



# The Six Steps For A Successful CBA

By David Frederick, Principal Consultant and CEO

I am always amazed at the confusion, misunderstanding and ineffectiveness of middle and senior management when it comes to conducting meaningful and actionable cost/benefit analysis - CBA.

Either the effort is too high level and broad or mired down in voluminous and often time's non-relevant data, which ultimately produces inaccurate and non-actionable outcomes.

We all know it's easy to make an investment decision when the benefits obviously and clearly outweigh the costs, but few people understand what really should go into the analysis to derive a viable, accurate, and successful outcome. So here are six steps to help you produce a meaningful and actionable CBA.

1. **Understand the cost of status quo.** You need this to measure the relative merit of an investment against the "do nothing" option. Sometimes doing nothing is the right decision. Doing nothing should always be a potential outcome in any successful CAB.
2. **Identify costs.** Consider up-front costs as well as any in future years. Almost any initiative will have up front cost. Most people get tripped up when they fail to consider the upfront costs or hidden costs. Watch for cost issues around human capital, outside services, hidden IT costs i.e. bandwidth and storage, and more. There is never a shortage of hidden costs. Identifying and accounting for them are critical.
3. **Identify benefits.** Ascertain what additional revenue or return will come in from the investment. This is dicey because you need to define an ROI from the initiative. The challenge is how to define the ROI. Remember, ROI to one constituency may be efficiency. To another it may be revenue. To another it may be market share, cost savings, etc. ROI is subjective depending on who is looking at it and you will need to consider all perspectives and ROI definitions to truly get a true benefit picture/metric.
 

*TIP: the stronger the ROI is for the broadest set of constituents, the greater the benefit ratio of the initiative.*
4. **Determine the cost savings.** What can you stop doing if you make this investment? Sometimes it's a trade-off. If we do X, can we stop using Y? That's another hidden variable that many forget about. If you stop doing Y because of X that cost savings could exponentially increase the benefits of doing the initiative. In the converse, it could also increase the cost somewhere else – see step 2.

5. **Create a timeline for expected costs and revenue.** Map out when the costs and benefits will occur and how much they will be. This is critical for two reasons. One, expectations. By having a defined timeline you can align and define expectations of all interested parties. Two, understanding the timeline allows you to plan for the cost and revenue impacts to your operations thus empowering you to better manage and adjust course accordingly if things change.

*Tip: Don't get caught up in locking to a definitive timeline. Things will change and you will need to be able to adjust effectively, otherwise your CBA can be thrown into chaos. If the expectations have not been set properly you will have a variety of problems to confront.*



6. **Evaluate non-quantifiable benefits and costs.** Assess whether there are intangible benefits such as strengthening your firm's position with distributors, or costs such as creating unnecessary complexity. This kind of goes back to point 2. It's important to understand the benefits from all perspectives including tangible and non-tangible. This will also help you define and align ROI.

Again, benefits or ROI are subjective. Understanding and accounting for them is key. Defining non-quantifiable benefits and costs i.e. emotional toll, workload, disruption to the enterprise, client or market confusion, etc. can all impact the overall benefit and cost of the initiative.

Even if you don't include these variables in the actual equation, as a responsible leader you should consider these issues in full to ensure you have a complete grasp of the impact on the project and can manage the initiative effectively and productivity to a successful outcome.

### Conclusion:

Like all types of analysis, having the right information is key. Also keep in mind that CBA is usually a hybrid of subjective and objective information analysis. You will never be able to pin down an absolute. The best we can do is to define a reasonable and actionable decision framework. When conducting a CBA, keep these 6 tips in mind. They will take you a long way to improving the effectiveness and success of your efforts.



Finally one last tip for your consideration. When conducting a CBA, be careful of data overload. You need to balance the effort so you don't end up with paralysis by analysis. The ultimate objective is to make an informed and actionable decision based on a reasonable and responsible CBA.

### About David Frederick

Frederick is the Founder, Principal Consultant and CEO of iAIR Consulting. He is a seasoned senior business executive, technologist, and visionary with over 25 years experience in the technology, global operations, strategic management, consulting, integrated marketing, innovation, media and interactive business industries. Throughout his career, he has worked with organizations of all shapes, industries and sizes from global Fortune 100 to early stage start-ups.

As a recognized leader he has delivered passionate and insightful perspective to today's global business challenges to international corporations, early stage and start-up organizations, industry & trade associations, college and universities, public lectures and broadcast & print media.

Frederick is also a recognized author on such topics as innovation, strategy, IP monetization, management, marketing,

business process and content development. He pioneered the first digital musical keyboard instrument based solely on a Windows Operating System, as well as pioneered the HPX- Hierarchical Platform Xchange™ and the follow on MPX - Media Platform Xchange™, a SOA based software architecture used in managing and sharing voluminous amounts of associated meta data, digital content and rich media.

In addition to his executive background, Frederick also serves as the Program Chair for Strategic Technology Development & Innovation and the Technology Leadership Graduate Program at the University of Advancing Technology, sits on the University of Advanced Technology Advisory Board, and served as Adjunct Professor of Strategic Management, Advanced Executive MBA Program for Norwich University.

He is a member of and contributor to the Management Round Table, The Institute of Management Consultants, IEEE, Harvard Law School - Program on Negotiation, MIT Enterprise Forum, MIT Innovation Club, APS American Physical Society - American Physics, United States Naval Institute, IGDA (International Game Developers Association) Intellectual Property Rights Committee, as well as a member of the Council of Communications Advisers, Media and Entertainment.

His experience in VC, M&A and PE has included securing venture funding of over \$30M and M&A activity of over \$36M. Frederick earned a BS in International Business and an MBA. He has studied at MIT Sloan School of Management and Harvard Law School. He also holds executive certificates from Harvard Law School and MIT Sloan School of Management (Massachusetts Institute of Technology). Mr. Frederick is also a proud veteran of the United States Navy.

Mr. Frederick lives in Bedford, NH (Greater Boston Metro-Area) with his wife and five kids.



## ABOUT IAIR CONSULTING

iAIR (pronounced "air") is a high impact-consulting firm that advises organizations on growth, operational, innovation and execution challenges.

iAIR helps management unlock value. We collaborate with our clients to identify, explore and execute ways to grow and improve their business across all segments.

Our focus and mission is simple, clear and concise. Improve the clients' position from the status quo to an improved condition.

If you would like to learn more about iAIR or explore how we can help drive value for your business and improve your condition, please contact us via the information below or visit us online.

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