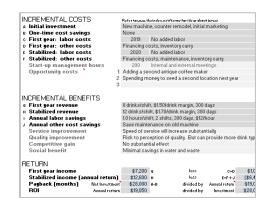


# COST/BENEFIT WORKSHEET

Many analytical tools are too complex or too simple. And we needed something that would also help everyone see the qualitative issues of risk and opportunity costs. The Center's Cost/Benefit Worksheet helps us decide together, and 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 will help you spot issues.

- 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.

5

## **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)

3

4 Create detailed counter layout to make sure we don't create new bottleneck.

### INCREMENTAL COSTS

۸	Initial	investment	
А	mitiai	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** 

2 Spending money to seed a second location next year

Refer to The Givis index of Terms for ideas about issues					
New machine, counter remodel, initial marketing	\$15,000				
None	\$0				
2019 No added labor	\$0				
Financing costs, inventory carry	\$1,050				
2020 No added labor	\$0				
Financing costs, maintenance, inventory carry	\$1,750				
200 Internal and external meetings					
Adding a second antique coffee maker					

## INCREMENTAL BENEFITS

G First year revenue

**H** 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					

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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

\$7,200

\$12,600

\$7,200

\$1,000

High

Medium

Low

Low

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