



Cost & benefit planning



Why spend time on it?





Business case

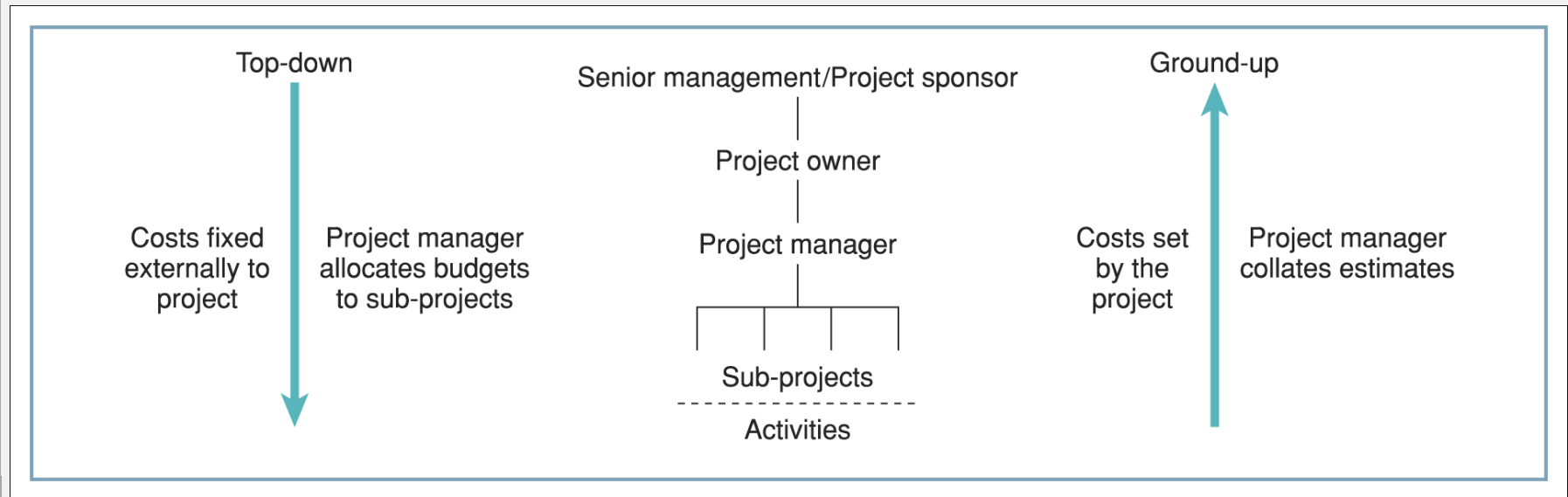
*‘The **justification for undertaking a project**, in terms of evaluating the benefits, cost and risk of alternative options and the rationale for the preferred solution. **Its purpose is to obtain management commitment and approval** for investment in the project. The business case is owned by the sponsor’*

(APM)





Basics of a cost planning process





Estimating techniques

- Parametric estimating
 - Break down in WBS to units that can be estimated
- As...but...s
 - Experience of similar projects
- Forecasts
 - Best guess
- Wishful thinking
 - Optimism bias





Business case

Payback

Discounted cash flow

Net present value





Factoring for optimism bias

Understated costs + overstated benefits + understated environmental impact + overstated economic impact = project approval

[Flyvberg, Bruzeelius and Rothengatter 2003]

