

# EPIC

Effective Professional Inspiring Competent

## Project Management

### Fundamentals

**Cost, Budget & Procurement**

# Agenda

- ❖ **Cost Management**
- ❖ **Cost & Budget**
- ❖ **Cost Baseline**
- ❖ **Procurement Management**
- ❖ **Contracts**

# Cost Management

# Cost Management



**Planning,**  
**Estimating,**  
**Budgeting,**  
**Financing,**  
**Managing,**  
**& Controlling costs**  
**so that project can be completed**  
**within the approved budget**

# Process

## PLAN

Identifying the resources required to execute a project and take it to completion.

Resources can be

- People (employees / contractors)
- Equipment / Licenses (such as hardware, softwares, servers)

## CONTROL

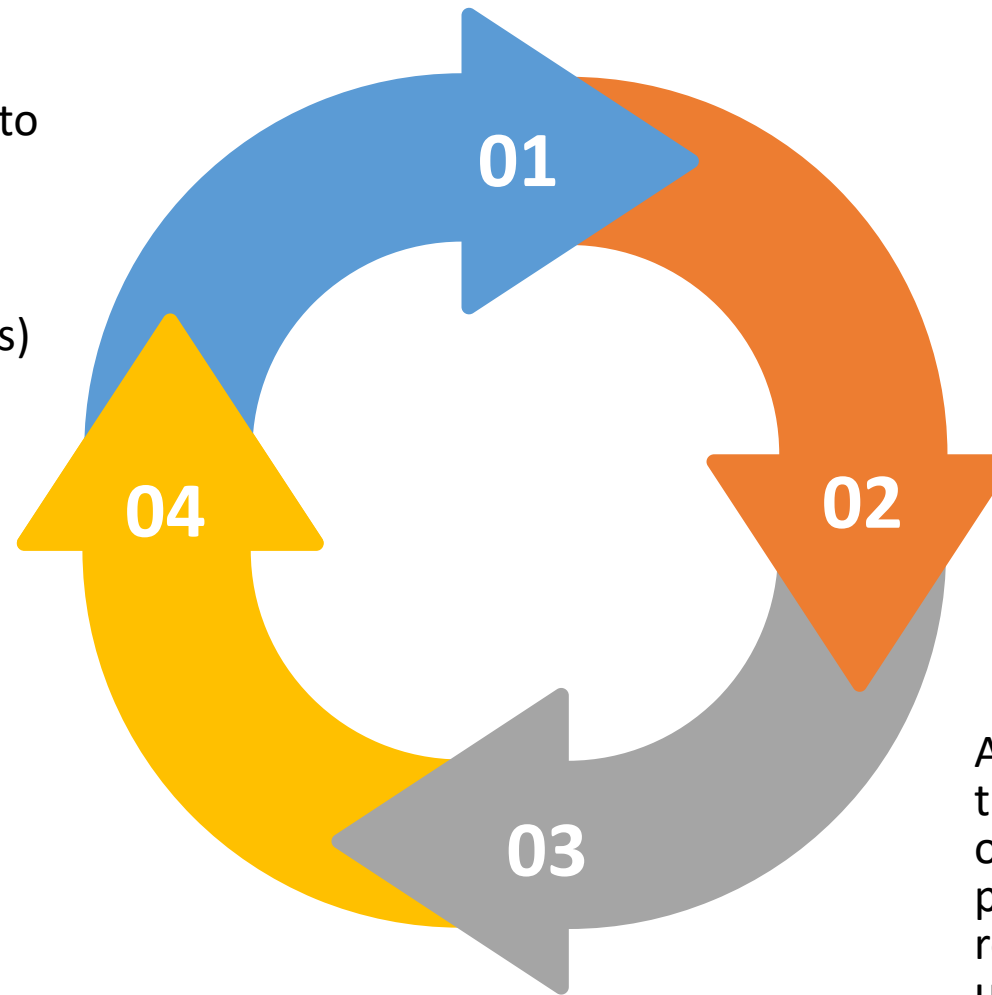
Measuring cost variances from the baseline and taking appropriate action, such as increasing the budget allocated or reducing the scope of work, to correct that gap.

