The Importance of Project Cost Control



To complete a project successfully and profitably for all stakeholders, it's important to institute proper cost management and cost control mechanisms from the start.

But how do you quantify project performance? While profit is one marker of a successful project, there are other ways to determine whether a completed project can be deemed a success. Here a just a few:

- The project delivers what was promised
- The project is completed within the allotted timeframe
- All client expectations have been met
- The project is completed within budget

Though all four of these need to be considered when determining the success of a project, managing project costs from the start will play a large role in determining project success.

That's why both project cost management and project cost control need to be implemented.

Often used interchangeably, project cost management and project cost control

are two different things, though to be successful, both are necessary.

Project cost management is implemented before the project begins. To manage and control costs properly, it's important to plan and estimate all potential costs for the project. Project cost management is also used to create an initial budget for an upcoming project.

According to the Project Management Body of Knowledge (PMBOK® Guide), from the Project Management Institute (PMI), the following are the four processes necessary for proper project cost management:

- **Plan Cost Management –** Plan cost management involves developing specific project guidelines and milestones for each project, and when they should be reached. It also includes determining labor hours as well as materials needed to complete the project.
- **Estimate costs –** Once you determine the necessary hours and materials, you'll need to estimate project costs. Estimating costs accurately is a necessity. This is particularly important with todays' rapidly fluctuating pricing.
- **Cost Budgeting –** Creating a working budget for any new project is a must. Any approved budget must include a baseline that will help you ward off any potential budget overruns before they occur. Using a working budget rather than a static budget will also help you better manage the project budget properly throughout all phases of the project.
- **Control cost –** To properly control costs, it's essential that regular budget monitoring be a part of any project management. Monitoring actual costs against your cost estimates helps to ensure that corrective action can be taken before any shortfall occurs. This regular review also allows you to make adjustments in costs for future project phases.

To manage and control costs properly, it's important to plan and estimate all potential costs for the project.

Once the initial cost management process has been instigated and the project has begun, you can begin cost control measures.

But if you're using project cost management, why is project cost control so important?

Mainly because there is little likelihood that a project will meet all of its budgetary requirements without it.

And once the budget is exceeded, client expectations will not be met, nor will the project deliver what was initially promised.

Any project that also exceeds allotted costs will likely not finish within the expected timeframe.

While initially dealing with cost, not managing project costs properly will have a domino effect on all other project markers, resulting in a loss of revenue, increased labor costs, and unhappy clients.

Luckily, there are tools available that can assist you with the cost control process, including the following:

- **Project Management Software:** One of the easiest ways to implement project cost control is by using project management software. This niche software typically includes Gantt charts, graphical dashboards, and solid reporting options; ideal for comparing budget to actual totals. Most project management software can also assist with time tracking and workflow management; all necessary for good project management. But even using an Excel spreadsheet is better than not using resource planning at all.
- **Earned Value Management (EVM):** Earned Value Management or EVM is a methodology that integrates project schedules, costs, and scope to better measure performance. These metrics, when used properly, allows you to make project adjustments accordingly, reducing the occurrence of overages in both time and cost.
- **To Complete Performance Index (TCPI):** The To Complete Performance Index helps you determine the future efficiency of any current project. TCPI is used by project managers to help them effectively use their resources to complete the project on budget within the allotted period.

Controlling your costs from the start

Whenever you start a project, the intention is to complete the project for an

agreed-upon amount of money in a specific period of time. To accurately estimate project costs, be sure to include the following expenses:

Labor: You must be able to accurately estimate the labor costs for each project that you undertake. Underestimating labor or not accounting for on-the-job issues that may pop up or unexpected labor replacements will result in a low estimation and project cost overrun.

Materials: Always build in a possible increase in materials for any upcoming project. While you can begin your budget using current costs, you have no guarantee that your supplier will not increase prices. Another issue that may come up is the necessity to switch suppliers. This can happen if your regular supplier cannot provide materials or has instituted a substantial price increase. Whatever the reason, be sure to factor a possible materials cost increase into your initial budget.

Unexpected issues: You may be able to account for price increases and labor shortages, but there's one more area you need to consider: Acts of God. You have no control over the weather or other natural disasters, and while rare, they do occur and can wreak havoc with your budget. By factoring in the possibility of a delay due to unexpected roadblocks, you're more likely to stay on budget throughout your project.

Machinery: Depending on your project, you may need to use various types of equipment and machinery. Are you prepared if you need to pour cement and your cement mixer stops working? Probably not, but if you build the possibility into your budget, you won't find yourself facing a sudden budget shortfall.

For example, let's say your firm's next project is to build a 20,000 square foot warehouse for your client. Before starting the project, you put together the estimated number of hours spent on the project, the number of materials necessary, and the project's final cost.

