



# Cost Management

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# Traditional Cost Management vs. Earned Value Cost Management

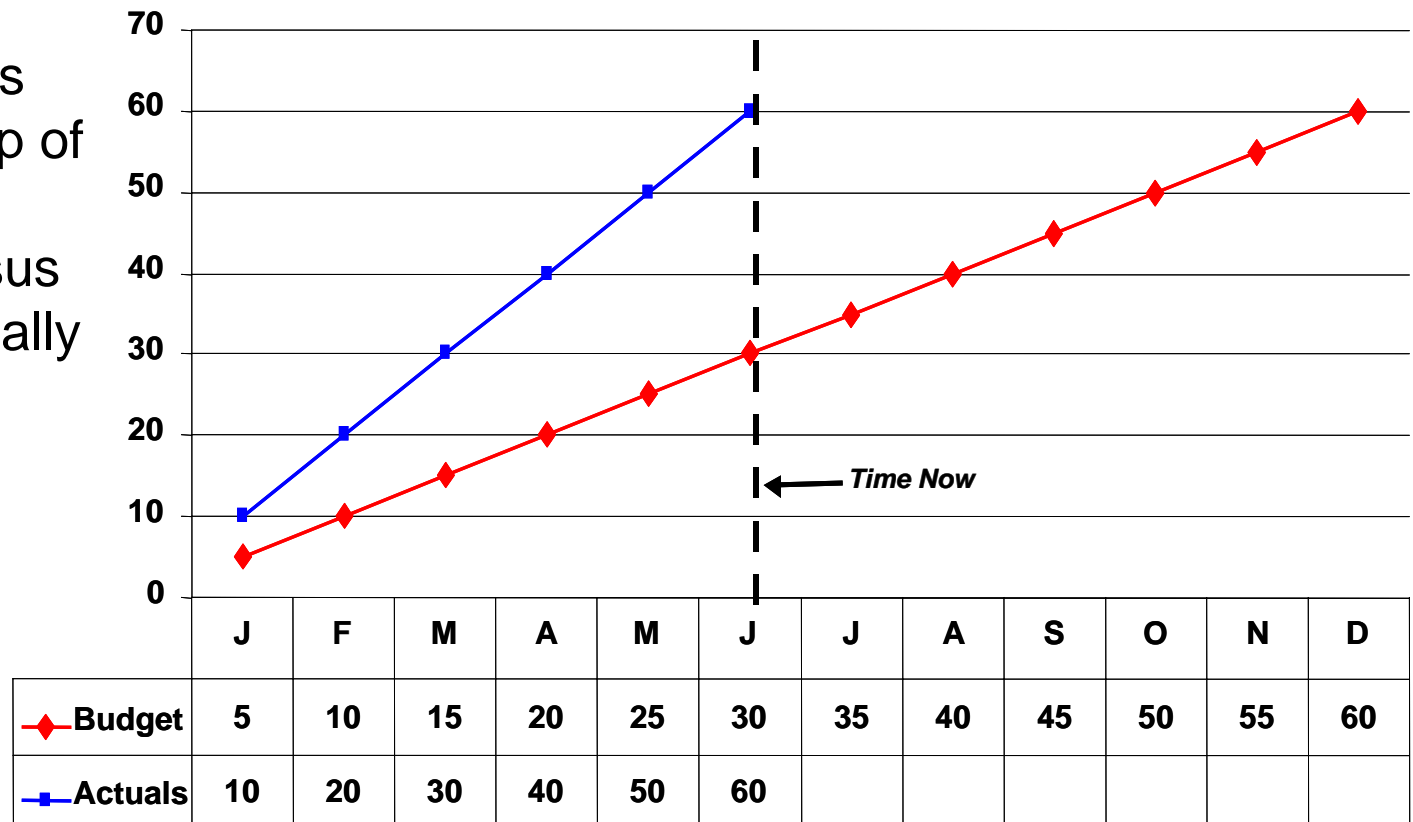
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There is an important and fundamental difference between the data available for analysis in a:

