



# ASSESSING OPPORTUNITIES

Many decisions have such important business impacts. Here are several ways to analyze alternatives in a methodical fashion.

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## ROI

Return on investment (ROI) is a performance metric to evaluate the profitability or efficacy of an investment. The gain or loss of an investment is compared to its cost. ROI has limitations: it does not account for time and it excludes non-financial costs and benefits.

### Calculation

Final Value minus Initial Cost divided by the Initial Cost

## COST-BENEFIT

Cost-benefit analysis is a systematic process for businesses to analyze which decisions to make and which to forego. All of the costs and benefits are added up. Then the cost is subtracted from the benefit. If the result is negative the project is foregone, if it is positive then move forward. This analysis is comprehensive, providing a more complete picture, but more resource intensive to complete.

### Components

- Direct costs (labor, raw materials, inventory)
- Indirect costs (utilities, overhead, rent)
- Intangible (customers satisfaction, employees morale)
- Opportunity costs (the benefit of the next best option)
- Cost of potential risk (regulation, competition)

## PARTIAL BUDGET

Partial budgets are an agricultural specific tool for conducting a cost-benefit analysis. It's similar to running a trial. One factor is changed, and that change is carried through the rest of the business to see the impacts.

### 7 Steps

- 1.State the proposed change
- 2.List the returns
- 3.List the reduced costs
- 4.List the added costs
- 5.List reduced returns
- 6.Summarize net effects
- 7.Consider non-economic and other factors



## AT A GLANCE

### METHODOLOGIES

- ROI
- Cost-Benefit
- Partial Budget

### BENEFITS

Make informed, data driven decision



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