## ESTIMATE

Quantifying the costs associated with all the resources required to execute the project

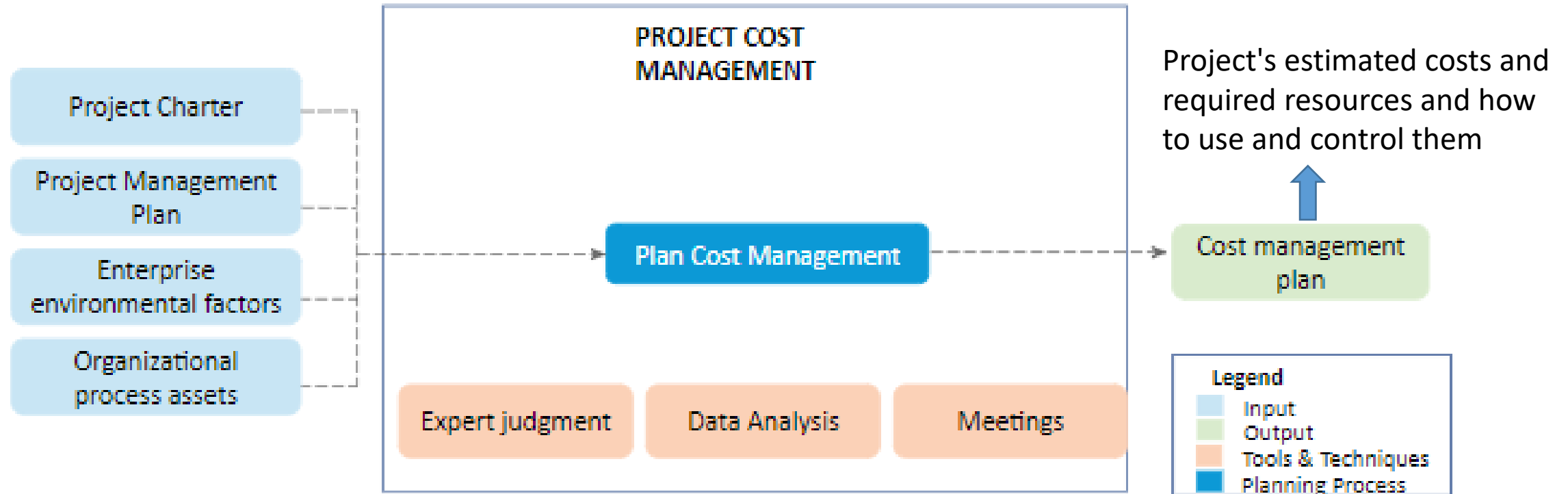
## BUDGET

Allocating costs to a certain chunk of the project, such as individual tasks or modules, for a specific time period. Budgets include contingency reserves allocated to manage unexpected costs.