- Traditional Cost Management environment
- Earned Value Cost Management environment

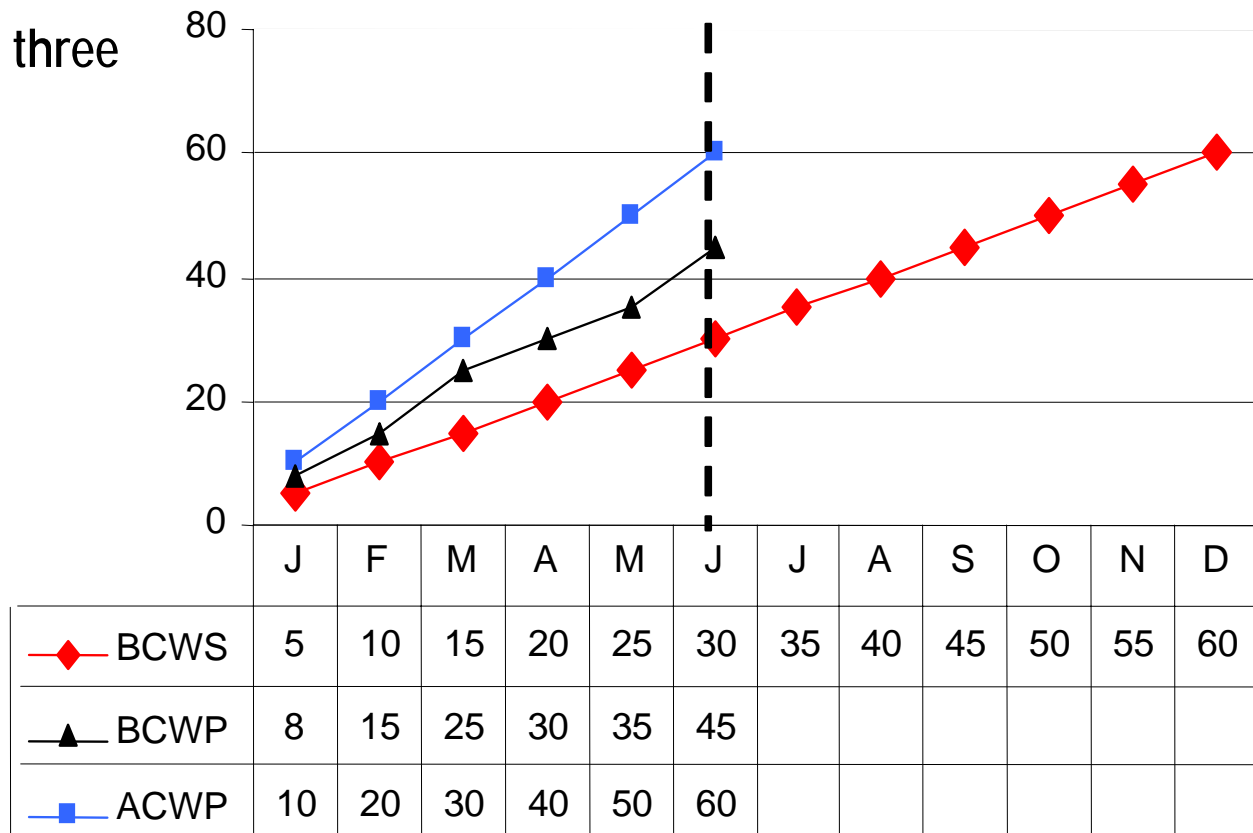
# Traditional Cost Management

The graph shows the relationship of the budget (planned) versus what was actually spent.



# Earned Value Cost Management

In EVMS there are three  
data sources:  
Budget  
Actuals  
Earned Value



## In Summary

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### Traditional Cost Management provides:

- How much money and time a particular job is likely to require prior to starting and once started
- How much money was spent at any given time.

