

13-4 Two contractors decide to enter into a joint venture on a project. What difficulties can occur if the contractors have decided on who does what work, but changes may take place if problems occur? What happens if one contractor has higher salary levels and overhead rates?

13-5 The Jones Manufacturing Company is competing for a production contract that requires that work begin in January 2016. The cost package for the proposal must be submitted by July 2015. The business base, and therefore the overhead rates, are uncertain because Jones has the possibility of winning another contract, to be announced in September 2015. How can the impact of the announcement be included in the proposal? How would you handle a situation where another contract may not be renewed after January 2016 (i.e., assume that the announcement would not be made until March)?

13-6 During initial pricing activities, one of the functional managers discovers that the work breakdown structure requires costing data at a level that is not normally made, and will undoubtedly incur additional costs. How should you, as a project manager, respond to this situation? What are your alternatives?

13-7 Should the project manager give the final manpower loading curves to the functional managers? If so, at what point in time?

13-8 Should a project manager be appointed in the bidding stage of a project? If so, what authority should he have, and who is responsible for winning the contract?

13-9 Explain how useful each of the following can be during the estimating of project costs:

- a. Contingency planning and estimating
- b. Using historical databases
- c. Usefulness of computer estimating
- d. Usefulness of performance factors to account for inefficiencies and uncertainties.

CASE STUDY

THE ESTIMATING PROBLEM

Barbara just received the good news: She was assigned as the project manager for a project that her company won as part of competitive bidding. Whenever a request for proposal (RFP) comes into Barbara's company, a committee composed mainly of senior managers reviews the RFP. If the decision is made to bid on the job, the RFP is turned over to the Proposal Department. Part of the Proposal Department is an estimating group that is responsible for estimating all work. If the estimating group has no previous history concerning some of the deliverables or work packages and is unsure about the time and cost for the work, the estimating team will then ask the functional managers for assistance with estimating.

Project managers like Barbara do not often participate in the bidding process. Usually, their first knowledge about the project comes after the contract is awarded to their company and they are assigned as the project manager. Some project managers are highly optimistic and trust the estimates that were submitted in the bid implicitly unless, of course, a significant span of time has elapsed between the date of submittal of the proposal and the final contract award date. Barbara, however, is somewhat pessimistic. She believes that accepting the estimates as they were submitted in the

One of the most critical work packages in the project was estimated at twelve weeks using one grade 7 employee full time. Barbara had performed this task on previous projects and it required one person full time for fourteen weeks. Barbara asked the estimating group how they arrived at this estimate. The estimating group responded that they used the three-point estimate where the optimistic time was four weeks, the most likely time was thirteen weeks, and the pessimistic time was sixteen weeks.

Barbara believed that the three-point estimate was way off of the mark. The only way that this work package could ever be completed in four weeks would be for a very small project nowhere near the complexity of Barbara's project. Therefore, the estimating group was not considering any complexity factors when using the three-point estimate. Had the estimating group used the triangular distribution where each of the three estimates had an equal likelihood of occurrence, the final estimate would have been thirteen weeks. This was closer to the fourteen weeks that Barbara thought the work package would take. While a difference of 1 week seems small, it could have a serious impact on Barbara's project and incur penalties for late delivery.

Barbara was now still confused and decided to talk to Peter, the employee who was assigned to do this task. Barbara had worked with Peter on previous projects. Peter was a grade 9 employee and considered to be an expert in this work package. As part of the discussions with Barbara, Peter made the following comments:

I have seen estimating data bases that include this type of work package and they all estimate the work package at about 14 weeks. I do not understand why our estimating group prefers to use the three point estimate.

"Does the typical data base account for project complexity when considering the estimates?" asked Barbara. Peter responded:

Some data bases have techniques for considering complexity, but mostly they just assume an average complexity level. When complexity is important, as it is in our project, analogy estimating would be better. Using analogy estimating and comparing the complexity of the work package on this project to the similar works packages I have completed, I would say that 16-17 weeks is closer to reality, and let's hope I do not get removed from the project to put out a fire somewhere else in the company. That would be terrible. It is impossible for me to get it done in 12 weeks. And adding more people to this work package will not shorten the schedule. It may even make it worse.

Barbara then asked Peter one more question:

Peter, you are a grade 9 and considered as the subject matter expert. If a grade 7 had been assigned, as the estimating group had said, how long would it have taken the grade 7 to do the job?

"Probably about 20 weeks or so," responded Peter.

QUESTIONS

1. How many different estimating techniques were discussed in the case?
2. If each estimate is different, how does a project manager decide that one estimate is better than another?

3. If you were the project manager, which estimate would you use?

Notes

1. Problems can occur if the salaries of the people assigned to the project exceed the department averages. Methods to alleviate this problem are discussed later. Also, in many companies department managers are included in the overhead rate structure, not in direct labor, and therefore their salaries are not included as part of the department average.

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