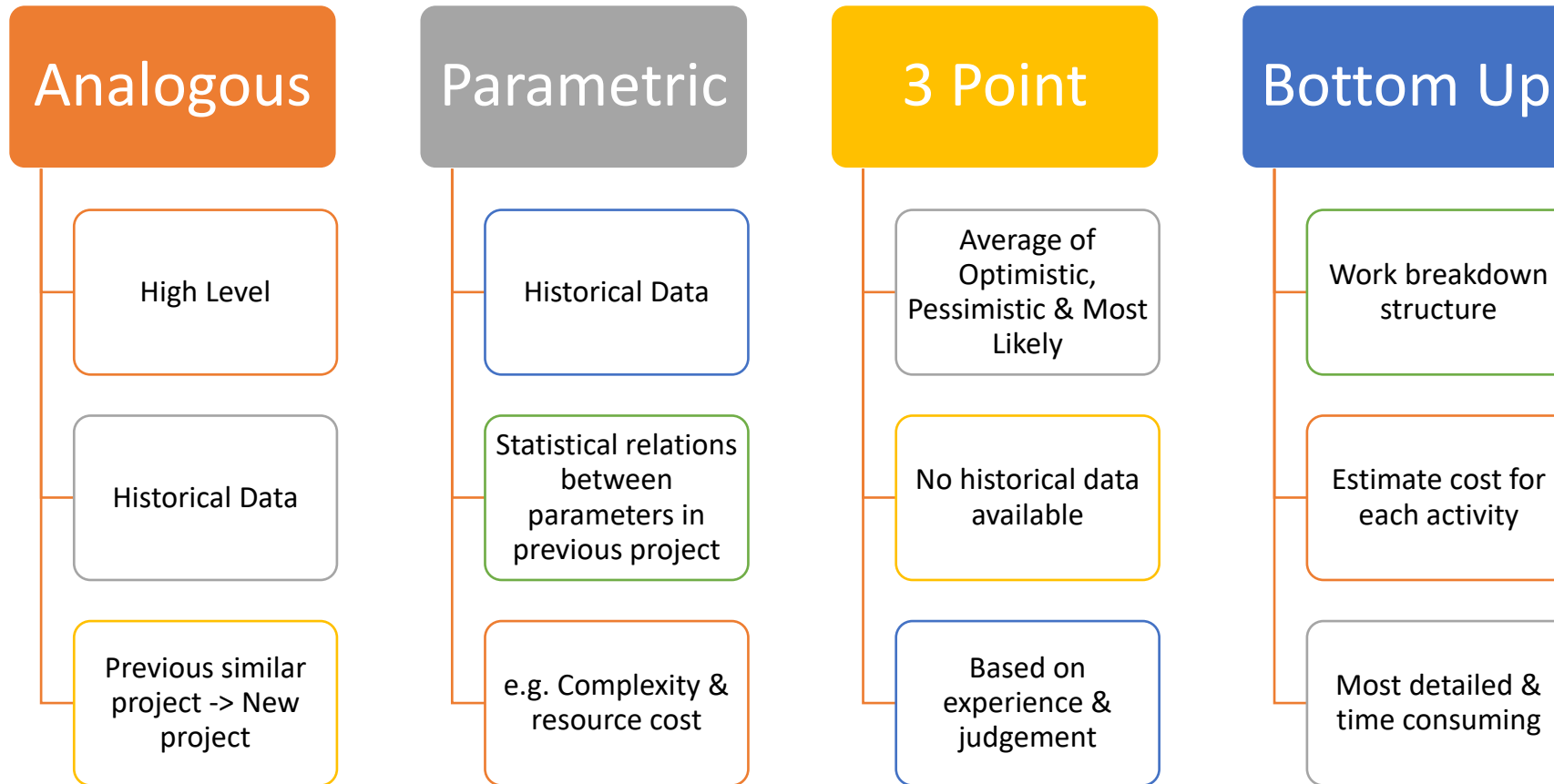
# Plan Cost Management

Define **how** the project costs will be **estimated, budgeted, managed, monitored, and controlled**



# Estimate Costs

Develop an approximation of the **cost of resources** needed to complete project work



# Cost & Budget



# Budget for a Family Vacation



You: I want to plan an international travel for my family

Travel Agent: What is your budget?

What is your answer?

You: 5 lakhs

Agent: Ok, then you can go to Sri Lanka

You: No, I want to go to Europe

Agent: Ok, then you can go in November

You: No, I want to go in May!