### EVM Cost Management adds:

- What work has been accomplished to date for the funds expended (what you got for what you spent)

# What is Cost Management?

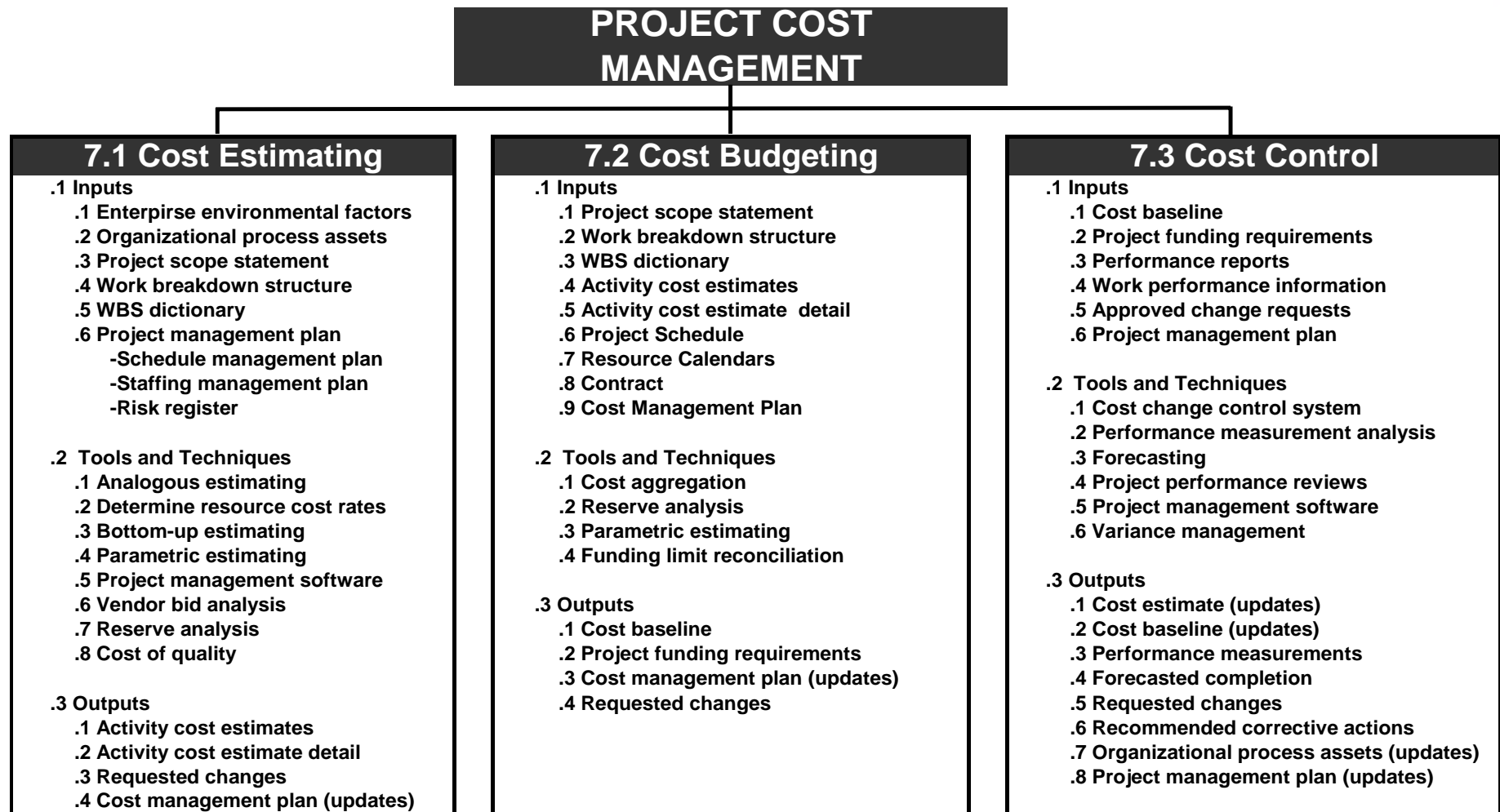
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“Includes the processes required to ensure that the project is completed with the approved budget”

