



Cost Management

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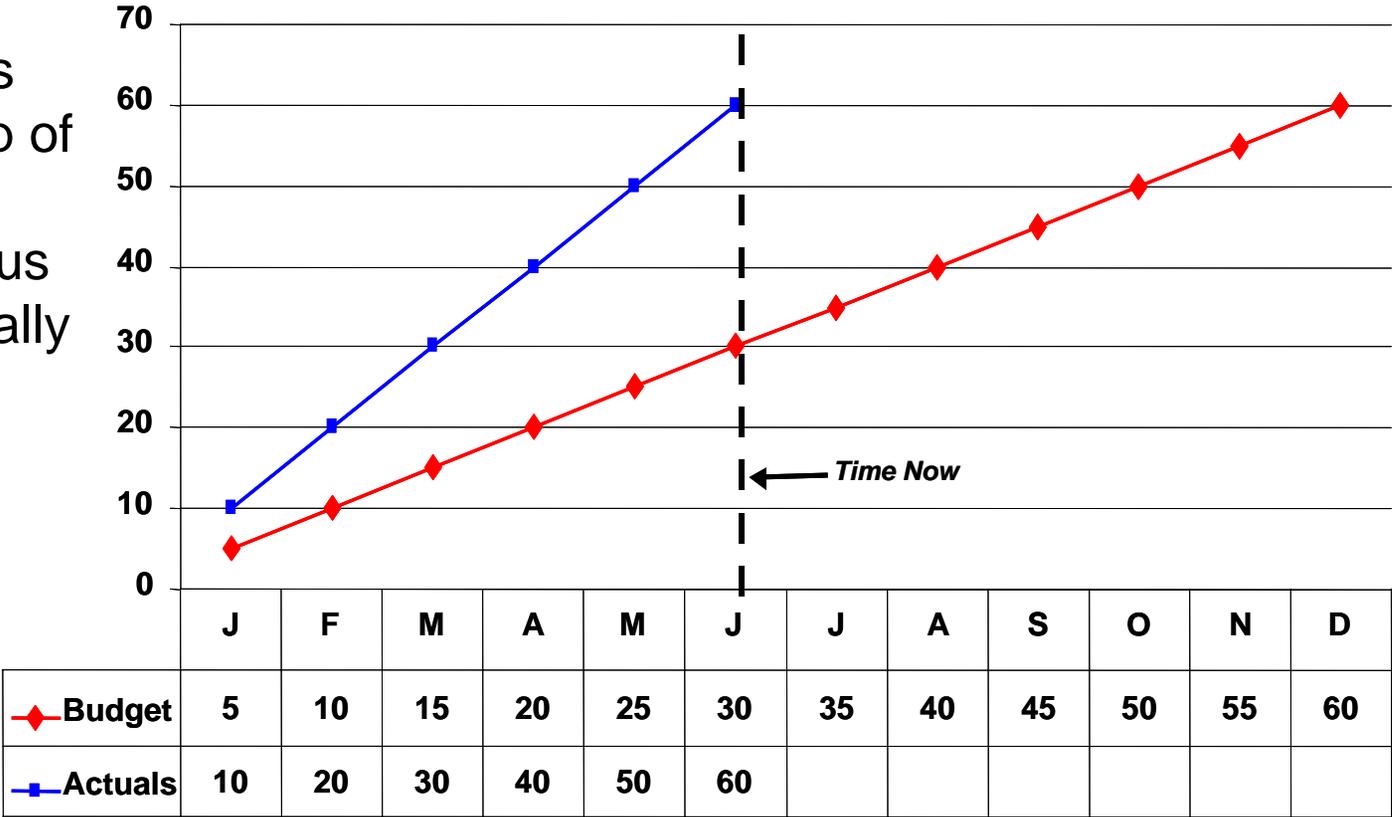
Traditional Cost Management vs. Earned Value Cost Management

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

- Traditional Cost Management environment
- Earned Value Cost Management environment

