

Lentune

Guide

Boosting project margins with better construction cost management

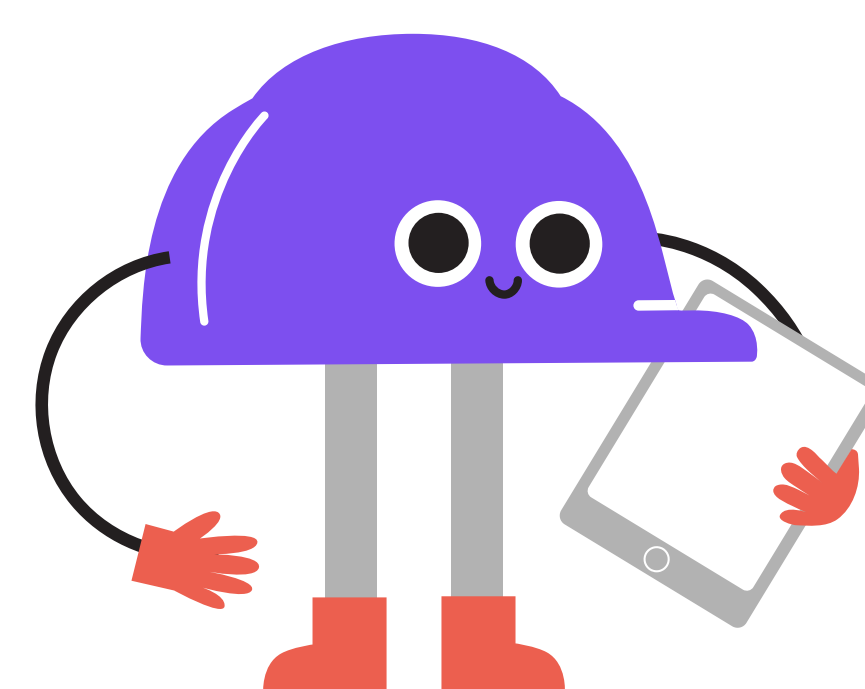


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Better project cost management is key to boosting project margins.

This guide will help you to evaluate your current processes and gives you a roadmap to growth.

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Introduction

In the construction industry, managing project costs is crucial for maintaining healthy margins, avoiding cost overruns and driving business growth.

Yet, many companies struggle with inefficient processes and a lack of real-time data, leading to financial discrepancies and project delays.

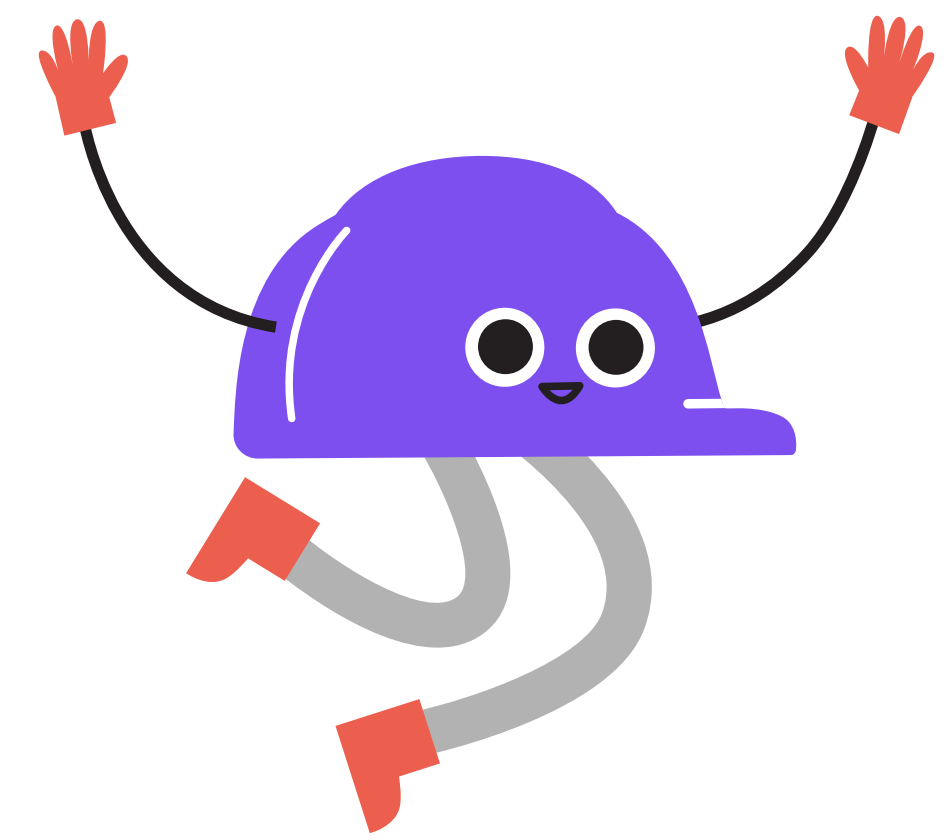
This eBook provides a comprehensive guide to help you understand and gain better control over project cost management to grow your business.

You'll learn how to:

- Evaluate your existing project cost management processes to understand your strengths and weaknesses.
- Identify areas for improvement to increase efficiency and accuracy.
- Implement effective tools and processes to elevate your business.

