Memorandum for Business Cost and Benefits Analysis

Mobile Jobcentres

Interoffice Memorandum

Date: October 30, 2019

To: City Leaders

From: Owners of Business

**Subject: Cost-Benefit Analysis**

There are many universities working in the city, educating a large number of youngsters. When these people pass out from universities, only a small number of people get jobs. There are various reasons for this low rate of employment. One of the major reasons is that people do not come to know about these opportunities early enough to benefit from them. Some people, especially those who are disabled, cannot go to the place of interviews easily. The organizations needing people have limited resources, so they prefer to make internal recruitment by promoting some of their employees to the vacant positions or advertise in a restrictive manner that will allow only some people to appear for tests and interviews. All these factors prompted us to come up with a solution that will allow more and more people to know about relevant job openings offered by various companies. Mobile jobcentres will be set up at four different places in our city. These centers will allow people to come and meet the representatives of organization in our vehicles, and then they will be notified about the results later. This set up will make sure that a greater number of people come to know about job opportunities available.

A cost and benefit analysis compares the benefits of a project with the costs to be incurred in it. This gives a general idea about the net effect of a project. In this scenario, we will have two major types of costs, namely fixed and variable costs, alternatively one-time and recurring costs. We have to assign more weight to the variable or recurring costs because we have to incur the fixed costs only one time. An example can be given regarding the purchase costs of a bus, which is a fixed cost, this will have to be incurred once, and business will own the bus. It will have to give more importance to variable costs e.g., fuel maintenance, driver compensation, etc. Initially, however, all costs are equally important because the business is in a transition phase, and it will have no recurring benefits. With the business being operational, variable costs will be given more importance.

Net present value is one of the most common techniques used to assess whether to take on a project or not. This technique is preferred over other techniques because it takes into account the time value of money concepts. The spreadsheet shows that the net present value for the project goes on increasing over the period of time under consideration. In the fifth year of operations, the net present value becomes positive, which means that the present values of inflows will exceed the present value of outflows. At the present rate of discount, investors will have to wait for five years until they can have a positive return on their investment. The decision to implement this project or not will depend on the ability of starters to bear the loss or negative cash flows for the first four years. Secondly, this can also be considered a public welfare project, so this can be implemented irrespective of the fact that first four years have a negative net present value. The other measure is the cost-benefit ratio, which is the ratio of cash inflows to outflows for 4 job centers. This number is greater than one, which shows that inflows will be higher than outflows.

One Important risk associated with this analysis is that the cost of buses may increase over time, which will increase the one-time costs of project. The discount rate used to calculate the net present value may also change, and all calculations may have to be redone. The inflows may not come as planned, and it may take longer for businesses to bring in positive cash flows. NPV will be affected by the change in discount rates as well as the cost-benefit ratio. The break-even analysis shows the number of people using the facility, which will result in no profit, no loss condition. If a business is unable to attract as many people as desired, it will result in the business taking a long time to break-even. The variable or recurring costs will play a vital role in deciding the number of units required to break even. Another important consideration is whether the business will be able to increase per unit revenue if there is an increase in recurring costs. For this assessment, we will have to analyze the nature of demand for this service. Elastic demand will mean that price and revenue will move in the same direction, whereas inelastic demand will mean that price and revenue will go in opposite directions. Another important consideration is that the rate of tax may increase in the coming years resulting in a decrease in disposable income in the hands of people and reducing the overall benefits of these projects. The granting organization may ask the project to return a big chunk of their investment after a specified period of time, supposing after five years, this will further complicate things for this project. The compensation of drivers may have to be increased because some new laws can be passed regarding minimum wages. Insurance companies can also increase the amount of premium that has to be paid annually. Accidents provide one of the biggest risks for the service, along with the resulting lawsuits.