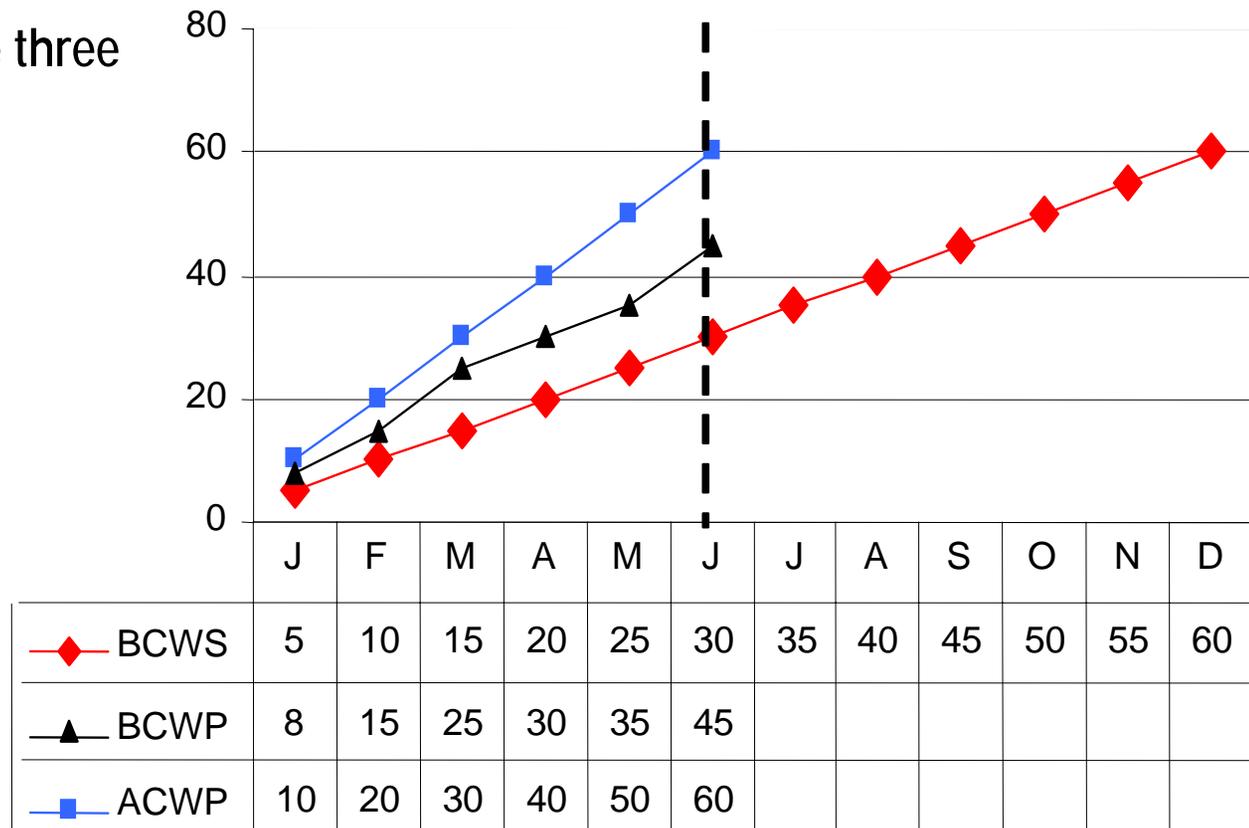
Traditional Cost Management

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

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)

