INTRODUCTION

It’s said the rich choose their investments wisely. They calculate and evaluate before making big decisions.

This sheet contains a wealth of knowledge to help build a considered cost-benefit case. Step-by-step, it outlines the process and pointers you can use to evaluate a decision.

DEFINING THE TERM

A cost-benefit analysis (CBA) is a systematic process for calculating and comparing the benefits and costs of a project or decision: The necessary outgoings and desired incomes.

WHAT ARE THE COSTS?

Which monetary costs apply at the implementation and lifecycle phases? Ensure you consider:

- Licences
- Payroll expenses
- Production materials
- Training
- Travel
- Start-up fees
- Consider short, medium and long-term costs
- Don’t include costs to which you can’t assign a specific, measurable value.
WHAT ARE THE BENEFITS?

- List all projected monetary benefits that apply at implementation and beyond
- Be precise and specific about measurable and metrics
- Avoid inaccurate, redundant or vague data during your analysis.

Ensure you consider:
- Direct product or service profits plus increased (revenue?)
- Contributions from investors due to improved and standardized processes.

Add a list of potential general – short, medium and long-term benefits such as:
- Decreased costs (admin, processing, production, sales, service)
- Faster payments
- Improved production processes
- Increased sales opportunities
- Process automation
- Productivity efficiencies/gains
- Time savings (quickly calculate with our ‘Value of Time’ tool)

THE FINAL COUNTDOWN

Armed with data on likely outgoings and projected incomes, you can compare and calculate if the proposed action is worthwhile.

The following steps will help:
- Compare values on total costs and total benefits
- If costs outweigh benefits, investment of company time and resources may not be worthwhile
- If costs and benefits appear roughly equal, a revision of inputs and re-evaluation of the calculations may be necessary. Frequently, cost items are incorrectly inputted, erroneously quantified or missed out altogether.
- If total benefits dwarf total costs, the proposed action can be deduced as a potentially worthwhile investment. You can also back-up your findings with additional evaluation metrics if required.