Whether you're just beginning to explore your cost management journey or looking to refine your existing processes, this guide will steer you towards greater productivity, accuracy and profitability in your construction projects.

Let's dive in and start the journey towards a more profitable and well-managed construction business.



*Coffee ready?
Let's go!* →

The Project Cost Management Maturity Model

Effective control of project costs is crucial for construction companies aiming to maintain healthy margins and drive business growth.

The project cost management maturity model is a powerful tool to help you assess your current capabilities and pinpoint areas for improvement.

The model starts at Level 1, where project cost management is ad-hoc, heavily reliant on manual processes and spreadsheets. At this stage, companies struggle with basic cost tracking and face significant challenges in maintaining accurate financial oversight.

As you progress through the levels, you implement more sophisticated tools and processes, improving productivity and visibility of costs. By Level 3, specialised project cost management software comes into play, streamlining and organising cost-tracking efforts.

Reaching Level 5 is the holy grail of cost management, where automation is fully embedded, and real-time data flows seamlessly across all platforms.

At this stage, every aspect of your project costs are monitored and controlled, reducing financial discrepancies and improving overall financial health. Your organisation enjoys increased productivity, strategic focus and optimised margins, leading to greater project and business outcomes.

Level 1

No Financial Management Tool

Level 2

Basic Cost Tracking

Level 3

Introduction of Project Cost Management Software

Level 4

Automation and Efficiency

Level 5

Full Integration and Continuous Improvement

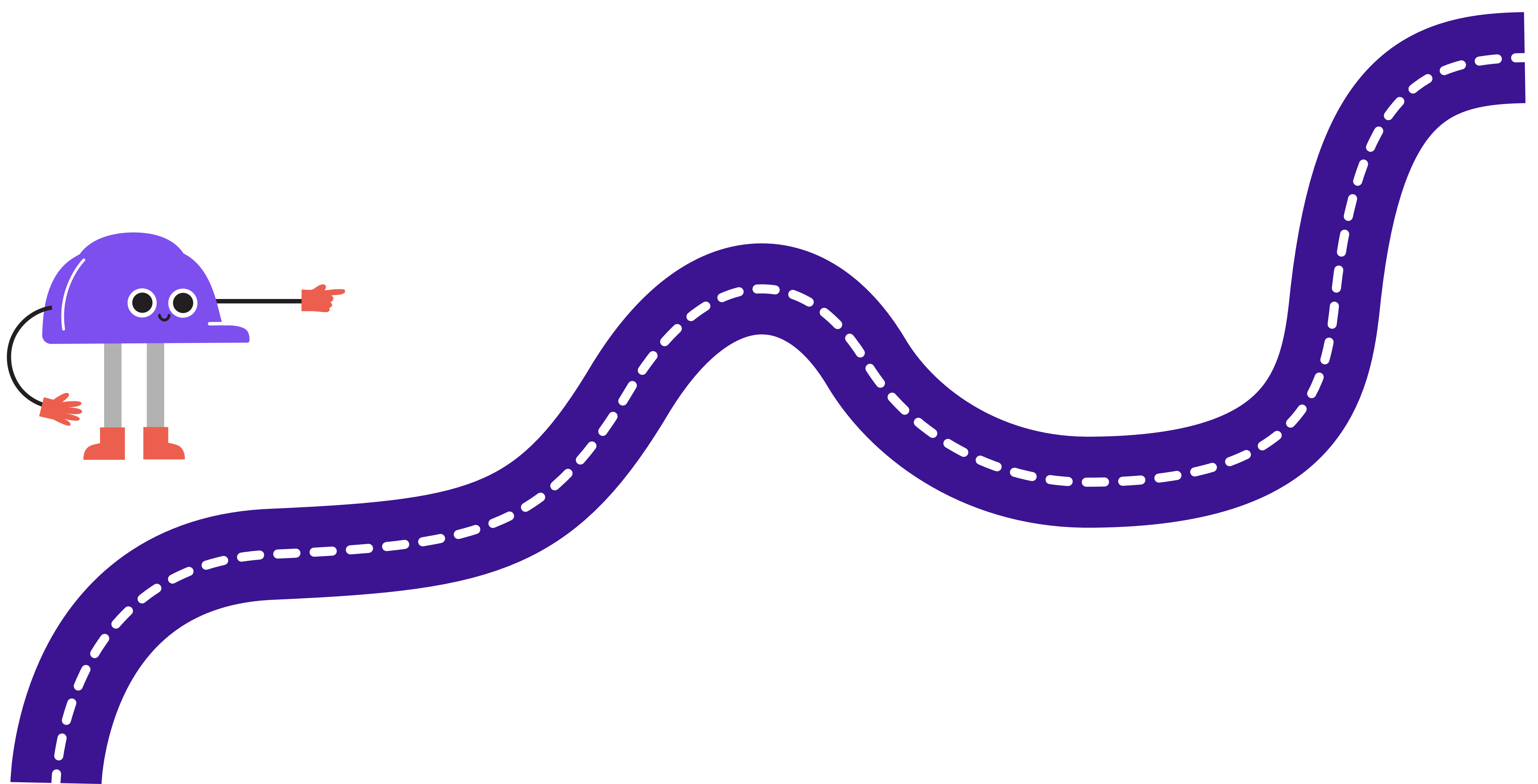
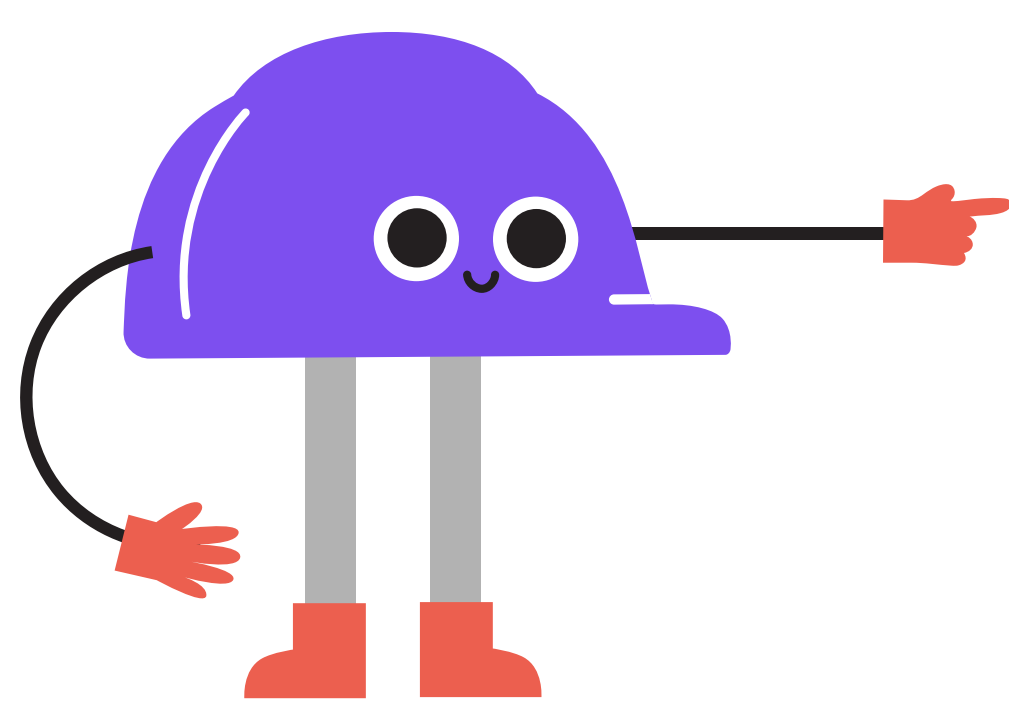
Why this tool is important

