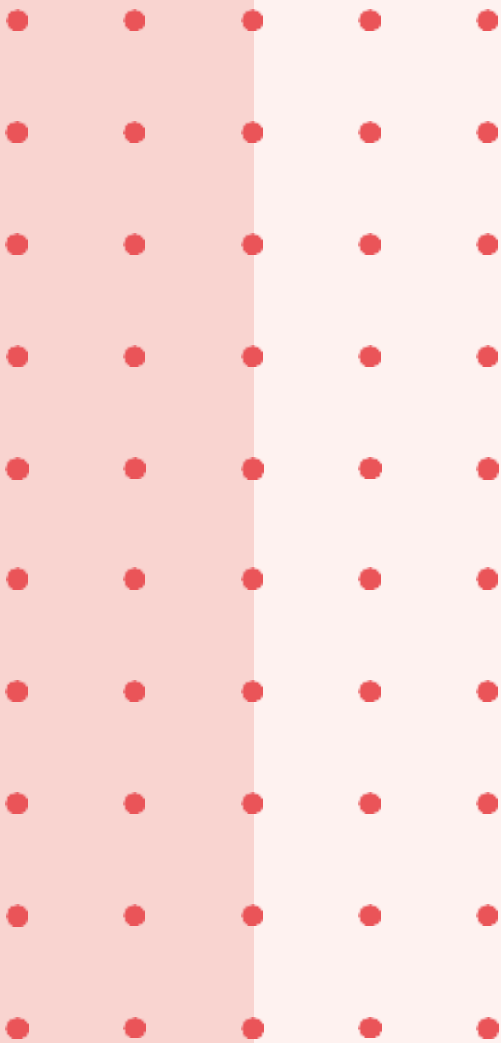
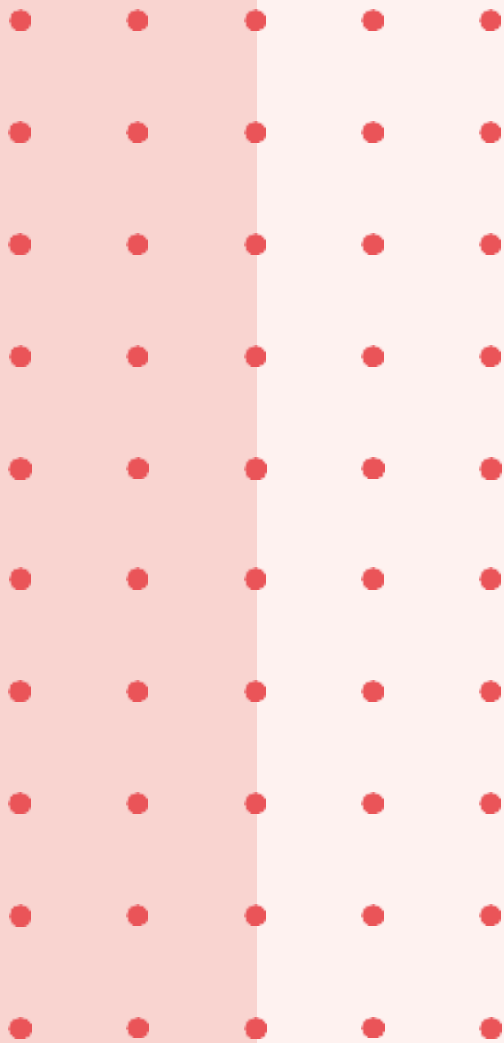


Cost Management



Contents

- Introduction to Cost Management
- Benefits of Cost Management
- Processes in Cost Management



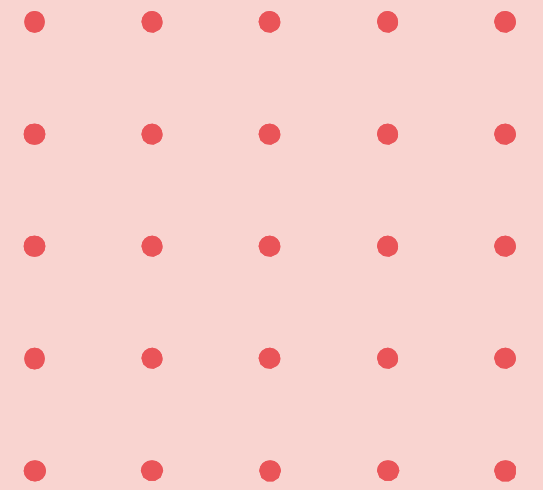
Cost Management

Cost Management - the process of estimating, budgeting, and controlling project costs. The cost management process begins in the planning phase and continues throughout the duration of the project. Project managers constantly review, monitor, and adjust expenses to ensure projects do not exceed approved budgets.

