

Cost Benefit Analysis

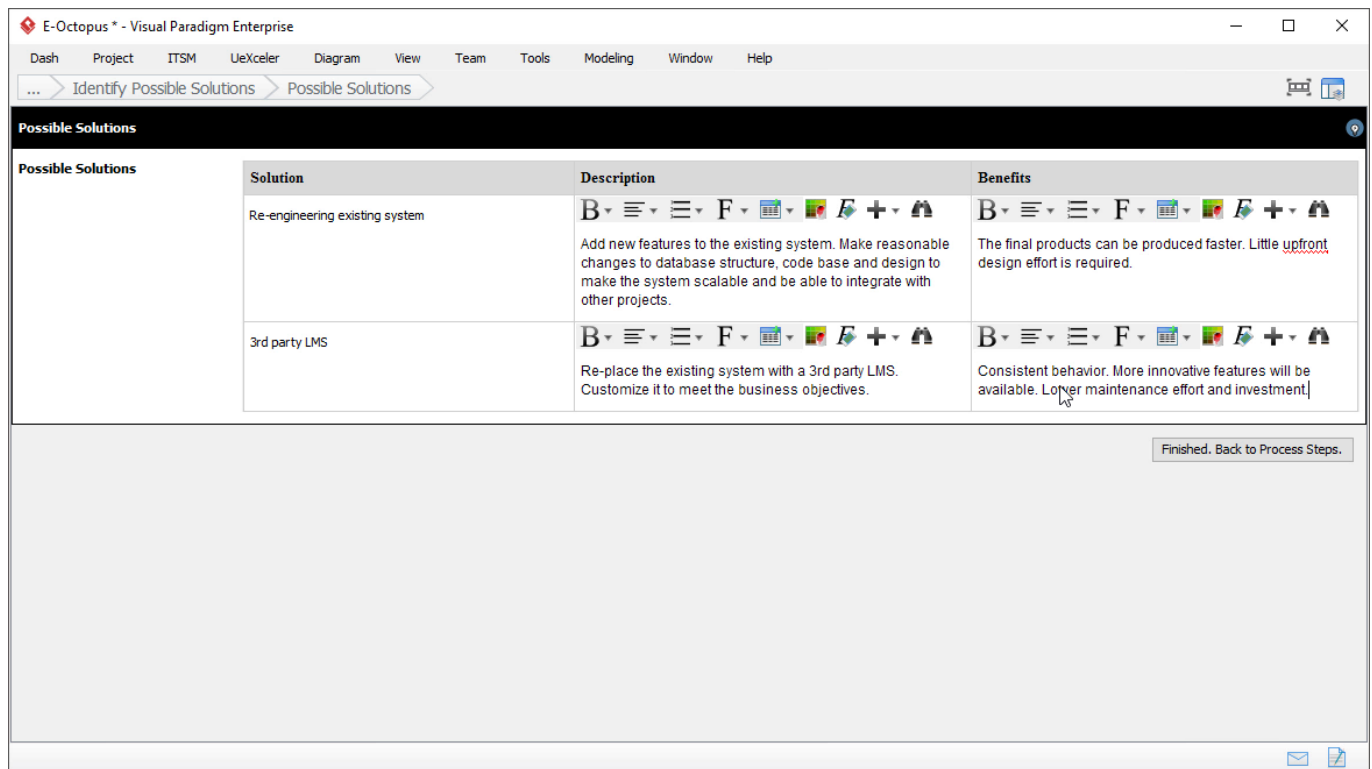
Cost Benefit Analysis is one of the project management deliverable you can create with our [project management lifecycle software](#).

Cost Benefit Analysis is the estimation of the total costs and possible profits to be derived from a project, through the adoption of different solutions.

This article shows you how to perform a Cost Benefit Analysis.

Activity 1: Identify Possible Solutions

Based on the project description, statement of business need and business objective(s), identify a range of solutions that can be considered to address the identified need. Evaluate each possible solution and summarize the strengths of each.



The screenshot shows the 'Possible Solutions' table in the Visual Paradigm Enterprise software. The table has three columns: Solution, Description, and Benefits. There are two rows of data.

Solution	Description	Benefits
Re-engineering existing system	Add new features to the existing system. Make reasonable changes to database structure, code base and design to make the system scalable and be able to integrate with other projects.	The final products can be produced faster. Little upfront design effort is required.
3rd party LMS	Re-place the existing system with a 3rd party LMS. Customize it to meet the business objectives.	Consistent behavior. More innovative features will be available. Lower maintenance effort and investment.

At the bottom right of the table, there is a button that says "Finished. Back to Process Steps."

Activity 2: Perform Cost Analysis

Evaluate solutions' one-time costs

Identify the one-time capital and operating costs of the possible solutions. The following are some of the cost categories suggested. Feel free to add or remove any categories:

- Internal Staff Labor
- Services
- Software Tools
- Hardware
- Materials and Supplies

- Facilities
- Telecommunications
- Training
- Contingency (Risk)

Evaluate solutions' on-going/annual costs

Identify the on-going and annual cost of each of the possible solution. The cost categories are pre-populated based on the previous step.

The screenshot shows a software window titled 'E-Octopus * - Visual Paradigm Enterprise'. The breadcrumb navigation indicates the current view is 'Perform Cost Analysis > Solutions' On-Going / Annual Costs'. The main content area displays a table with the following data:

Budget Category	Re-engineering existing system	3rd party LMS
Internal Staff Labor	30000	30000
Services	0	0
Software Tools	1500	1800
Hardware	2500	2500
Materials and Supplies	0	0
Facilities	0	0
Telecommunications	0	0
Training	0	0
Contingency (Risk)	0	0
Other	0	0
Total	34,000	34,300

At the bottom right of the table area, there is a button that says 'Finished. Back to Process Steps.'.

Activity 3: Perform Benefits Analysis

Perform benefit analysis on possible solutions

Identify the benefits of adopting each solution.

Tangible benefits are benefits that can be measured and quantified. Typically it refers to a reduction in cost and an increase in potential revenue. Intangible benefits are non-quantifiable improvements like risk, ease of use, brand equity, etc.

E-Octopus * - Visual Paradigm Enterprise

Dash Project ITSM UeXceler Diagram View Team Tools Modeling Window Help

... > Perform Benefits Analysis > Benefit Analysis

Solutions' Tangible Benefits

Criteria	Re-engineering existing system	3rd party LMS
Cost Reduction	10000	10000
Revenue Increase	0	0
Total	10,000	10,000

Solutions' Intangible Benefits

Criteria	Criteria Weight	Re-engineering existing system	3rd party LMS
Risk	25	5	
Complexity	25	5	
Ease of Use	30		
Maintenance	20	0	
Total	100	1	0

0
1
2
3
4
5

Finished. Back to Process Steps.

Activity 4: Select and Justify Solution

Select a solution with justification

Based on the cost and benefits analysis, recommend a solution. State why the preferred option was chosen by summarizing its benefits and costs, and explaining why the benefits outweigh the costs involved.