PMBOK Guide 2004



# What are the Cost Management Processes?



# Project Phases/Process Group Map

Project Management Process Groups					
Knowledge Areas	Initiating	Planning	Executing	Monitoring & Controlling	Closing
Cost Management		Cost Estimating Cost Budgeting		Cost Control	

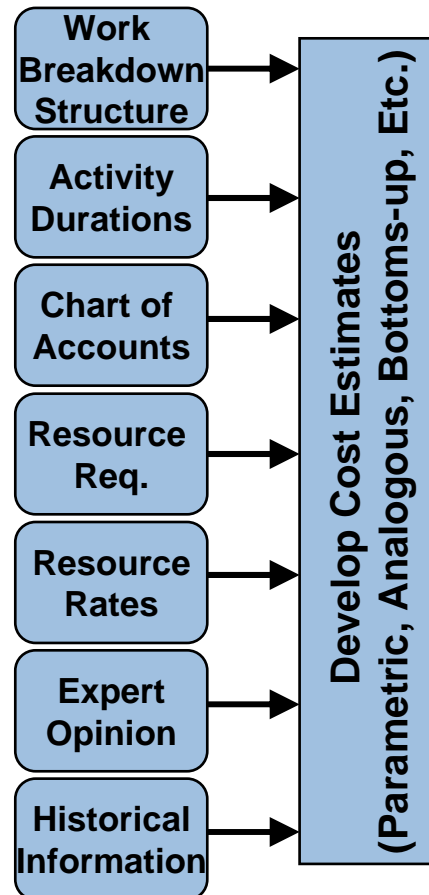


Vs..





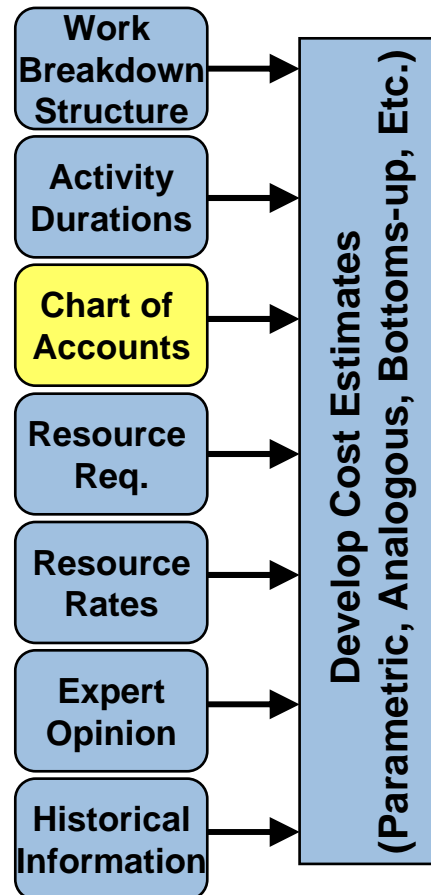
# Implementation of Cost Management Processes



What will you do with the cost information when the job is done?

