THE KEYS TO IT COST MANAGEMENT

Using the Right Tools

In 2012, when McKenzie and the University of Oxford studied 5,400 large IT projects across multiple industries, they found over half of these projects went over budget--way over. Budget overruns surged past original estimates by 45% on average while delivering 56% less predicted value. After an analysis of each project's budgets, schedules, and predicted performance benefits with each project's actual costs and results, the study determined that those projects heavily involving software have the highest risks of exceeding time and financial budgets.

Since then, many companies are seeking to improve budget forecasts through software and automation while implementing strong cost management procedures throughout the project's life cycle. Software has become critical for project teams tasked with taking on lengthy and complex projects with a heavy focus on managing upfront and ongoing costs. BMC also delivers a management suite called Mainframe Cost Optimization which helps navigate complicated IBM Monthly Licensing Charges (MLC) by streamlining resources, minimizing downtime, and eliminating waste.

Using dedicated software tools can be valuable when defining cost control procedures, tracking and approving changes as well as applying analysis to a project's initial and ongoing expenses. Having the right tools in place during a project's planning and budget allocation phases gives deeper insight and reporting of budget variations to stakeholders along with more details when assessing a

project's cost performance upon completion.

Sticking to a Process

Implementing sound cost management practices enables effective project management teams to make optimal use of resources while focusing on managing strategy and stakeholders instead of focusing purely on budget and schedule targets. Strategic and disciplined adherence to time tested practices helps drive short delivery cycles while avoiding the creation of waste during the development process.

Does Cost Management Just Mean Managing Costs?

The phrase "cost management" refers to ongoing and consistent activities involving the planning and controlling of a project's budgets and resources. Since part of a project's success is measured by its cost performance, cost management is a strong determinant of project outcome. According to the McKenzie and Oxford University study, project teams who excelled at adhering to core project management practices, like those that make up effective cost management, are the ones who delivered high-quality end products.

Effective Cost Management

The activities which make up cost management can be broken down into four processes with each process having its own key components and essential functions. However, as a successful project moves from planning to reality, it generally adheres to the following overview.

4 Phases of Project Cost Management

- Resource Planning
- Cost Estimating
- Cost Budgeting
- Cost Control

Resource planning is one of the most critical phases of effectively managing costs; yet it's often the most overlooked. This phase begins during the initial scope and execution of the plan's development process through a detailed evaluation of all future requirements necessary to complete the project, including any physical, human, financial and informational resources. This planning results in a work breakdown structure (WBS), visually representing project deliverables and the work necessary to complete them. For instance, cloud adoption is creating complexity for IT organizations during this phase as their teams determine what public or private cloud resources are needed while giving the proper visibility to stakeholders into those requirements.

Cost estimating is accomplished through a variety of techniques used to determine the total costs of completing a project. Although this is an iterative process, cost estimating usually starts with the least accurate technique during the earliest stages of a project and then continues to update and revise as a project becomes more defined. Even during this somewhat lengthy process, it is still the responsibility of the estimator to create the most accurate estimate possible. Without insights into important aspects of a project, like complex IBM mainframe software pricing models, estimates based on inaccurate forecasts can create the wasted spend and budget overruns which push

projects over budget and past deadlines.

Cost budgeting can only be completed after cost estimates are agreed upon and finalized. This budgeting step is completed within the estimating phase and allocates the estimated cost of resources into cost accounts from which cost performance will be measured. This list of accounts forms the baseline for cost control and completes the budget. Funding of these accounts are controlled by cost managers who typically release budgeted amounts in stages according to the level of the project's progress and to address financial constraints or cash flow issues.

Cost control is a continuous practice of measuring variances in a project's actual cost performance to the initial estimated cost and schedule baselines established during the budgeting process. Specific control procedures are applied to monitor expenditures and performance throughout the life cycle of a project. Any necessary changes to baseline costs must be recorded while final costs of the project should be continuously forecasted. Most importantly, the individual in charge of cost management investigates the reasons for any variations and either approves or deems them unacceptable while applying any necessary corrective actions. They must also provide project stakeholders with information about a project's cost performance including explanations of any variances from the baseline budget.

During each of these phases, it is necessary to have a clear idea of a project's likely costs, otherwise it's futile to track and control costs if you base spending on unrealistic estimates. Depending on what information teams have access to during these processes will impact the results and final outcome of the overall project.

BMC: Optimizing and Controlling IT Project Costs

BMC aims to help deliver critical business services on the right platform and at the right cost. BMC's solutions don't just cut IT costs, but optimize them with insight, planning and innovative software, helping to analyze resources while making informed decisions about what to spend and where.

Mainframe Cost Optimization unleashes the power of your mainframe with a comprehensive cost management suite. As digital businesses continue to drive more transactions to the mainframe, BMC's portfolio can help lower mainframe software licensing costs by up to 30%,

- Cuts mainframe software costs with reporting insights and predictive planning
- Dynamically automate and optimize capacity settings
- Access data and communication across LPARs

Learn more about Mainframe Cost Optimization from BMC or discuss your options with a mainframe expert.