

LCS International, Inc.

PMP Review

Chapter 5

Developing Project Budgets

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These slides are intended to be used only in settings where each viewer has an original copy of the Sybex *PMP Study Guide* book.

Creating the Project Budget

- ***Estimate Costs***
- Determine Budget
- Plan Communications

Estimate Costs

Estimate Costs is the process of developing an approximation of the monetary resources needed to complete project activities. Cost estimates are predictions based on the information known at a given point in time. They include identification and consideration of costing alternatives to initiate and complete the project. Cost trade-offs and risks must be considered. Estimates typically are expressed in units of currency, although in some instances other units of measure such as staff hours or staff days are used to facilitate comparisons within and across projects.

Inputs

- .1 Scope baseline
- .2 Project schedule
- .3 Human resource plan
- .4 Risk register
- .5 Enterprise environmental factors
- .6 Organizational process assets

7.1 Project Cost Management

Outputs

- .1 Activity cost estimates
- .2 Basis of estimates
- .3 Project document updates

To Determine Budget

Tools & Techniques

- .1 Expert judgment
- .2 Analogous estimating
- .3 Parametric estimating
- .4 Bottom-up estimating
- .5 Three-point estimates
- .6 Reserve analysis
- .7 Cost of quality
- .8 Project management estimating software
- .9 Vendor bid analysis



Estimating Costs

Cost Estimating "Precision" (Accuracy)

"Precision" is a more appropriate metric than "Accuracy" because "accuracy" refers to the "midpoint" and "precision" refers to the range of possible error.

Analogous

"Similar to other projects" **-50% to + 100%**

Parametric

"Uses Cost Est. Relationships" **-25% to + 50%**

Definitive

"Bottom-Up" **-5% to + 15%**

Creating the Project Budget

- Estimate Costs
- ***Determine Budget***
- Plan Communications

Determine Budget

Determine Budget is the process of aggregating estimated costs of individual activities or work packages to establish an authorized cost baseline. The baseline includes all authorized budgets, but excludes management reserves. Project budgets constitute the funds authorized to execute the project. Project cost performance is measured against the authorized budget. Contingency reserves are funds budgeted for “known” unknowns, whereas management reserves are set aside for “unknown” unknowns and therefore considered to be outside the project budget baseline.

Inputs

- .1 Activity cost estimates
- .2 Basis of estimates
- .3 Scope baseline
- .4 Project schedule
- .5 Resource calendars
- .6 Contracts
- .7 Organizational process assets

Outputs

- .1 Cost performance baseline
- .2 Project funding requirements
- .3 Project document updates

