

Team Decision Making

The Tool	Cost Benefit Analysis
What is it?	A tool to enable the identification and comparison of costs vs the benefits of a proposed decision
When to Use it	When you present a recommendation that requires your organisation to spend money e.g The purchase of new or replacement equipment, in order to have your proposal accepted you will need to present some form of cost benefit analysis.
What you need	Flip Chart Paper or Electronic whiteboard

How to Work with This

- Describe the proposal
Write a description of your proposal at the top of a flipchart. Draw a vertical line down the middle of the flipchart. Label the top left hand column "Costs" and Label the top right hand column "Benefits"
- Identify costs
Brainstorm all the costs involved. Only record the descriptions of the costs, do not allocate any figures yet.
- Identify benefits
Brainstorm all the benefits involved in your solution. Only write up the descriptions of the benefits, do not allocate any £s figures yet.
- Allocate costs
Go through each cost and benefit and allocate the actual or estimated monetary value against each one. It pays to be conservative.
 - If you are not sure whether or not a particular cost will actually be involved, make the assumption that it will.
 - If you are not sure whether or not a particular benefit will actually occur, make the assumption that it won't.
 - If you are unsure of how much a cost will be, err on the high side.
 - If you are unsure of how much a benefit will be, err on the low side.
 - If you are conservative and your analysis still shows an overall benefit, you can make your proposal with a high degree of confidence.
- Total costs and benefits
Add up all the costs and add up all the benefits.
- What's the payback?
Divide the total benefits by the total costs. Let's call the answer X. If your proposal is going to deliver a payback, the answer needs to be *greater than 1*.
 - If X is *less than 1* maybe you need to reconsider your proposal (unless there are factors other than costs involved in your proposal)
 - If X is *greater than 1* your proposal can then take the form of, "For every \$ that we spend on this proposal we will receive \$X".

Do your cost benefit analysis over some period of time. A simple way to do this would be to say that in the first year of operation your proposal will involve a new machine cost of \$1,000 and that it will deliver a saving of \$1,200 (12 times \$100 per month). Obviously, there may be more costs and benefits so you will need to ensure that they are all calculated for the same time period, e.g. over one year, two years, three years, etc.