A METRIC FOR THE FUTURE:

CLEARING UP THE CRYSTAL BALL IN PRODUCT DEVELOPMENT

ABSTRACT

The Earned Value approach to product development provides an extremely powerful projection method which yields current schedule and cost variances and accurately projects *future* cost and schedule variance performance. This improves predictive capabilities to meet time-to-market, cost and performance requirements.

Traditionally, companies have taken the difference between planned budgets and actual expenditures as the measurement of progress in assessing project performance. However, this information can be misleading since it gives minimal information on the efficiency of the time being put into each task, and whether the budgeted time matches the expected performance. An Earned Value system incorporates a third variable called “earned expenditures” which defines how much work has been *performed*. Together, these three indicators combine to provide the mechanisms to permit a more accurate representation of the efficiency and effectiveness of project efforts. Earned Value thus provides a management tool which can project, *many months into the future*, cost and schedule variances based on current performance.

Fundamentally, Earned Value gives insight on exactly how much work has been performed on a project, as opposed to tracking “actuals” which only indicates how much has been spent and “budgets” which only document what was planned. Earned Value measures the efficiency of the work being done and the “real” <u>value</u> of the hours being spent on the project.

Earned Value addresses the issues that reduce project performance and ties them to the predictive capabilities of the process, such as 1) the factors that cause missed deadlines; 2) insufficient resources; 3) proposed goals becoming corporate commitments without employee support; 4) lack of realistic risk assessments; and 5) differences between projected and actual resource needs.

When properly implemented, Earned Value results in a *visual* representation of information that encourages more prudent business and operational decisions. All team members can use the information to improve individual, organizational, and ultimately, company performance. Reaction to changes in the market, competition, or technology can be more appropriately and effectively managed. Schedule variances are also more visible, allowing management to make better and more timely decisions. Earned Value encourages a continuous process improvement environment that can provide companies with an extreme competitive edge.