



# Spiralling costs

How can you maintain control of a project and keep those pesky costs down? David Parmenter offers some useful tips on how to avoid things getting out of hand

**We learn lessons in mysterious ways. You'd think experienced accountants would be good at controlling costs on a project. But this is far from true.**

Seldom do we, as project leaders or designated suppliers, know exactly what is involved in a project. As a result, any fixed quotes are often totally inaccurate. Projects take on new directions as we learn more about what we really need from them. This eventually leads to many difficult negotiations as we try to establish a win-win.

We sometimes make the mistake of thinking that as long as we are closely involved in a project, we can control it on a materials-and-labour-on-charge basis. But this often fails because there is no budget, no target and no deadline.

Humans are motivated by targets. Without one, even the best workers can drift, incurring excessive hours on a project with little or no accountability. On some consultancy assignments I was involved with in the financial sector

in London, prior to the 1987 crash, there was so much money around that nobody cared what we were doing or how effective we were. Despite being a competent and good team we had caught the disease of 'complacency'.

And without real deadlines, inefficient meetings, long breaks and interrupted work are common when a project is going off the rails.

Fixed quotes also have inherent problems. From my experience, there is so much uncertainty that suppliers end up having to add large amounts for miscellaneous items. Alternatively, they try and second-guess what the competition is going to quote and then underquote them, often ending up with a situation that means a heavy loss unless they can start charging for every slight variation. Not a great basis for a successful client relationship.

## Keep control

You should try to obtain quotes based on the more controllable aspects of a project. For example, I have decided to use the following new approach on all future building projects:

- \* The contractors will quote a likely range for the hours and labour charges. The difference between the top and bottom ends of the range should be no more than 15% to 20%. We will hold discussions throughout the project as to where the landing point will be between these two markers.

- \* The total hours charged to date will be sent back to the contractor to give them a 'heads-up'. It is worth noting that contractors move from one invoice to the next. Rarely do they look at their total hours incurred on the project to date.
- \* Additional modifications will be charged separately if they amount to more than 5% of the total cost.
- \* Material costs will be passed on at cost plus 10%, or cost plus 15%. It is only fair that the contractor gets a margin, as they have negotiated special volume-based discounts. However, it is also unfair to be on-charged 30%, which ends up at a price higher than you could have negotiated separately with the materials supplier.
- \* Expenses will be based on agreed guidelines, such as basing travelling time and costs on full days to avoid numerous part-days inflating costs.

Finally, with smaller contractors, insist on a spreadsheet. You will need to check the contractor's maths for two reasons: they are seldom accountants and they usually prepare the invoices late in the evening when they are tired. Providing them with a simple template for the invoice will enable you to quickly check for accuracy and then consolidate to provide a running total of their hours. **AB**

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