustworthiness that the organization has built with its customers so far.

It often seems that these two objectives—profit and customer satisfaction—compete with each other. This perception is for example created, when contractor profit is made at the expense of the customer. It is also formed in the opposite situation, when customer

⁶ The US investment bank that collapsed in 2008, leading to a global finance crisis.

⁷ (Gregory, 2018)

satisfaction is ensured with costly measures that crash the profitability of the project and the organization that performs it. This apparent dilemma dissolves when customer satisfaction is seen as a foundation for better business in the future, but this understanding needs perseverance and stamina, two qualities rarely found in JAM organizations, firms that are “Just about managing” and struggle to survive the day.

How Profitability Lost its Appeal

The author of this article grew up in a time, when profitability was regarded as sexy. In the ruins of post-World War II times, making money promised to evade the misery that was still present in major parts of the world, following the immense destructions that it had caused. Money may not bring happiness, but poverty makes most people deeply unhappy. Profitability on a personal as much as an organizational level came with the proposition to end the unhappy times, and bringing money home seemed the most important task of all. People looked mostly inward, into their wallets, except when they compared themselves and their success with their neighbours or colleagues, often measured by the size and modernity of their house or the urbanity of the car that parked in front of it.

For many, the fixation on profit ended, when the physical needs were mostly satisfied, and people's ideals turned to other topics. The author of this paper could observe, how the topic of monetary success lost this appeal, in Europe mostly in the late 60s and in the 70s. Other topics replaced it, including social and environmental responsibility and the question how to sustain peace in the presence of growing arsenals of nuclear weapons. Many people looked more outward and asked themselves, how much responsibility they have for the world in which they are living.

Particularly in the field of business disciplines like project management, the 21st century sees now a greater interest in matters of leadership, strategy, and organizational agility. For organizations, the focus is again inside its internal structures, but now more dedicated to the people that build these structures.

In project management, this development is also observable. The first edition of the standard “A Guide to the Project Management Body of Knowledge (*PMBOK® Guide*)”⁸ in the mid-1990s focused mostly on technical issues of project management and the diverse documents, tools and techniques. Mostly developed since the 1950s, the *PMNOK® Guide* collected them as “good practice for most projects most of the time”.

The latest version, named “A Guide to the Project Management Body of Knowledge (*PMBOK® Guide*), 6th Edition”⁹, far more emphasizes on questions of roles, particularly the

⁸ (PMI, 1996)

⁹ (PMI, 2017)

role of the project manager, and on the various forms of embedding of the project inside performing organizations.

Over most parts of the book, the projects discussed are rather internal projects, focusing on

- Implementing organizational strategies
- Bringing change into organizations
- Exploring new opportunities for the organization
- Meeting requirements imposed by law or by contract
- Developing new products and services
- Building infrastructure for own purposes
- (Etc.)

When the word “customer” is used—it actually has 184 instances in the book—it is generally ambiguous whether it refers to an “internal customer”¹⁰ or a real customer paying for the services and deliverables provided by the contractor. In the context in which it is used, the assumption that it mostly means an “internal customer” is well-founded. The word “profit” turns up only 12 times. Only two of these instances refer to own profit made as a contractor, not one of them describe this profit as a key motivator for organizations to perform customer projects.

Literature on project management has the same focus. The same is true for education in project management, speeches in congresses and similar events. These and other opportunities for project managers for professional development widely ignore the world of customer projects, that is to some degree similar to internal projects, but then follows motivators and rules that are widely different.

Performing projects to bring money home and satisfy a paying customer with the intention to make him come back and bring friends with him seems not to be considered a “sexy” topic in the discussion circles on project management in our time.

Performing customer projects is an essential part of Project Business Management (PBM). It describes the contractor side. PBM also considers the customer side, where project managers need to develop skills to engineer and manage complex project supply networks (PSNs). This article focuses on the contractor side, but both sides must be understood to get the full grasp of PBM.

Many project managers know, that they should get education not only in their home discipline, but also in legal and commercial matters, in addition to their technical, organizational and interpersonal training that they already get. Companies that are active in this field also report the need for more business education for their project managers, but turning a need into a demand for literature, training and other forms of professional development will still take its time.

¹⁰ A better term would be *internal requestor*. The “internal customer” is no partner or party under a legally enforceable contract and brings no money into the organization by paying invoices.

PBM has more shortages. There is for instance no software offered to manage project supply networks collaboratively across company borders.

The Relevance of Customer Projects

Figure 2 is taken from the book “Situational Project Management: The Dynamics of Success and Failure” by the author of this paper.¹¹ It shows the results of a survey done with project managers from a globally active learning group in LinkedIn. The question was, whether the respondents are active in internal projects or in customer projects.

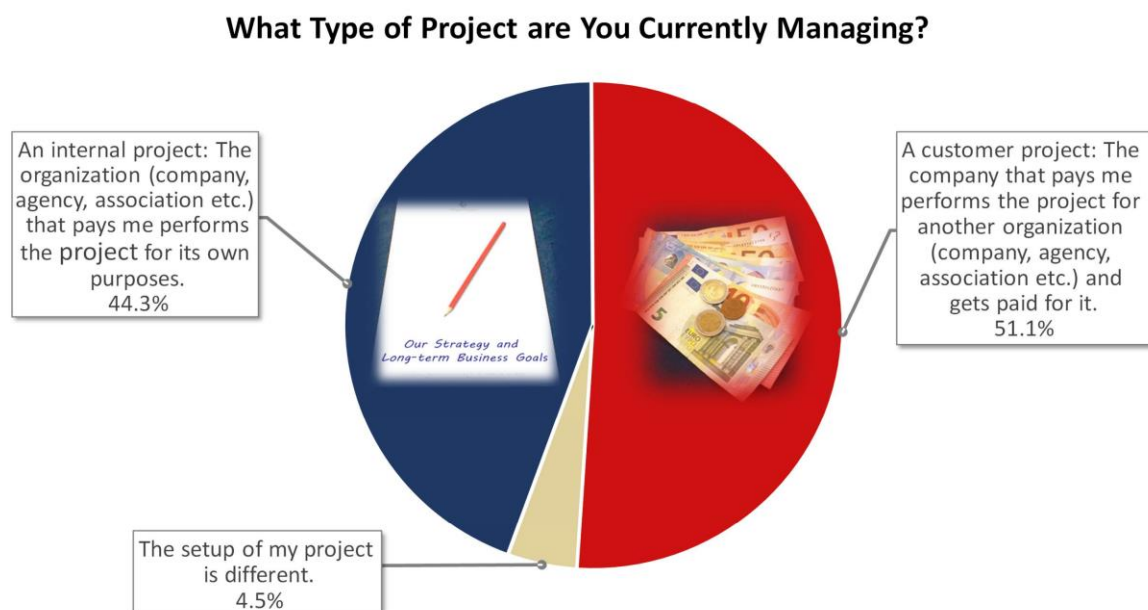


Figure 2: Responses of project managers, asked whether they work in internal or customer projects. (Time: October and November 2015, n=246)

The responses were distributed almost evenly over the two groups, with a slight overweight on the side of project managers in customer projects. With the focus on internal projects, as it is found in literature and other forms of professional education and instruction, many very specific needs of about half of the project manager community are not addressed.

Another survey showed, that project management performed as a business for paying customers is robustly growing business¹². Project manager from different areas of the world and in projects of different size communicated consistently that there is a strong trend in organizations towards buying more project work from outside the organization. One can predict that the future distribution will see an even larger overweight of project managers in customer projects over those in internal projects.

¹¹ (Lehmann, 2016)

¹² (Lehmann, 2017a)

Business Aspects of Project Management for Paying Customers

The example of Carillion shows the need for the development of business acumen by project managers, and also of project management acumen by business managers.

Business managers generally assume that their project managers need to be better trained in project management. When a project fails to make profit and to satisfy customer requirements, the problem is generally considered a project management problem.

A common criticism against project managers is then, “our project managers are not sufficiently customer-oriented and they ignore that the project must bring money home. This should be an essential skill of every project manager.”

Project managers in turn see the root cause of problems in insufficient business management by those, who develop the business with the customer as well as by those who supervise the project, often an entire portfolio of projects, from a management standpoint. Then, their complaints sound similar to “our sales people sell projects that we cannot deliver, and our managers fail in giving us the resources that we need to make profit and also make the customer happy.

Figure 3 gives an example for that. A question asked to project managers in a global corporate meeting, which is their strongest obstacle from being successful in their projects. They had to type the name into a field in a web page, and the software then created a word cloud, with the word named most frequently in the middle and large, and less often named words smaller and surrounding this word. The word was “Resources”.



Figure 3: Responses of project managers at an event with project managers to the question, which problem area needs most attention to allow projects becoming successful.¹³

¹³ Used with permission of the customer company under the condition that the company's name is kept invisible.

One should note that the word turns up 4 times, also in singular and in French spelling with “ss”. If the spelling of all participants would have been the same, the dominance of the word would have even been stronger.

For an organization doing customer projects, this observation has two effects:

- **Stabilization of the business:**
 Resource shortage is among the most important reasons for buying organizations to tap the assets of seller organizations and use them as contractors. A growing market signals, that this resource shortage is not getting easier.
- **New threats:**
 It may be hard for the contractor to obtain all resources to the project that are needed for commercial success and to finish the project timely.

Another aspect is the ratio of billable work to the overall effort it takes to do customer projects. Figure 4 shows a typical lifecycle in Project Business Management (PBM), beginning with the Make-or-buy decision by the seller, when the Buy-option has been chosen. The lifecycle ends when the final deliverables have been handed over, accepted by the customer, and when the last invoice has been paid. In the example, Seller #1 will probably have the time between the project contract signature and the close-out of the contract to generate income. Sellers #2 and #3, who did not win the contract, have only effort and expenses, but generate no income from the business.

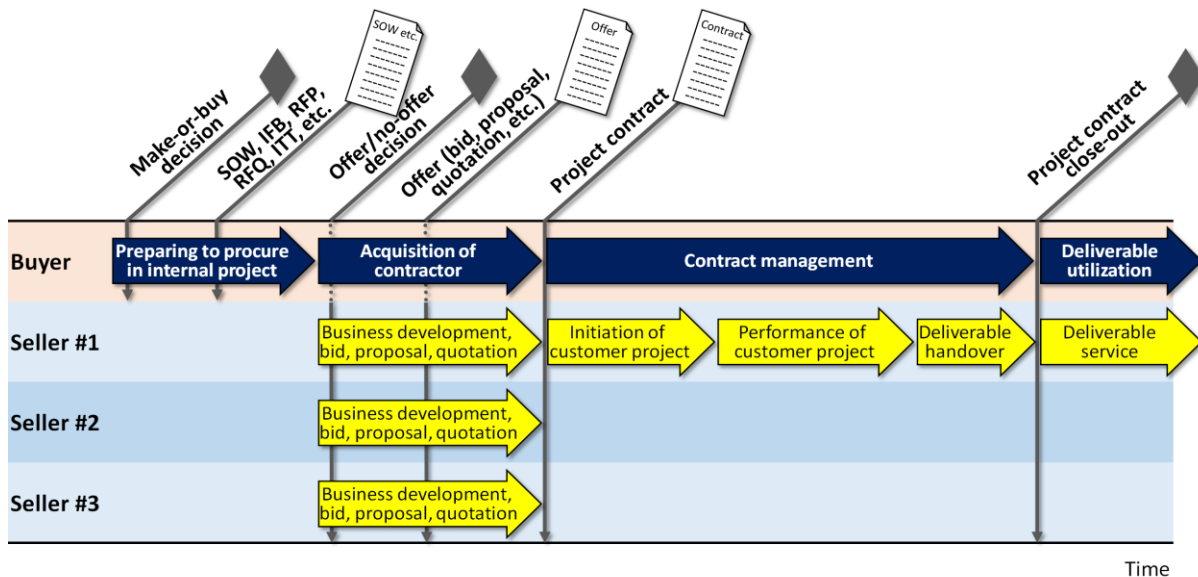


Figure 4: A typical PBM lifecycle.¹⁴

The income must cover all costs upfront, and possibly some future costs like handling complaints and warranties.

¹⁴ (Lehmann, 2016)

The organization will have in addition indirect costs that do not relate directly to the projects that they do for their customers but occur to be in business and keep the organization managed and organized: Facilities, overhead, insurances, book keeping and many more. Project managers in customer projects are often not sufficiently aware that their projects must help cover these costs too.

Figure 5 illustrates a simplified marginal costing model for a provider of customer projects with a portfolio of six projects. The sum of the margins made by the individual projects must first pay the organization's general and administrative costs (G&A), before the profit of the company (before taxes) can be calculated. The company in the example may seem not very profitable at 10%, but as a Carillion was reported to have made 2.8%, the number is at least in comparison quite good.

| | Payments from customers | Cost for contractor | Margin for contractor | |
|--------------|-----------------------------|---------------------|-----------------------|--------------|
| Project 1 | 12,500,000 | 8,150,000 | 4,350,000 | |
| Project 2 | 153,000,000 | 119,000,000 | 34,000,000 | |
| Project 3 | 9,800,000 | 8,200,000 | 1,600,000 | |
| Project 4 | 231,000,000 | 165,000,000 | 66,000,000 | |
| Project 5 | 16,000,000 | 10,900,000 | 5,100,000 | |
| Project 6 | 93,000,000 | 54,000,000 | 39,000,000 | |
| Total | 515,300,000 | 365,250,000 | 150,050,000 | |
| | General & administration | | 98,000,000 | |
| | Profit from projects | | 52,050,000 | 10.1% |

Figure 5: Simplified costing model for a provider of customer projects with a portfolio of 6 projects¹⁵

It seems that many project providers creep around a profit between 2% and 6%, definitively not enough for these organizations to deal with inconvenient surprises like customers paying late or sudden crises in customer projects.

In the already mentioned ranking of the top 100 British construction firms, 13 are even making a loss. If they are not able to cruise back into the profit zone, they are at risk to default even without such surprises. Permanent lossmaking is not sustainable.

The examples show, that profitability is not generally a sign of greed. It is a need for companies to survive, stay healthy, and give certainty to those who depend on them, including employees, customers, contractors and other business partners.

It is time for project managers in customer projects, but also their managers, to talk openly about this need. Project Business Management needs to develop new tools to secure sound profitability and reduce the risks that come with customer projects, risks that are very high, given the tight dependencies between the players in project supply networks (PSNs). More

¹⁵ (Lehmann, 2017b)

education is definitively needed, but also new software that is dedicated to PBM, methods that help cope with the complexity and the dynamics of success and failure in PSNs.

What is foremost needed is to talk money again. As long as experts and thought leaders consider profitability from customer projects unworthy their analysis and proficient expertise, cases like Carillion will happen more often than what is unavoidable. Corporations need Project Business Management to get the people and other resources that are able and willing to help them protect their presence and future.

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About the Author



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Oliver F. Lehmann, MSc., PMP, is a project management author, consultant, speaker and teacher. He studied Linguistics, Literature and History at the University of Stuttgart and Project Management at the University of Liverpool, UK, where he holds a Master of Science Degree. Oliver has trained thousands of project managers in Europe, USA and Asia in methodological project management with a focus on certification preparation. In addition, he is a visiting lecturer at the Technical University of Munich.

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