



The Ultimate Guide to

CONSTRUCTION COST MANAGEMENT

Construction typically accounts for approximately 70% of an organization's capital improvement budget, so effective construction cost management is crucial.

The construction industry — more than perhaps any other — is prone to changes and contingencies that can lead to overspending and waste. This can be crippling for a private business, and career-killing for public officials who manage projects with taxpayer dollars.

As a construction project owner, you track cost differently than your contractors do. Their tools aren't built around your priorities. But you still must stay within budget and deliver the expected return, both in the short and long term. Is there a way for you to track your costs effectively to stay on top of every aspect of your project — a way that fits your business?

The Cash Flow and Cost Connection

Managing construction costs isn't just about having the funding and spending it on the right things. It's also about having the proper cash flow to meet expenses when they arise. There are many places where money is spent, and there are many opportunities for costs to get out of control — and manual processes are a major contributor to the problem. For example:

- **The slow-start factor.** It's not unusual for a project to be conceptualized and funded at one point in time, then signed off on much later — without any adjustments to the budget.
- **Invoicing delays.** Manual invoice approval processes can add as much as 90 days to the accounting cycle, making your accounting records quickly out of date.
- **Compliance issues.** Accounting is governed by strict rules that have serious consequences. Violations and spiraling costs from fines can result from inconsistent tracking methods, or simply the inability of a spreadsheet or paper-based system to accurately track the required information. Busy project managers can be taken off their projects for weeks every year to help track down documents required by auditors.
- **Administrative burden.** Transactions are often handled through email, where they can languish for days or be completely overlooked. Costs can easily creep because of the burden of this inefficient administrative style.
- **A paper-based mentality.** Many organizations still rely on spreadsheets and paper-based documentation to manage their capital improvement projects — even multibillion-dollar programs. And when new commitments and change orders arise, the number of copies of documents increases, and most copies are quickly out of date.
- **Litigation.** Construction is a very litigious industry. Profit margins for contractors are low — typically around 3%. If an additional unplanned cost arises, a contractor will fight hard to not carry the burden. In this case, whoever has the best documentation wins.

In addition, owners often have multiple projects to oversee. Staying within budget is so crucial that some owners build a significant over-budget contingency into their capital project planning as a matter of course. Sticking to that projection is considered a win.

Managing costs is about **having visibility into what your costs are** and then controlling them.

Shaving even **1%** or **2%** off a construction budget **can yield significant savings**. For many owners, that's a big challenge — but one that can be effectively addressed through a three-pronged approach:

1. **Begin with strong leadership**
2. **Be proactive, not reactive**
3. **Align people, processes and technology**

1. Begin with Strong Leadership

With hundreds of vendors, dozens of spreadsheets, disparate tracking systems, and thousands of decisions being made as the project progresses, cost management can quickly get out of control. Projects have been known to **exceed the original budget** from anywhere between 100% to 300%. Few private businesses could survive many such cost overruns, and public officials who must answer to taxpayers could soon find themselves out of a job.

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A primary factor in the success of any project is leadership. Owners must be invested in a project's success and take full responsibility for it. Contractors, designers and building material manufacturers are there to provide services, but ultimately the buck stops at the owner's desk. Owners have several responsibilities when it comes to managing construction costs, including:

- **Integrating cost summaries from project conception to post-construction facility occupancy.**
- **Ensuring that funds are allotted for every stage of the project, from real estate acquisition to architecture and design, permitting, engineering and, of course, construction.**
- **Making cost decisions that improve the total cost of ownership for the project over time (beyond just the immediate cost of construction).**
- **Creating transparency around how, when and where money is being spent to ensure regulatory compliance and proper oversight.**
- **Planning for contingencies that could impact projected and actual costs.**
- **Forecasting final cost at completion at any time during the project delivery.**

Owners can take command of cost management by employing a robust digital platform capable of fully managing the end-to-end cost management process. By switching from manual, paper-based processes to a digital solution, organization leaders can help insulate their projects from these types of risk and more.



Construction project budgets are vulnerable to change orders

2. Be Proactive, Not Reactive

Even the best-laid plans are subject to change, and that's certainly true in the construction industry. Construction project budgets are particularly vulnerable to change orders, most of which are attributable to one of the following circumstances:

- **Errors and omissions in plans or specifications.**
- **Unforeseen site conditions.**
- **Code changes.**
- **Owner-driven changes.**
- **Technology advancements.**

Change orders are very disruptive, both in terms of time and resources, and can take up a sizable portion of total project costs. In fact, they are so common that budgets are often overestimated to account for them using contingency funds. But it doesn't have to be that way. While some change orders are unavoidable, others are simply unnecessary. Collaboration, transparency and the right construction cost management approach can help [minimize change orders](#) — on both current and future projects.

