

Avoiding the Cost Impacts of Estimate Assumptions

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Predicting cost to deliver a project is a challenge for owners and contractors alike. As an owner, the responsibility to pay for changes in estimated costs depends largely on the terms of the individual contract that was awarded. How many in our industry have prepared estimates with costs that shot up far beyond predictions without much advance notice?

For example, remember what diesel fuel cost when preparing estimates in 2017? And how far off were those estimates when the project was completed? Chances are, pretty far.

With global supply chains, there is increased risk to project timelines and subsequent costs compared to estimates. For example, those shipping goods and materials needed to complete their jobs in the early days of the COVID epidemic, these delays caused major headaches and expensive delays, such as idle staff being paid to wait for vital parts to arrive. Time being money, this is not acceptable.

Downstream schedule and cost impacts compound with each day of delays. Investors get anxious about delivery timelines. Indirect costs can go up as the timeline drags out, such as the need to carry insurance longer or updating extended permits. These can all add up to very large sums of money over the life of a multi-year project, creating huge impacts in each of those years.

So, how should we deal with unforeseen circumstances, and how do we mitigate the risks to the costs of our projects? Obviously contract terms specify how unforeseen costs



are handled on a project in terms of responsibilities to accommodate for them. But looking beyond that, what can be done?

COPING WITH UNEXPECTED PRICE INCREASES

Surprise expenses can have huge impacts on our projects and to discuss as it's something nearly every project will have to estimate.

In 2017, diesel was approximately \$2.65/gallon in the U.S. In 2022, that same fuel was just short of \$5/gallon according to the U.S. Energy Information Administration.[1] That's an 88% costs overall around 18-20%.

Now, why is all of this such a big deal? All costs change over time anyway, right? Let's see what happens with our sample project specs.

Timeline

- » Estimate is completed and bid on in 2017.
- » Funding secured and budget approved in 2019 (typical, the bond issue had some red tape).
- » Ground broken and project starts in 2020.
- » Project scheduled to be completed in 2023.

Estimate

- » \$500 million total for the job
- » \$300,000 total for diesel fuel (accounting for a conservative

created)

Actual diesel costs?

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About the Author

Nick Osborne serves as a Solution Engineer for InEight, focusing on helping construction industry leaders identify ways to improve their operations with technology. With a passion for technology and the perpetual search for a “better mousetrap,” he brings 20 years of hosted software experience to his role, from technical support to product management to sales support. Nick’s experience with hosted software is broad and diverse, including everything from contact center technology to network security to construction technology.

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