Sean Cole, director in Portland, highlights how, by engaging a cost manager on construction projects, organisations can recoup the fee cost many times over.

Earning and investing our personal income is a serious business, and many of us take professional advice on the best way of creating a nest egg for the future.

Doing this makes complete sense. We may have to pay these financial advisors, but we do so willingly in the belief that the return on the investments that they suggest will justify their fees many times over.

The same thinking, you might imagine, should apply in the construction sector. After all, it's an expensive and complex business with many disparate overheads. Asking experts to examine your company's cost and schedule management processes would seem to be the obvious thing to do.

Surprisingly though, it doesn’t always happen. Many clients will happily pay fees to consultants to undertake design and construction, but they fail to see the value in doing the same when it comes to looking after their money.

But with all the issues which define the construction sector (challenging supply chains, cross border trading, market differentials, best-value procurement, regulation, etc) there can be significant scope to make savings without affecting schedule, safety or quality.

I regularly come across unwarranted and sometimes accidental spending within the industry which can be unearthed relatively quickly by a professional.

Here’s one example. I had an international client who couldn’t understand why their costs were so high. Within a week, I discovered a $20 million overspend. The firm in question had misapplied the contract terms and conditions and had incorrectly overpaid the contractor.

That company’s return on the investment it made in paying my fees worked out at about a thousand to one!

In another investigation, a client was spending three times as much as anticipated on high-end ductwork. It turned out that the contractor was including risk for potential design and prefabrication errors. They were putting their client rates up by 200 per cent to cover the costs they were incurring. We discussed and resolved the issue by reapportioning the risk and dealing with errors on a case-by-case basis.

Yet this message of using consultants to manage project costs can still be a difficult one to sell to clients. Even when they do hire cost management professionals, they often view the fees charged with some suspicion, scrutinising them and attempting to drive them down. In other words, they see cost consultants as a sort of necessary evil.

They would never think of doing this with, say, their lawyers: there is a generally accepted perception that the higher the legal fees are, the more comprehensive and thus more valuable the service will be.

However, it's been proven time after time that engaging a cost manager can help clients analyse strategy and performance to make more informed decisions and, in nearly all cases, recoup the fee cost many times over.
The method of saving money can seem counter-intuitive when executing projects in traditional ways. For instance, many projects are schedule-driven, where achieving project completion on a certain date is paramount. This can mean a lot of overtime being authorized and paid for, with effective planning taking a back seat.

However, studies show that increasing someone’s workload from 50 to 60 hours per week provides only an average productivity gain of 3 to 5 per cent due to increased fatigue. Against an increased cost of 15 to 20 per cent, that extra spending may look good on paper but often proves to be a false economy. If consultants can work with the client from an early stage in the project and analyse return on investment at that point in the cycle, it will significantly benefit the project.

Cost management isn’t just an extra layer of overhead. It brings real and measurable results. Reducing project costs is the obvious benefit, but avoiding risks and getting ahead of project issues by applying lessons learned from specialists is also heavily advantageous for the projects and the businesses they belong to. It also helps us to develop a stronger relationship with our clients and to assist their understanding of the project risks and how they can be mitigated.

There are some facets of the construction sector which haven’t really evolved in recent decades. Focusing purely on delivery, rather than both delivery and cost, is one of these. As consultants, it’s our job to offer our customers maximum value. By getting all project partners working together from the beginning, everyone can focus on the right things.

Achieving our client’s objectives in terms of project success requires us to balance the main aspects of cost, quality, schedule and safety, as well as mitigating risk. This will take a collaborative effort from all parties and a professional cost consultant should always promote this approach in order to add significant value.