

7 Tips for Preventing Cost Overrun on Projects

by Peter Landau | Jun 17, 2022

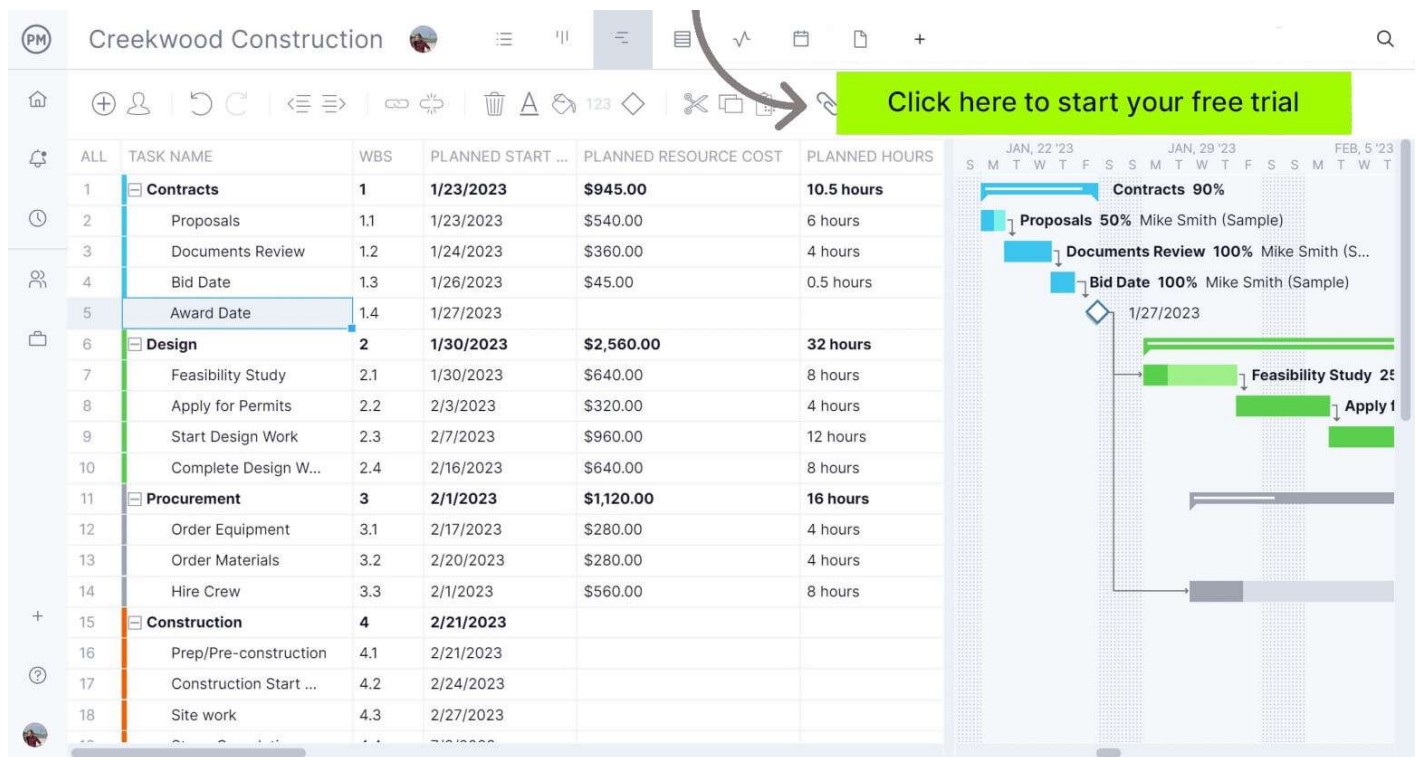
Avoiding cost overrun is key to closing a successful project. The quality of deliverables and a timely execution can go out the window if the project is delivered over budget.

Of course, it's easy to say you're going to keep a tight budget. But cost overrun can happen in so many places that keeping costs down can sometimes feel like a game of whack-a-mole.

What Is Cost Overrun?

The term cost overrun refers to unexpected costs that end up exceeding a [project budget](#). Cost overrun can occur in any project and it's particularly common in construction, manufacturing and software development projects. Cost overrun is also known as a cost increase or budget overrun and can be caused for several reasons.

Before we delve into the reasons that projects can go over budget, let's look at project management software that can help you prevent cost overrun. [ProjectManager](#) is software that collects real-time data to help you better monitor your expenses. Our Gantt chart is a great way to plan and track your costs. All of this data automatically transfers to our other project views such as the dashboard. Unlike lightweight tools, there's no setup required. Get started with ProjectManager for free today.