Understanding where your current project cost capabilities are today is the first step toward improvement. By evaluating your current practices against the maturity model, you can identify gaps and inefficiencies that may be holding you back.

The model paints a clear picture of what effective project cost management looks like at different maturity levels. This lets you benchmark your performance and set achievable goals for improvement.

Once you've determined your current level, the model guides you on the steps needed to advance. Whether it's adopting new tools, refining processes, or training your team, you'll have a clear roadmap to grow your cost management practices.

That's helpful!



Level 1

No Financial Management Tool

- Project costs and revenue are recognised in the general ledger only.
- Cannot accurately compare budgeted vs actual costs at granularity.
- Struggle to identify and diagnose business problems.
- Processes are highly manual, time-draining and tedious.

Tools: Accounting software, excel and paper-based systems.

Level 2

Basic Cost Tracking

- The business is recording budget vs actual costs with cost code analysis.
- Cost breakdowns are improved but managed through spreadsheets, often as a back-costing exercise rather than in real-time.
- Difficult to compare costs efficiently as the data sits in different systems.
- Still reliant on manual data entry and error-prone workflows.

Tools: Accounting software, excel and paper-based systems.

Level 3

Introduction of Project Cost Management Software

- Project costs are consolidated in a cost management system, such as Lentune, Jobpac or SimPRO.
- Have established repeatable processes and standardised workflows.
- Shift from reactive to proactive management with more accurate and timely data.
- Increased team productivity as information is centralised and easily comparable.

Tools: Project cost management software, accounting software, excel and paper-based systems.

Level 4

Automation and Efficiency

- Significant automation of financial processes, reducing the need for manual intervention.
- Cultural shift towards expecting quicker, more efficient processes.
- Some integration of tools to streamline operations and eliminate bottlenecks.
- Automation frees up the team for more value-add activities, reducing delays and increasing cost clarity.

Tools: Project cost management software, accounting software, invoice automation, timesheet software, claims software and purchase order software.

