Process of Planning Cost Management

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Introduction:

One of the most important roles we have when managing projects is balancing scope, schedule, and cost goals. Trying to avoid cost overrun, or exceeding estimated costs in a project, especially for IT can be challenging. Project cost management has created processes that you can implement to ensure a successful budget plan for the project. We will go over the basic principles of cost management, the process of planning cost management, some problems that may occur with budgeting and ways to overcome them.

Principles of Cost Management:

The textbook definition of project cost management is the processes required to ensure that a project team completes a project within an approved budget(Schwalbe). The two main focuses would be the completed project, as well as an approved budget. As a project manager, including your key stakeholders in this process is a necessity for reducing costs and continuing plan transparency. Here are the four processes that are involved in project cost management:

- **Plan Cost Management**: this is the first phase and section for configuring the policies, documentation, and procedures that will be used during the entirety of the project's planned costs.
- **Estimate Cost**: this section is for estimating costs and resources needed for your project.
- **Determine Budget**: this section will dive deeper into the foundations set in the estimated cost section. This includes individual requirements, project baseline, funding estimates, resource allocations, etc.
- **Control Costs**: this section is planning for changes in the budget and how to control them. Different resources like cost forecasts or planning updates will help you predict, track, and control the changes to your project budget.

It is important to implement these processes into your planning to prevent problems throughout the project, or even unfinished projects because of poor cost management.
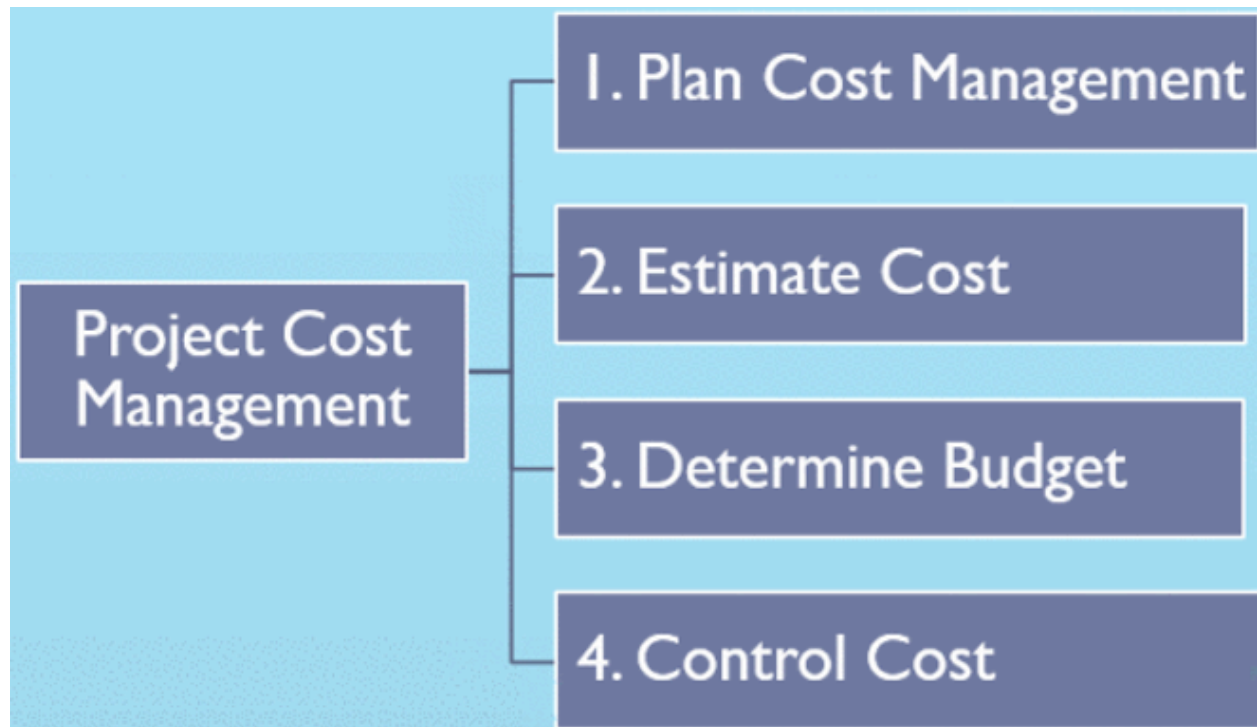
Planning Cost Management

The first initial phase of project cost management is **planning cost management**. The cost management plan is the outlined framework of how the project costs will be handled. Since this plan is the first step, it can be formal or informal, as long as the plan is agreed upon between you, your team, and the stakeholders. Here are some things that the plan should include:

- **Level of Accuracy**: You should have a standardized approach or guideline to follow when it comes to the accuracy of your estimates. When dealing with IT projects, budgeting numbers can vary from the thousands to the millions, so explaining the rules of rounding is very important (Schwalbe). You should also be planning estimates for a contingency plan if there are any setbacks or unexpected costs.
- **Units of Measure**: This section of the plan will define the units that are being measured. This includes labor hours, days, or other types of project units. How project costs are quantified is an important detail to clarify with your team and stakeholders.
- **Organizational Procedures Links:** Tracking the costs in your project will be done broadly and then specifically. Control Accounts or "CA's", are for the accounting section of your plan. Each section or team is given a unique code, and this code is implemented in the project cost processes as it tracks totals.