**Budget =**

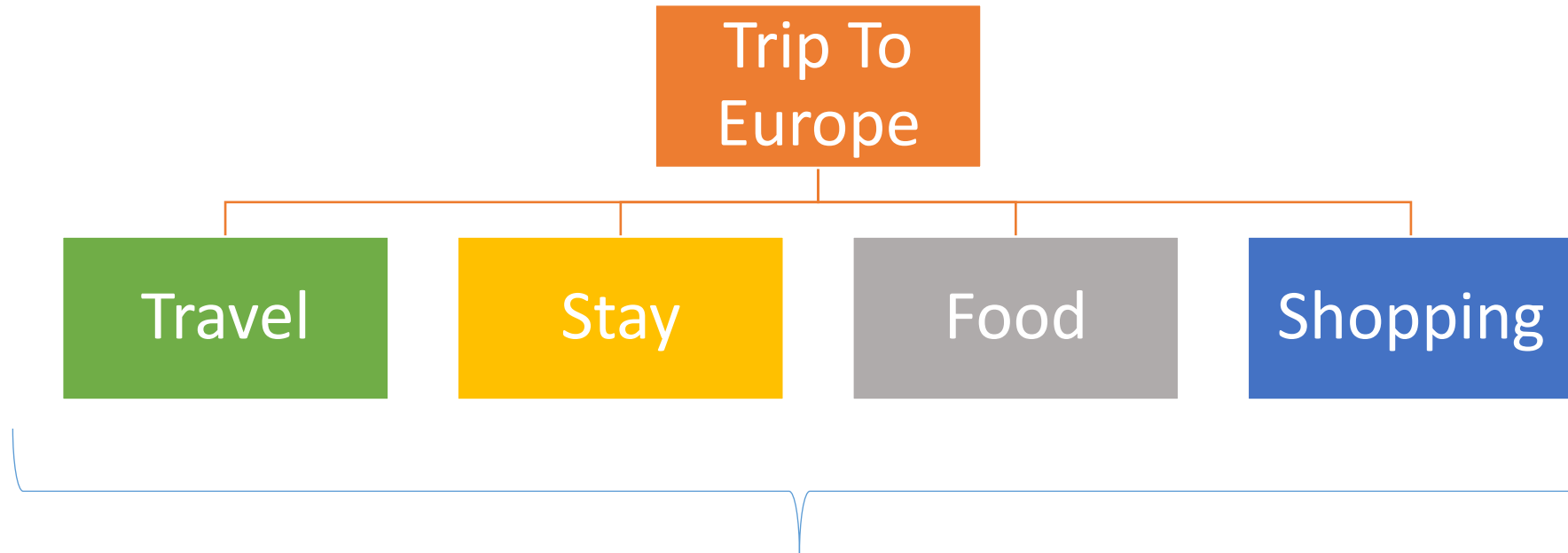
How Much Money (**Cost**), for what work (**Scope**), by when (**Schedule**)