Level 5

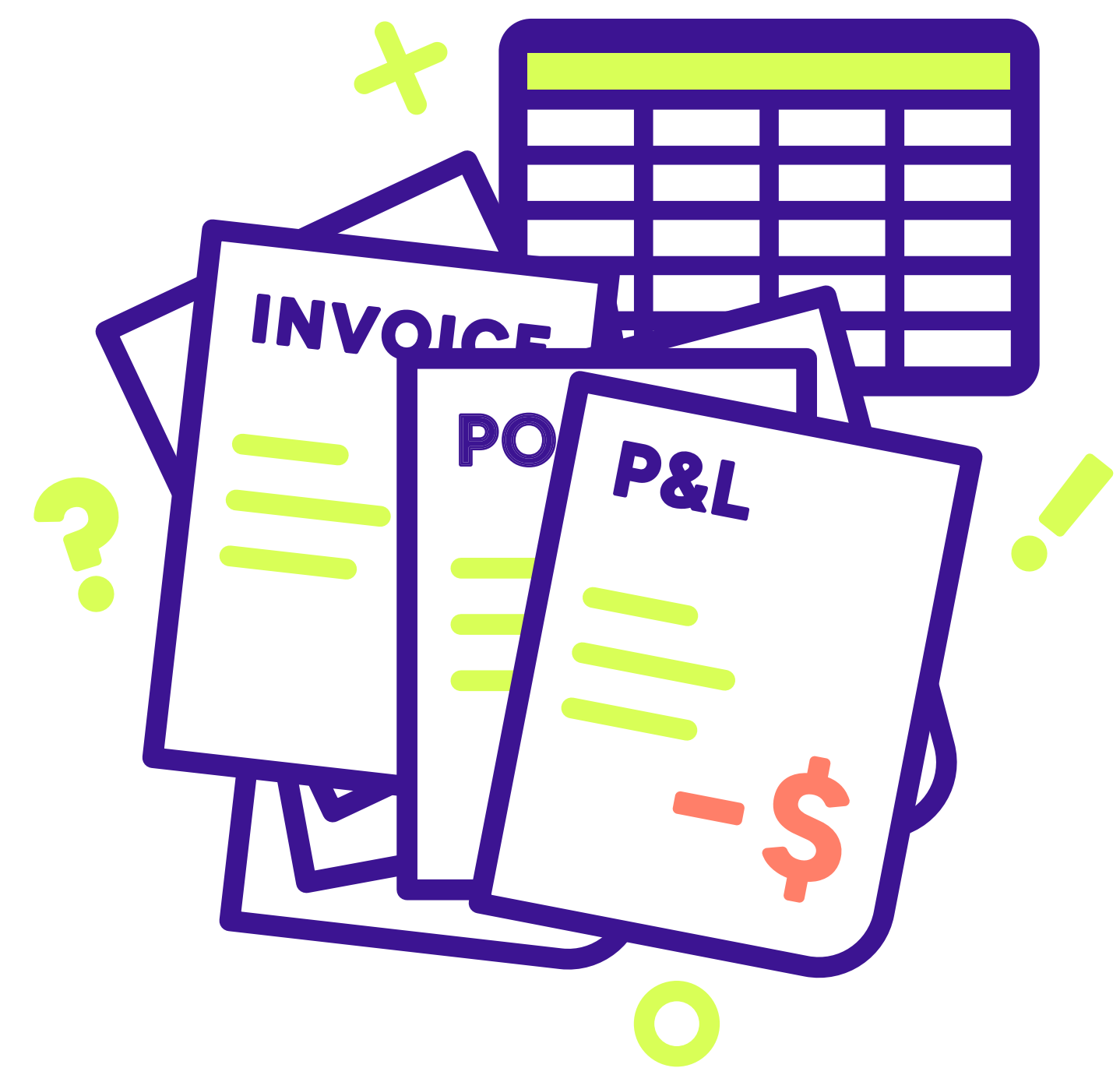
Full Integration and Continuous Improvement

- Automation is fully enabled and integrated across all financial activities.
- Continuous improvement mindset, always seeking further automation opportunities.
- Focus on enhancing data workflows and freeing up time for strategic growth.
- Aim to capture all job-related costs to improve margins and profitability.
- Redeployment of team members to focus on higher-value activities or shrink the team size.

Tools: Project cost management software, accounting software, invoice automation, timesheet software, purchase order software, equipment management and expense management.

Level 1

No financial management tool



At Level 1, project cost management is ad-hoc, relying heavily on manual processes and spreadsheets. You're often using only basic accounting software, providing a general ledger and profit and loss statements but lacking the granularity needed for detailed project cost tracking.

Key challenges faced at this level

One of the main challenges at this stage is the inability to accurately compare budgeted versus actual costs. Without detailed tracking, it's difficult to identify where discrepancies occur, making financial management a constant struggle.

This lack of precision also means that identifying and diagnosing problems within your business often happens too late. Issues are typically discovered only after they've impacted the project, leading to reactive rather than proactive management.

