

Review Questions

Discuss the pros and cons of the checklist versus the weighted factor methods of selecting projects.

Exercises

1. Two new software projects are proposed to a young, start-up company. The Alpha project will cost \$150,000 to develop and is expected to have annual net cash flow of \$40,000. The Beta project will cost \$200,000 to develop and is expected to have annual net cash flow of \$50,000. The company is very concerned about their cash flow. Using the payback period, which project is better from a cash flow standpoint? Why?

2. Two new software projects are proposed to a young, start-up company. The Alpha project will cost \$150,000 to develop and is expected to have annual net cash flow of \$40,000. The Beta project will cost \$200,000 to develop and is expected to have annual net cash flow of \$50,000. The company is very concerned about their cash flow. Using the payback period, which project is better from a cash flow standpoint? Why?

3. A five-year project has a projected net cash flow of \$15,000, \$25,000, \$30,000, \$20,000, and \$15,000 in the next five years. It will cost \$50,000 to implement the project. If the required rate of return is 20 percent, conduct a discounted cash flow calculation to determine the NPV.

4. The Custom Bike Company has set up a weighted scoring matrix for evaluation of potential projects. Below are three projects under consideration.

- Using the scoring matrix below, which project would you rate highest? Lowest?
- If the weight for "Strong Sponsor" is changed from 2.0 to 5.0, will the project selection change? What are the three highest weighted project scores with this new weight?
- Why is it important that the weights mirror critical strategic factors?

Criteria Weight	Strong sponsor	Supports business strategy	Urgency	10% of sales from new products	Competition	Fill market gap	Weighted total
	2.0	5.0	4.0	3.0	1.0	3.0	
Project 1	9	5	2	0	2	5	
Project 2	3	7	2	0	5	1	
Project 3	6	8	2	3	6	8	
Project 4	1	0	5	10	6	9	
Project 5	3	10	10	1	8	0	