Benefits of Cost Management

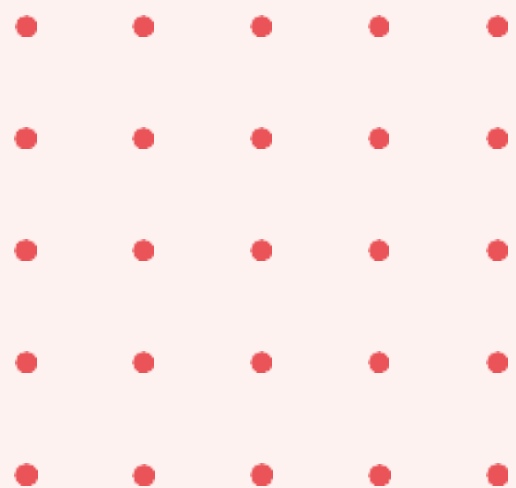
- 1. Budget Control:** Cost management helps ensure that projects stay within the set budget, thus avoiding cost overruns that can jeopardize project viability.
- 2. Effective Planning:** With accurate cost estimates, project teams can better plan and allocate resources, improving efficiency and effectiveness.
- 3. Transparency and Trust:** Good cost management creates transparency regarding project expenses. This increases trust between stakeholders, including clients and project teams.
- 4. Project Performance Improvement:** By regularly monitoring costs, teams can identify issues early and take corrective actions, improving overall project performance.
- 5. Avoid Financial Losses:** Projects that are not properly managed can result in significant financial losses for the organization. Cost management helps reduce those risks.
- 6. Client Satisfaction:** When a project is completed on budget and on time, clients tend to be more satisfied. This can improve the organization's reputation and opportunities for future projects.

COST MANAGEMENT PROCESSES



Processes in cost management:

1. Cost Management Plan
2. Estimate Costs
3. Determine Budget
4. Control Costs



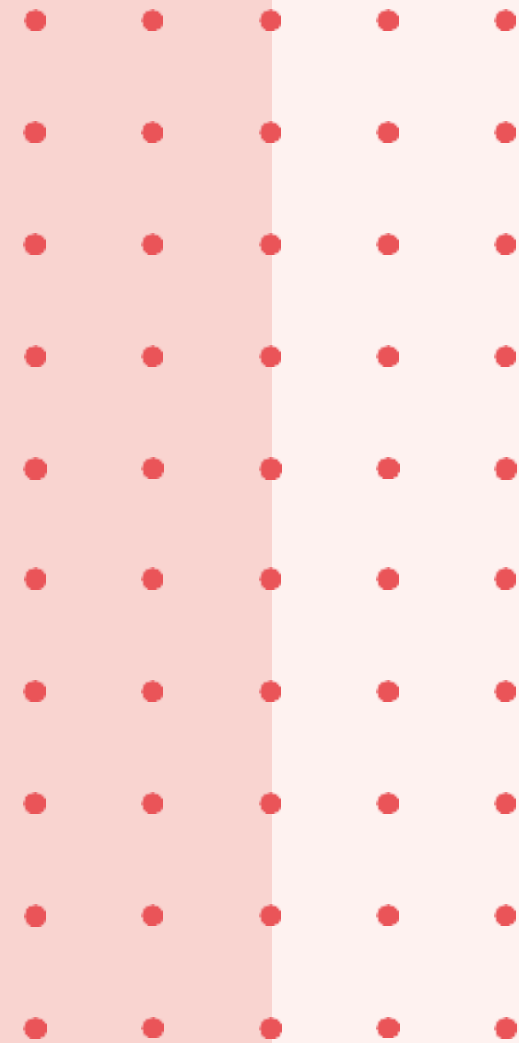
Plan Cost Management

Description:

The first step in cost management is resource planning, where the cost manager reviews the scope and specifications of the project to determine resource needs.