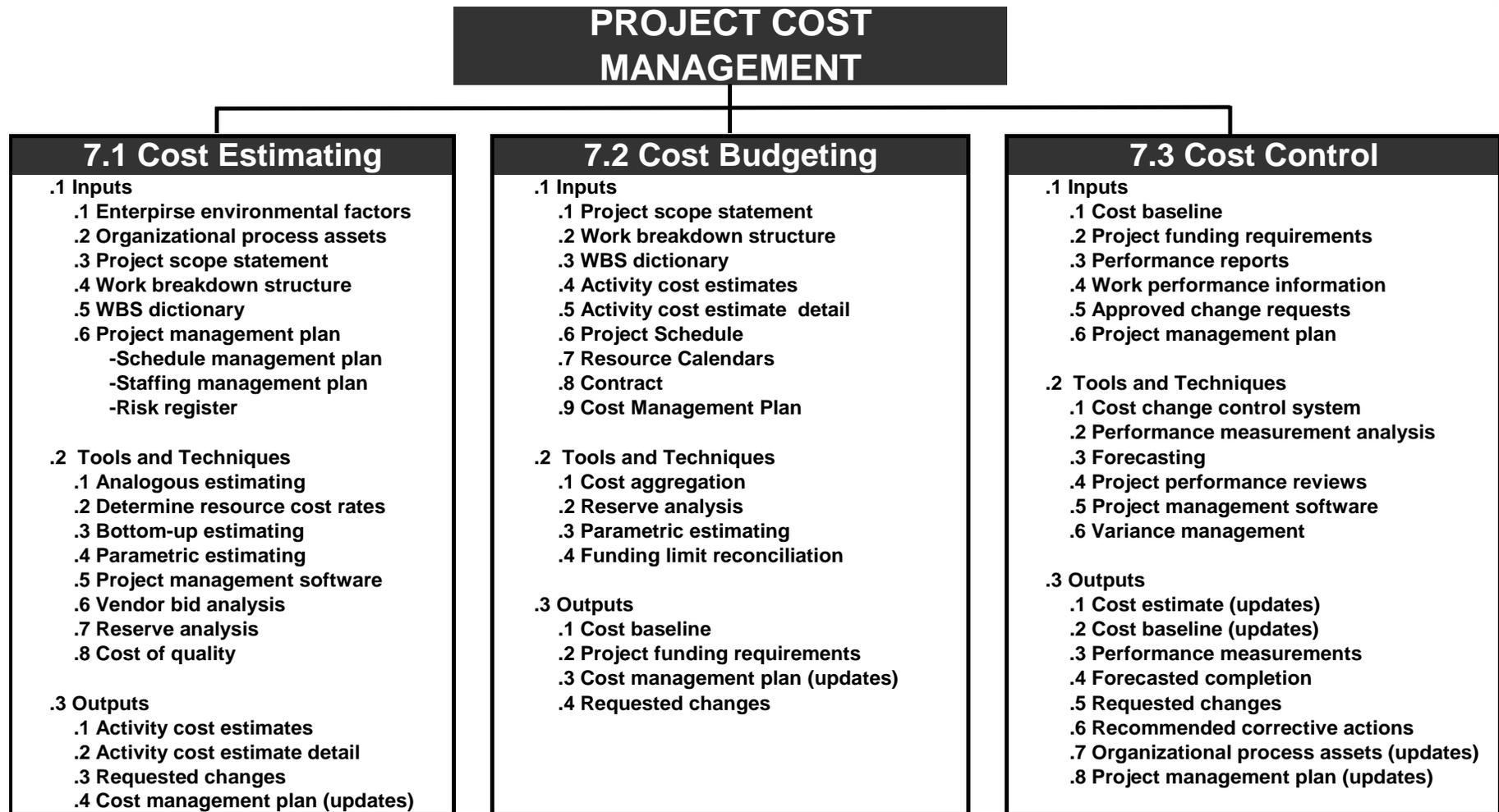
What is Cost Management?

“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

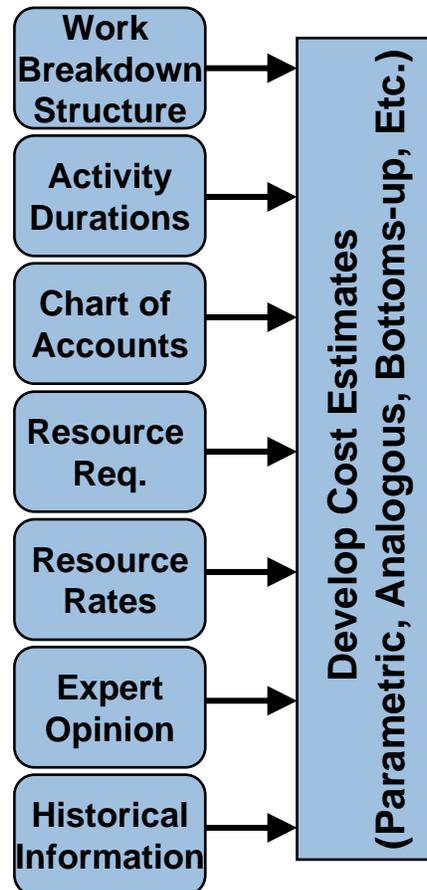
Project Management Process Groups					
Knowledge Areas	Initiating	Planning	Executing	Monitoring & Controlling	Closing
Cost Management		Cost Estimating Cost Budgeting		Cost Control	



Vs..