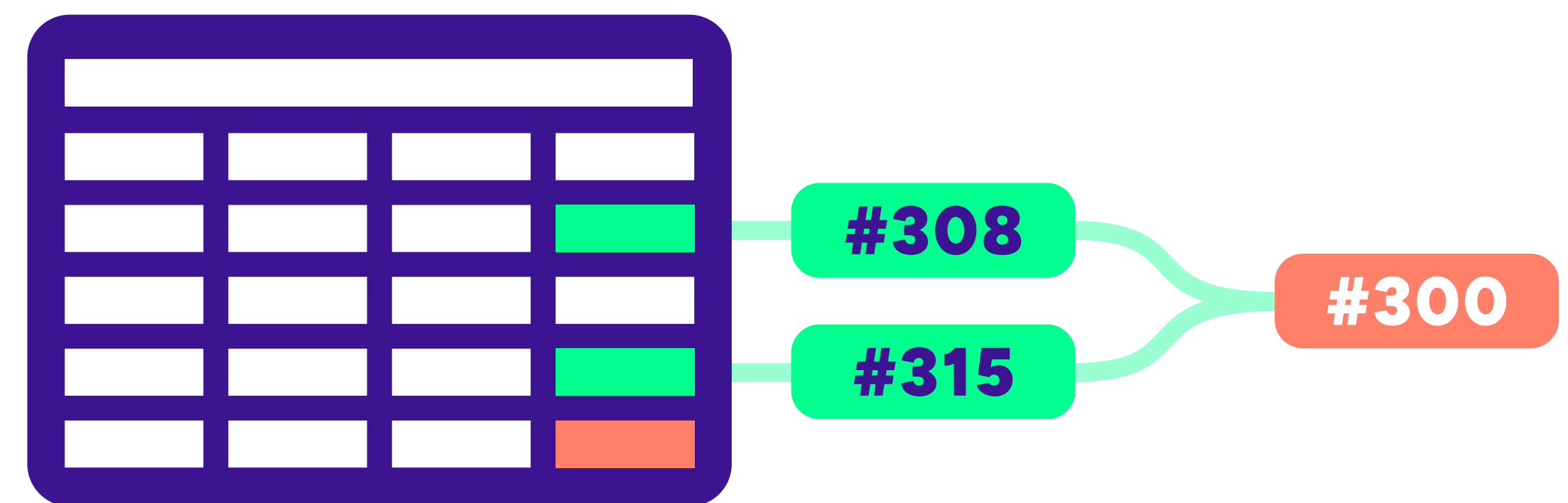
Moving from Level 1 to Level 2

To advance from Level 1 to Level 2, you should start by implementing cost codes. Cost codes allow for more precise tracking and categorisation of expenses, enabling better comparison between budgeted and actual costs.

By assigning specific codes to different types of expenses, you can monitor spending more closely and spot budget creep before it blows out. This foundational step is crucial for improving financial visibility and laying the groundwork for more advanced project cost management practices in the future.

Level 2

Basic cost tracking



At Level 2, you have moved beyond ad-hoc processes and have implemented basic cost-tracking systems. This level is characterised by the use of cost codes to categorise expenses and provide a clearer picture of project costs. By using cost codes, you can start to track specific categories of expenses and see how actual costs align with their budgets.

Key challenges faced at this level

While cost breakdowns are improved, they're often managed through spreadsheets and used for back-costing rather than real-time analysis. This makes it challenging to compare costs efficiently, as data is spread across different systems and isn't consolidated.

Additionally, manual data entry remains a significant part of the process, leading to error-prone workflows and delays in processing.

Moving from Level 2 to Level 3

To advance from Level 2 to Level 3, consider implementing project cost management software. This software consolidates data from various sources, providing a single source of truth for all project expenses.

By integrating cost tracking into one platform, it reduces the need for manual data entry and minimises errors, making workflows less manually intensive. This streamlined approach will enhance accuracy, improve real-time cost visibility and help you grow the business more effectively.

Level 3

Introduction of project cost management software



At Level 3, you have a specialised project cost management system in place, enabling more streamlined and organised cost tracking. This level brings greater clarity around costs and tracking against budget, which significantly improves financial oversight.

Key challenges faced at this level

While this stage offers a solid foundation, it's still a middle ground. You've moved beyond basic cost tracking but have yet to fully embrace automation and system integration.

As a result, there is often a lot of juggling between different systems. Double data entry is a tedious task for accounts staff, and occasional human error is causing further rework and delays. There is also likely a low level of trust in the data creeping in due to repeated inconsistencies and errors.

