



Proving its worth

Building a
bulletproof
cost-benefit
analysis

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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 standardised 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.

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.

Want to know more?

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