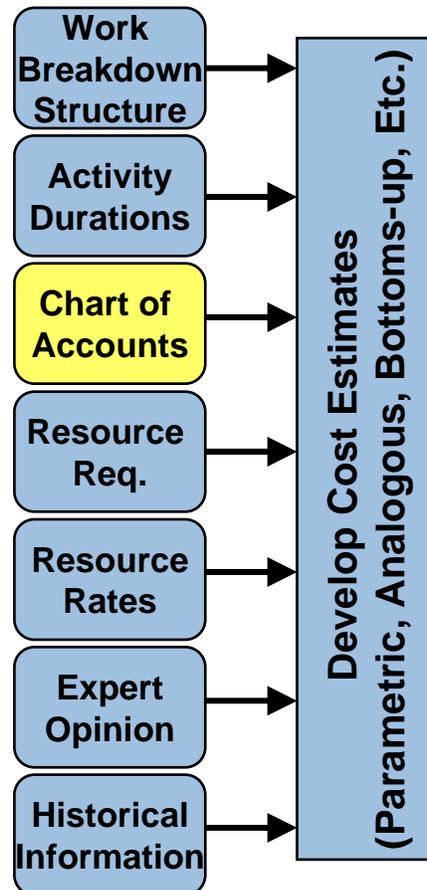
Implementation of Cost Management Processes



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

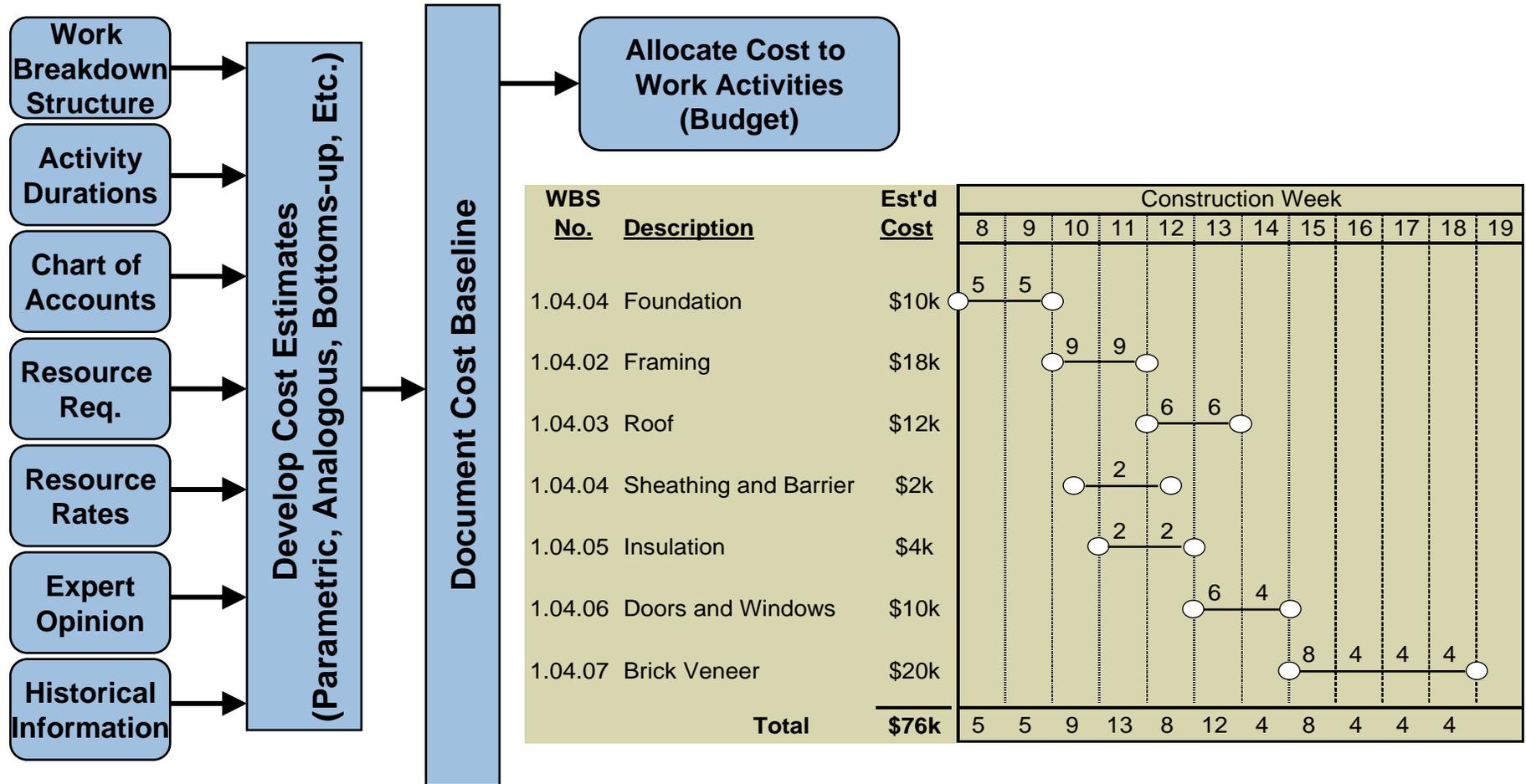
- ◆ WBS and level of cost collection should consider not only the natural division of work but also consider future use of cost information
 - future proposals
 - comparative cost analysis - “best method of performance”