Track project costs in real time to avoid cost overrun with ProjectManager's Gantt chart.

Main Causes of Cost Overrun

[Cost management](#) can be an exhausting task. As a project manager, you'll constantly need to check your project costs to make sure things are going well at all times. In addition to this, you'll also need to monitor other project constraints such as time, scope, risk and quality.

Source: <https://www.projectmanager.com/blog/7-tips-for-preventing-cost-overrun-on-projects>

We've listed the main causes of cost overrun below so you can avoid this issue and deliver your projects on time and under budget.

- **Bad project estimates:** [Cost estimation](#) is critical for success in project management because every project manager must estimate all project costs before creating a project budget. Make sure to use all the tools at your disposal such as historical data or a panel of experts to help you define project costs. If your project budget is insufficient, you're very likely to face cost overrun.
- **Scope creep:** [Scope creep](#) occurs when your project scope isn't well defined. In simple terms, this means that you'll have unexpected tasks popping up during the execution phase. Executing unforeseen tasks increases your costs, making it very likely to exceed your project budget and cause cost overrun.
- **Poor risk management:** Any project faces many potential risks. It's the responsibility of the project manager and the project management team to create a [risk management plan](#) that describes all the potential risks and the mitigation strategies to be implemented if needed. When a risk management plan is not created, you can have unexpected risks affect your project, which brings costs up and therefore, causes cost overrun.
- **Lack of communication:** A project is an endeavor that requires teamwork and communication. As a project manager, you must be the glue that keeps your project sponsor, project team and [project stakeholders](#) together. Lack of communication can result in unexpected changes to the project plan or prompt other issues that could cause cost overrun.

How to Avoid Cost Overrun

Cost overrun, or any sort of expense that pushes a project past the agreed-upon budget is something with which a project manager must be constantly vigilant. There are several ways one can prevent cost overrun.

Here are seven tips to help keep reigns on your budget.

1. Thorough Project Planning

The best way to stop cost overrun is to plan against it before executing a project. The more thorough and accurate your estimates, the more likely you'll stay within budget. The project risks can be accounted for with an exhaustive [risk management plan](#). When planning for any project, you must consider all possible scenarios and use historical data, interviews and experience. Once that plan has been detailed, have it signed off by the stakeholders of the project so everyone is on the same page in terms of expectations.

2. Know Your Vendors

Many projects require assistance from outside vendors, whether to help with specific tasks or supply materials and equipment. A [relationship with any outside vendor](#) opens your project up to cost overruns that are often beyond your control. This makes it critical to do due diligence before relationships are cemented.

First, understand the capacity of the vendor and if they're going to meet your needs. When the vendor quotes a cost, make sure it's accurate. Then, before signing the contract, do a bit of background-checking to see if the vendor meets deadlines and see what others have to say about working with them.

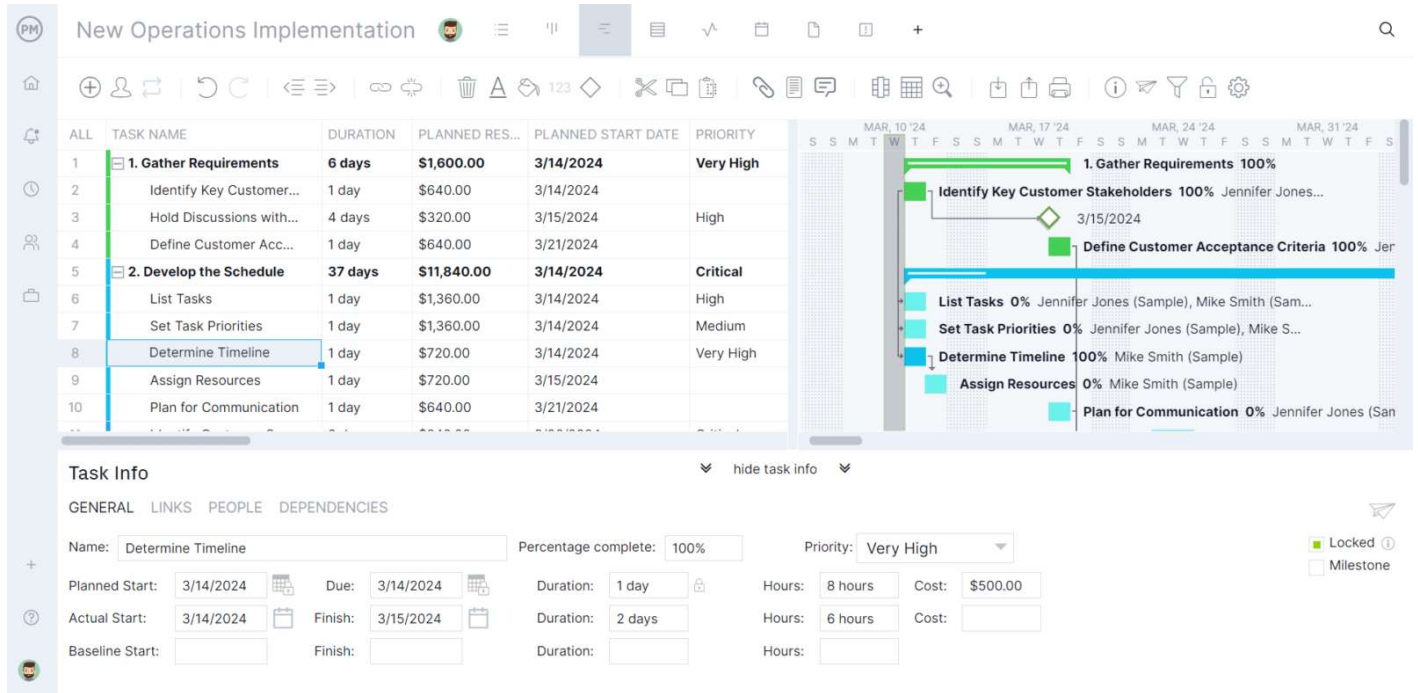
3. Keep to Planned Scope

Scope creep is one of the biggest threats to sending a project into cost overrun. Change requests always bog down the desks of project managers. These come from stakeholders or clients, but also [from team members](#). They all have wants and needs. Many of them may be appropriate and even beneficial to the project.

However, too many changes can drastically impact the project, making cost overruns unavoidable. Put thought into the big picture before you [increase project scope](#).

4. Use a Project Planning Tool

It's a given that a powerful tool will make a project manager's work easier, add to the productivity of the project and increase efficiencies. It also assists in keeping cost overruns at a minimum. A scheduling tool like a [Gantt chart](#) can help keep the project on track and prevent cost overruns.



5. Keep Stakeholders Updated

If there isn't a clear line of [communication between stakeholders](#) and project managers, delays are inevitable. Delays lead to cost overruns and there's too great of a risk that work will start on the wrong task at the wrong time. This wasted time threatens to send the whole project off track.

Stakeholders, as well as teams, need proper communication, but each should get the right information. Teams want details while stakeholders want broad strokes to make sure the project is progressing as planned.

6. Monitor Progress

The [real-time dashboard](#) from ProjectManager is also ideal for tracking the progress of a project as it happens. Before issues become problems that threaten the project's schedule and budget, they can be resolved. The real-time dashboard measures not only the project's progress but the team's workload and timelines for planned and actual completion, including project slippage and more.

7. Reassign Resources

If you discover a project that's spending more than budgeted, you're going to respond by [reallocating resources](#). But you can also prepare for that scenario by evaluating resources beforehand and placing them where they'll be most effective. This is especially true with your most valuable resource: your team.

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By assembling the most experienced and skilled team members, you can have a more productive and efficient project. These resources might cost more, but if you've [done your planning](#) and set aside funds, you'll save money on the backend when there are fewer issues to handle.

Project Budget Template

This free [project budget template for Excel](#) allows you to list down all the costs related to project resources such as labor, materials, equipment rental and other cost categories you might need to add. The best part is that you can compare your cost estimates against actual costs once the execution phase starts.

Project Budget Template

Project Name:	Alpha Omega
Department:	Marketing
Supervisor Name:	Oliver Jones



WBS	Project Tasks	Assigned To:	Labor		Materials		Travel	Equipment	Fixed	Misc.	BUDGETED	ACTUAL	BALANCE
			Planned	Actual Hours	\$/HR	UNITS							
1.0	Task	Dave Johnson	8.0	8.0	\$30.00	100.0	\$5.00			\$50.00	300.00	790.00	(490.00)
2.0	Task	Sarah Goldman	8.0	8.0	\$15.00			30.0		\$100.00	300.00	250.00	50.00
3.0	Task	Melissa Shaw				50.0	\$11.00				100.00	550.00	(450.00)
3.1	SubTask										-	-	-
3.2	SubTask										-	-	-
3.3	SubTask										-	-	-
3.4	SubTask										-	-	-
4.0	Task										-	-	-
5.0	Task										-	-	-
SUBTOTAL					\$360.00		\$1,050.00	30.0		\$150.00	700.00	\$1,590.00	(890.00)

More Free Cost Management Templates to Prevent Cost Overrun

ProjectManager is work and project management software that can help you manage your projects, streamline processes and collaborate with your team online. Additionally, we offer hundreds of project management blogs, templates and guides. Here are some quick guides to improve your cost management skills.