Midway through the project, you begin to notice that you're close to reaching your cost baseline Because you're managing your costs pro-actively, you're able to immediately take corrective measures before costs exceed your budget, addressing any variances or overages in real-time, rather than completing an analysis after the project has been completed.

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Imagine the chaos that would ensue if you chose to undertake a project without budgeting for and managing your time and expenses.

For instance, let’s say that you determine that your next construction project will take four weeks to complete and will cost $15,000.

The first part of the project runs smoothly, but you run into supplier issues in the second half. You’re able to find another supplier, but it takes two weeks, and the supply cost will increase by 10%.

Then your project lead is injured on the job and you have to replace them with another lead, who has to be brought up to speed on the project, taking another week.

When the project ends six weeks later, not four as originally budgeted, the project’s final cost is $19,000. Because you did not take any proactive measures to mitigate those costs, the job that was supposed to take four weeks and $15,000 ended up taking six weeks and costs an additional $4,000.

Using project cost control would not have prevented any of the above circumstances from occurring. However, if cost management and cost control measures had been properly implemented from the start, you’d be better prepared for these and other issues that tend to crop up during a project.

Cost Control Tips

Starting with accurate cost estimates, there are a variety of tips that can help you better manage your next project. These tips include the following:

Factor variances into your initial budget

To realistically account for possible budgetary adjustments, you have to factor variances into your initial project cost.

Remember, you have no control over your suppliers, and any change in pricing will directly affect the cost of your project.

Accounting for variances in your project budget from the start makes it more likely that your project can be completed under or at budget and on time.

And it’s not just cost variances that you need to worry about. You’ll also need to consider schedule variances as well.

When creating your initial budget, take past experiences into consideration. If your projects have gone over budget in the past, use that experience to better plan for your next one.

For example, if you’ve run into supplier issues in the past, don’t assume that you won’t in the future. Instead, factor in potential issues and material cost increases into your initial budget forecasting.

Account for the Unexpected

One thing you can expect is the unexpected. While you may be in control of your project, you can’t control natural disasters or other Acts of God. But what you can do is prepare for them by including them in your budget.

Torrential rain, hurricanes, or tornadoes are all unplanned natural disasters, but you can budget for them. The same goes for unexpected delays due to illness and accidents. You can’t predict them, but including the possibility in your budget will help keep you on track no matter what you’re hit with.

Make Real-Time Adjustments

Make sure that you’re using the proper tools for managing data. For example, using a project management software application can help you keep track of the various stages of each project, serving to notify you should time, labor, or other expenses approach your baseline.

Cost management software or procurement software such as PLANERGY can also help manage both material and supply procurement and threir associated costs.

Using project management software, you can also set some key performance indicators (KPIs) for each phase of your project and monitor your progress accordingly.

Doing this regularly allows you to make proactive adjustments as the project

progresses rather than dealing with the repercussions after the project has been completed.

By regularly implementing these measures, project managers can quickly identify variances and take corrective action when needed.

Always use project cost management and cost control together

Without cost control measures in place, cost management is simply an unused budget.

Only by implementing proper cost management processes before a project begins will you be able to adequately manage a project. The first step to effective project cost control is to create an accurate budget for both labor and expenses.

Only then can you be in a position to make adjustments as needed to keep your project on track and your expenses under control.

Accurate cost estimation starts with good project cost management and is managed proactively using project cost control. It’s important to remember that Inaccurate cost estimation will almost guarantee that project cost control will be impossible.

Run reports regularly

Analyze current data with projected data to see where you may be running over. But don’t just look at the data, spend some time determining what needs to be done to keep project costs under control.

This can be anything from adjusting worker’s schedules to looking for another supplier if current costs have run over.

Review and Revise

Enter project updates regularly. If you have invested the time to create a detailed project budget, make sure that you take the time to keep the information updated with the latest costs and projections. It’s also important to include your entire project team in any updates.

If team members are not included in the initial project scope or subsequent updates, it makes it much more difficult to complete your project on time.

Compare your results

At the end of the day, you'll want to see what your total costs are and whether your cost control measures were achieved. While it may not affect your current project, knowing whether project cost control methods were successful can be helpful when starting your next project.

Accurate cost control requires monitoring throughout the life of your project. It's much easier to correct a potential labor or expense overage if it's minimal. By identifying variances as they occur, you're in a much better position to address the issue and take corrective measures before they get out of hand.

By being vigilant, you can help ensure that your project stays within budget, while also preventing out-of-control expenses from upending your project in the future.

Project cost control can do more than keep a project on budget. It can also help you manage future projects more effectively, in essence learning what went wrong and making adjustments for future projects.

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