

Process Definition

COST-BENEFIT EVALUATION

Last Date Revised: 2/13/98

Version 1.1

Process Description:

Throughout the life of a project, the Project Manager is called on to document the relative financial worth of the effort. This evaluation is necessary to launch a project and should be reexamined to certify the investment potential. This process is especially useful with projects that require significant discovery to solidify scope. Updated cost/benefit calculations must accommodate the influence of new information along with the realities of project-to-date actuals.

Process Purpose:

The intent of this financial examination is to...

- Provide the Project Owner with realistic financial projections before a project is initiated.
- Provide the Project Owner with revised total cost information throughout the project's life.
- Translate all project costs into a common cost unit (Dollars).
- Show the impact of project-to-date expenditures.
- Allow the Project Owner to make informed "go/no go" decisions during the project.
- Create a meaningful basis for evaluating project performance.

Use Criteria:

Evaluating a project's financial information is most applicable to larger, more significant efforts (Type 1). While updated cost/benefit information may be reforecast at any time during a project, there are numerous defined locations where this data is required. These include...

- Prior to initial project approval (Project Initiation).
- At the conclusion of a standard collection of project work (*Phase-end Reviews*).
- After the completion of a major deliverable that is being used to prove project progress (*Checkpoint Review*).

All financial projections should be captured in worksheets so the information may be rapidly revised. Standard summary templates for displaying costs and benefits of a project will promote consistency of use and allow comparisons between projects. When benefits are projected for multiple years, it is important that relevant costs also be defined for an equal period of time. The on-going evaluation of project cost/benefit information must be supported with an effective estimating process and a rigorous means to track project actuals. This process may be applied at a summary level for small, non critical efforts (Type 2).

Process Flow:

1.0 COST INFORMATION – When creating cost data for a project, the Project Manager should...

- 1.1 Document all *Costs To Date*.
- 1.2 Forecast all *Costs To Complete*.
- 1.3 Calculate the *Revised Total Costs*.
- 1.4 Display the *Original Project Costs*.

2.0 BENEFIT INFORMATION - When creating benefit data for a project, the Project Manager should...

- 2.0 Display the *Original Project Benefits*
- 2.1 Display any *Revised Project Benefits*

Glossary:

Cost To Complete – The total project cost required to finish a project from a current position.

Cost To Date – A collection of all costs collected to a specific date.

Original Project Benefits – The initial summary of financial benefits expected to be derived from a project.

Original Project Costs – The initial estimate of costs expected to be expended due to a project.

Revised Project Benefits – An undated summary of financial benefits expected to be derived from a project.

Revised Total Costs – An updated summary of total costs expected to be expended due to a project. This amount is the sum of Costs To Date and Costs To Complete.

Templates and Tools:

A Project Cost Worksheet and Project Benefit Worksheet is attached. They are untotaled MS Excel files.

Samples:

Samples of this process may be attached here.

PROJECT COST WORKSHEET

Project: _____

Project Mgr: _____

Date: _____ Page: _____

Costs
To
Date

Costs
To
Complete

Revised
Total
Costs

Original
Project
Costs

Tangible Costs:

Labor Costs:

Information Technology
Business Units
Contract Labor
Project Management Labor

Hardware Costs:

Software Costs:

Technology Infrastructure Costs:

Facilities Costs:

Conversion Costs:

Training Costs:

Information Technology
Business Units

Materials and Supplies Costs:

TOTAL TANGIBLE COSTS:

Intangible Costs:

Lost Opportunity Costs:

Lost Availability Costs:

Learning Costs:

Cost of Change:

Job Impact Costs:

Contingency Costs:

Annual Lifetime Costs:

Technology Upgrades:

Software Upgrades:

Maintenance Costs:

PROJECT BENEFIT WORKSHEET

Project: _____

Project Mgr: _____

Date: _____ Page: _____

Original
Project
Benefits

Revised
Project
Benefits

Tangible Benefits:

New Revenue:

New Market Penetration

Increased Market Share

Other 1

Other 2

Cost Reduction:

Type 1

Type 2

Type 3

Type 4

Asset Sale/Recovery:

Asset 1

Asset 2

Asset 3

Asset 4

TOTAL TANGIBLE BENEFITS:

Intangible Benefits:

Productivity Improvement:

Job Impact: