

***Project Business Management*^{1,2}**

Projects as Profit Centers—Must We Go Back to Square One Again?

Oliver F. Lehmann

“Be willing to be a beginner every single morning.”
Meister Eckart

Summary

The growing percentage of project managers in customer projects over those in internal projects shows that many practitioners are changing their professional focus and follow the demand on the job market.

However, they should be aware that this change brings a number of new challenges upon them for which they may not be sufficiently prepared.

Jack Miller³ had been an internal project manager for more than 15 years.

He had introduced hardware and software in the company, in which he was employed. He developed new products and services and brought major change to the organization. Being on time, on budget and delivering what was expected were among the criteria against which he was measured. Others were organizational disruptions—the projects were essentially cost centers, the profit was made by others in the company—and how well or poorly the projects integrated themselves into the functional organization.

¹This is the 11th in a series of articles by Oliver F. Lehmann, author of the book *“Project Business Management”* (ISBN 978-1138197503), published by Auerbach / Taylor & Francis in 06-2018. See full author profile at the end of this article. A list of the other articles in PM World Journal can be found at <https://pmworldlibrary.net/authors/oliver-f-lehmann>.

² How to cite this article: Lehmann, O. (2018) *Projects as Profit Centers—Must We Go Back to Square One Again?*, PM World Journal, Vol. VII, Issue X (Oct).

³ This is the case story of a seminar attendee before he attended one of my classes. The name is changed.

Tasks of Project Managers in...

Cost Centers

- Driving internal change
- Implementing the organizational strategy
- Developing new products and services
- Improving existing products and services
- Updating and overhauling systems

Profit Centers

- Making the paying customer happy
- Meeting contractual obligations
- Bringing money home
- Protecting profitability and liquidity



Image 1: Project managers in internal projects (cost centers) and customer projects (profit centers) have different core tasks.

Mao Zedong once famously said, “A revolutionary must move among the people as a fish swims in the water”, and Jack, considering a project manager a kind of disruptive guerrilla, moved inside his organization with confidence and success. He furthermore changed this organization: Over the years, it had turned into a modern, effective, and highly efficient operational powerhouse, and this was to a major part owed to his work. He considered himself a man of success.

Then he had to change his job. In his next company, he was again project manager, but was assigned with managing contractual projects. The company made money by performing projects for customers, and Jack was tasked with doing one of them. For some customers, the company provided resources that had to be integrated with the customer’s own resources. In others, the customer actually farmed out the entire project to a contractor. In some projects, his new company was just the only contractor. In others, it was part of complex *Project Supply Networks (PSNs)* that no one fully overlooked, understood, and managed. These PSNs were continuously changing, and a company that was a subcontractor today could later turn into the role of a prime contractor, and vice versa.

Jack took over a complete project performed directly for a customer.

Jack felt well prepared for the new project. He had enjoyed a good qualification in project management, was even certified, and had many years of experience. It came as a shock for him, that he found out that he was not well qualified for them at all. He faced many new and unexpected problems, among them:

- **The unknown customer organization:** Jack’s success so far was built on his great understanding of the company and its structures. He had been employed there for years and was familiar with the people involved. He had observed their interests, desires and fears and was aware of friendships but also hostilities among employees and how these led to good and bad decisions. When he needed support, he knew

where to find it. He securely navigated in the complex system of trust and distrust that any organization is.

In the customer organization, to whose project he was assigned, he had no such knowledge. He had to learn through trial and error the lines of direction and communications, threatened the project by trusting the wrong people and lost time and opportunities by distrusting people, who would have been worthy of his trust. He failed to see the build-up of resistance by customer employees as much as he failed to utilize support that would have been at hand for him.

- **Different success metrics:** Working in customer projects for his new employer, Jack was measured by the results of two tasks: Bringing money home and making the customer happy.

The income generated by the project secured the company's immediate survival including its ability to pay wages to Jack and his colleagues. It was also necessary to keep the organizational functions working and maintain the company's assets, that are basis for its ability to do projects for customers.

The happy customer was necessary to safeguard the company's future. Jack's employer had the intention to become the incumbent provider for projects to the customer, which makes it easier (and cheaper) to win future business. The customer would also be a valuable reference customer to win business with other customers and their projects.

Often, Jack found his project in a situation that he could be good in only one of the two metrics, when making the customer happy meant to go the extra mile, whose additional costs impacted the profit from the project.

- **The specific project lifespan:** Initiating an internal project is a business decision by the performing organization, and so is ending it. Some companies formalize the process, most do it ad-hoc, when a manager sees the need for a new project. In both cases, the process is an internal one.

For a customer project, starting the project includes a series of difficult business decisions that involved a number of stakeholders, and so is ending it. Jack was not familiar with the number of stakeholders involved in this process in the own organization, including business development, sales, contracting, and of course the legal department.

He also had to learn how these stakeholders were mirrored by a purchasing department and corporate counsels on customer side. While he came late into the project after the contract had been signed, many key decisions had already been made by that time, and no one had been in a position to validate, whether these decisions were feasible and sensible or not.

The ending side of the project also included a number of business decisions, before

the contract could be finally concluded and—apart from warranties and after-project services—the business could be considered fulfilled. Or terminated.

Image 2 shows this lifespan, which includes more steps than that of an internal project.

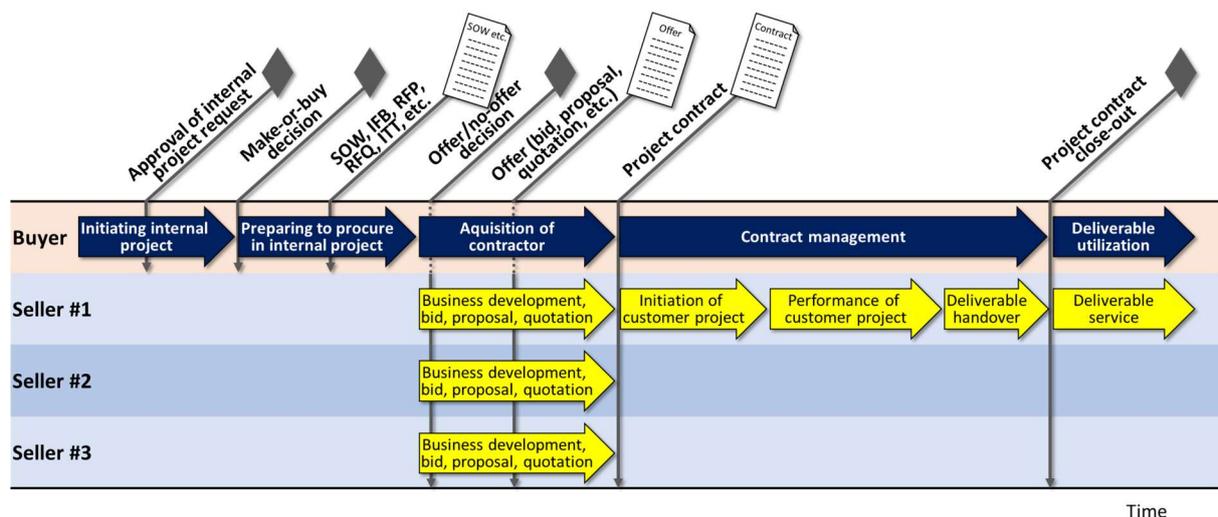


Image 2: The lifespan of the customer project, including business development and after-project service.⁴

- **Benefit realization:** It is true for the majority of customer projects that the last payment ends the benefit realization from the project. This is at least true for financial benefits. Benefits not generated by that time will not be generated in the future, at least on the monetary dimension.

There may be some non-monetary benefits, such as a great reference, entry into a market, skills developed in the project and a shelf filled with solutions developed that may be reusable in future project. Ongoing service business may be another future benefit.

However, as most customer projects are done with the intention to bring money home, the primary benefit is obviously the income generated during the project.

- Jack was instead used to have the benefits lying in the future, and in his old company, most discussions about the project focused on this outlook (see Image 3).

Considering payments from a project customer the main benefit, at least for the own organization, was an unfamiliar concept for him.

⁴ Taken from my book „Project Business Management“ (Lehmann, 2018a)

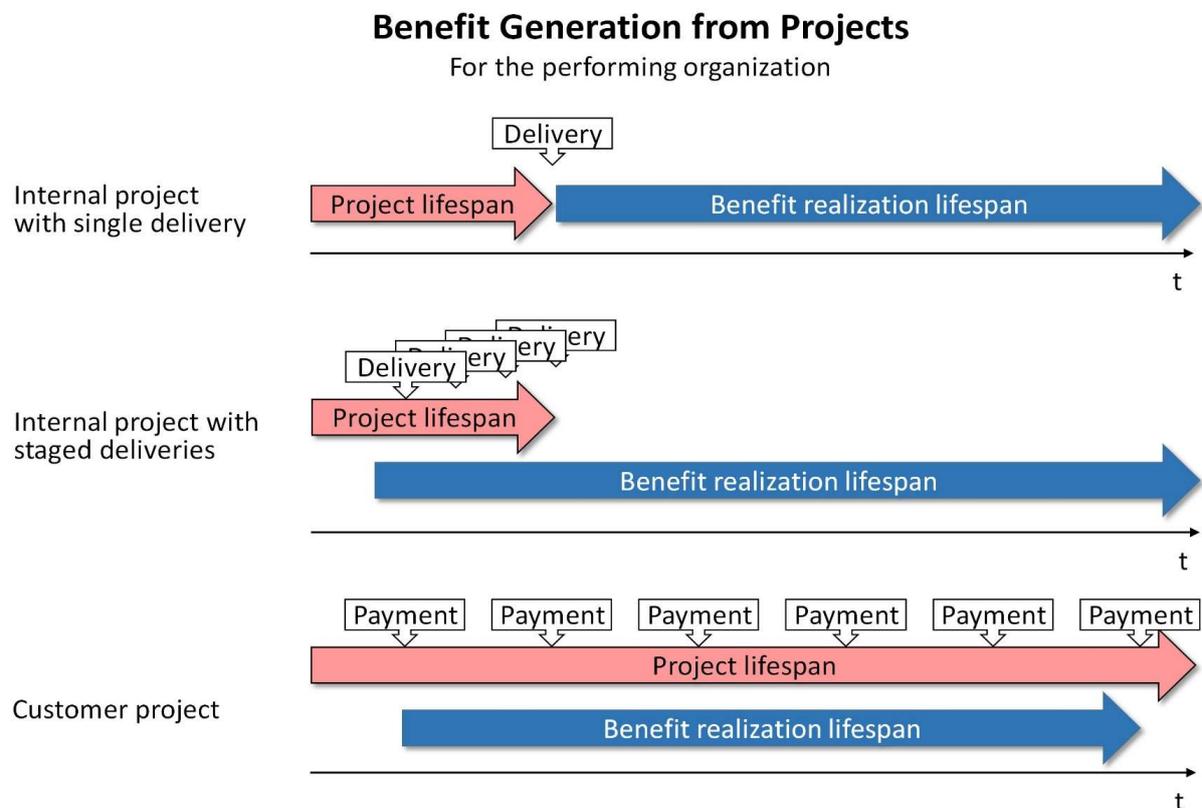


Image 3: The benefit realization lifespan of an internal project (with or without staged deliveries) is mostly in the future. Benefit generation from a customer project generally ends with the last payment.

- **The need to ensure liquidity:** In Jack’s internal projects, project documentation was mostly considered secondary. Often necessitated to meet legal requirements, but definitively not something to go the extra mile for on top of formal requirements.

In his customer project, documentation was the basis for invoicing. Late documentation of work and progress led to late billing by the contractor. This in turn caused delays to payments by the customer and finally stretched the contractor’s credit lines.

Being customer oriented to the marrow, Jack needed to be reminded from time to time that the contractor was his employer. It was the contractor, who sent him his monthly pay checks. It took Jack a while to learn that documentation was not a nice add-on to the essential deliverables of the project but an vital part of the survival strategy of his employer needed to limit the amount of outlays for the customer project.⁵

⁵ In my February 2018 article on the insolvency of the British construction corporation Carillion, the immediate cause of the insolvency was not lack of profitability but overstretched liquidity (Lehmann, 2018b)

- **Conflicting business interests**⁶: In an internal project, there is just one business interest: that of the performing organization. In a customer project, there are at least two interests to consider, the customer's and the contractor's, and at times in Jack's customer project, they were congruent, but there were other moments, when they were hard to reconcile.

In complex Project Supply Networks (PSNs), each additional company involved came with its own business interests. This added a level of complexity to the project that was so far unknown to Jack.

- **The legal character of a contract**: An internal project in crisis ends as a worst case with a decision by management to terminate it. If the project is purely internal, it is likely that the failure of the project will be never be published. The embarrassing fiasco will instead be rather swept under the rug.

A customer project is done under contract and by definition, this means the worst case is that it can end at a court. Court cases about projects may seem rare, but when they occur, they consume a lot of time and money, but also management attention, a company's most scarce asset, which will then be lacking to do the business. In addition, they make the public aware of the project failure.

Some contracts include clauses for ADR (alternative dispute resolution), such as arbitration or mediation. ADR may avoid the publicity aspect for the failed project, but it also consumes time, money, and management attention.

Jack had to learn that in every communication, he had to consider how it could be used in such a worst case scenario by any of the parties.

- **Dependency on the customer**: Customer projects are high risk business for all parties involved. In order to proceed with the project as scheduled and bill the work done, Jack's company often had to rely on the customer meeting obligations timely in form of provisions (deliveries by the customer to the contractor) and enabling services (provided to the contractor).

It was a new experience for Jack to find that the customer was often late with meeting such commitments and that this became an obstacle to project success both technically and commercially that was hard to overcome. Jack was actually seasoned in effective risk management, but he had never come across this type of risk before.

- **The significance of the contract**: The contract in a customer project is the single most important document. Together with potential amendments and addenda, it constitutes the part of the agreement between customer and contractor that will be assessed first in the worst case of legal action.

⁶ In research I did in 2017 on the frequency of causes of conflicts in PSNs, conflicting business interests ranked first. This was followed by diversity of cultures, legal systems and moral compasses on the second rank and by incompatible egos on the third (Lehmann, 2017).

Jack was not fully aware of the contents of the project contract. There are various common reasons why a project manager would be unmindful of it:

- The project manager has never been shown the contract.
 - The project manager was shown the contract, but given pressing time frames never took the time to read it.
 - The project manager read the contract, at least partially, but written in cryptic legalize, did not understand it.
 - The project manager read the contract, but given the ever changing requirements on the person, forgot important obligations laid down in it at an early time.
- **A different understanding of the task:** For a while, Jack rejected the understanding that he shares responsible for the profitability of the project. The price agreed with the customer was negotiated by sales people, and his job was to deliver. If the price was too low for a profitable project, it was not his fault. Time and again he strongly insisted that he was a project manager, not a business pro.

Jack had to learn that profitability, as much as liquidity and customer happiness, were in his domain of responsibility. By trial and error, he learned over the years that by managing a project for a customer, one becomes a project business manager, and as such has responsibilities beyond those of internal project managers.

The trials costed money, but particularly the errors became very expensive.

There were many more problems that Jack faced in his first customer project. Problems that came as surprises to him despite his vast experience in managing projects. His experience was just limited to projects of another type, internal projects, and when he formerly talked of a “customer”, he meant in “internal customer”. An internal customer is just a model that may sometimes be helpful, but he had to learn that a real customer is an entirely different thing.

One can condense the difference by saying that Jack was well qualified to manage projects that were cost centers, but in his new job, he was tasked with managing profit centers. He was unaware of the specific terminology of the business, of the tools and techniques that are appropriate in a customer project such as *Benefit Engineering*, of the different requirements that he was expected to meet, and of the differences regarding his role as a project manager.

Table 1 gives an overview of the major differences between the two types of projects.

As Professionals in Project Management, Where Do We Stand?

Project management across literature, standards, association lectures and discussions, and professional qualification has a clear focus on internal projects.

An example is Table 1-1 in the Guide to the Project Management Body of Knowledge (*PMBOK Guide*) 6th Edition⁷. It describes factors that lead to the creation of a project. The signatures under a contract by a contractor and a customer to do a project against payment is not among them⁸.

In literature, the general focus is on internal projects with their strategic contribution to the future of the organization. Commonly used buzzwords today are “Agile transformation”, “Servant leadership”, “VUCA” (Volatility – Uncertainty – Complexity – Ambiguity) and similar hypes, but they are generally discussed as topics internal to the organization. Ignored are development that extend over the limitations of a corporation such as customer projects, performed to bring money home.

Professional education has similar limitations. Congresses, catalogues of training providers, and also offerings in Academia show a general ignorance (or avoidance) of the commercial aspects of customer projects and of the connective qualities that the leaders of these projects must have.

In literature, apart from my own book on “Project Business Management”⁹, I am aware of only two other book on the topic, Bruce Hornby’s “Commercial Project Management”¹⁰, which describes a process for PBM, and Ian Heptinstall’s “The Executive Guide to Breakthrough Project Management”¹¹, which focuses on application in a construction environment using Critical Chain method.

Therefore, while there are many offerings for the qualification of project managers to manage internal projects, project managers in customer projects must develop the specific skills and knowledge purely by trial and error. An expensive way with many private risks, but also business risks.

I wondered, whether customer projects are something exotic, a market too unattractive to be addressed with offerings for professional education. To know more about that, I did two surveys asking project managers what kind of projects they are currently performing or have recently finished, one survey in 2015, the other one in 2018. Image 4 shows the results.

⁷ (PMI, 2017, p. 9)

⁸ I was recently pointed to the seventh factor in the table, which names “customer request” as such a factor. In the example of the PMBOK Guide, this is however an internal project, that will allow for an operational service, providing electricity for an industrial estate, and the income will be generated by operations, not the project.

⁹ (Lehmann, 2018a)

¹⁰ (Hornby, 2017)

¹¹ (Heptinstall, 2016)

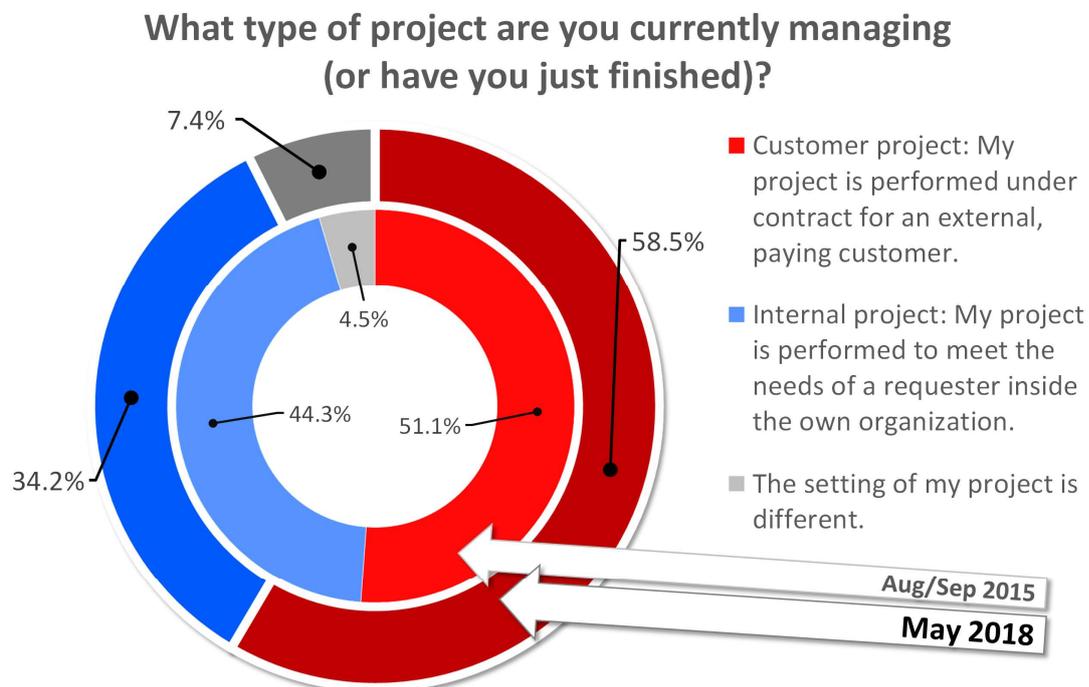


Image 4: Responses to two surveys asking for the percentage of internal project managers vs. those in customer projects with N = 245 (2015) and 325 (2018).

