

INSIGHT

A Case for On-Demand Project and Portfolio Management

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IDC OPINION

Despite sometimes well-founded protectionist attitudes towards project and related data, IDC believes that delivering project and portfolio management (PPM) solutions through the "on-demand" software-as-a-service technique will increasingly gain traction. IDC sees the following drivers pushing the popularity of on-demand PPM:

- ☒ Pressures for gains in productivity and audit-ability are inexorably expanding project management, and related portfolio management, out of niches such as engineering into enterprise-wide adoption. In many cases the push goes further, all the way into the "extended" or "virtual" enterprise, crossing legal entity boundaries. The on-demand delivery model facilitates just-in-time inclusion of new and often not physically co-located project team members.
- ☒ IT departments face the expectation that they should focus their business-related IT skills on industry-specific revenue generating solutions. For more generalized enterprise solutions, however, IT increasingly will act as solution brokers for low maintenance deployment options, like on-demand.
- ☒ PPM typically only requires a minimal amount of customization beyond field renaming, configurable application options, and reporting/analytics flexibility – only the most project-dependent enterprises, such as the biggest engineering and construction management firms, invest in serious PPM customization. This more-buy-than-build profile nicely matches the profile offered by on-demand.
- ☒ Perhaps surprisingly, none of the major PPM vendors has stepped to the plate with a true on-demand PPM solution thus far. At this early stage, eProject, a young vendor who committed to the on-demand PPM model several years ago, is grabbing most of the early market share in this space, followed by OpenAir, who offers an on-demand version of its professional services automation solution. IDC believes that each day the larger PPM vendors go without offering an on-demand option enables best-of-breeders like eProject and OpenAir to grow their penetration roots deeper into the PPM buyer community.

IN THIS INSIGHT

In this Insight IDC examines the drivers and inhibitors for the adoption of "on-demand" project and portfolio management (PPM) solutions, and in addition considers the prospects of early market leaders in the on-demand PPM specialty, eProject and OpenAir.

SITUATION OVERVIEW

IDC believes that project and portfolio management (PPM) solutions fit quite nicely as candidate applications for on-demand delivery. Why? In essence, because (1) there will be more PPM implementations in enterprises than historically, (2) growing executive visibility into project ROI seems immutable, (3) the boundaries of organizational structures and teams are increasing in flux and fluidity, and (4) PPM seems like the kind of application that many IT departments wouldn't mind outsourcing or more specifically delivering via the on-demand model. Additional detail explaining each of these reasons follow:

- 1. More PPM:** IDC sees the interest level in project and portfolio management (PPM) solutions on the rise in enterprises. The double edges of compliance, and the desire to improve operational and human process visibility, steadily turns the crank that slowly raises PPM out of its historical niches in engineering and construction management into more generalized usage. Though the uptake of PPM in IT and new product development (NPD) initiatives are often cited as the currently hot frontiers for PPM, in truth those represent quasi-engineering style projects as well. Though certainly engineering management, in the widest sense of the term, will continue to garner most PPM implementations in the near term, in the longer-term IDC believes PPM will insinuate itself into a more common coordinative role. When standard front office and back office operations start adopting PPM in earnest, such as for marketing campaigns in the front office, and the seldom compelling budgetary preparation process in the back office, PPM will indeed have arrived as a "business" application versus an engineering-oriented specialty application. This transition is already underway.
- 2. Project/Portfolio Return on Investment:** One key driver in this "more PPM" trend is return on investment – ROI. Executives have begun to understand that the projects their enterprises undertake should produce a positive ROI, just like any other enterprise initiative. The tool to help measure that ROI, and to enable ROI comparison and even to predict project investments ROI is PPM – project management to capture the associated project progress and resource consumption, portfolio management to actually provide the ROI measuring stick. IDC offers perhaps an ironic answer to the oft-asked question, "What is the ROI of investing in PPM software?" – the answer is, simply enough "knowing your project ROI – for all of your projects!" PPM doesn't only offer a framework to organize the project-oriented work of teams and individuals, it also offers executive information critical for executive decision-making. Increasingly executives, and certainly project managers, realize that one cannot possibly hope to understand project ROI, or portfolio ROI, without a PPM application.
- 3. Teams in Flux:** IDC also sees the nature of organizations in structural flux. Much has been written about the necessity for teams/workgroups to form, execute, break apart, and recombine in this more virtual business world we operate in. The classic hierarchical organizational structure, while convenient to manage, often fails to keep an organization on its toes, particularly in highly

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competitive international markets. In fact, the recombining teams often spill over into the "virtual enterprise," which stretches teams beyond legal-entity boundaries into project partnerships that involve multiple companies. Thus, the flux and volatility teams/workgroups takes place both inside of companies, as well as across multiple companies.