[Cost-Benefit Analysis](#)

Before starting any project, the project management team must assess the costs and potential benefits expected from the project in order to convince stakeholders that the benefits will exceed the costs and their investment is safe.

[Cost Estimation in Project Management](#)

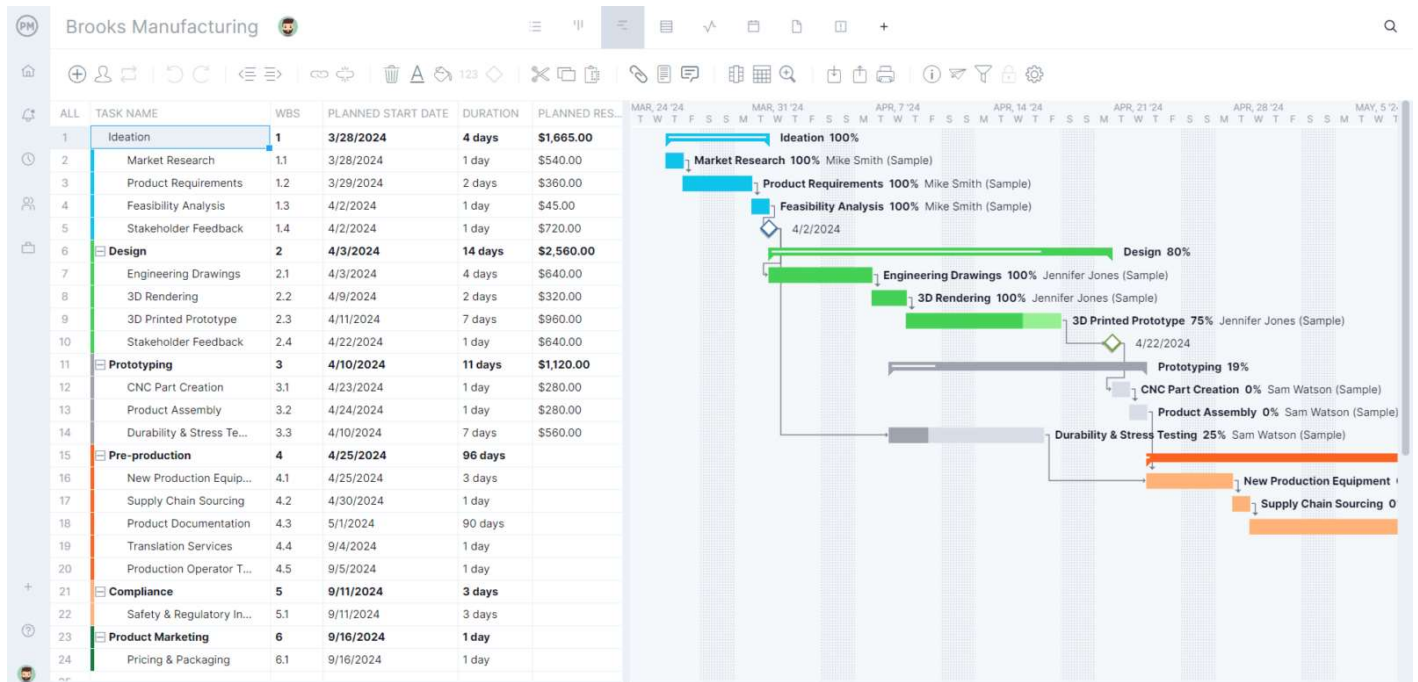
Cost estimation is one of the most important responsibilities of a project manager because poor cost estimation leads to cost overrun and project failure.

[How to Make a Cost Management Plan](#)

A cost management plan is a document that contains all of the cost management strategies, procedures and guidelines to be followed by the project management team to monitor costs and keep projects under budget.