Implementation of Cost Management Processes

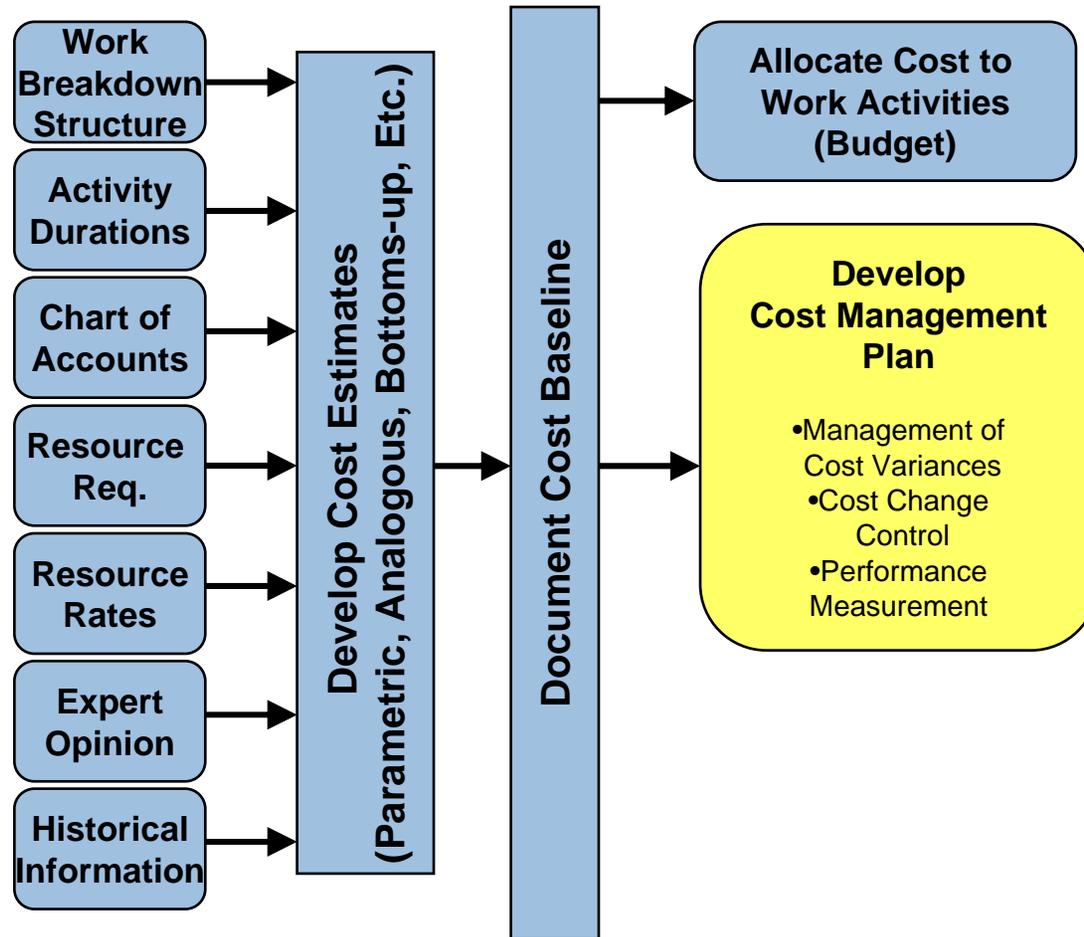


- ◆ Strive for consistency between the Estimating and Accounting chart of accounts
- ◆ What level of cost detail is necessary and sufficient?