In the first survey (2015, inner circle), there was a small dominance of customer projects over internal projects. In the second survey done almost 3 years later, the dominance had grown significantly.

This trend confirmed the results of another survey I made in December 2016. I asked project managers for their recent experience in Make-or-Buy decisions and also for their expectation for the future. Responses could be made on a seven-step scale from -3 (Make chosen more often) to +3 (Buy chosen more often).

For both, recent experience and future expectations, there was a significant dominance of Buy chosen, as shown in Image 5.

When the *Make-or-Buy* decision is answered with *Make*, the result will likely be an internal project. A *Buy* response will instead lead to a customer project for another company, the contractor, or for a number of such companies, which will then build a Project Supply Network (PSN).

Trends in Make-or-Buy Decisions

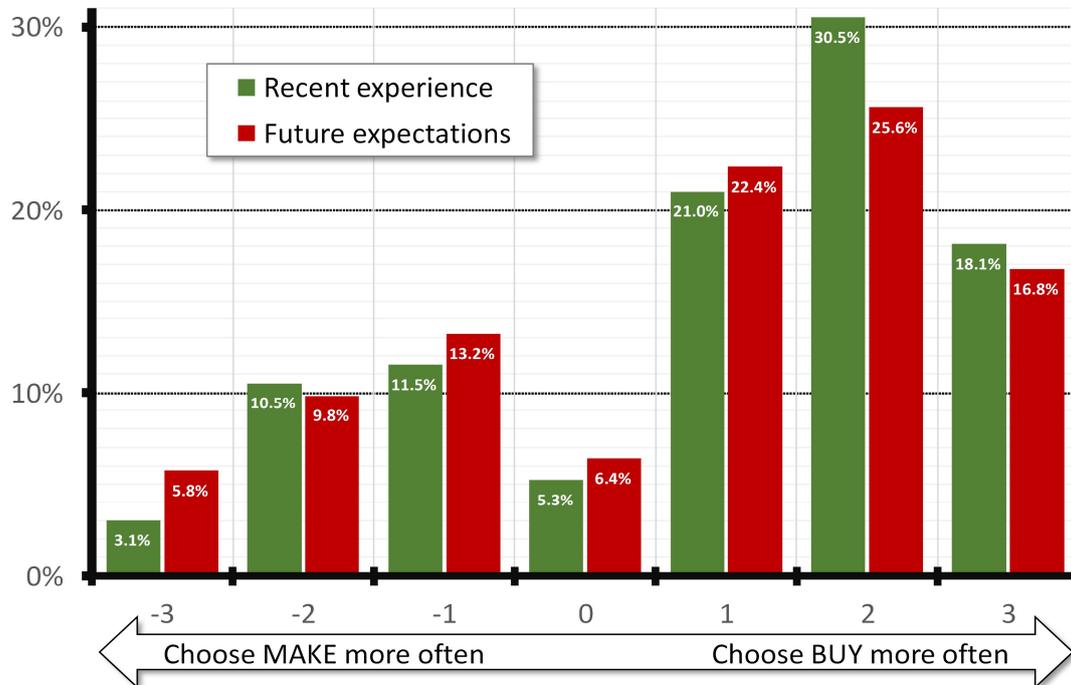


Image 5: Trends in Make-or-Buy decisions per Dec. 2016, n = 590.

Project Business Management

Project management must add business knowledge to its portfolio of knowledge areas to be able to professionalize customer projects like internal ones. Business understood here as the activities that happen between two or more organizations, commonly as paying customers and delivering contractors.

The companies that do customer projects should invest more in the qualification of project managers, and it is not enough to teach them project management, classical or agile or any other method. They need to be prepared for the specific demands that customer project pose on them and have to learn to address them proactively or deal with issues, problems, and possibly crises when they occur.

The same is true for customer-side project managers. It is not sufficient to get some education in procurement management. Project Supply Networks are growing larger and more complex. They span over cultures, time zones, legal systems and business interests. Project managers need to learn to engineer them, which involves Connective Leadership beyond the borders of the organization.¹²

¹² I recommend the work of Jean Lipman-Blumen on Connective Leadership (Lipman-Blumen, 1996).