Moving from Level 3 to Level 4

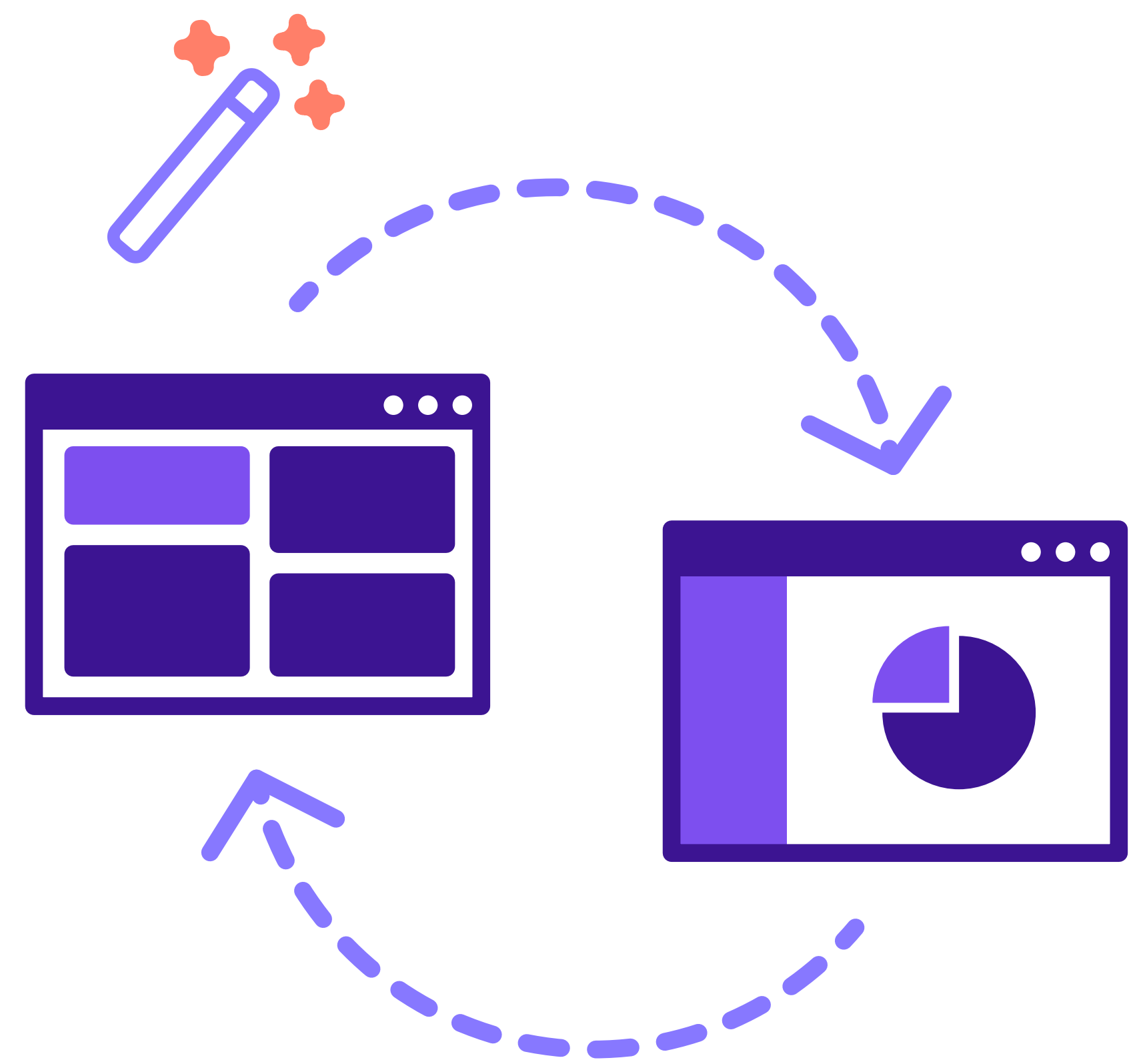
To advance from Level 3 to Level 4, focus on integrating your project cost management software with other business systems. This includes automating processes like accounts payable, timesheets, expense claims and approval workflows.

Automation will give you faster clarity on costs and free up your team to focus on more value-added activities, rather than being bogged down by repetitive data entry tasks.

This integration is key to enhancing efficiency and accuracy as you move toward more advanced project cost management.

Level 4

Automation and efficiency



At Level 4, you've introduced automation software and are syncing project data seamlessly into your project cost management and accounting systems. This stage represents a significant leap in productivity and cost visibility, as manual tasks are minimised and data flows more smoothly between different platforms.

Key benefits gained at this level

At this level, your project cost management systems are offering more benefits than challenges. The introduction of automation has significantly reduced human intervention, often cutting admin time by up to 70%.

You'll also notice a shift in how your team operates. Instead of spending hours on repetitive data entry, your finance team can now focus on more strategic initiatives, such as cash flow management and vendor analysis.

This transforms your finance team from a support function to a strategic powerhouse, unlocking greater project and business outcomes.