ProjectManager Is the Perfect Tool to Keep Your Costs in Line

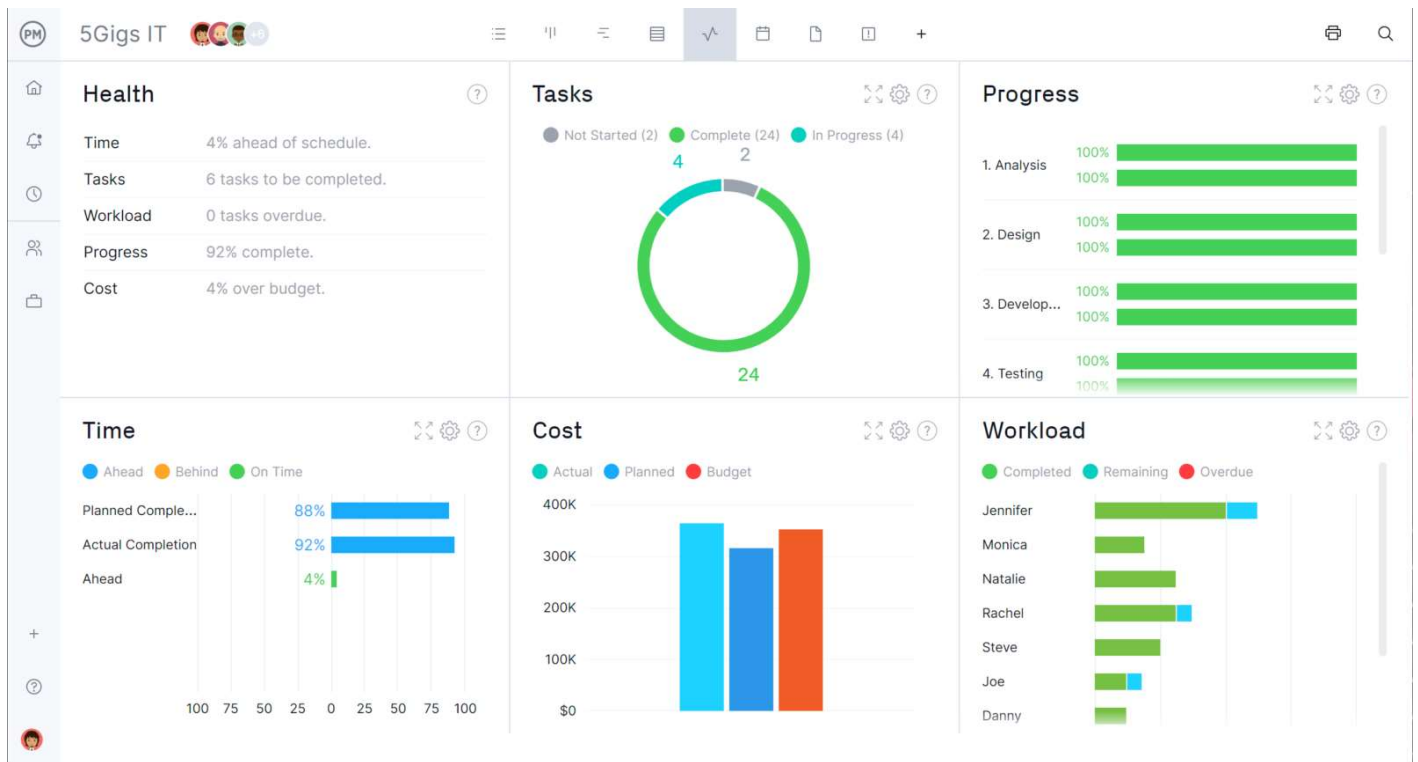
ProjectManager has a powerful yet easy-to-use [online Gantt chart](#). It fosters collaboration and updates statuses instantly so the project manager and team stay updated on project progress. Proper scheduling helps keep estimates accurate and prevents idle time which leads to a risk of cost overrun.



[Task dependencies](#) are linkable within ProjectManager's Gantt chart. While other team members complete their work, these dependencies prevent others from being blocked or left waiting with nothing to do. Team members can comment at the task level for a more collaborative and efficient execution. Each task can have files attached, whether docs or images.

Real-Time Dashboards From ProjectManager Update Instantly

ProjectManager has [real-time dashboards](#) that make reporting to stakeholders fast and easy. The real-time dashboard instantly shows status updates through a series of graphs and charts that reflect many project metrics. Project managers can then filter these graphs and charts to show the data they need. Printing out these graphs and charts is an option if you want a hard copy nearby. When presenting to the stakeholders, you can answer questions by finding more details in a few clicks.



ProjectManager is project management software that gives project managers the tools they need to plan, track and report. Cost overrun is more controlled and less likely to sneak up and sink a project because of our dynamic and collaborative software, including visual workflow Kanban boards and interactive Gantt charts. [Try it today with our free 30-day trial.](https://www.projectmanager.com/blog/7-tips-for-preventing-cost-overrun-on-projects)