

Controlling Project Cost

Especially during lean economic times like we are now facing, many corporations are taking extra steps to limit non-critical spending. As much as anybody else, project managers are expected to help in this regard. Project managers already know that the manner in which they plan and execute a project can improve company profitability through their influence on financing expenses, cash flow, the reporting of revenue and expenses, and the cost of goods sold (project cost). Because the ability of the project manager to limit and control project cost is direct and immediate, provided below are 7 examples of what a project manager can do to limit project cost.

- Excessive safety factors employed to ensure on-spec performance should be avoided. Too frequently the functional members of the project team will apply large safety factors in their effort to meet or exceed the technical specifications. The project team must realize that such excesses increase the project's cost.
- Execution of the project work must be controlled. The functional groups should not be allowed to stretch out the project for the sake of improvement, refinement, or the investigation of the most remote potential risk. When a functional task has been completed to the project manager's satisfaction, cut off further spending to prevent accumulation of miscellaneous charges.
- The project manager must carefully monitor the project's contingency budget to prevent indiscriminate spending. The contingency budget represents money the one expects to expend during the term of the project for specific requirements not identified at the project onset. A functional group's need for a portion of the contingency budget must be justified and disbursement of these funds should only be made after the functional group has exhibited an effort to avoid or limit its use. Use of this budget to finance a scope change is neither advantageous to the project manager nor to management.
- In the procurement of equipment, material and subcontract services, the specified requirements should be identified and the lowest priced, qualified supplier found. Adequate time for price shopping should be built into the project schedule. The project manager should ensure that the initial project budget is commensurate with the project's required level of reliability.
- Procurement of materials and services based on partially completed drawings and specifications should be avoided. The time necessary for preparing a complete documentation package before soliciting bids should be considered in the preparation of the project schedule. Should an order be awarded based on incomplete data and the vendor then asked to alter the original scope of supply, the project will be controlled by the vendor.
- Changes should not be incorporated in the project scope without client and/or management approval and the allocation of requisite funds. Making changes without approval will erode the existing budget and reduce project profitability; meeting the project manager's on-cost commitment will become extremely difficult, if not impossible.
- Evaluation of alternate design concepts during the development phase of a project can result in a lower project cost, without sacrificing the technical quality of the project's output.
- During periods of inflation, the project manager must effectively deal with the influence of the economy on the project budget. This is best accomplished during the planning or estimating stage of the work.