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:

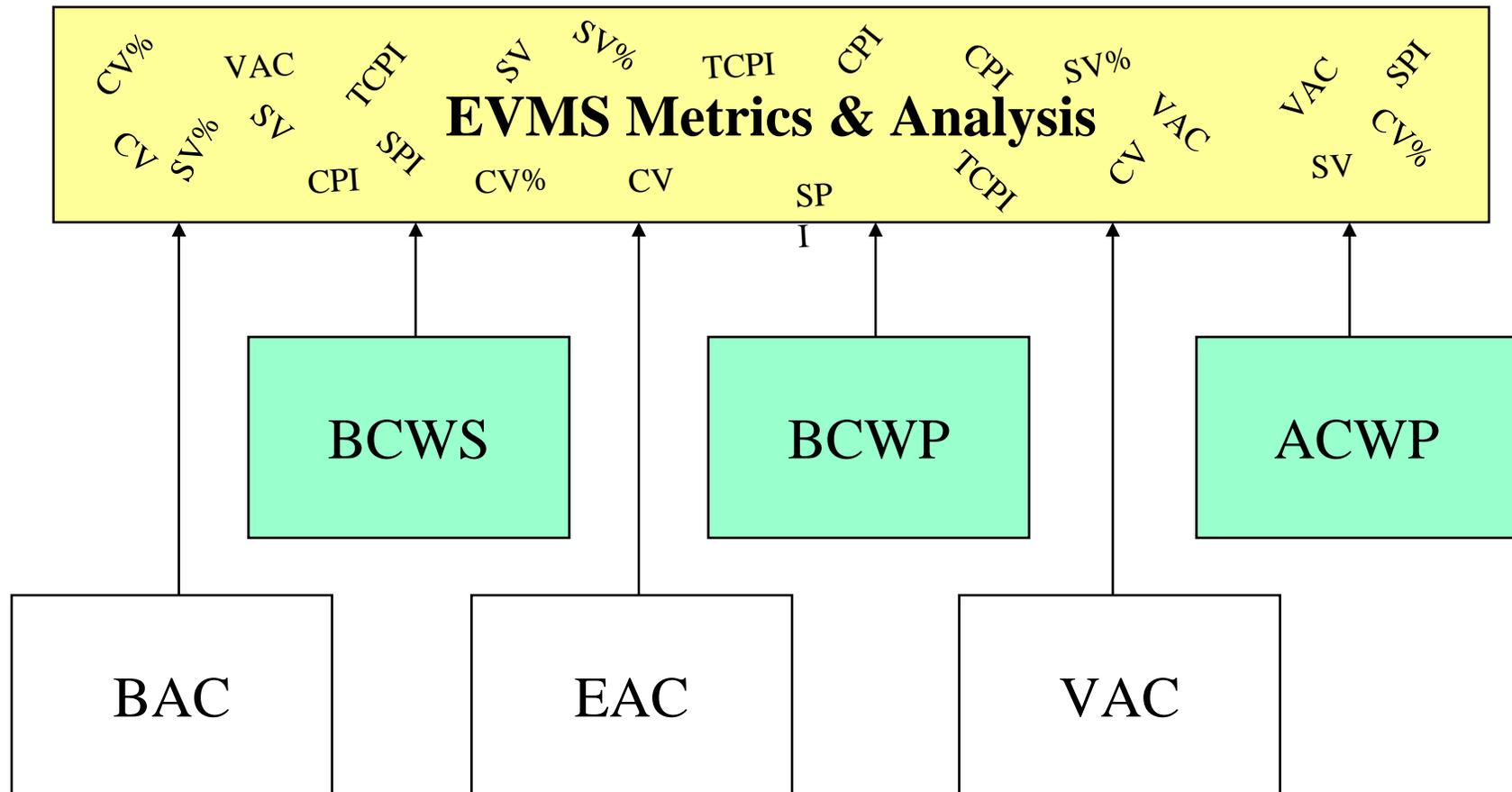
- Incentives
- Competitive Procurements
- Methods Improvements
 - Questioning Attitudes
 - Technology Deployment
 - Value Engineering
 - Trade-off Analysis

Are any performance measurement techniques placing you at risk?

