Killing O&G and EPC Cost Growth

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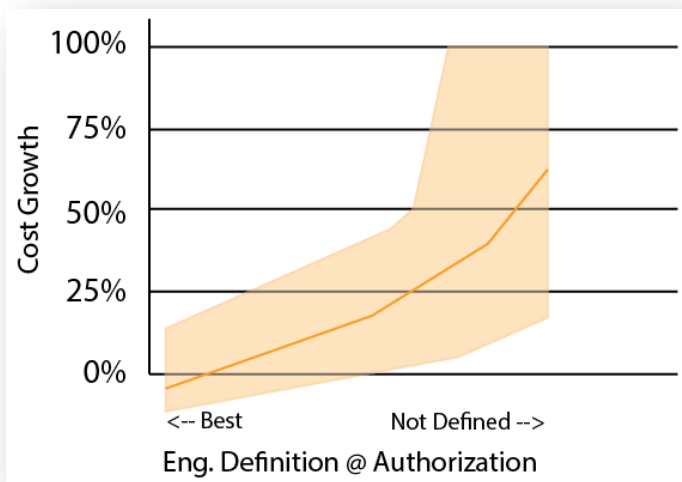
Cost growth can kill profitability (Want an example?). With more competitive contracts, aggressive schedules, and rising costs there is a growing need to curb cost growth. According to Independent Project Analysis (IPA), complex projects like FPSO conversions and ground-up builds are experiencing a median 15% cost growth. Along with that, these projects are delivered 18% past schedule – which leads to less profit, ugly penalties and cranky clients.

Luckily, there are some relatively painless things the top performers are doing to get cost growth under control. According to an IPA study some companies have cut cost growth in half by simply basing cost estimates on well-defined engineering/design, reporting regularly, getting teams communicating, and monitoring cost in a project cost control application.

Base cost estimates in reality.

By using better defined engineering specifications, estimating teams have a better idea of what things will cost. The overly aggressive schedules have caused hasty estimating which leads to cost growth. By simply using more mature engineering data, estimators can take back control and provide more realistic cost estimates.

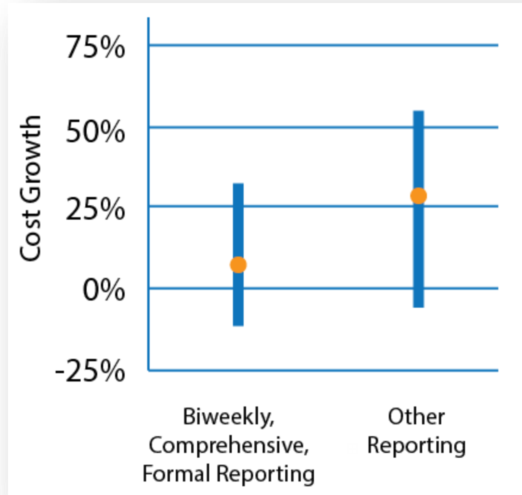


For example, in an IPA study, projects with poorly defined engineering at authorization were reaching 68% cost growth. When compared to projects with the best practical engineering definition which were experiencing 1-10% cost growth, it was apparent that engineering definition was playing a role in cost growth. As stated by IPA, “Skimp on engineering definition at your own peril.”

Regular cost reporting at discipline levels.

IPA says projects practicing “Biweekly and comprehensive formal progress reporting” experience 10% cost growth (Median) when compared to 25% cost growth (Median) in projects that don’t. While it may be difficult to believe consistent reporting alone can cause a 60% cost growth reduction, it is reasonable to correlate regular and cross-departmental reporting to effective project management practices.

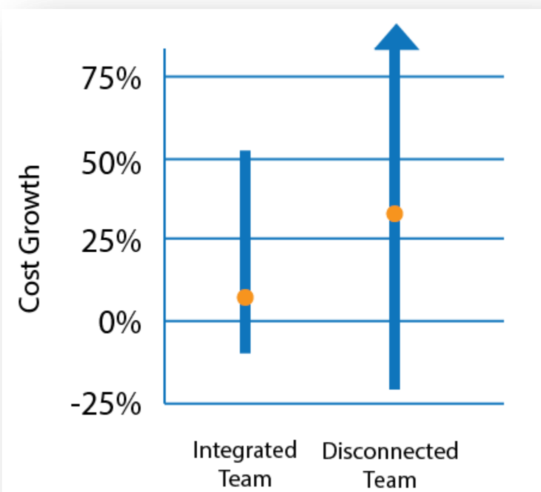
It can be argued that the ability to produce regular, consistent reports is what is impacting cost growth. In other words, the ability to produce these consistent reports indicates quality cost management infrastructure and sound project management practices, which is really driving down cost growth.



Get teams communicating.

Again, the people at IPA tell us that having an integrated asset team where key stakeholders have clearly defined roles, and well-planned interaction with each other can reduce cost growth by 65%.

The study suggests that key project personnel need to interact with each other in a structured manner because "More informed decisions enable more predictable results."



Use cost-centric project management software.

It's not terribly difficult or expensive to incorporate all of the project management attributes that impact cost growth for complex Oil & Gas and EPC projects. There are affordable applications on the market that are built to control costs for Oil & Gas and EPC, deliver consistent reports, and get teams working together. The ROI on many applications is astounding if they can reduce the typical cost growth. For example, reducing 25% cost growth to 24% cost growth on a $100,000,000 project would save $1,000,000 dollars. While all cost management software is not created equal, it's certainly worth looking into.

Thanks for taking a look at ProjecTools mini white paper on reducing cost growth. If you would like to see more about how ProjecTools applies the principals in this paper request a demo and see how ProjecTools Cost Control will help your company manage project cost, report cost, and integrate key teams.

ProjecTools Cost Control is a cloud based project cost application built for Oil & Gas and EPC projects. The application was designed to be the affordable alternative to spreadsheets, ERP, and accounting systems. The application uses project activities and data to report earned value. It also shares data with accounting, procurement, and scheduling applications to enhance the flow of information and eliminate offline data sharing with accounting and other project groups.