Resources include tools, money, time, equipment, and team members. To create an accurate resource plan, it's important to consult with team leaders and stakeholders who have experience in their fields.

- **Objective:** Establish clear policies and procedures for cost management so that the entire project team understands how costs will be estimated and managed.
- **Input:** Project documents (project charter, project management plan),
Project scope
- **Output:** Cost management plan

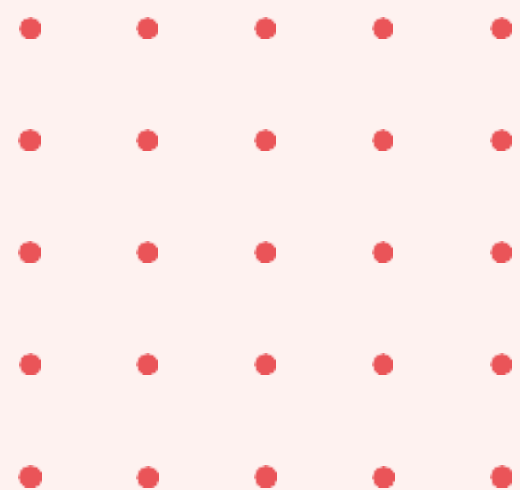


Estimate Costs

Description:

Once you have a list of the necessary resources, the next step is to estimate the cost of procuring them. Gather as much price information as possible to make an accurate estimate. For physical resources, get price quotes from sellers, and use inventory management software for real-time price data. For labor costs, obtain some quotes from the contractor to get a realistic picture of the cost.

Leave room for possible price increases and add a 5–10% buffer for unexpected expenses. If this is your first experience with a project team, check the budget report from the previous cost manager to see the final cost deviation from the estimate. Use that data as a benchmark for your estimates.



- **Objective:** To generate accurate cost estimates to assist in project budgeting.
- **Inputs:** Cost management plan, Project scope, Historical database and market information
- **Output:** Cost estimation, Estimation database

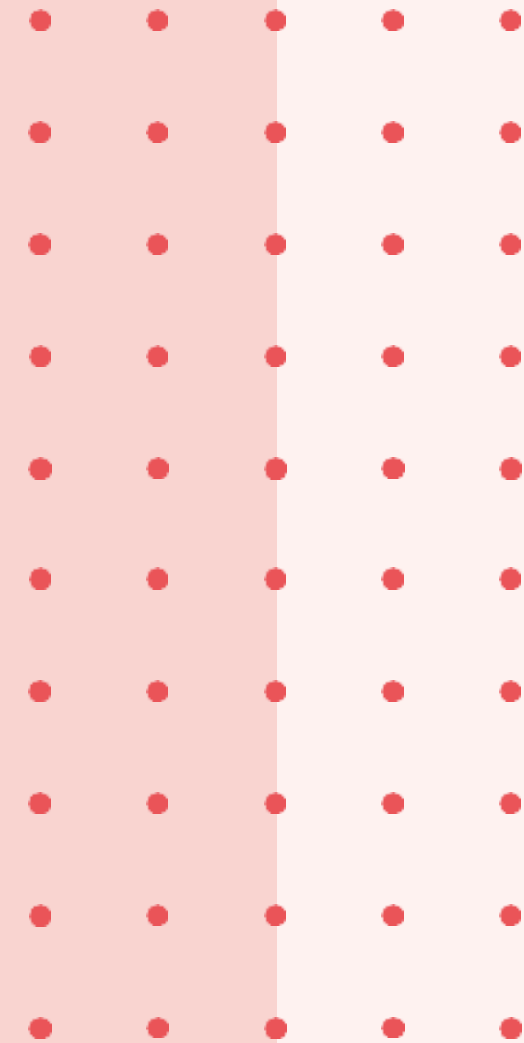
Determine Budget

Description:

Once you have an estimate of your project's needs, you can start putting together a project budget, which is a detailed plan of how much to spend, what to spend on, and when.

For multi-year projects, determine a cost allocation so that no more than 30% of the budget is spent in the first year. This helps prevent cost overruns later on.