As educated project managers, we do not need to go “back to square one”. The knowledge that we have obtained for internal projects will be helpful for customer projects too. However, as the case story with Jack shows, we need to develop further skills: Business acumen and the ability to lead outside the own organization. And we need to respond to the basic differences between internal projects and customer projects, that is shown on

Table 1 (see next page).

The Business Case for Qualification

A corollary of these needs is the necessity to qualify educators and other enablers to teach this specific knowledge.

How will we finance qualification in doing better customer projects? Given the high costs of trial-and-error, particularly of the error part, allows for an easy business case to invest in personnel for Project Business Management.

Table 1: Differences between internal projects and customer projects

	Commonly observable differences	
	Internal projects	Customer projects
Are ... for the performing organization	Cost centers	Profit centers
The project requester is ...	Located inside the own organization	A legally separate entity
The project team has to consider...	The interests of the performing organization	The interests of the performing organization and the customer
Project approval mostly follows...	A project request/approval process or no process at all	An offer/acceptance process leading to a contract
Disputes are to be finally resolved...	By management	At courts
The performing organization does the project to attain...	Deliverables and change	Income
Project selection is made as...	A sequence of internal decisions	A bid/no-bid decision (contractor-side), contract award (customer-side)
Project work for the requester is based on...	Internal requests and agreements	Legally binding contracts
Team's familiarity with the target environment at project start is generally...	High	Low
A project budget is developed through...	A more or less informed management decision, or not at all	Deducting a margin from the price to the customer
A project budget is usually managed by...	The project sponsor or a supervisory board or may be inexistent	The project manager
Inside matrix organizations, most project managers are...	Rather weak	Rather powerful
Obtaining internal and external resources is generally...	Rather difficult	Rather easy
Availability of booked resources is rather...	Unreliable	Reliable
Management attention for the project is mostly...	Rather low	Rather high
Project managers must consider...	The interests of the own organization	The interests of both the customer and the contractor
Staffing and procurement is mostly managed by...	Functional units	Project manager and project management team
Reputation of project managers inside the performing organization is mostly...	Rather low	Rather high

References

Heptinstall, I. (2016) *The Executive Guide to Breakthrough Project Management: Capital & Construction Projects; On-time in Less Time; On-budget at Lower Cost; Without Compromise*, Northwich, UK: Denehurst Publishing.

Hornby, R. (2017) *Commercial project management: A guide for selling and delivering professional services*, London, UK: Routledge.

Lehmann, O.F. (2017) 'Leading Project Teams Across Corporate Borders', *PM World Journal*, VI (11), November [Online]. Available from:
<https://pmworldjournal.net/article/leading-project-teams-across-corporate-borders/>
(Accessed: 30 September 2018).

Lehmann, O.F. (2018a) *Project Business Management*, New York City, USA: Taylor & Francis.

Lehmann, O.F. (2018b) 'Let's Talk Money', *PM World Journal*, VII (2), February [Online]. Available from: <https://pmworldjournal.net/article/lets-talk-money/> (Accessed: 30 September 2018).

Lipman-Blumen, J. (1996) *The Connective Edge: Leading in an Interdependent World*, Hoboken, NJ, USA: Jossey-Bass Publishing.

PMI (2017) *A Guide to the Project Management Body of Knowledge - PMBOK Guide*, 6th edition, Newtown Square, PA, USA: PMI - The Project Management Institute, Inc.

About the Author



Oliver F. Lehmann

Munich, Germany



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 post-graduate program of the Technical University of Munich.

He has been a member and volunteer at PMI, the Project Management Institute, since 1998, and served five years as the President of the PMI Southern Germany Chapter until April 2018. Between 2004 and 2006, he contributed to PMI's *PM Network* magazine, for which he provided a monthly editorial on page 1 called "Launch", analyzing troubled projects around the world.

Oliver believes in three driving forces for personal improvement in project management: formal learning, experience and observations. He resides in Munich, Bavaria, Germany and can be contacted at oliver@oliverlehmann.com.

Oliver Lehmann is the author of the book "[*Situational Project Management: The Dynamics of Success and Failure*](#)" (ISBN 978-1498722612), published by Auerbach / Taylor & Francis in 2016.

His latest book "[*Project Business Management*](#)" has been published by Auerbach / Taylor & Francis in June 2018 (ISBN 978-1138197503).