

Week 6 Discussion: Cost Management

Explain some of the basic principles of cost management, such as profits, life cycle costs, tangible, and intangible costs and benefits, direct and indirect costs, and reserves.

Cost management involves the processes necessary to ensure a project team completes a project within an approved budget. Cost management principles help communicate to upper management the return on investment, net value analysis, and other financial aspects of the project in order to garner support and understanding of what is involved for the organization.

Metrics of managing costs includes profits, which are revenues after subtracting expenses, and life cycle costs, which includes total cost of ownership or development, plus project support costs. Costs or benefits are “tangible,” when they are easily measured in dollars, while “intangible” costs and benefits are difficult to quantify in monetary terms, such as goodwill, prestige, or statements of improved productivity. Direct costs are directly related to producing the products and services of the project, while indirect costs are indirectly related to performing the project, such as electricity, paper towels, or other aspects of operating a large building to provide a development workspace. Reserves are dollars included in a cost estimate to provide a cushion for future situations that are difficult to predict (Schwalbe, 2007).

References:

Schwalbe, Kathy, (2007). *Information Technology Project Management*, Course Technology, Boston, Massachusetts.