***Managing costs: Cost/benefit analysis***

Everything we do takes time or uses resources (usually both!), so everything we do costs money. In the third article in this section we saw just how much our time costs us.

And everything we do benefits our business – if it didn’t, we wouldn’t do it!

But what’s the relationship between the cost and benefit?

**A cost/benefit model**

We can look at all the thigs we do and categorise them: high cost or low cost; high benefit or low benefit. Then we can map them all using the following chart:

Q1

Q3

Q2

Q4

Benefit

Cost

We don’t need to know the exact cost of everything, although with some of our activities we might want to come back and analyse the cost in more detail later on. But we know which elements of our work are time or resource heavy: they’re the higher cost ones.

The benefit will be a bit of a gut feel. It could be the benefit to the business, the customer, or whatever. It’s a good aspect to look at though, as it causes us to examine everything we do and ask “Why do we do that?” This question often uncovers some thigs we only do because we’ve always done them…

There are four quadrants, Q1 to Q 4. We’ll look at each of them in more detail.

**Quadrant 1: low cost, high benefit**

These are great! High value low cost things are really good for the business. We need to clearly identify these tasks, as they’re the ones we need to keep. They’re the things we do that give us most benefit for our budget.

**Quadrant 2: high cost, high benefit**

These are good, because they contribute a lot to the business. But they’re expensive. So the focus needs to be on reducing the cost of these tasks, whilst keeping the benefit.

Because they’re high cost, a small percentage reduction in cost will give us big savings. So the ones to focus on are the tasks in this quadrant that you carry out most frequently. That will give large savings, lots of times!

**Quadrant 3: high cost, low benefit**

Perversely, these are great. If we know what comes in this quadrant, we are poised to save a lot of money. These are the first tasks that should be dropped: that will reduce our costs significantly, and we won’t miss the benefit as they’re low value tasks.

But beware. We might think they’re low benefit, other parts of the business might value them. So you may want to talk about it before you drop these items. This is where knowing the cost in more detail helps. Prefacing the discussion with “We’ve found a way to save £10,000 a year” carries a lot of weight…

**Quadrant 4: low cost, low benefit**

These tasks don’t add much value, but at least they’re cheap! Do remember though, that even though it may be cheap to do the task once, if we do the task several times a day, every day, it will end up quite expensive. And still low benefit! So overall it may belong in quadrant 3.

The challenge with these tasks is to increase the value without increasing the cost.

Because they’re low value they’re an obvious candidate for termination if we want to save money, but remember that terminating quadrant 3 activities will save much more money.