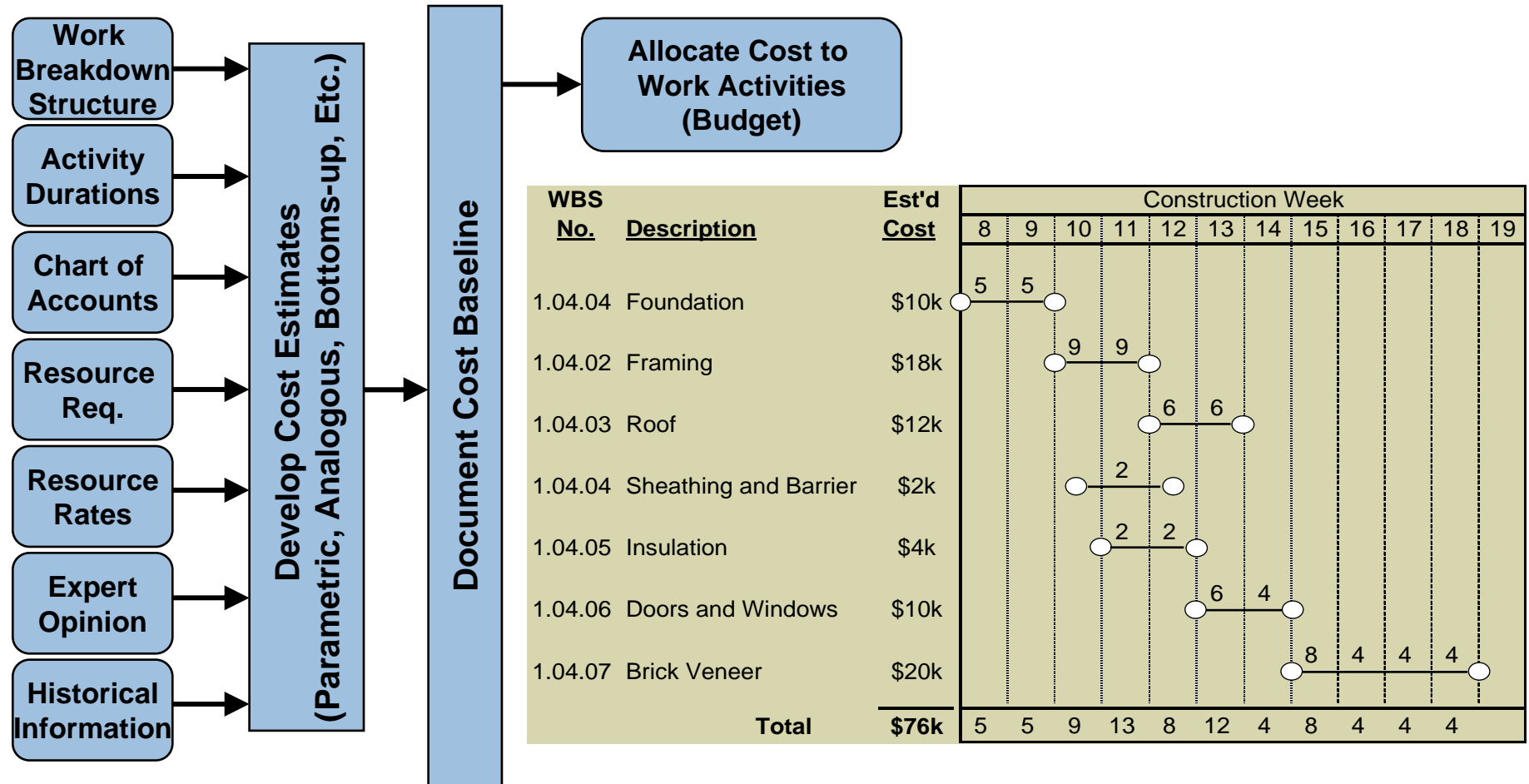
- ◆ WBS and level of cost collection should consider not only the natural division of work but also consider future use of cost information
  - future proposals
  - comparative cost analysis - “best method of performance”

