# CHAPTER 6

# Project Cost Management

# Hand Out # 6

# Learning Objectives

After reading this chapter you will be able to:

1. Understand the importance of good project cost management
2. Explain basic cost management principles, concepts, and terms
3. Describe the resource planning, cost estimating, cost budgeting, and cost control processes
4. Explain the different types of cost estimates
5. Understand what is involved in preparing a cost estimate for an information technology project
6. Perform calculations for earned value management
7. Understand the benefits of using earned value management
8. Describe how software can assist in project cost management

# Chapter Outline

The Importance of Project Cost Management

Basic Principles of Cost Management

Resource Planning

Cost Estimating

Types of Cost Estimates

Cost Estimation Tools and Techniques

Typical Problems with Information Technology Cost Estimates

Sample Cost Estimates and Supporting Detail for an Information Technology Project

Cost Budgeting

Cost Control

Earned Value Management

Using Software to Assist in Cost Management

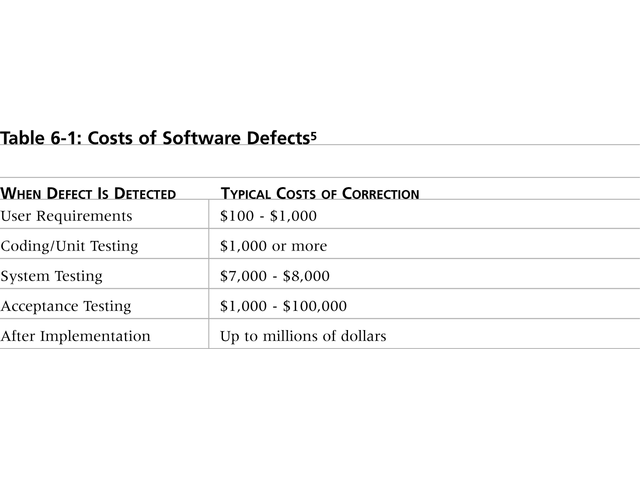
# Lecture Notes

## Importance of Project Cost Management

Cost management is considered a trouble spot for IT projects. It is usually not difficult for IT professionals to learn about project cost management; they are not interested. The fact that most senior managers making IT project decisions know more about cost issues than they do about technology, and project managers need to learn to speak the language of cost management.

## Basic Principles of Cost Management

Many they confuse profits and costs. Profits are defined as revenues minus expenditures. Cost is defined as a resource sacrificed or foregone to achieve a specific objective. Investment decisions for projects are usually based on projected life cycle costs and benefits. Since there are several important terms in this section, see Table 6.1 below.

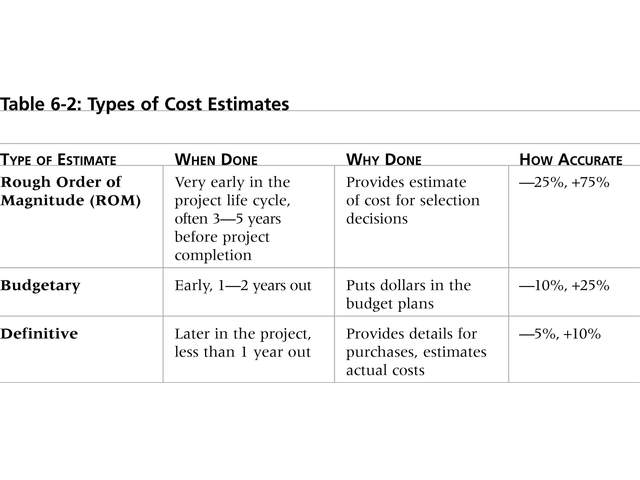


## Resource Planning

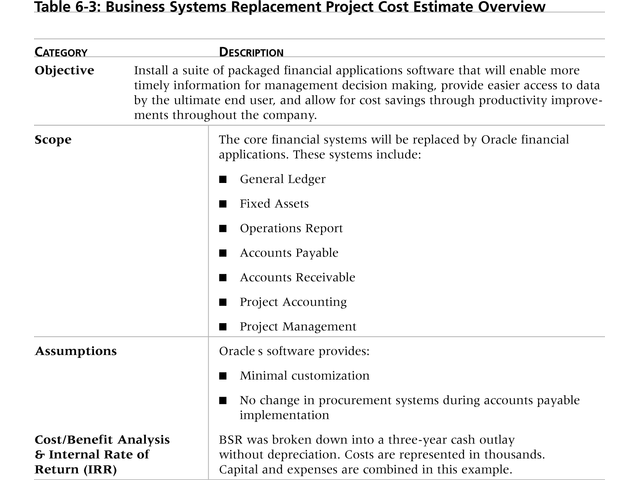
Many organizations do a poor job of resource planning. Example of jobs; some they did a good job on resource planning and some they did a poor job on resource planning. The importance of developing a list of resource requirements for projects to provide the basis for cost estimates.

