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[In my previous article](#), I talked about all that you need to know about [technical feasibility for projects](#). In this article, I want to look at all that you need to know about Cost Benefit Analysis for projects.

Cost-Benefit Analysis presents a project's estimated costs alongside its predicted benefits to help decision-makers make informed decisions about project selection. It may be formal or informal. Although the analysis contains quantitative information, it is merely forecasted expectations rather than hard data.

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It is important to recognise and document any assumptions used to derive cost and benefit forecasts.

The costs include current operating costs and expected project costs related to the function under analysis. The benefits include quantifiable benefits, such as increased sales or reduced costs expected as a result of the project, and intangible benefits such as an enhanced image or brand awareness that can only be described subjectively.

Typical example...

Senior Management of a large retail firm [is considering a proposal for the development](#) and addition of an e-commerce capability on their existing website

to increase revenue. Before committing, management asks each department director to evaluate the feasibility and provide rough cost estimates.

The directors then agree that the project is indeed feasible given their current capabilities and should cost around \$25k.

The Vice President and Marketing estimate that the e-commerce site will generate a five percent increase in sales in the next five years. Given the company's current threshold of \$1Million, the estimated improvement will result in an additional \$50k in sales over the next five years.

With \$25k in upfront Costs, the net benefit is estimated to be \$25K. The cost-benefit analysis results in a rough estimation of the company's net gain.



Action Point

PS: I know you might agree with some of the points that I have raised in this article. You might not agree with some of the issues raised. Let me know your views about the topic discussed. We will appreciate it if you could drop your comment. Thanks in anticipation.

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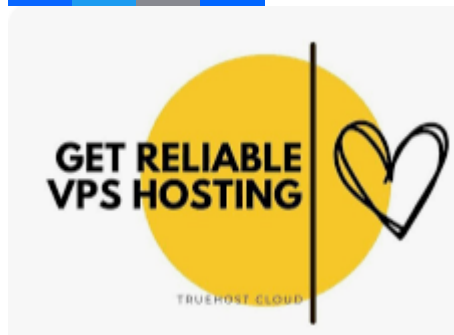
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