With strong, accurate forecasting based on real-time data, you can anticipate changes and plan for them before they happen — or, in some cases, avoid them altogether. A proactive mindset requires demanding transparency from contractors, implementing formal approvals and auditing the decisions contractors make. By using an automated, data-driven cost management system, you can readily anticipate cost risks, mitigate and eliminate those risks, and leverage past project performance in present and future decision-making.



Successful owners don't tell themselves, *That's the contractor's responsibility.* They understand that any mistakes or oversights on the contractor's part will ultimately be paid by them, either in direct cost or via schedule delays. Top owners have a *trust but verify* philosophy."

3. Align People, Process & Technology

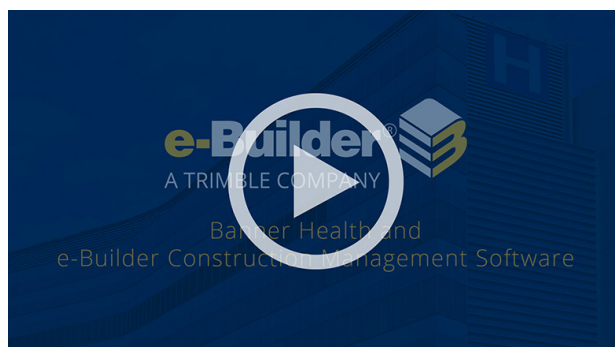
When your people have access to the data they need, when they need it, they will do their best work. Your processes and technology should be integrated so that each person has access to the information they need for their job role. Having a strong cost management system in place and a willingness to invest in the people that will run it creates a solid foundation for success. When you have simplified, unified control over funds based on accurate, data-driven forecasting, you can save millions of dollars while keeping all stakeholders happy. [The right technology can help you do that.](#)

Look for a flexible, malleable, yet detailed system capable of rolling up data across the project on a day-to-day basis, as well as across projects to the program level. Get a system that forces consistency to help ensure that you don't go over budget. You'll want it to be easy to use, meet stakeholder needs, and provide transparency and visibility in every area of project execution. A construction cost management solution should fit your business. Start by establishing specific goals. As you proceed, be iterative and focus on continuous process expansion.

WITH E-BUILDER ENTERPRISE, YOU CAN MONITOR EVENTS, CASH FLOW BURN RATE, AND HOW YOUR BUDGET IS BEING SPENT, AND MINE THE DATA FROM PREVIOUS PROJECTS TO HELP ACCURATELY ESTIMATE FUTURE COSTS.

Construction costs don't have to spiral out of control

How Banner Health Saved a Bundle on Construction Costs



Like many companies, Banner Health was challenged by cumbersome, manual construction cost management methods that hampered its ability to accurately project and manage construction costs. Buried data, outdated spreadsheets, differing reporting processes, limited visibility and disconnects with accounting led the company to pad construction budgets to allow for contingencies. This meant money

was often left on the table at the end of a project — money that could have been invested elsewhere. By adopting e-Builder Enterprise, the company was able to align construction management and reporting practices and significantly improve program and project visibility and cost control — **leading to \$70 million in savings from active projects and the reallocation of an additional \$22 million.**

A Solution that Fits Your Business and Your Industry

Construction costs don't have to spiral out of control. You can rein in your costs, improve visibility and stay on top of every aspect of your project, from beginning to end. The e-Builder Enterprise construction management solution — designed specifically for owners — delivers the real-time data you need.

With e-Builder Enterprise, you can monitor events, cash flow burn rate, and how your budget is being spent, and mine the data from previous projects to help accurately estimate future costs. The platform can integrate with your accounting system so that actual costs are pulled in directly from accounting solutions such as SAP, Oracle, Lawson and others, giving your project managers everything they need to control costs and deliver on-budget projects without spreadsheets.

e-Builder Enterprise performs comprehensive cost management — from funding to budget and change order management to invoicing. It covers all phases of the project life cycle, including capital planning, design, procurement and bidding, construction and facility operations. Because it integrates cost capabilities with real-time workflow, everyone involved in a project can consistently see what funding is coming through on a budget or contract. And you get expert consultancy services to help you design the right construction cost management process that can save you money and make your project more efficient.

Construction project owners need program management that's built for their business — not for contractors or vendors. Your platform should be data-driven and create a system of record of all project information. It should give you:

- **A flexible business process management engine built around the way you do business.**
- **Data collection with intelligent forms that can be automatically routed through a drag-and-drop workflow manager.**
- **An integration API that connects to accounting and other enterprise systems.**
- **A robust document management system with automated version control and audit trail.**

The e-Builder Enterprise platform provides all this and more, to help you manage end-to-end project costs — from capital planning through estimate through construction baseline and changes — and keep you on top of cost management for the life of your project and beyond.

Interested in learning how e-Builder can transform your construction cost management?

[CLICK HERE TO REQUEST A DEMO](#)