Use a Cost Benefit Analysis Template to Help Analyze Your Projects by DJ Willis

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Are you currently considering completing a cost benefit analysis? This technique is extremely helpful when you are attempting to determine whether a project will be a sound investment or when you're wanting to determine which of two projects will produce better results. With this type of analysis you will compare the price of each option overall with the expected benefits. Your ultimate goal would be to see which project has benefits which outweigh the costs and just how much of a difference exists between the two.

This kind of analysis differs from one that looks at how cost effective a project is. Here the costs and benefits are expressed in dollar amounts. This enables these amounts to be adjusted with time in terms of time value for money. When this method is used, all benefits and project costs may be looked at in terms of the present value. Be sure you don't confuse this accounting method with economic impact analysis, cost-utility analysis or Social Return on Investment analysis.

Business and governments utilize a cost benefit analysis template to find out if a project should be completed or perhaps a policy implemented. If this technique is used, many factors are looked at. Foregone alternatives are just one factor that is considered to find out if a policy is going to be effective. Here the status quo will also be examined to see if keeping things how they are could be better.

When you use this method of analysis, you are able to better determine which projects will produce the most results at the least cost. Be aware that, when used for social welfare projects, there is no foregone conclusion. Many other factors play a role in this such as human behavior so the analysis is more of a best guess. You can put a program into place, however, you can't force people to use it if they don't want to.

In order to complete a cost benefit analysis, there are certain steps that must be taken. First a summary of projects to be compared should be completed and then key players should be determined. Figure out how you'll measure costs and benefits and collect this data. You'll then need to look at the complete project and predict the end result of both the costs and benefits.

Costs and benefits should be placed into dollar amounts when doing this kind of analysis. If a discount rate exists, it must be applied before you calculate the net present value of the different options. Finally a sensitivity analysis must be done before recommendations can be created as to which project or projects should be chosen.

When completing a cost benefit analysis, you need to look at any risks that could develop due to choosing a particular project. Probability theory can be quite helpful here. Factor this in to the discount rate or apply it separately. The choice is up to you, but make sure your focus is on risk aversion.

A sensitivity analysis, one of many small business financial services, must also be performed. This shows how, if parameters are changed, the outcomes may also change. There are lots of ways to complete this step and you'll really need to pick the one that is ideal for the needs you have.

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