

10 Ways to Manage Cost Overruns in IT Projects

[Project management](#) in an IT company has its fair share of difficulties and struggles. IT projects may not be as labor-intensive as construction projects, but they have high levels of technical complexities. Aside from [technical aspects](#), another major challenge of IT projects is facilitating the [budget](#) for each of them. The financial aspects of IT projects are unpredictable and at times cost overruns will occur, unfortunately. Cost overruns will strain the budget and can potentially affect production. So to avoid or at least to be ready for possible cost overruns in your IT projects, we'll show you 11 ways to manage them.

What Is Cost Overrun?

First of all, let's understand what cost overrun is all about. Cost overrun is a situation wherein the cost of a particular project increases suddenly or unexpectedly and exceeds the budget. During a budget [estimate](#) for a project, a cost overrun is near-impossible to foresee because it's caused by factors that mostly only occur in the midst of production. That said, a cost overrun is certainly a problem in the cost management process. Based on a survey by Study Source, the average cost overrun of the IT projects they've monitored is a staggering 27%.

Emphasize Communications

Good communication with other stakeholders should be a part of your [checklist](#) in managing your IT projects. Cost overruns can happen at any time unexpectedly. So to be ready, you need to have good communication with the people involved in the project, most especially with the clients. Many cost overrun occurrences are caused by mid-production requests or changes by clients. Some of these client requests and changes can change the landscape of a project and strain the budget subsequently.

Review the Costs Periodically

Reviewing the costs periodically will enable you to come up with ways to make the project's finance and [funding](#) flexible. A good example would be finding cheaper yet quality alternative resources to increase the reserves of the budget. Other than that, you can also cut costs that are unnecessary or of least importance. In those ways, when additional costs occur mid-production, they'll still be within budget; thus, avoiding cost overruns. In addition, you need to do basic [accounting](#) in reviewing costs.

Have a Detailed Plan

Of course, in the first place, there should always be a [business plan](#) before a project start preparations and production. With a detailed and comprehensive plan, the chances of a project having to undergo sudden cost changes will be regulated. You must also implement contingencies in the [project plan](#) just in case the risks of cost overruns arise. In other words, you need to make the project plan flexible.

Track Progress Continuously

Tracking the progress of a project will help in eradicating cost overruns. How so? If you continuously check the progress, you may be able to detect certain anomalies or technical issues that can cause significant problems. To fix those problems, it's likely that money will have to be spent from the budget, and also money that's not even part of it. When that happens, cost overrun is already in the equation. So make sure to assign every staff member involved in a project to submit a [daily report](#) for progress tracking.

Manage Scope Creep

Scope creep is a situation wherein a project's landscape and requirements increase as the production progresses. This usually occurs when changes in a project's standard process are implemented and when clients want to add more features or components. Scope creep can prompt you to do an analysis of the project again and figure out methods to meet the new requirements and demands. That said, scope creeps can potentially cause cost overruns if you don't work your way around them well enough. So make sure to manage scope creeps and anticipate them if possible.

Follow Agile Methodologies

Agile methodology is a project management practice wherein there are constant collaboration and communication between every stakeholder, such as project managers, production staff, and clients. The Agile methodology process is as follows:

- Clients describe the project's features and requirements
- The project team establishes a plan and budget
- Production of the project begins
- Continuous communication regarding updates and progress of the project.

Because of the way the agile methodology is structured, the components of the project will be clear. The possibility of scope creeps and cost overruns occurring is very minimal.

Set Goals to Avoid Timeline Overruns

Timeline overrun is when a project's production duration has surpassed its deadline or expected completion date. In that case, the operational costs will increase, which can result in cost overrun. So to avoid a timeline overrun, and ultimately a cost overrun, you have to set specific goals for each phase of a project. With set goals, a project's production will be smooth-sailing and each phase will be accomplished on time.

Be Prepared for Unexpected Costs

The simplest and most direct way to manage cost overruns is to be prepared for unexpected costs. Similar to what was mentioned earlier, additional costs might arise mid-production suddenly or unexpectedly. To avoid cost overruns or regulate them at least, the [budget plan](#) of a project must include costs for contingencies. Make use of spare resources as well if they're available so that there'll be no need to take money from the budget for some add ons in a project.

Use Project Management Tools

Most of the time, IT projects have a large scope, with countless components and subcomponents that need to be monitored. Overseeing all of those to manage the possibility of cost overruns is difficult if done manually. For that reason, it's advisable to take advantage of project management tools. Project management tools can provide you with real time statistics about a project's budget, progress, and other important data/information. That said, you can effectively anticipate possible timeline overruns, scope creeps, and unexpected costs that can incur cost overruns.

Keep Stakeholders Updated

Before or when cost overruns occur, managing them on your own is unrealistic and sort of unethical. You need the help of other project stakeholders in managing cost overruns. Therefore, you have to keep them involved and update them regularly about the project as a whole. Every stakeholder of the project has every right to know about its status, particularly on the financial aspects.

The results of IT projects should always be perfect for the satisfaction of clients and for your IT company's reputation. When it comes to perfecting an IT project, the mindset of "spare no expense" should not be practiced. Achieving perfection is expensive, but that's not an excuse to let cost overruns occur. In fact, it's even more important to keep an eye on cost overruns for expensive projects. So make your IT projects profitable and keeps clients happy by managing cost overruns well.