- ◆ **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

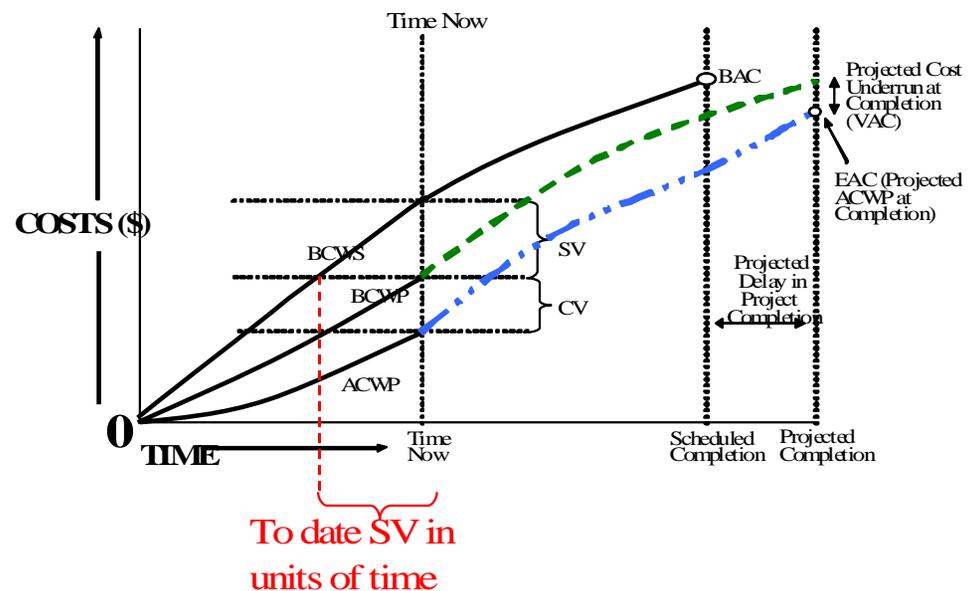


What is your plan for controlling internal change?

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

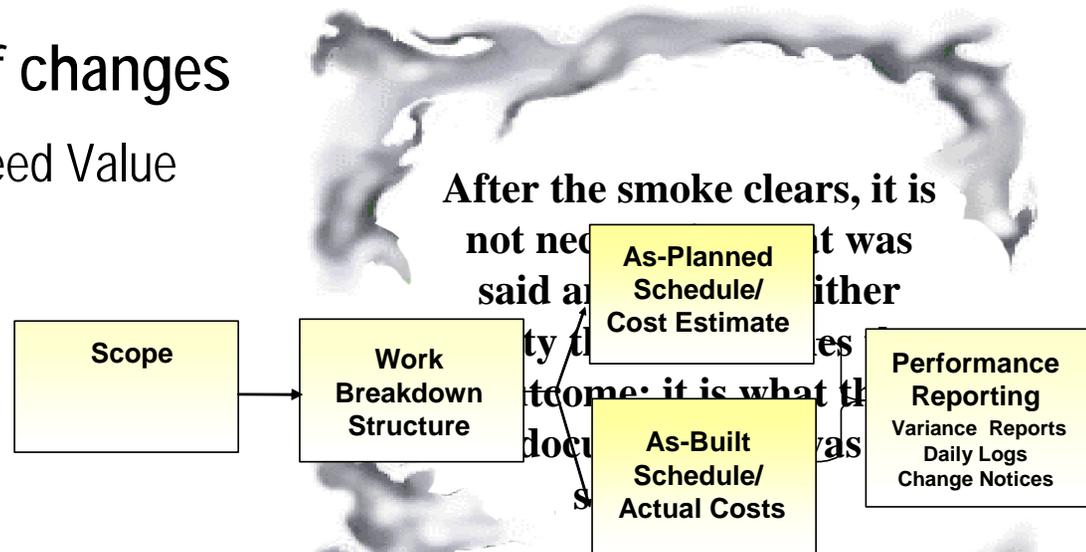
- ◆ Monitor cost and schedule performance for deviations
- ◆ Accurately record changes to the baseline
- ◆ Bring expected costs within acceptable limits

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

