

## DR09: Value Engineering vs. Cost-slashing

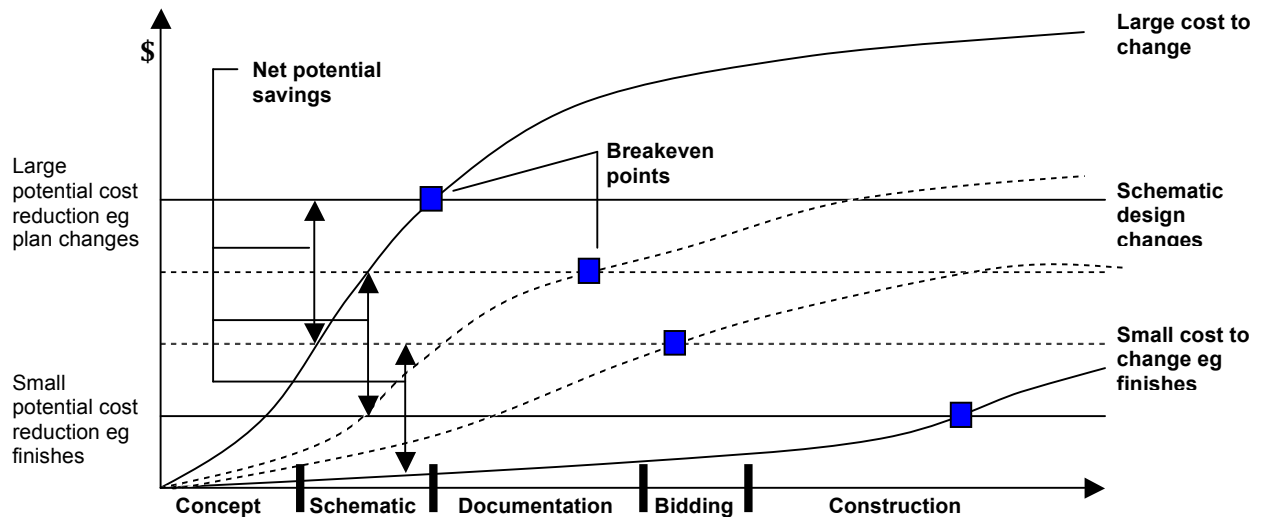
Charles Nelson

Value Engineering (VE) is defined (in the Project Management Institute’s PMBoK Guide) as “a creative approach used to optimize life-cycle costs, save time, increase profits, improve quality, expand market share, solve problems, and/or use resources more effectively”. VE is an organized, proven approach to identifying and reducing unnecessary project costs, and achieving the maximum benefit from every dollar spent.

VE is an important PM tool, used particularly where scope and cost are not aligned. The technique essentially involves challenging project assumptions, to see if there is a more cost-effective way of validating the assumptions. All phases of VE involve a search for answers to the question: “What else will accomplish the function of a facility, system, process, product, or component at reduced cost?”.

### VE Timing

The earlier in the project VE is used, the better will be the results obtained. Ideally, VE is an on-going discipline throughout the design process. When project criteria are being established and design concepts are being formulated, roadblocks to cost-effectiveness are more easily removed and new approaches more readily taken without adversely affecting design cost and project programs.



TIME  
MacPherson, 1992

All criteria should be examined at an early project stage (at time of preparing the Outline Project Scope. This review should include technical guidelines, regulations and other instructions, including those in the scope of work or mandated by regulatory authorities and agencies. The purpose is to identify and question anything that inhibits completion of a required task at the lowest overall cost consistent with desired performance.

Each criteria review should be documented in a report prepared by the VE group, to include:

- ◆ A summary of the criteria, concepts or standards that are challenged
- ◆ Basis for the challenge
- ◆ Approximate life-cycle cost savings if criteria changes are accepted



- ◆ A listing of concepts that may require further study as a part of a formal project VE study

Formation of the VE group is important: VE is a professional PM skill, and requires specialized VE training for proficiency and effective VE management.

## Cost-slashing “VE”

Sometimes cost-slashing measures are employed after a project is fully documented and turns out to be over budget, and is called “VE”. However, this is “fake” VE, and really is nothing more than cost-cutting to cut scope, lessen quality or drive down profitability – often all three.

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