# Implementation of Cost Management Processes

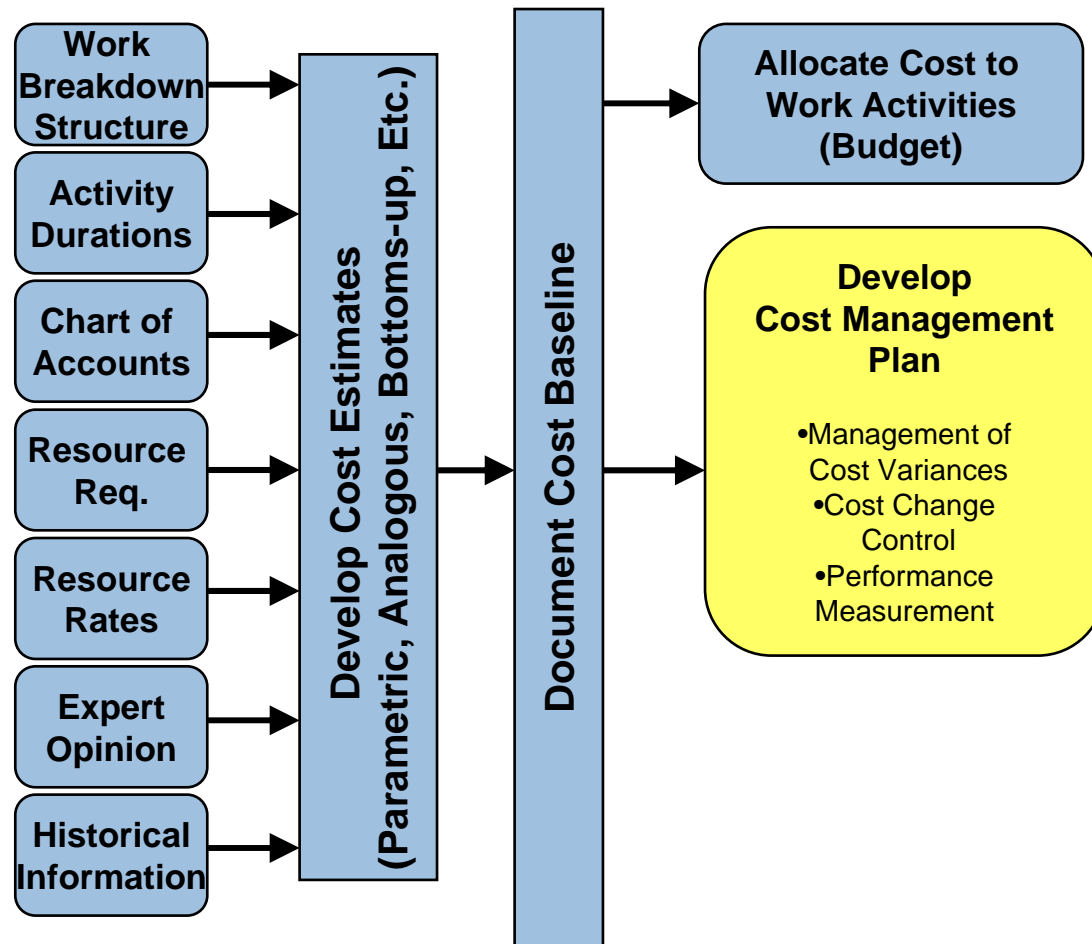


- ◆ Strive for consistency between the Estimating and Accounting chart of accounts
- ◆ What level of cost detail is necessary and sufficient?

# Implementation of Cost Management Processes



# Implementation of Cost Management Processes



◆ Develop a “going-in” strategy or plan on not just how to control overruns but how to reduce costs:

- Incentives
- Competitive Procurements
- Methods Improvements
  - Questioning Attitudes
  - Technology Deployment
  - Value Engineering
  - Trade-off Analysis

