

## The Brief Talk of Contractor's Project Cost Management

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**Abstract.** This article analysis focuses on the key points of project cost management for contractors in each stage of construction from the aspect of the basic concepts of cost management, control methods of cost in the process of construction and principles of cost management. In the process of construction project management, how to carry out the management effectively is concerned by all levels of engineering cost managers, investors, contractors and other parties. For contractors in the current market environment, doing a good job of project cost management is also a key of gaining profit, implementing production and development for the enterprises.

### The Meanings of the Project Cost Management

Project cost management is all operations and activities, based on the objective laws and characteristic of engineering cost movement, using science and technology principle, economic and legal means, to solve the actual problems on determination and control, technology and economy, business and management of project cost, to make rational use of human, material and financial resources, in order to increase the investment and economic benefits.

Project cost management has two meanings. One is the investment management; the other is the price management. There are significant differences between the two kinds as the different subjects of interests concerned. Firstly, the two kinds have the different categories, as the first one belongs to the management of investment, and the second one to the management of price. Secondly, the goals for management are different. The goal of project investment management is to improve the benefit, with the right decision, quality assurance and the expected duration, through a series of management means and methods, to make the investment not exceed the expected or even reduce. But the project price management aims to make the price to reflect the value and the law of supply and demand, so as to ensure the legitimate economic interests of the two parties signed the contract. Thirdly, the management scopes are different. Project investment management runs through the whole process from decision-making, design, bidding, construction to completion and acceptance. But Project price management may probably runs through the whole process or only in a stage. This paper focuses on the project cost management for contractor.

### The Emphases of Contractor's Project Cost Management

To get the project and win the profit is the foundation of the survival and development of construction enterprises, but the current building market of our country

is basically a buyer's market, because in the bidding or negotiation-based bidding, the construction side will transfer the risk should be beard to construction enterprises by the harsh terms in the contract, and leave very limited room for negotiation, what can construction enterprises do to win the bidding is depressing prices with very low profit no or even negative in normal conditions, such relatively weak position makes it very important for the contracting enterprises to well organize the cost management and control of work. Only control the project cost within the scope of the contract price

can make contracting enterprises survive and win development in such competitive environment. No profits, no development, how can the contractors complete works according to the contract with a certain profit in such high risk and low profit situation, is the key of survival and development. Then to survive and develop, the enterprises should do as followed.

### **Strengthen the Control of Bidding Price**

Strengthen the control of bidding price, the contractor should pay more attention to the following points: (1) Strive for a fair, open, justice, integrity bidding environment. (2) Make a good preparation of bidding documents. (3) Win bid at reasonable lowest price. The current prevalent way in bidding is using the both mode of BOQ and reasonable low price bidding. As the contractor, should stop trying to win the bidding with an absolute low price to avoid other bidders making a malicious competition at a price lower than the cost. The so-called reasonable price refers to the reasonable low price with guarantee of the construction quality and duration.

### **Sign the Contract Well**

The expense items referred in the project contract, such as task duration, form of settlement, handling of contract breach and disputes shall be clearly stipulated. In the process of signing the contract, try to obtain the contract items in favor of gaining a low price with negotiation upon the content in the tender documents and design not detailed and specific. Meanwhile, in order to avoid too much claims, the claim factors in the construction process shall be correctly predicted. In addition, measures should be adopted to gain the construction insurance and guaranty, so as to make the risk be properly transferred, effectively dispersed and evaded, to improve the effectiveness of the control of project cost.

### **The Cost Management in Completion Stage**

Construction stage, which is the extension of the bidding, is the stage of the largest investment making the contract specific, so strengthen construction control is the way to strengthen the management of performance. The main works of cost management in construction stage are: (1) strengthen the contract management and reduce the project claim, which must be the key of the cost control in this stage, and the necessary cycle to effectively control the project changes. (2) According to the management model, establish supervision mechanism to effectively control the pursuit of project investment. And in order to avoid investment out of control, establish a healthy investment control system according to project management mechanism to review the monthly progress payment. (3) Make an effective control of project investment in technology based on the good demonstration of the construction technology scheme and wide application of new materials, new technology, new method, and so on.

### **The Content of the Cost Management in Completion Stage**

Completion stage, which is the last program of the whole process of construction, is an important cycle to comprehensively assess works of basic construction, check whether the project meets the design and construction specification, and it is also a symbol that achievement of investment has been into production or use. Timely implement project completion and acceptance must be of great significance to play investment benefit and summarize the experience and lessons [6, 7]. In this stage, please check all types of completion documents carefully, including check the terms of the contract, records of concealed acceptance, vises of the changes of design, engineering quantity according to the actual construction drawing, and strictly implement the fixed price, pay attention to the cost calculation, prevent calculation errors etc.. Strive for a fair and reasonable access project settlement.

### **Conclusion**

Project cost control runs though the whole process of construction project. It is a wide and complex work, which needs the relevant departments to undertake their own responsibility and cooperate

closely to complete, to realize win-win of economic, environmental and social benefits of construction project [8, 9]. Cost management and control of the contractor includes the management and control in the stage of bidding, construction and settlement. Only do these works well, the contracting enterprises will have a better development in the current market environment.

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