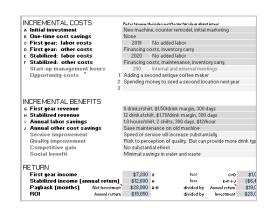


# COST/BENEFIT WORKSHEET

Many analytical tools are either much too complex or too simple—or only dealt with the numbers. We needed something that would also help everyone see how the qualitative issues of risk and opportunity cost factored in. The Center's Cost/Benefit Worksheet not only helps us decide together, it's created a much more disciplined habit on thinking. It's saved us from some impulsive decisions.

## Introduction

The Cost/Benefit Worksheet will work for most decisions, though every decision-maker and organization differ in their need for analysis. The Worksheet will help you and others focus on the critical assumptions; it produces simple ROI and payback numbers. Like all analytical tools, it is meant to provide both rigor and objectivity.



## **Benefits**

The Center's tools minimize omissions, improve communications and foster collaboration. The **Cost Benefit Worksheet**:

- Helps quantitative and qualitative thinkers work together
- Provides a clear record of the decision
- Sets up a way to evaluate the investment after it's started up

Difficulty Difficult

Estimated time required 12-16 hours

Special skills Financial analysis, Excel

# Instructions

The Question Map or Project Planner can bring big decisions into focus, but they also need quantitative analysis. The GM's Index of Terms can prompt costs and opportunity ideas.

- 1. Be sure you've carefully articulated the idea and recorded your assumptions.
- 2. Thinking through the initial tasks helps you be realistic about the initial investment.
- 3. Run "what if" ("sensitivity") scenarios to test your idea .
- 4. Create more detailed analyses as needed, including for tax consequences.
- 5. Check that the initial idea, assumptions and risk are still correct.

Members can contact the Center for assistance: info@theindex.net

## Make It Better

Member should share ideas for improving any of the Center's tools and how they're taught and formatted. It's also great to suggest new applications or brand-new tools.

## **ANTIQUE COFFEE**

### **Cost/Benefit Worksheet**

This worksheet will help managers refine ideas that will improve quality, control risks and provide new income.

## **IDEA** Replace antique coffee maker with new

Date 12/3/2018 Champion Brian Johannson

- 1 Are we solving a problem or capturing an opportunity?
- 2 Will this help eliminate more than one step or service?
- 3 Have we tried something like this before? Has anyone?
- 4 Is an experiment possible?
- 5 How confident are we in our assumptions?

#### **SUMMARY**

See Question Map. Current antique espresso maker cannot keep up with demand, creating delays and dissatisfaction. A state-of-the art machine will provide more capacity, but might upset some of our customers and run counter to our brand.

#### We'll know we're successful when...

We rarely have lines, people say the coffee still tastes great and staff are feeling less pressured.

Decision deadline 5/31/18

### **ASSUMPTIONS & RISKS**

- 1 Risk: Many customers are upset that we don't have the beautiful old machine and believe the coffee doesn't taste as good.
- 2 Assume: We can't have both machines: not enough space, too complicated.
- 3 Assume: We can get an SBA loan and won't need to use all our line of credit or owner's capital.
- 4 Risk: That competitors will take advantage of our given up the machine that's part of our brand.

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### **INITIAL TASKS**

- 1 Survey customers using emails from repemption program.
- 2 Hold preliminary meeting with bank re: SBA loan
- 3 Engage customers in taste test with loaner machine (see if can get temporary hook-up)
- 4 Create detailed counter layout to make sure we don't create new bottleneck.

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### INCREMENTAL COSTS

	investment	

- **B One-time cost savings**
- c First year: labor costs
- D First year: other costs
- E Stabilized: labor costs
- F Stabilized: other costs

Start-up management hours

Opportunity costs

#### Refer to The GM's Index of Terms for ideas about issues

TOTAL TO THE ON		
New machin	e, counter remodel, initial marketing	\$15,000
None	\$0	
2019	No added labor	\$0
Financing co	sts, inventory carry	\$1,050
2020	No added labor	\$0
Financing co	\$1,750	
200	Internal and external meetings	
Adding a sec	cond antique coffee maker	

1 Adding a second antique coffee make

2 Spending money to seed a second location next year

3

### **INCREMENTAL BENEFITS**

**G First year revenue** 

**⊢** Ongoing revenue

Annual labor savings

J Annual other cost savings Service improvement Quality improvement Competitive gain

Social benefit

8 drinks/shift, \$1.50/drink margin, 300 days						
12 drinks/shift, \$1.70/drink margin, 300 days						
1.0 hours/shift, 2 shifts, 300 days, \$12/hour						
Save maintenance on old machine						
Speed of service will increase substantially						
Risk to perception of quality. But can provide more drink types						
No substantial effect						
Minimal savings in water and waste						

## RETURN

First year income		\$7,200	G	less	C+D	\$1,050	=	\$6,150
Ongoing income (annual return)		\$12,600	Н	less	E+F-I-J	(\$6,450)	=	\$19,050
Payback (months)	Net Investment	\$15,000	A-B	divided by	Annual return	\$19,050	=	9
ROI	Annual rerturn	\$19,050		divided by	Investment	\$15,000	=	127%

#### Comments

While the numbers took good (we both earn and save more), we really need to make sure the customers won't be too upset about the new machine. After doing our research, we might find a good way to create acceptance.

DECISION Wait for market research, but proceed with bank meeting 12/3/2018

The Center for Management Terms & Practices

\$7,200

\$7,200

\$1,000

High

Medium

Low

Low

\$12,600

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