- **Objective:** Establish a cost baseline that will be used to monitor the project's performance against budget.
- **Inputs:** Cost estimation, Cost management plan, Project scope
- **Output:** Project budget, Cost baseline



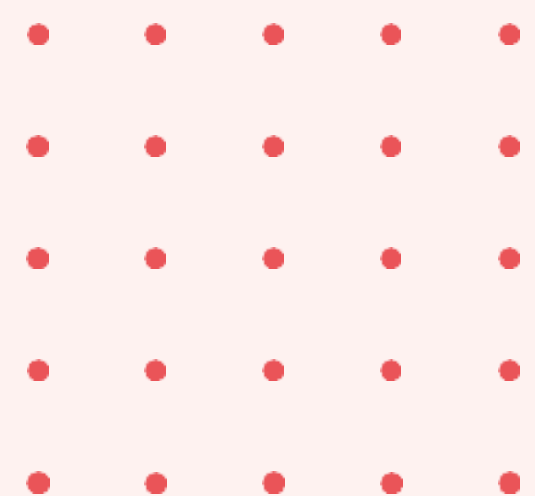
Cost Control

Description:

A large part of the cost management process is cost control, which includes recording and accounting costs during the project, adjustments, and notifying stakeholders of issues that arise. The goal is to compare the actual cost to the budget and initial estimates to keep the project on track.

The frequency of cost reviews depends on the project; It can be done in real-time, monthly, or quarterly. Be sure to share cost updates through the project status report.

Changes to the scope of the project can affect the budget, so pay attention to the expansion of the scope. If costs stray too far from budget, immediately notify stakeholders to formulate an action plan.



- **Objective:** Ensure that projects stay within budget limits and take corrective action if there are deviations.
- **Inputs:** Project budget, Project performance database, Performance report
- **Output:** Cost performance report, Cost projection

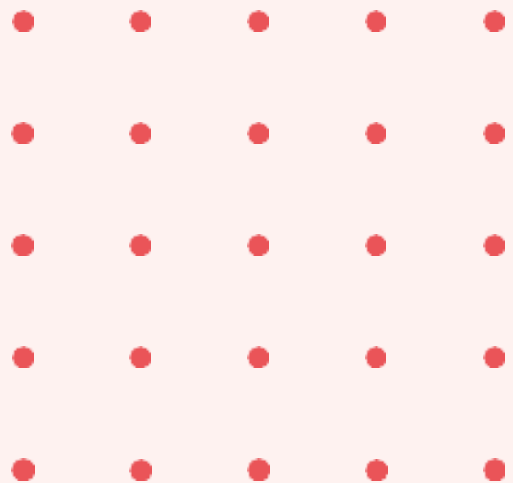
5 Common Cost Management Problems

	
Budget is too small.	Make sure your budget is realistic at project start.
Cost estimates are inaccurate.	Gather as much real pricing data as possible from authoritative sources.
Teams request unplanned resources.	Talk directly with teams during the resource planning stage, and enforce budget limits once the project begins.
Project is behind schedule, which will increase costs if not corrected.	Communicate clearly with team leads and project managers, and make sure all stakeholders understand that delays will increase costs.
Client keeps adding requests and features to project specs, which drives up costs.	Provide the client with a specific process for submitting change orders, and include a step for cost re-estimation.

POST-PROJECT Cost Accounting

Once the project is complete, calculate the cost variance to evaluate how far the project deviated from the original budget and estimate. Successful projects usually end up close to the estimated budget. If you spend too much, you may be underestimating your budget or facing unexpected expenses. Evaluate to prevent this in the future.

Conversely, if you spend too little, your cost budgeting process is inaccurate. Record this information as historical data to improve accuracy in future projects.



HOW to Calculate Project Cost

To keep the project profitable and within budget, it's important to understand how to calculate project costs. Here are some methods of calculating costs:

1. Per Hour

Description: Pay by working hours.

Example: The software development team works 100 hours at a rate of \$100/hour, a total of \$10,000.

2. Flat Rate

Description: Sets the total cost at the beginning.

Example: A marketing agency charges a flat rate of \$20,000 for a campaign.

3. Plus Fees

Description: Calculates actual cost plus markup.