Moving from Level 4 to Level 5

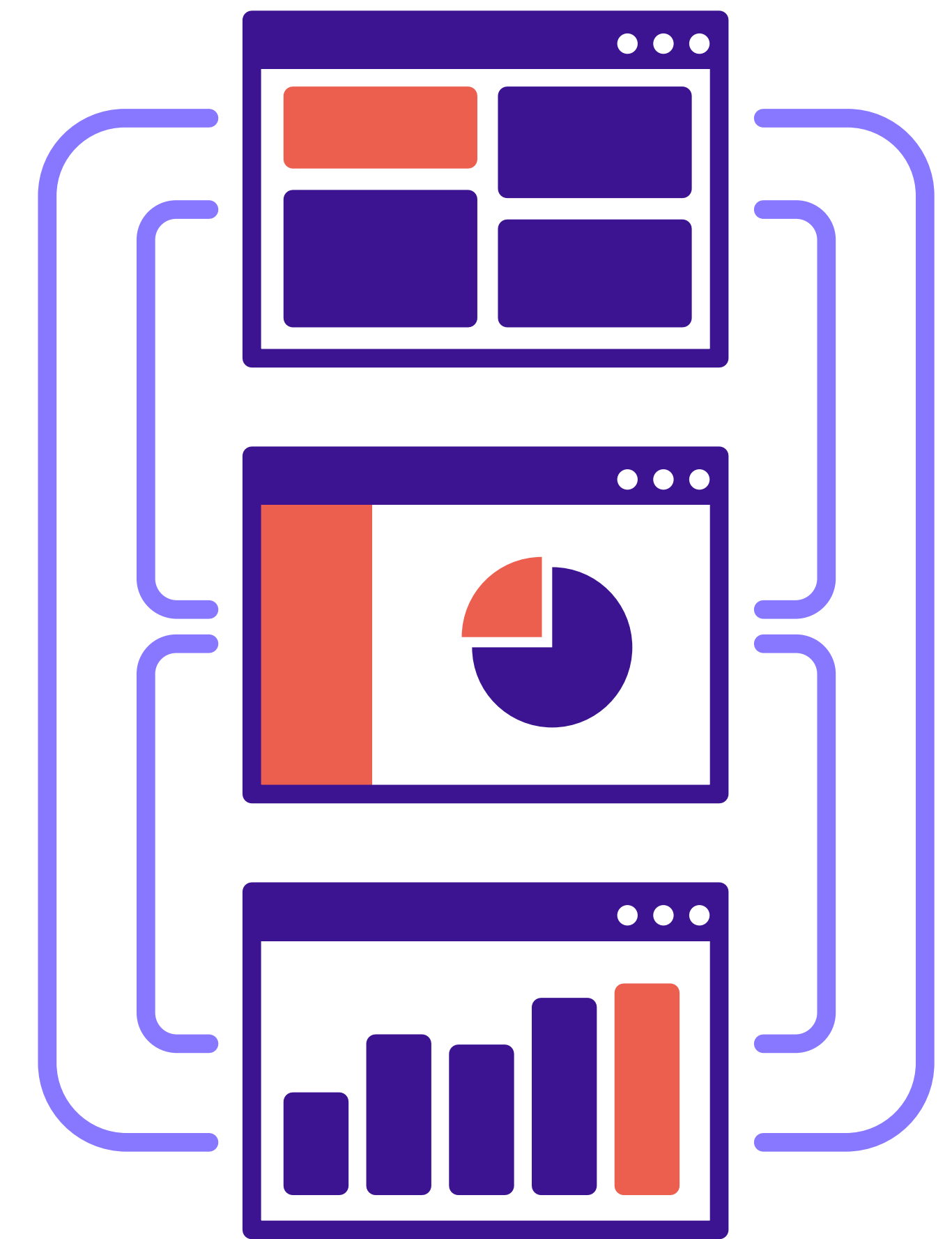
To progress from Level 4 to Level 5, focus on fully integrating your project cost management system with other business operations.

This includes establishing a continuous improvement mindset, where processes are regularly reviewed and optimised. Encouraging feedback from all team members can help identify areas for further improvement.

By fully integrating and continuously improving these systems, you can achieve a state of full automation and efficiency, leading to better project outcomes and overall business growth.

Level 5

Full integration and continuous improvement



At Level 5, you have reached the holy grail. Your project cost management systems are at the pinnacle of efficiency, where automation is fully embedded and real-time data flows seamlessly across all platforms. This level represents the ultimate in streamlined, efficient project cost management.

Key benefits gained at this level

At Level 5, all job-related costs are captured accurately, leading to improved margins and profitability. Cost overruns become a rarity, as real-time data allows for more proactive management and optimisation of margins.

The seamless integration of systems ensures that every aspect of your project costs are monitored and controlled, reducing the risk of financial discrepancies and enhancing overall financial health.

Your organisation also enjoys increased productivity and work enjoyability, with teams able to focus on strategic initiatives rather than manual processes.

Where do you go from level 5?

Reaching Level 5 is a significant achievement, but the journey doesn't end here. The key to sustaining success is to maintain and continuously improve your processes. Regularly review and refine workflows to ensure they remain effective.

Stay informed about emerging technologies and industry best practices to keep your competitive edge. Foster a culture of innovation and continuous improvement within your team and invest in ongoing training and development.

By embracing this proactive approach, your company can sustain its competitive advantage and continue achieving exceptional project and business outcomes.

Practical steps to advance your business

So, where would you place your business on the project cost management maturity scale? Are you still grappling with spreadsheets and manual processes, putting you at Level 1 or 2? Or have you moved to Levels 3 or 4, where specialised software and some degree of automation are already in play?