4. **The Need to Outsource – or IT as a Solution Broker:** How IT departments prioritize their work, and how they staff for their workloads, is in transition. Some CFOs consider the cost of core IT personnel a luxury, as do some line of business managers. As a result, IT often finds itself under constant pressure to defend its headcount. One way to deal with such pressure involves allocating dear IT resources only to mission critical and/or revenue producing activities, and then to outsource the handling of non-mission-critical applications. The term "outsource" has taken on a wider meaning than it once did: Today, "outsource" means both "off-premise" and "on-demand." Off-premise means that the buyer acquires a classic perpetual software license, but it is operated and managed by the outsourcer. On-demand means that the buyer simply accesses the application through a secure Web site, and typically leases the application usage on a per seat basis. Though some very large engineering and construction management firms rightfully consider PPM a revenue generating, mission critical application, for many organizations PPM doesn't quite make it as "mission critical." That makes PPM a candidate for outsourcing, both "off-premise" and "on-demand."

Arguments persist about the level of interest of the on-demand option for enterprise application delivery. Clearly sales force automation has found willing on-demand customers, as exhibited by the rapid growth of salesforce.com. But how far can it go? Many believe that the on-demand buck stops at financial applications because of the highly sensitive nature of the data. Yet untold numbers of enterprises outsource payroll operations and data to firms such as ADP, and thousands of banks outsource their core operations to 3rd party processors such as Fiserv – in the Fiserv case banks have outsourcing revenue-generating IT. Clearly the sanctity of data ownership loses its religious overtone when the 3rd party processor is trusted, when the solution makes sense, and when both the business and the IT department grasp the benefits of an outsourced approach. How might an on-demand option play out in the PPM space given these drivers and inhibitors?

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FUTURE OUTLOOK

The 80/20 Rule of Project/Portfolio Needs

Buyers will not sacrifice core PPM features/functions just to use an on-demand PPM product. At the same time, a number of features/functions in some on-premise PPM solutions go unused in an average project. IDC estimates that roughly 80% of the features found in a full-fledged, on-premise PPM software package are used in typical projects. Almost by definition, on-demand solutions must serve the general case, not the special case, though some advances in flexibility and customization have been added to on-demand offerings as of late. Still, IDC contends that in order for on-demand PPM to appeal to buyers, it needs to excel at offering that 80% or so of core feature/functions, such as:

- ☒ Project definition, work breakdown structure, budget capture, resource allocation/management including skills tracking, simple project accounting, planning/scheduling, progressing, project rollout/performance analysis, some meaningful reports/analytics for monitoring, auditing and critical path analysis, at least basic portfolio management tools such as ROI project analysis, and the ability to reuse projects as templates for new projects.

Some of the advanced features available in higher order PPM solutions that an on-demand solution might not need include:

- ☒ ERP integration, 3rd party project import from a variety of PPM vendors, advanced portfolio management features such as What-If modeling, and support for customization using third generation language tools such as Microsoft-Visual Studio and Java integrated development environments.

From a technical perspective, the on-demand PPM product still has to offer a dependable and modern set of core technologies in order to be competitive, including:

- ☒ Portal user experience
- ☒ Reports, dashboards, and analytics, the latter in context of the business process
- ☒ Seamless content management
- ☒ Process/project templates, and support for import of projects from the leading few PPM vendors, particularly Microsoft Project
- ☒ Application configuration, plus field renaming, plus perhaps a modicum of customization preferably through an "open" technique like Web Services
- ☒ Role-based and organizationally-based security, which suggests a preference for a multi-tenant solution
- ☒ Collaboration, in terms of basic tools like email notifications, team rooms, and some level of integration with common collaborative environments such as Microsoft Outlook/Exchange and IBM-Lotus Notes/Domino.