# Budgeting for a Family Vacation

Prepare the budget for a trip to Europe with your family



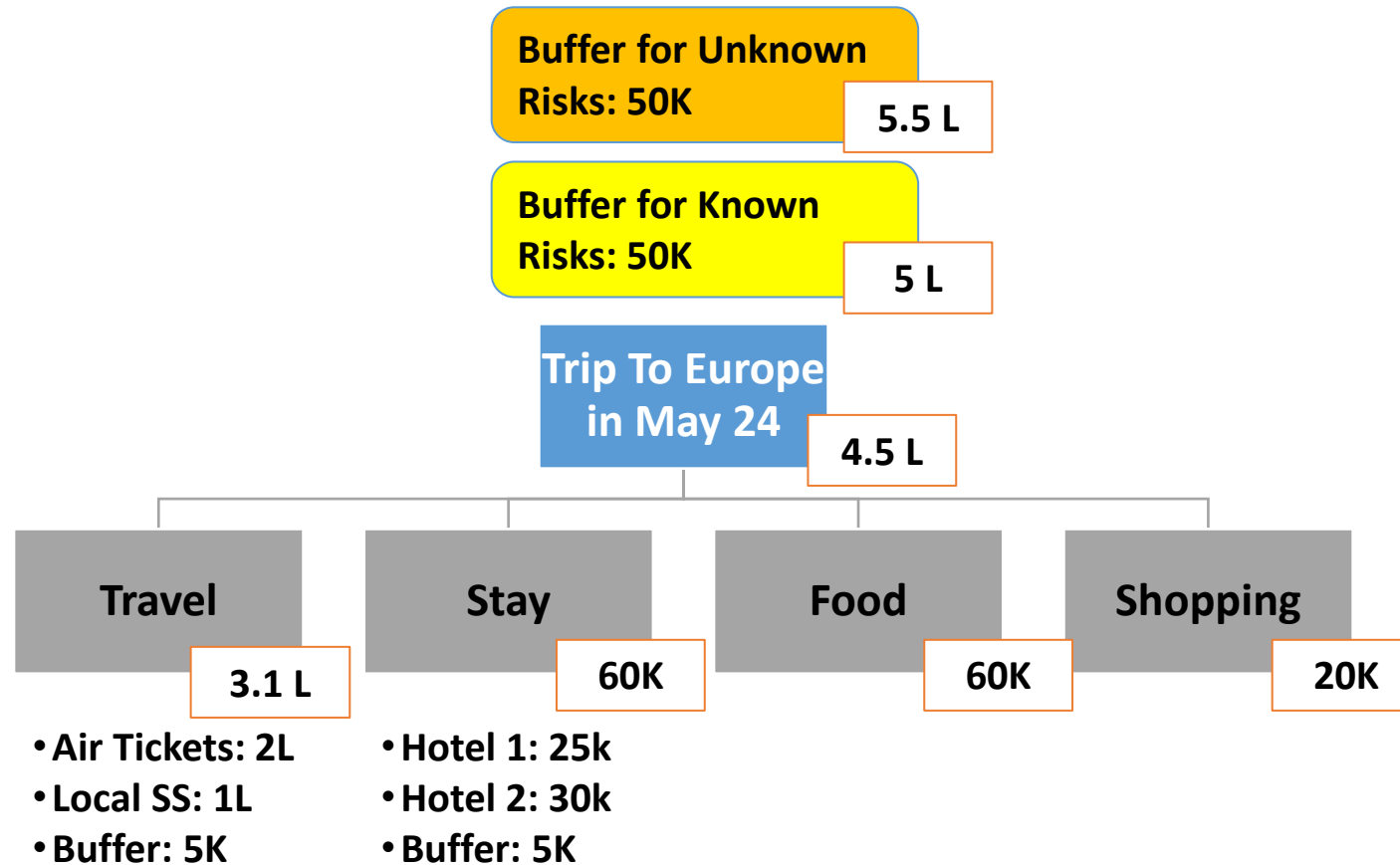
# Budget for Family Vacation



## Control Accounts

In larger projects, costs are managed at a higher level rather than at an individual activity level. Under control account technique, related activities are grouped and their costs are managed as one unit.