No matter where you stand, there are practical steps you can take to advance your business and elevate your project cost management practices. Here's how to get started:

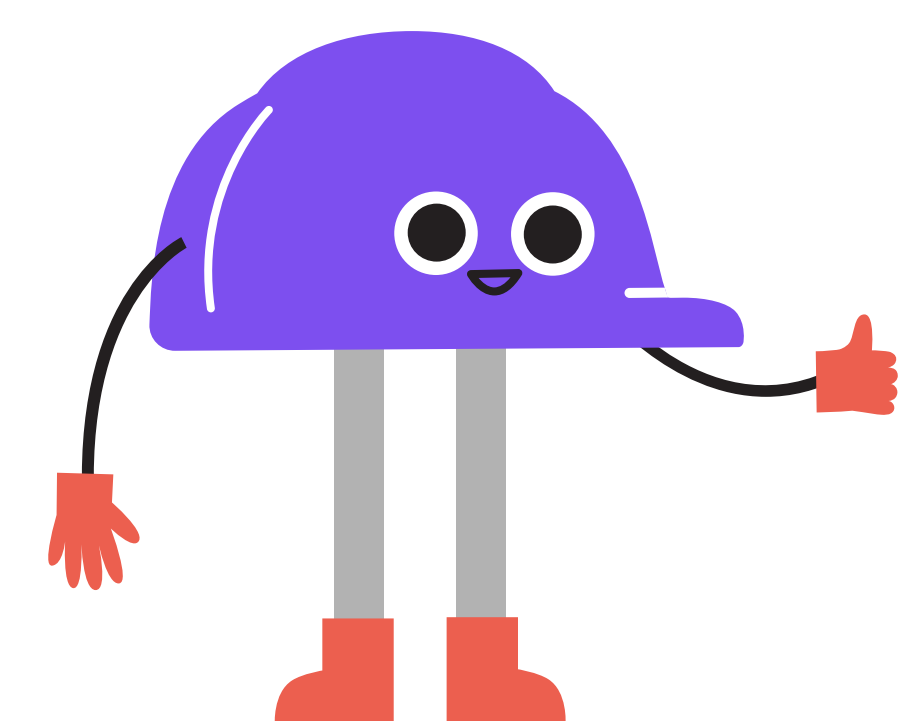
1. Identify key needs and prioritise

Begin by identifying the key needs and issues within your current project cost management practices. This could be tracking and categorising expenses more accurately, reducing manual data entry or improving real-time visibility into project costs.

Conduct a thorough evaluation to pinpoint where the gaps and inefficiencies lie. Prioritise these issues, recognising that you likely won't be able to fix everything at once. Instead, focus on the areas that will have the most significant impact on your business.

Here are some suggested focus areas to consider:

- Tracking and categorizing expenses accurately
- Reducing manual data entry
- Improving real-time cost visibility
- Enhancing budget versus actual cost comparisons
- Streamlining approval workflows
- Integrating cost management with other business systems



2. Develop a realistic roadmap

Create a clear and realistic roadmap for implementing the changes needed to move through the levels of the project cost management (PCM) framework. Ensure that your roadmap is adequately resourced internally and that you build a strong team to support the transition. Consider the expertise required and assign roles and responsibilities to ensure a smooth implementation process.

3. Share the vision

The need for change might be evident to decision-makers, but the same clarity may not exist among those who use the PCM systems daily. It's crucial to communicate the reasons for change effectively to all users.

Explain why the change is happening, what issues you hope to resolve, how it will be implemented and what it means for the users day-to-day.

4. Create team buy-in

Successfully rolling out process improvements requires a team effort. It's essential to get buy-in from your team to ensure lasting change. Address any concerns your users might have upfront and involve them in the planning and implementation process. This will foster a sense of ownership and commitment, leading to a smoother transition and better adoption rates.

5. Implement changes gradually

Avoid overwhelming your team by trying to progress through the levels too quickly. Change fatigue can lead to disengagement, so it's important to take a phased approach. Allow sufficient time for each level to be fully integrated and for your team to adapt.

6. Define and measure success

Clearly defining what success looks like is crucial. Set measurable objectives for each stage of the PCM framework implementation, so you know when you've achieved your goals. Don't just implement changes and move on—ensure that you fully realise the benefits. Celebrate milestones and successes to keep your team motivated and focused.

7. Embrace continuous improvement

Even after reaching your initial goals, maintain a mindset of continuous improvement. Regularly review and refine your processes to ensure they remain efficient and effective. Stay updated on emerging technologies and industry best practices to keep your edge. Foster a culture of innovation and ongoing training to keep your team engaged and your operations running at peak performance.

Conclusion

Effective project cost management is essential for maintaining healthy margins, avoiding cost overruns and driving business growth. By utilising the project cost management maturity model, you can assess your current capabilities, identify areas for improvement and implement the necessary changes to elevate your business practices.

From the foundational steps of moving away from manual processes at Level 1 to achieving full integration and automation at Level 5, this framework provides a clear roadmap for continuous improvement. Each level builds upon the previous one, helping you streamline operations, enhance financial oversight and boost overall productivity.

By following these steps, you can use the project cost management framework to advance your business. Remember, it's a journey, not a race. Take your time to implement each level thoroughly, communicate clearly with your team and keep the focus on continuous improvement. With a proactive approach, you'll be well on your way to achieving exceptional project and business outcomes.

Embrace this journey with optimism and dedication, and watch your construction projects transform into well-managed, profitable ventures. With the right tools, processes and mindset, the possibilities for growth and success are limitless.

Lentune

(Quite possibly) the most helpful financial software on the planet.

From project cost management to invoicing and purchase orders, right through to timesheets, expenses and progress claims—we sort it all.

Lentune makes your construction finances easy. And speedy.

Book a free personalised demo to discover how Lentune can help grow your business.

[Request a live demo](#)