Project Selection Methods

There are several project selection methods you can use as tools for selecting a project and for including in your business case.

These aren't included in the *PMBOK® Guide*, but you may be asked about them on the PMP® exam. It's a good idea to become familiar with each of these methods.

You don't need to learn how to calculate these, except for ROIC, which I'll cover below.

Know that with these methods, the bigger the value, the better:

Benefit Cost Ratio (BCR)	You don't need to know the formula, just that the highest ratio is better.	3.5:1
Economic Value Add (EVA)	You don't need to know the formula, just that the highest number is better.	$22,000
Internal Rate of Return (IRR)	You don't need to know the formula, just that the highest percentage is better.	16.8%
Present Value (PV)	You don't need to know the formula, just that the highest number is better.	$33,300
Net Present Value (NPV)	The same as PV, except you factor in costs.	$40,000
Return of Investment (ROI)	You don't need to know the formula, just that the highest number or percentage is better.	$60,000 or 8%

| Return on Invested Capital (ROIC) | You need to know how to calculate the formula for this method.

Net Income after Tax ÷ Invested Capital

The biggest percentage | Company A invested $10,300 in a project that generated $4,000 in revenue in its first year. It has operational costs of $1,000 and a tax liability of $800.
 $4,000-$1,000-$800=$2,200.

$2,200/$10,300=21%. The project is returning 21% annually on what it invested. |

In these methods, smaller is always better:

Opportunity Costs		Project A benefit is $5,000,000. Project B benefit is $2,000,000. If you choose Project A, the opportunity lost for Project B is $2,000,000.
Payback Period	How long it takes to recoup your investment	2 years vs. 4 years—2 years is better.

It's important to be familiar with these project selection methods as you may be asked about them on the exam. Remember, they aren't in the *PMBOK® Guide*, so studying them here is a good idea.