



PROJECT
MANAGEMENT
GUIDE

FAQ

Menu

← Back to FAQ

ADVANCED TERMINOLOGY

What Is Cost Estimation in Project Management?

A project can only come together with all the necessary materials and labor, and those materials and labors cost money. Putting together a budget that keeps costs to a minimum, while maximizing the project's quality and scope can be challenging. This is why proper cost estimation is important.

Cost estimation in project management is the process of forecasting the financial and other resources needed to complete a project within a defined scope. Cost estimation accounts for each element required for the project—from materials to labor—and calculates a total amount that determines a project's budget. An initial cost estimate can determine whether an organization greenlights a project, and if the project moves forward, the estimate can be a factor in defining

the project's scope. If the cost estimation comes in too high, an organization may decide to pare down the project to fit what they can afford (it is also required [to begin securing funding](#) for the project). Once the project is in motion, the cost estimate is used to [manage](#) all of its affiliated costs in order to keep the project on budget.

Elements of cost estimation in project management

There are two key types of costs addressed by the cost estimation process:

1. **Direct costs:** Costs associated with a single area, such as a department or the project itself. Examples of direct costs include fixed labor, materials, and equipment.
2. **Indirect costs:** Costs incurred by the organization at large, such as utilities and quality control.

Within these two categories, here are [some typical elements](#) that a cost estimation will take into account:

Labor: The cost of team members working on the project, both in terms of wages and time

Materials and equipment: The cost of resources required for the project, from physical tools to software to legal permits

Facilities: The cost of using any working spaces not owned by the organization.

Vendors: The cost of hiring third-party vendors or contractors.

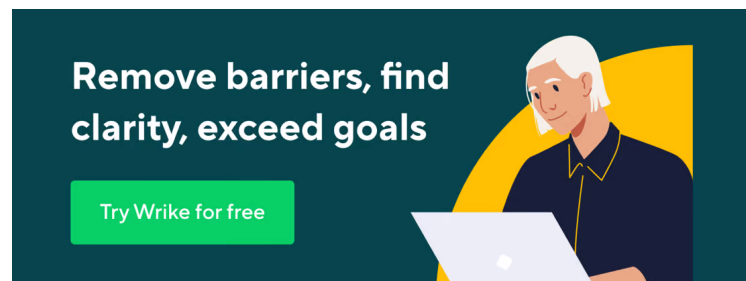
Risk: The cost of any contingency plans implemented to reduce risk.

Further reading:

[How Spreadsheets Are Costing You Time and Money](#)

[Project Management Basics: 6 Steps to a Foolproof Project Plan](#)

[3 Easy Ways to Cut Costs and Keep Your Business Lean](#)



#PROJECT MANAGEMENT #BUDGET
#DIRECT COSTS #INDIRECT COSTS
#COST ESTIMATION #RISK

Recommended FAQ

5 questions

What is Change Management in Project Management?

What is Agile Methodology in Project Management?

What is Cost Benefit Analysis in Project Management?

What is Cost Management in Project Management?

What is Cost Variance in Project Management?

Basic Project Management	^
Advanced Project Management	^
PMI	^
Software Features	^
Tools	^
Project Management Guide Navigation	^





Leading companies
choose Wrike

Download our mobile app
for your Android or iOS device

About

Company

Careers

Blog

Events

Newsroom

Contact Us

Wrike

Product

Pricing

Project Templates

Customers

Apps & Integrations

API

Security

CA Notice at Collection

Solutions

Marketing

Creative

Project Management

Product Development

Professional Services

All Teams

Resources

For Project Managers

For Marketers

For Productivity

For Collaboration

Wrike Free eBooks

Project Management Guide

Professional Services Guide

For customers

For partners

[Help Center](#)

[Wrike Partner Program](#)

[Webinars](#)

[Community Forums](#)

[Consultation Services](#)

[User Conference](#)

[Wrike Status](#)

[Wrike Support](#)

[Latest in Wrike Blog](#)

[How Wrike helps you](#)

Follow us



Language: [English](#)

©2006-2022 Wrike, Inc. All rights reserved.

[Patented.](#) [Privacy Policy](#) & [Terms of Service](#). [Cookie Preferences](#)

