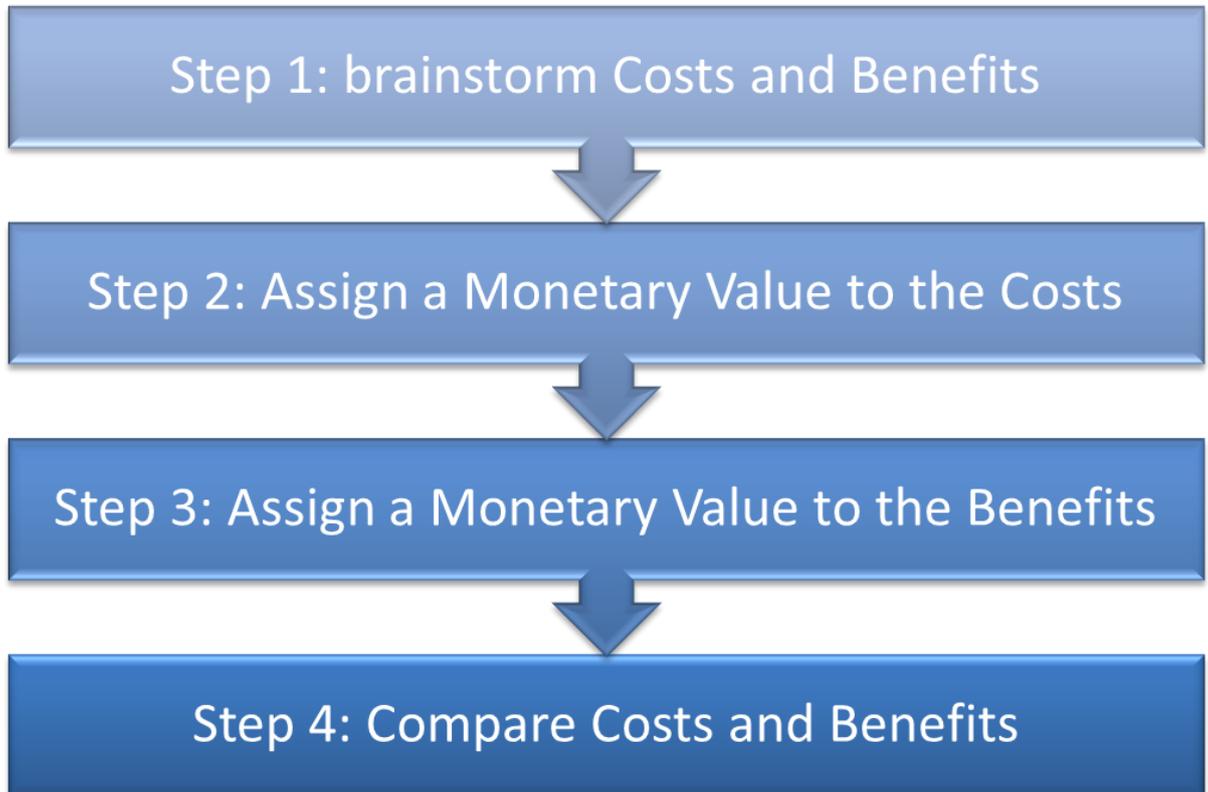


Main steps to do a Cost-Benefit Analysis



Step One: Brainstorm Costs and Benefits

- First, take time to brainstorm the costs associated to the project, and make a list of these. Then, do the same for all of the benefits of the project.
 - Can you think of any unexpected costs?
 - And are there benefits that you may not initially have anticipated?
- When you come up with the costs and benefits, think about the lifetime of the project.
 - What are the costs and benefits likely to be over time?

Step Two: Assign a Monetary Value to the Costs

- Costs include: the costs of physical resources (raw material) as well as the cost of the human effort involved in all phases of a project. Costs are often relatively easy to estimate (compared with revenues).
- It is important that you think about as many related costs as you can.
For example: what will any training cost? Will there be a decrease in productivity while people are learning a new system or technology, and how much will this cost?
- Remember to think about costs that will continue to be incurred once the project is finished.
For example: consider whether you will need additional staff, if your team will need ongoing training, or if you'll have increased overheads.

Step Three: Assign a Monetary Value to the Benefits

- It is often very difficult to predict revenues accurately, especially for new products/services. Along with the financial benefits that you anticipate, there are often intangible, or soft, benefits that are important outcomes of the project (reputation, peace in the water basin etc.)
 - For instance, what is the impact on the environment, employee satisfaction, or health and safety?
 - What is the monetary value of that impact?

Step Four: Compare Costs and Benefits

- Finally, compare the value of your costs to the value of your benefits, and use this analysis to decide your course of action.
- To do this, calculate your total costs and your total benefits, and compare the two values to determine whether your benefits outweigh your costs. At this stage it's important to consider the payback time, to find out how long it will take for you to reach the break-even point – the point in time at which the benefits have just repaid the costs. $\text{Total cost} / \text{total revenue (or benefits)} = \text{length of time (payback period)}$.