In addition to the relatively wide feature/function and technology requirements for on-demand PPM, the on-demand solution needs to deliver on the core benefits associated with the on-demand model, such as:

- ☒ Instant capacity: The sign-up and licensing technique should be extremely easy for new and existing customers to use, so that new projects and project members can be initiated in real-time.
- ☒ Performance and Quality of Service: Any on-demand solution is only as good as its ability to meet peak demands, and to respond to customer concerns thereof. On-demand providers must offer basically bug-free solutions.
- ☒ Simplicity, with options: Given that the on-demand PPM user experience will likely be HTML or DHTML based (in some cases in a mixed mode), one should expect simplicity of design and user experience, with a caveat: It should also

offer PMO types, or advanced project managers, a richer feature set that enables them to meet their particular, more complex needs. IDC suggests that on-demand PPM solutions, thus, offer a user experience with matching feature/function sets for (1) the every day user and (2) the advanced user.

- ☒ Synchronization and Delivery Mode Choice: IDC believes that eventually the winning formula will combine on-demand and on-premise, with data synchronization. In that manner, PPM vendors can offer on-premise products for organizations that are highly centralized in terms of project resources, but can also support variable project team members from partnerships, remote field offices and from mergers and acquisitions.

Vendors in the On-Demand PPM Space – Threats to the Rest

At this point two vendors stand out in the on-demand PPM, eProject, who offers a full-blown project management capability on a multi-tenant basis, and OpenAir, who offers a professional service automation capability to supplement its on-premise offering. eProject, based in Seattle, WA, is most likely the largest on-demand PPM provider in terms of revenue and customer count. With nearly four hundred customers, nearly three-quarters who choose the on-demand option over on-premise, eProject offers virtually all of the features/functions IDC has outlined above that make sense for an on-demand vendor to supply. Though OpenAir's business primarily depends on its on-premise offering, during 2005 it has realized significant growth for its service automation on-demand offering, and will integrate its offering with the salesforce.com AppExchange program this winter.

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In the overall PPM market, eProject is setting the bar for the rest of the industry, because it positions its product as a more generalized PPM offering than OpenAir, and because it has recently added some advanced features such as support for Web Services based customization and integration. IDC believes that each day both eProject and OpenAir go without a response from the larger PPM competition provides eProject and Open the time they need to penetrate into the ever-increasing on-demand PPM customer base. In a survey IDC performed earlier this year, nearly half of all organizations were considering using on-demand applications in the coming 18 months. IDC believes that PPM could be one of the second movers in terms of on-demand applications after CRM, and that OpenAir and particularly eProject are both well-positioned to capture that trend.

User Recommendations

If your firm uses PPM software today, or is planning to use it going forward, or considering expanding its usage to other departments, what should you be mindful of when considering on-demand PPM?

- ☒ The first step involves identifying and ranking your business pain points, and mapping those pain points to vendors' PPM solutions. If you discover that you do not need significant customization or integration, you may very well want to include an on-demand PPM solution on your short list.

- ☒ How educated are you users in PPM? If you introduce PPM will anyone use it? Any PPM solution is only as good as the users make it, so think simplicity first – often on-demand PPM offers a simplified user experience.
- ☒ Portfolio management is only as useful as the underlying data – do not jump into portfolio management until your organization has a firm foundation in using core and even somewhat advanced project management features.
- ☒ IDC also believes that application implementation are successful when there is management support, IT alignment, and company-wide user buy-in, and in the case of PPM, PMO acceptance – but this is not always necessary for grass roots activities, and on-demand can facilitate such activities.
- ☒ As always, leverage your existing IT infrastructure as much as possible, but don't force new implementations, and don't unnecessarily add to support requirements if you can find an applicable and trustworthy on-demand solution.
- ☒ Learn from your competitors and partners – talk to reference PPM customers whether you are considering on-demand, on-premise, off-premise or any combination thereof.
- ☒ Whenever possible, execute a pilot, and then move ahead department by department for local projects, and then project by project for multi-organization projects; only perform “big bang” projects once you have garnered applicable experience. Personnel from the PMO's office, if your organization has one, usually already possess the knowledge and sensitivity to oversee the rollout of an on-demand PPM solution. If you need additional help, there are about a dozen well-established PPM consultancies to whom you can turn.

Is on-demand PPM right for you (you are probably in the 80 rather than the 20)? If so, you may get to PPM benefits faster and at predictable costs. And if you are a PMO, you might find the on-demand model allows you to leverage PPM technology on a more responsive basis for your enterprise than ever before.

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