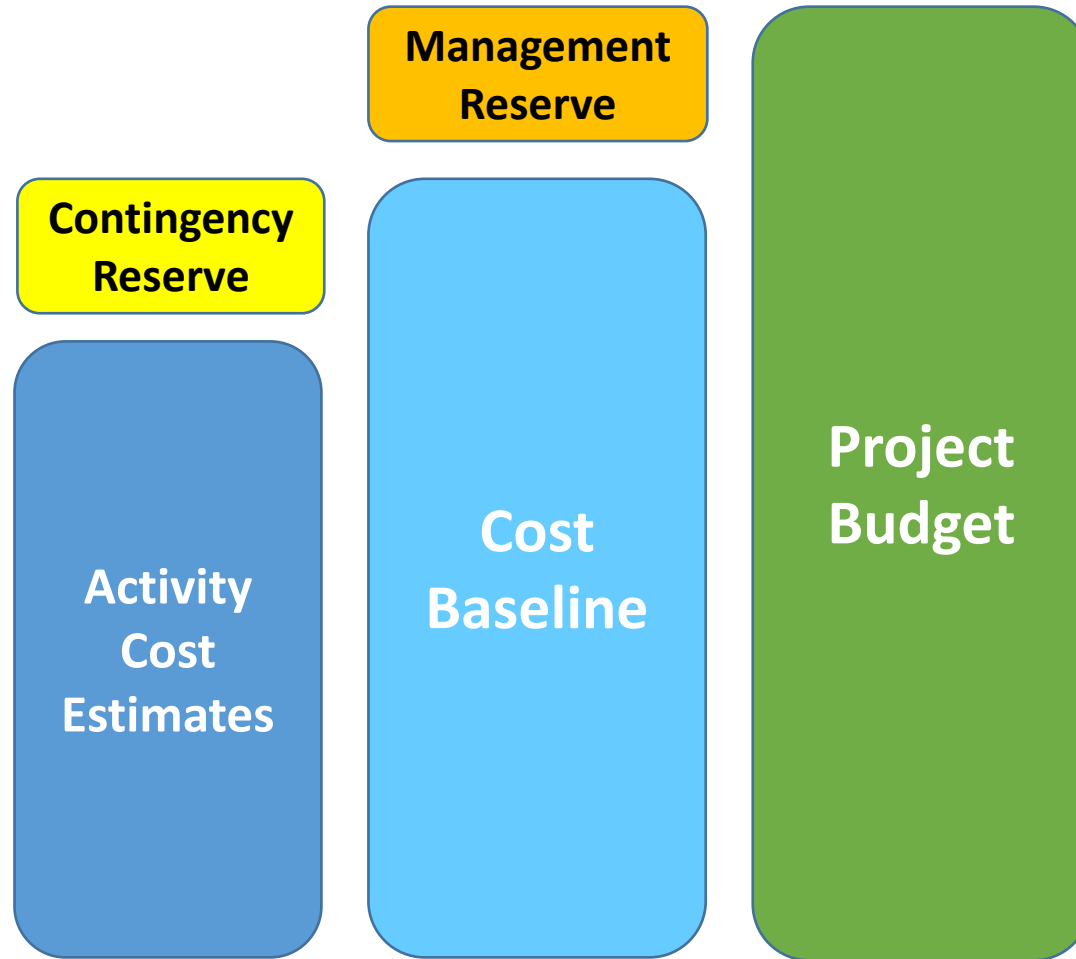
# Budget for Family Vacation



So, what is your **Budget** for the Family Vacation?

# Cost Baseline

# Cost Baseline



## CONTINGENCY RESERVE

Time or money allocated in the schedule or cost baseline for **known risks** with active response strategies.

## COST BASELINE

The **approved** version of the budget, including any contingency reserves

## PROJECT BUDGET

The **Cost Baseline** plus any **management reserves**

# Procurement Management

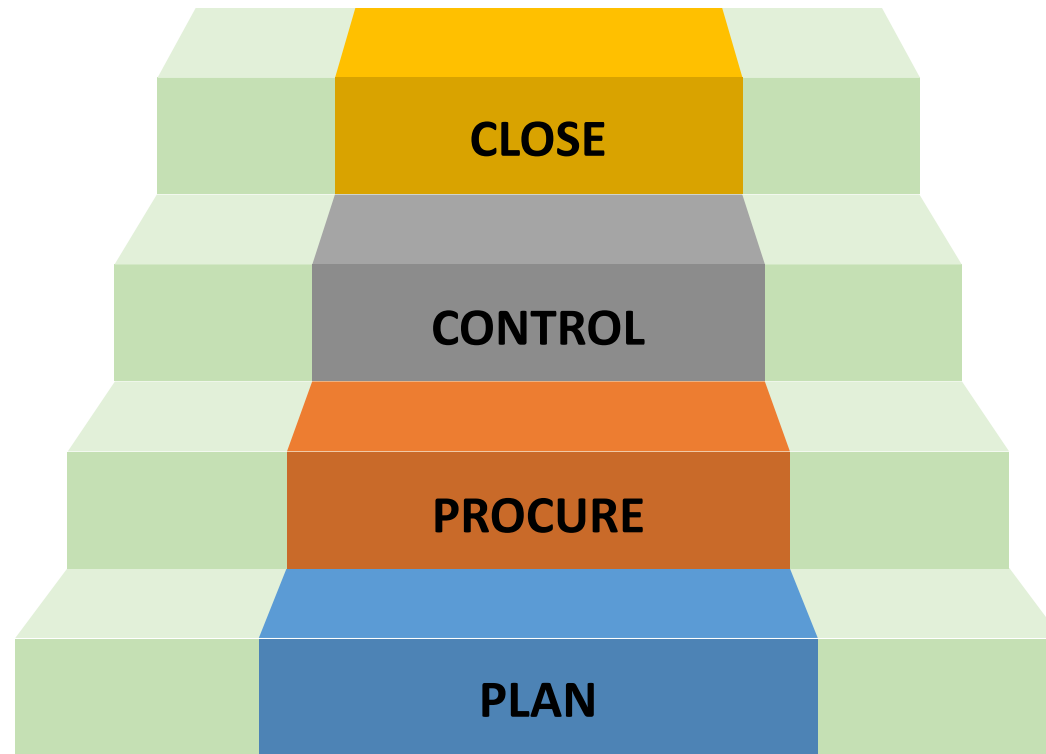
# Procurement Management



Processes necessary to  
purchase or acquire  
products, services or results  
needed from  
outside the project team



# Process



Make payment against invoices, Document & provide feedback for seller

Governance – weekly status tracking, Verify & Validate the received deliverables, Control Costs

Select Sellers, Provide SOW, Raise Purchase Orders, Receive Products / Services

Identify Procurement Strategy, Define Contract Types, Identify sellers

# Plan Procurement Management

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**Document** project procurement decisions, **specify** the approach / contract types, and **identify** potential sellers

Procurement Management Plan will have the following components:

1. Make or Buy Analysis
2. Procurement strategy for each procurement
3. Statement of Work (SOW) for each procurement
4. Appropriate contract type for each procurement
5. Source / vendor selection criteria

# Make or Buy?



Let's say you want to eat  
Biryani tonight...