- **Control Thresholds:** As mentioned before, project overruns are very common when managing IT projects. Control thresholds act as a warning or detection system that will notify you about a potential cost overrun. Variations are not a problem until they deviate too much from the baseline estimate, which is when a warning would be sent out(Schwalbe).
- **Rules of Performance Measurement:** Earned value management or EVM, is described as a project measurement technique that combines scope, time, and cost data(Schwalbe). If your project was to use EVM, then your project cost plan would need rules for tracking this project measurement. This would include a list of costs that need to be tracked, how often the costs are tracked, and how detailed will the tracking information be.
- **Reporting Formats:** This section outlines cost reports what needs to be included in them, and how often a report should be done. This section is important for keeping up with your budgeting requirements, as well as keeping stakeholders on track regarding the costs of the project.
- **Process Descriptions**: This section would be a definitive description of all the processes used and needed in the plan and how to execute them.

Processes of cost planning & cost controlling / monitoring

WBS → Personnel, Material, Machinery → Time, Cost
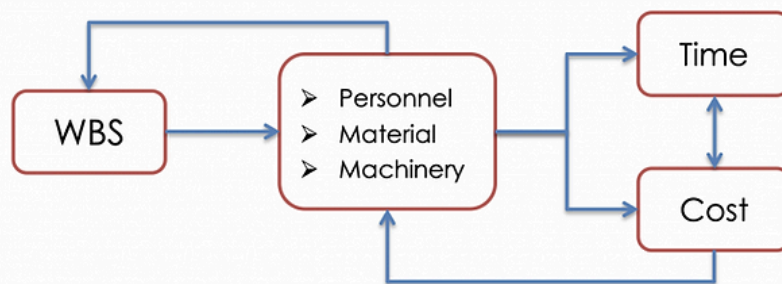
Each of the three processes must refer to the following questions

Input data
- What affects the cost planning?

Instruments & methods
- What is available?

Output
- What is intended by the cost plan?

Problems and Solutions:

A significant amount of time goes into planning a budget. As project managers, we must remember that even the most accurate planning may face some bumps in the road. Here are some common problems with project management budgeting and easy solutions you can use:

- **Imprecise Estimates:** Estimating costs, both on a broad and detailed level can sometimes lead to inaccurate budgeting. If resources aren't calculated, or if they are calculated wrong, this can lead to project overrun and delays in the project. A solution for this is frequently updating cost estimates as the project continues. One tool you can utilize is **three-point estimates**. These are estimates that include an optimistic scenario (ex: 3 weeks), most likely scenario(ex: 4 weeks), and a pessimistic scenario(ex: 5 weeks).
- **Changes with the Project Scope**: the most common reason for changes to the project scope is missed details; there are unaccounted-for or additional costs that were not mentioned in the plan. Maintaining transparency as a project manager when these changes are happening is very important. Your main solution would be to analyze the impact of these changes on the projected estimated costs and adjust the budget according to hierarchy preference.
- **Undefined Requirements:** Although the planning stage is the first step, the plans you create will be your foundation, and more research done between your teams and stakeholders will determine the details of those plans. Having undefined requirements or requirements that drag on with no clear definition is similar to changing the project scope which can lead to misaligned estimates. A solution for this would be investing a lot of time in analysis in the first phase. Keeping frequent communication between you, your stakeholders, and your team will minimize those gaps of error you may face in the future.
- **Inadequate Cost Tracking**: Tracking the costs of the budget, without any control, can lead to project overrun. Implementing small mechanisms to track your budget such as conducting regular audits, or comparing and contrasting your actual cost with your predefined budget, are ways you can keep up with tracking. Make sure certain sectors of your project team keep up with their costs as well.

Conclusion:

The dynamic framework of the Cost Management Plan gives us project managers a detailed outline of how to plan for the budget of our project. As stated before, one of the hardest things a project manager has to do is balance project scope, cost, and schedule goals. The first phase of the Cost Management Plan, the planning cost management stage is the foundational outlined plan made for the budgeting plan. It plays an important role in your financial planning, monitoring, and control. Project managers, team members, and stakeholders all have a responsibility to help navigate each other into a successful project outcome.

References:

Schwalbe, Kathy. *Information Technology Project Management*. Course Technology, Cengage Learning, 2019