



Costs and Benefits/The Bottom Line

Common sense and checking with the right people are the two keys to reasonable estimating of costs and benefits. The following outline can help guide a project team quickly and accurately to **the bottom line**.

1. **First, list the recommendations.** These are the specific changes to be made to the present procedure to produce the proposed procedure.
2. **List the recommendations** on the seven cost and benefit sheets. Do this ahead of time so that the group can get quickly into the analysis.
3. **Analyze the first recommendation on the list** with all seven work sheets. This discussion goes very quickly. When a recommendation does not affect a work sheet it will be obvious. Move on after assuring yourself that it is unrelated. This is an exercise in applying common sense, not filling out forms.
4. **Record costs and benefits.** Complete those work sheets that apply.
 - a. If a work sheet requires information that is not available, make sure that **someone agrees to get it**. These assignments involve phone calls or visits to accounting, purchasing, vendors, engineering, finance, etc. (Sometimes phone calls can be completed during the meeting.)
 - b. Do not calculate to a **false level of precision**. (For instance, if a calculation is based on an estimate of yearly sales and we estimate this, plus or minus 20%, our estimates of costs and benefits for that calculation can be no more accurate than plus or minus 20%.)
 - c. Work with your figures until you are sure of them and then **present them smartly**. (It is difficult for people to separate their impression of the appearance of information from the credibility they give to it. Unfortunately, honest facts, scribbled, have trouble competing with classy-appearing but phoney sales pitches.)
4. The following practices will **keep you honest** with your data.
 - a. **Do not guess at how long something takes.** Use measurements. Measure with your wrist watch the time it takes you or someone else to do the task. If you can not actually do the task you might pantomime it. But, use measurements, do not guess.
 - b. **Do not guess at how often something occurs.** Find dependable records or make measurements. Review reports of sales, production, traffic, purchasing, etc. Take samples from stored records. But, use measurements, do not guess.
 - c. **Do not guess at how much something costs.** Phone or visit and find out. Go to the people who are responsible for that sort of thing.
5. After completing the work sheets, review the first recommendation against the **General Cost and Benefit Check List**. An item on this list may call attention to outstanding benefits.
6. After completing the first recommendation repeat this process for the rest.
7. **Don't cut corners.** This whole process can be accomplished thoroughly for many projects in an hour or two but, If you short cut it, you may begin to doubt your own efforts and lose confidence in your conclusions. Or, worse yet, you may be oblivious to something you have overlooked and it will surface when you present your conclusions, injecting serious doubt in the minds of the authorities who must approve your proposal.
8. **Keep using common sense and talking to knowledgeable people and you will wind up with a bottom line that you can present with confidence.**

"Work smarter, not harder"

General Cost and Benefit Check List

- 1. **Floor Space** - Will there be costs or savings associated with increased or decreased floor space requirements? Get help from engineering or building maintenance, budget and finance, etc. Try to find a per-square-foot cost for floor space.
- 2. **Building Modifications** - Will there be costs or savings associated with building modifications, construction, wiring, etc.?
- 3. **Processing Time** - If you speed up processing there may be benefits such as:
 - a. **Main mission accomplishment** - This means faster delivery of the product or service of the organization. This could increase: **justice** in the courts, **life and health** in hospitals and clinics, **security** in military, police, fire, **learning** in schools, **shelf life** with perishable products, etc. Consider your organization and what faster processing would mean to customers. You may be able to estimate an increase in **sales revenues** specifically tied to faster delivery. For instance, if you reduce the time required to sign up new customers in a business that charges by the month the increased revenue is the daily billing rate, times the number of days saved, times the number of new customers per year.
 - b. **Interest** - There may be reductions in interest paid if reduced processing time shortens the amount of time that money is borrowed. There may be increases in interest earned if payment is received sooner.
 - c. **Reduced inflationary costs** - If prices are rising X% per year, faster processing of something like architectural planning, building permit approval, contracting, etc. could avoid large increases in final purchase price.
 - d. **Reduced discounts lost** - Faster payment can capture discounts.
 - e. **Reduced demurrage** - Faster return of demurrage items saves payments.
- 4. **Error Reduction** - Have you removed causes of error from the process? You may be able to determine the cost of these errors in lost business, correction time, labor and material costs tied up in the scrapped product, costs of disposal, etc.
- 5. **Reduced legal risk** - Have you made your organization legally less vulnerable? Have you corrected a situation of noncompliance? You may be able to estimate costs based on a previous case.
- 6. **Comfort/Morale** - Have you relieved stressful conditions? Morale can carry an enormous price tag in absenteeism, work stoppages, etc.
- 7. **Flexibility** - Simplification can enable an organization to adjust more rapidly to the market, government regulation, shortages of key ingredients, technology, social conditions, etc.
- 8. **Reduced maintenance problems** - Simple systems have fewer parts to fail.
- 9. **Reduced need for overtime and temporary help** - Simpler systems may make it easier to schedule the work to avoid gluts and droughts.
- 10. **Reduced credit and theft losses** - Simpler systems may make it easier to discover these risks and nip the losses in the bud.

Most of these items are stated as benefits but they can occur as increased costs that will offset some of the gains and should be so stated. It is important that the balance be clearly favorable. If we do our work well this will be obvious and if we present ourselves well enough we achieve the real-world success and **COMMON SENSE PREVAILS.**

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