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Keep Costs Out of the Clouds

When considering a project, cost is a major factor to determine before beginning. It is important to know the estimated cost of the project and do your absolute best to stay within (or under) that estimate. Robert Buttrick, author of *The Project Workout*, states that, “After managing time, management of the finances is the next most important and fundamental aspect of project management. Without a good schedule plan, it is impossible to have a reliable financial plan.” The project schedule is the most visible aspect of the project to outsiders. Project cost is the most visible aspect of a project to insiders – the management team.

Project Cost Management is primarily concerned with the cost of the resources needed to complete project activities. According to the *PMBOK® Guide - 5th edition*, there are four processes to Project Cost Management.

- Plan Cost Management
- Estimate Costs
- Determine Budget
- Control Costs

Plan Cost Management

This process establishes the policies, procedures, and documentation for planning, expending, and controlling project costs. Its key benefit is to provide guidance and direction on how project costs will be managed throughout the project. The purpose of this process is to develop the Cost Management Plan. This plan describes how project costs will be planned, structured, and controlled.

Estimate Costs

After the Cost Management Plan has been created, you can start estimating the costs. In this process, you will develop an approximate cost of the resources needed. The key benefit of this step is to determine the amount of money required to complete project work. You will use a prediction based on the information known at any given point in time to make your estimate. It will include the identification and consideration of costing alternatives to initiate and complete the project cost. Your estimate should be reviewed and refined during the course of the project to reflect additional detail as it becomes available and assumptions are tested. Accuracy of a project estimate will increase as the project progresses through the project life cycle.

Determine Budget

Once you have estimated your costs, you will determine your budget. This step combines all estimated costs to establish a cost baseline. The key benefit is to provide the cost baseline against which project performance can be monitored and controlled. The cost baseline is the approved version of the budget which is used to compare

Never regret. If it's good, it's wonderful. If it's bad, it's experience.
Victoria Holt (1906-1993)
Novelist

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against actual results. It is developed by totaling estimated costs by period. Large projects may have multiple cost baselines.

Control Costs

The final process is to control costs. This deals with monitoring the project status to update the budget and managing cost baseline changes. This process provides the means to recognize variance from the plan in order to take corrective action and minimize risk. Controlling Costs may include influencing the factors that create changes to the authorized cost baseline, ensuring that all change requests are acted on in a timely manner, managing the actual changes when and as they occur, and monitoring work performance against funds expended.

There are multiple tools you can use to control costs. The most commonly used is Earned Value Management. This method measures the planned budget and schedule against the actual progress in the budget and schedule and is often referred to as percent complete. Simply, the authorized scope that has been completed plus the original authorized

budget for that work. Another tool is Forecasting. This involves making estimates of predictions of conditions and events in the future based on current information and knowledge.

Understanding how to develop your budget and control costs once it is established is vital to the success of your project. It can mean the difference between finishing your project within the anticipated cost constraints and having the project cancelled due to over allocation of resources.

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