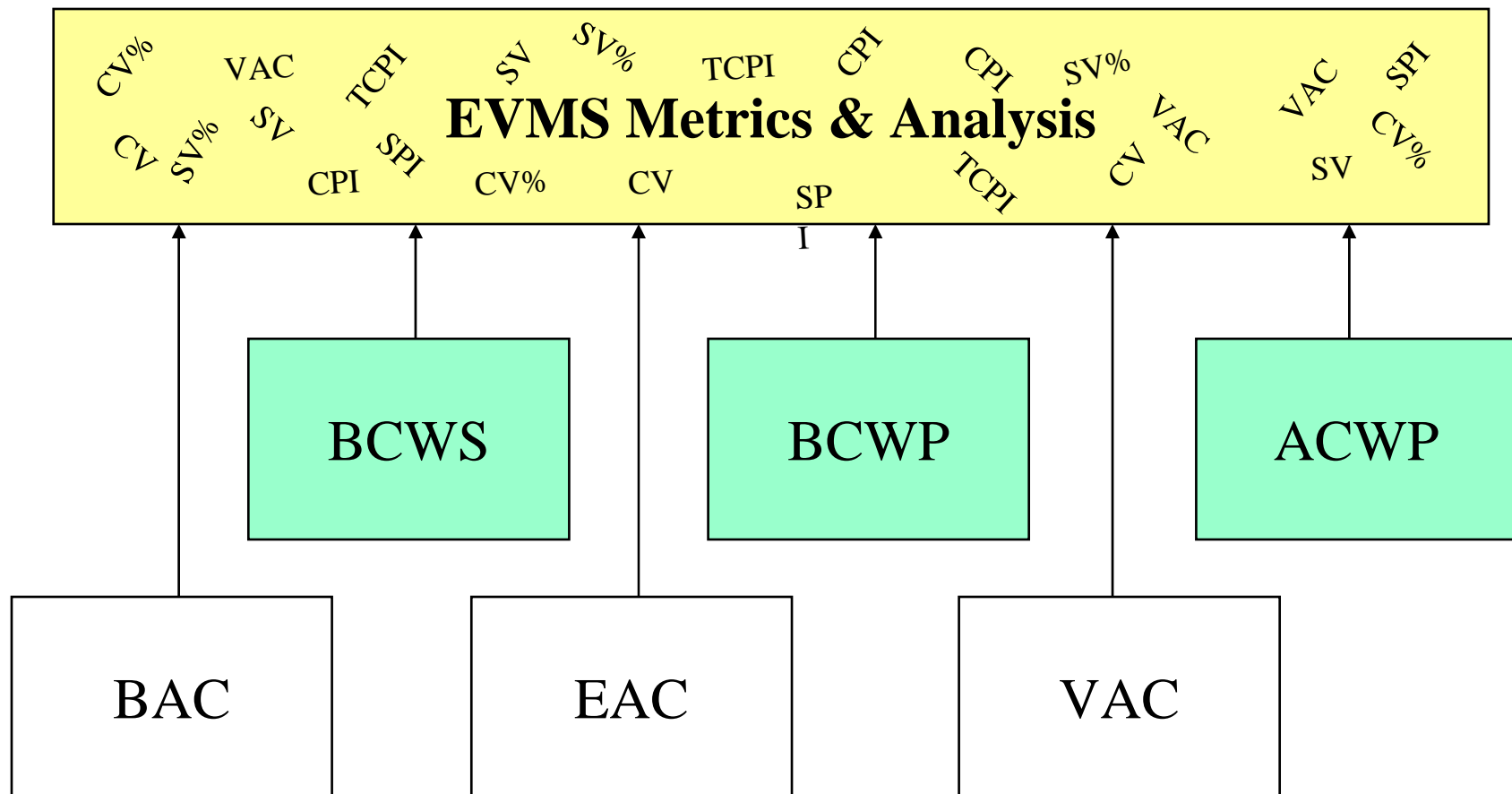
# Are any performance measurement techniques placing you at risk?


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- ◆ Contract payment schedules are often tied to your WBS structure and chosen earned value techniques
  - Consider potential work suspension and resumption risks
    - Should PM/CM activities be modified milestones versus level of effort?
  - Consider learning curves
    - less experience (early in contract) - higher cost/unit
    - more experience (later in contract) - lower cost/unit
    - improvement comes with practice