Example: The contractor charges \$50,000 for materials and labor, plus a 20% markup, totaling \$60,000.

4. Pricing Based on Value

Description: Focus on the value the client receives.

Example: The consultant charges 10% of the client's \$1 million increase in revenue, which is \$100,000.

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Effective Project Cost Management Methods

Top-Down Estimating

Description: Estimate the total cost of the project first, then detail the individual costs of that total.

Usability: Good for the early stages of project planning when detailed information is not yet available.

Example: Estimate the total cost of a software development project of \$200,000 and divide it into segments such as design, coding, and testing.

Bottom-Up Estimating

Description: Estimate the cost of a task or project component first, then add it up to get the total project cost.

Usability: More accurate and reliable, ideal for projects with a well-defined scope.

Example: In a construction project, each part of the project such as the foundation and electricity is estimated in detail before being summed up.

Three-point Estimating

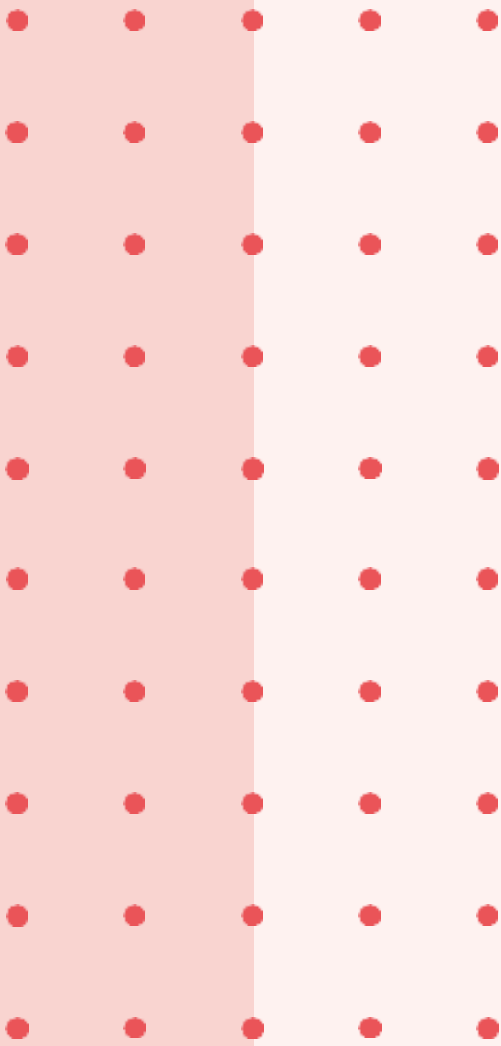
Description: Use three scenarios—optimistic, pessimistic, and most likely—to determine a more realistic estimate.

Usability: Provides a range of possible outcomes, increasing project predictability.

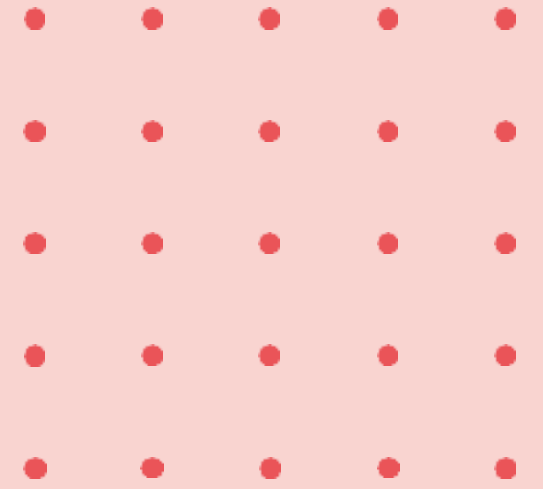
Example: In a product development project, estimate the duration of the design phase as 30 days (optimistic), 45 days (most likely), and 60 days (pessimistic) to establish a realistic budget and time.

BONUS:
Research About Project Cost Estimation

ESTIMASI BIAYA PROYEK
PENGEMBANGAN PERANGKAT LUNAK
KEPEMERINTAHAN BERSKALA SMALL-
MEDIUM DENGAN METODE USE CASE
POINT (UCP)



Thanks!



Do you have any
questions?