Will you make it at home or  
order it from the restaurant?

What factors will you consider  
to make this decision?



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# Make or Buy



## MAKE-OR-BUY ANALYSIS

The process of gathering and organizing data about product/service requirements and **analyzing** data against **available alternatives** including the purchase or internal manufacture of the project.



# Procurement Documents



## PROCURE

### Statement of Work (SOW)

- A detailed description of products, services or results to be delivered by the seller

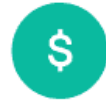
### Request For Quotation (RFQ)

- Request quotation (only cost) from qualified vendors

### Request For Proposal (RFP)

- Request proposals from prospective vendors

# RFQ vs RFP



## RFQ

Request for Quote

An RFQ is usually sent out when the company knows exactly what they are looking for and they are simply looking for vendors to provide a sales quote for the goods or services.



## RFP

Request for Proposal

An RFP is usually sent out when the company is looking for vendors to submit proposals for how they would approach a project. An RFP will typically include more detailed information about the project, including the company's objectives and requirements.

# Contracts

# Balloon Pop

- **Make your team of 4 people**
- **Blow the balloons & take pins**
- **After I say “Start” you must ensure that the balloons are kept floating in the air**
- **When I say “Stop”, the team with all balloons in the air will be the winner!**



# Balloon Pop

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- **What did you like most about the activity?**
- **How did your team keep all balloons in the air?**
- **Did you have any agreement with other teams?**
- **Did the other teams honor the agreement?**
- **What can you do now that the agreement was not honored?**

# Agreement vs Contracts



An **Agreement** is any understanding reached between two or more parties.

**NOT Enforceable in a court of law**

Promise + Consideration

**Agreement**



A **Contract** is a specific type of agreement that is legally binding

**Enforceable in a court of law**

Agreement + Legal Enforceability

**Contract**

# Interior Decoration Contract

- **Pick a Buddy**
- **One of you can be the customer & the other will be the Interior decorator**
- **Have a conversation with the vendor and negotiate the terms of the contract**

# Types of Contracts

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## **Fixed Price (FP)**   **Lumpsum Amount**

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- Amount will be released after agreed requirements are met
- Definition of Done & Acceptance criteria needs to be defined
- Buyer needs to have clarity on exact requirements

## **Time & Material (T&M)**   **Hourly / Daily Rate**

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- Payments will be done as per amount of effort spent on the work assigned
- Buyer does not have clear visibility of requirements
- Precise statement of work cannot be made upfront

## **Cost Plus (CP)**   **Expenses + Fixed Fee**

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- Payments will be made on providing proof of legitimate expenses
- Plus, seller will be paid fixed fee for services

# Fixed Price (FP)



## PROS

Cost risk is with the seller

Seller has strong incentive to control cost

Less Monitoring Effort

## CONS

Overestimated deadlines

Bloated Price

SOW needs to be complete & correct

# Time & Material (T&M)



## PROS

Cost risk is shared  
by buyer and seller

Dynamic work  
scope

Easy to create

## CONS

Requires  
monitoring of daily  
output

Uncertain deadlines

Seller has no  
incentive to control  
costs

# Cost Plus (CP)



## PROS

Simple to draft

Seller does not  
have to account for  
the risk

Less costly than FP

## CONS

Riskier for the  
buyer

Seller has less  
incentive to control  
cost

More efforts for  
auditing all the  
seller invoices

# Summary



**Fixed Price (FP)**



**Time & Material (T&M)**



**Cost Plus (CP)**



# Key Take-aways

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**Note down the top 3 Key  
Take-aways for you from  
this session**



# Thank You



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