1. Introduction

Information systems (IS) projects are known for being notoriously over-budget. Even before one considers detailed software estimation, i.e., the effort and cost of software development, one must first consider the overall cost of a project. This, after all, is what really matters to the project sponsor and the purposes of determining an appropriate project budget. A project manager cannot be expected to estimate the exact cost of a project, but they must be able to come up with an estimate that is at least within an acceptable margin of the actual cost.

The presentation below illustrates how project costing fits in the project management roadmap.

In project initiation, the go-ahead and approval for a particular project has been given, so project costing is the next main technique used to determine the cost of the project.

Objectives: Project Costing

Upon completion of this topic, you should be able to
- identify the major cost items in a project
- estimate the overall cost of a project

2. Project Costing

Some of the costs associated with a project may be one-time costs, e.g., the acquisition of software. However, many costs are variable or operational in nature, e.g., costs of external consultancy.

Click each tab below to learn more about some of the major cost items a project manager has to consider.

**Project Costing Items**

**Hardware**

What servers, network and other equipment will be needed? Is it better to buy or lease? Is the organisation entitled to special corporate pricing? Can maintenance agreements be packaged into acquisition of hardware?

**Software**
What operating system (OS), application or development software is needed? How many licenses are needed? Are there annual maintenance or update charges? Are there costs associated with the design and development of custom software?

**Office**

What office space is required for the project? Where is it best to locate the project? What are the office rental costs?

**Services**

What services are needed (eg, Internet connection, line leasing and data feeds)?

**Consumables**

What consumables are required (eg, printer, paper and media)?

**Project staff**

What skills are needed for the project? At which project stages are such skills needed and for how long? What are the costs of such individuals? Will over-time payments be needed? What additional expenses will be needed?

**Staff development**

What training will be required? How can such training be most effectively provided?

**Consultancy**

If external consultants or contractors are needed, what is the market rate for such individuals? How are fees charged or calculated? What additional fees are applicable in terms of travel and hotel costs? Can a better daily consultancy fee be agreed by booking a set number of consultancy days?

The larger and more complex the project, the more difficult it is to estimate project costs. An experienced and competent project manager should be able to draw from the experience of previous projects to guide his or her costing.

### 3. Summary

This topic covered the following main points:

- Project costing involves establishing an early estimate for the overall cost of a project based on identifying the main cost items.
- A project manager must consider a variety of different cost items, such as hardware, software, project staff, staff development and consultancy.