# What Metrics Do You Use for Cost Analysis?





Change is inevitable, success is optional

-Yogi Berra

so Plan for Success

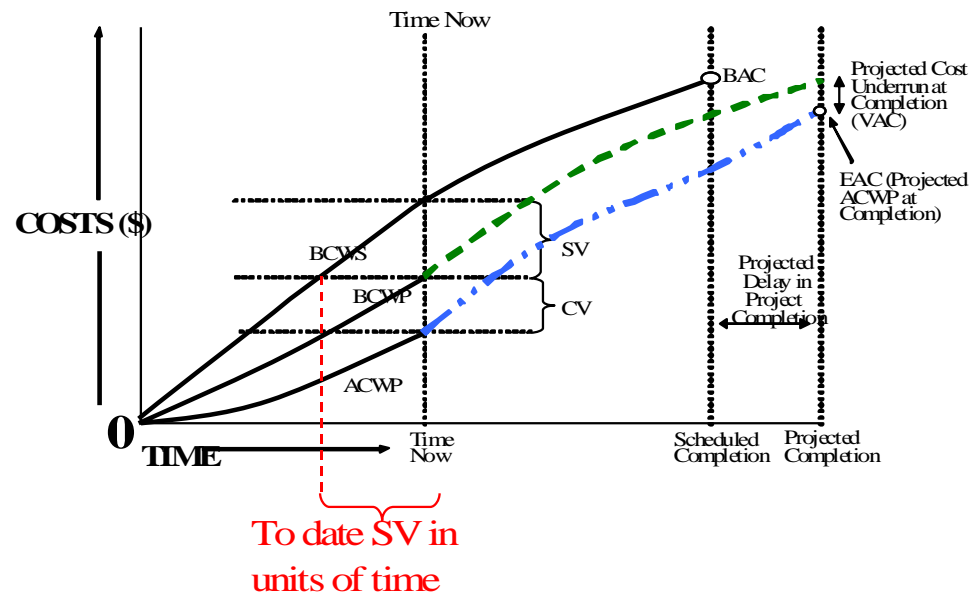


# What is your plan for controlling internal change?

- ◆ Evaluate cost uncertainty and your risk events upfront
  - Establish a reserve and develop risk mitigation plans

- ◆ Monitor cost and schedule performance for deviations
- ◆ Accurately record changes to the baseline
- ◆ Bring expected costs within acceptable limits

## Identifying Deviations





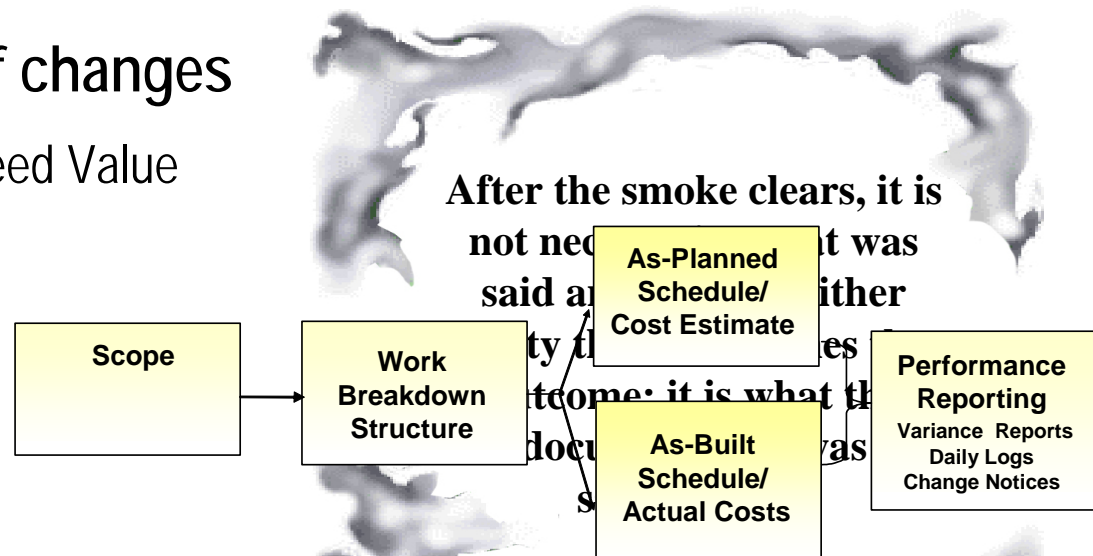
# What is your plan for controlling external change?

- ◆ Monitor correspondence/field direction
- ◆ Monitor cost and schedule performance for variances
- ◆ Isolate change impacts (scope, schedule, and cost)
- ◆ Inform stakeholders of changes
  - Agree to a Not-to-Exceed Value

- ◆ Document changes

- Schedule
- Performance reports
- Field notes/logs

- ◆ Timely negotiations



# Recap of Cost Management Processes