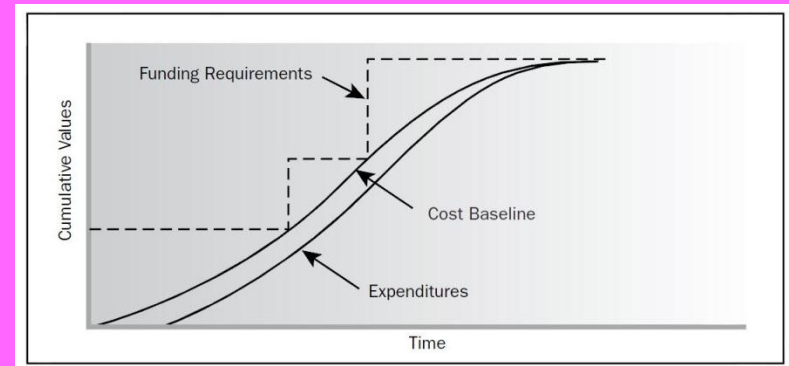
7.2 Project Cost Management

To Control Costs

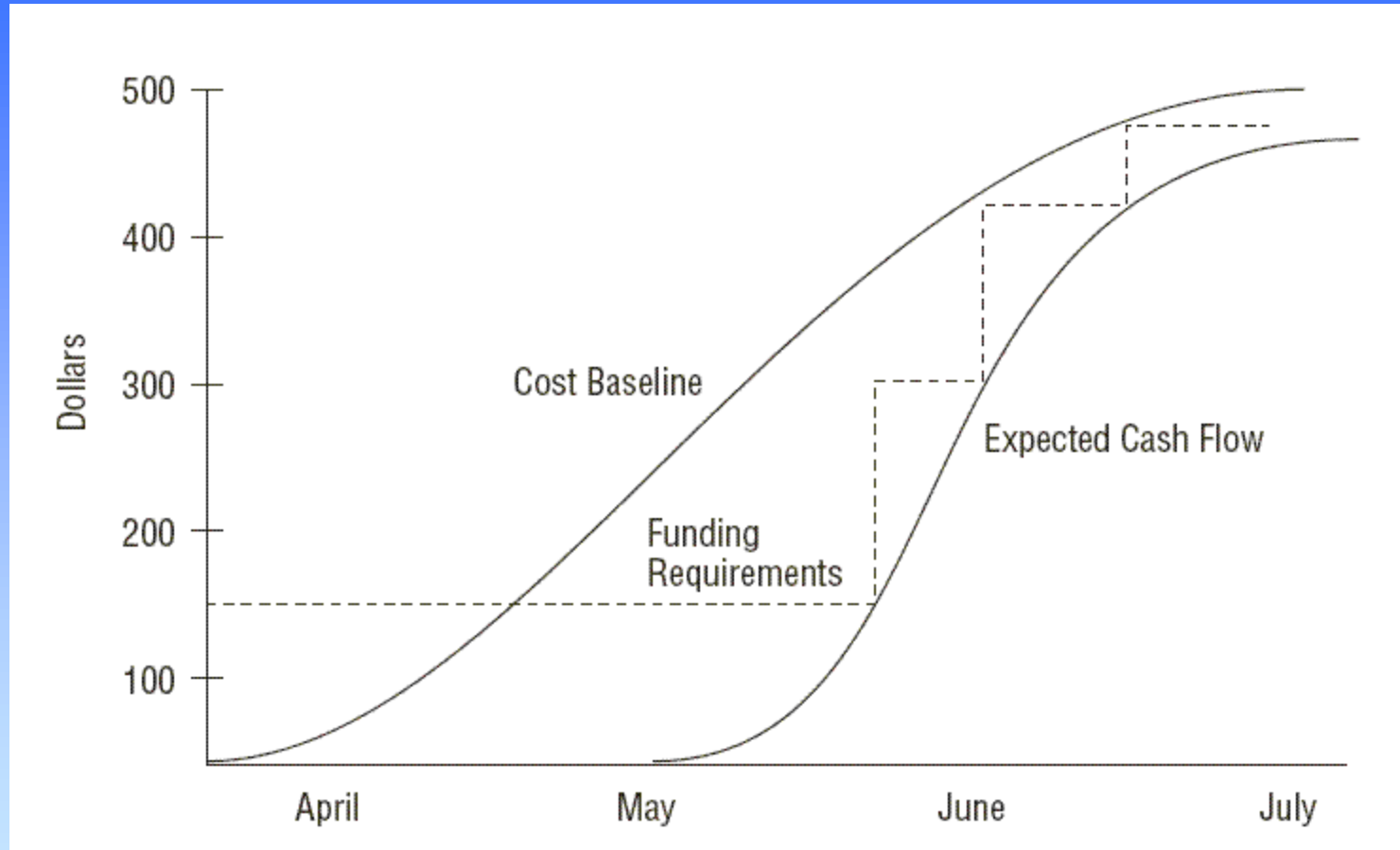
From Estimate Costs, Develop Schedule, Contracts

Tools & Techniques

- .1 Cost aggregation
- .2 Reserve analysis
- .3 Expert judgment
- .4 Historical relationships
- .5 Funding limit reconciliation



Cost Baseline and Cash Flow



Creating the Project Budget

- Estimate Costs
- Determine Budget
- ***Plan Communications***

Plan Communications

Plan Communications is the process of determining the project stakeholders' information needs and defining a communication approach. This process responds to the information needs and communications needs of stakeholders: for example who needs what information, when they will need it, how it will be provided to them, and by whom. While all projects share the need to communicate project information, the informational needs and methods of distribution vary widely. Communications planning should be performed very early in the project.

Inputs

- .1 Stakeholder register
- .2 Stakeholder management strategy
- .3 Enterprise environmental factors
- .4 Organizational process assets

Outputs

- .1 Communications management plan
- .2 Project document updates

10.2 **Project** **Communications** **Management**

→ To Develop Project Management Plan

From Identify Stakeholders

Tools & Techniques

- .1 Communication requirements analysis
- .2 Communication technology
- .3 Communication models
- .4 Communication methods



Microsoft Project Gantt View