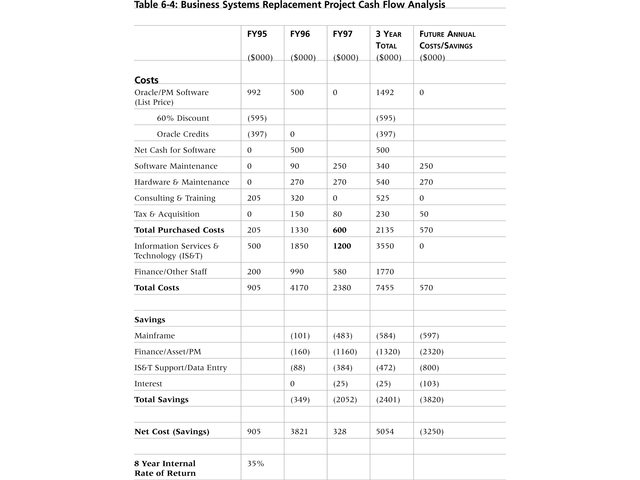
## Cost Estimating

This section create cost estimates, Table 6-2 provides a good summary of the types of cost estimates.



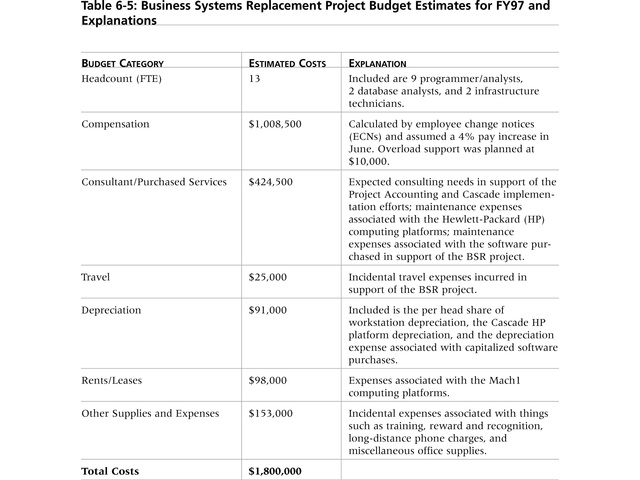
The cost estimating tools and techniques, and the sample estimate is given in Tables 6-3 and 6-4.





## Cost Budgeting

Many have heard of budgeting; the process of creating budget to spend money within budget guidelines. Table 6-5 provides one example based on the sample cost estimate. The fact that for a project, the cost baseline is a very important output of cost budgeting. Project cost performance is measured against this baseline. Project managers should have input into the budgeting process.

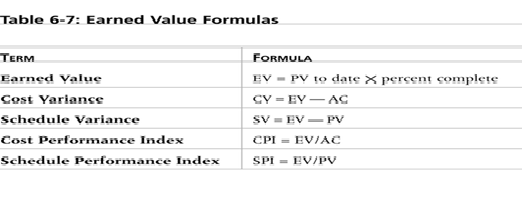


## Cost Control

An important part of a project manager's job is to control project costs. Project Integration Management, as well as standard reports showing a project’s budgeted and actual costs. Note that the acronyms have changed from the PMBOK Guide – 1996 edition. Earned value used to be referred to as BCWP (budgeted cost of work performed), but now it is EV (earned value). PV (planned value) used to be BCWS (budgeted cost of work scheduled), and AC (actual Cost) used to be ACWP (actual cost of work performed). Project 2000 still uses the 1996 acronyms. The earned value calculations in Table 6.6 are carried out as follows:

## 

The government organizations are strong proponent of earned value management. Table 6-7 summaries the above formulas. Though this technique makes perfect sense, it is difficult to implement on most projects.



EV = 10000 x 75% = 75,00, CV = 7500 – 15000 = - 7500, SV = 7500 – 10000 = -2500

CPI = 7500/ 15000 = 50% , SPI = 7500/10000 = 75%

## Using Software to Assist in Cost Management

The cost-related features of Project 2000 and some features of Excel to help in preparing cost estimates, budgets, and earned value charts, see Figures 6.2 & 6.3.

