FRANKLIN ELECTRONICS

In October 2013 Franklin Electronics won an 18-month labor-intensive product development contract awarded by Spokane Industries. The award was a cost reimbursable contract with a cost target of $2.66 million and a fixed fee of 6.75 percent of the target. This contract would be Franklin's first attempt at using formal project management, including a newly developed project management methodology.

Franklin had won several previous contracts from Spokane Industries, but they were all fixed-price contracts with no requirement to use formal project management with earned value reporting. The terms and conditions of this contract included the following key points:

- Project management (formalized) was to be used.
- The first earned value report was due at the end of the second month's effort and monthly thereafter.
- There would be two technical interchange meetings, one at the end of the sixth month and another at the end of the twelfth month.

Earned value reporting was new to Franklin Electronics. In order to respond to the original request for proposal (RFP), a consultant was hired to conduct a four-hour seminar on earned value management. In attendance were the project manager who was assigned to the Spokane RFP and would manage the contract after contract award, the entire cost accounting department, and two line managers. The cost accounting group was not happy about having to learn earned value management techniques, but they reluctantly agreed in order to bid on the Spokane RFP. On previous projects with Spokane Industries, monthly interchange meetings were held. On this contract, it seemed that Spokane Industries believed that fewer interchange meeting would be necessary because the information necessary could just as easily be obtained through the earned value status reports. Spokane appeared to have tremendous faith in the ability of the earned value measurement system to provide meaningful information. In the past, Spokane had never mentioned that it was considering the possible implementation of an earned value measurement system as a requirement on all future contracts.

Franklin Electronics won the contact by being the lowest bidder. During the planning phase, a work breakdown structure was developed containing forty-five work packages of which only four work packages would be occurring during the first four months of the project.

Franklin Electronics designed a very simple status report for the project. The table below contains the financial data provided to Spokane at the end of the third month.

	Totals at End of Month 2					Totals at End of Month 3				
Work Packages	PV	EV	AC	CV	SV	PV	EV	AC	CV	SV
A	38K	30K	36K	<6K>	<8K>	86K	74K	81K	<7K>	<12K>
B	17K	16K	18K	<2K>	<1K>	55K	52K	55K	<3K>	<3K>
C	26K	24K	27K	<3K>	<2K>	72K	68K	73K	<5K>	<4K>
D	40K	20K	23K	<3K>	<20K>	86K	60K	70K	<10K>	<26K>

Note: BCWS = PV, BCWP = EV, and ACWP = AC.

A week after sending the status report to Spokane Industries, Franklin's project manager was asked to attend an emergency meeting requested by Spokane's vice president for engineering, who was functioning as the project sponsor. The vice president was threatening to cancel the project because of poor performance. At the meeting, the vice president commented, "Over the past month the cost variance overrun has increased by 78 percent from $14,000 to $25,000, and the schedule variance slippage has increased by 45 percent from $31,000 to $45,000. At these rates, we are easily looking at a 500 percent cost overrun and a schedule slippage of at least one year. We cannot afford to let this project continue at this lackluster performance rate. If we cannot develop a plan to control time and cost any better than we have in the past three months, then I will just cancel the contract now, and we will find another contractor who can perform."