

Optional
Activity

9

Common Decision-making
Tool: Cost/Benefit Analysis

Time it takes: 15–20 minutes

What it is about: How to use the Cost/Benefit Analysis decision-making tool.

What you will need: Flipchart paper and markers

How to do it:

1. Introduce the tool with comments such as:



- **Cost/Benefit Analysis is a quantitative analysis of whether or not to follow a course of action.**
- **The tool helps you decide if a potential solution for an issue is worth the time and expense. In essence, the tool guides you in adding up the value of the benefits of a course of action and subtracting the cost associated with it.**

2. Demonstrate a simple cost/benefit analysis by sharing the following example.

Example: Deciding whether to spend money on upgrading the computer system.

Costs	Value of Benefits
<u>One-time Expenses:</u>	<u>Monthly Savings:</u>
New server \$6,000	Reduction of monthly fees \$100
4 new computers \$4,200	Decreased down time \$1,000
New software \$2,000	Reduction of maintenance \$200
Training Staff \$1,200	Faster customer Interface \$300
Time lost for transition \$8,000	Estimated sales increase \$2,000
Administrative costs \$2,200	
Misc. expenses \$1,100	
Total Expected Cost: \$24,700 (one time)	<u>Plus</u>
	Increased morale leading value not to decreased turnover assigned
Recurring monthly upgrades: \$300/month	Recurring monthly Savings: \$3,600
Total 1st Year Cost: \$28,300	Total Savings 1st Year: \$43,200

3. Ask the group for their conclusion about whether or not it makes sense to upgrade the computer system based on the Cost/Benefit Analysis.
4. Ask for questions and comments. To conclude this activity, remind everyone that several tools should be used to help make complex decisions.