

Opportunity Cost

eBook

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How To Free Your Precious Time By Understanding Opportunity Cost



Opportunity Cost

Time is precious. You cannot get your time back; it cannot be replaced, and it certainly get's wasted!

But what if I told you that there was a way to free up more of your time so you can focus on the things that can grow your business.

In this article, we are going to teach you about a little-known subject called 'Opportunity Cost' and how by understanding this concept you can free up time and focus on the key activities in your business and life.

You will learn what an opportunity cost is, how to reduce those costs and more importantly how to maximise your revenue.

Also, you will learn a method to judge the opportunity cost in minutes and how you can assess your time and we even supply you with a template to sample your activities.

Intrigued? Well, let's get straight to it.

What Is Opportunity Cost?



Well, the clue is in the words 'pay'. Whenever you set about a task, you focus your attention, and there is an inherent cost to that activity.

The cost is your time.

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The **average working day** is 8 hours, and this translates to an average working month of around 170 hours.

So you have 170 hours to use each month. This leads us to the next question, how are you going to use them?

This is what opportunity cost is all about, but if you are looking for a nice definition here it is:

"**Opportunity cost** refers to a benefit that a person could have received, but gave up, to take another course of action."

The term opportunity cost originates from economics where it is used to refer to the value of the next-highest-valued alternative use of that resource.

In simple terms, you work on a weekend, and you miss out on time with the kids. Or you go to a networking meeting, and you miss out time to work on that big project for the client.

The opportunity cost is what you gave up to get something else.

But there is more at play, and this revolves around value. Because until you work out your value you cannot begin to calculate your opportunity cost.

How Much is Your Time Worth?



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But then the bill came through the post and it was £145 for the hour!

The solicitor had placed an hourly rate on his time at £145, and when you consider that the national living wage is £7.85, you can see that he considered his time as incredibly valuable.

So how do you work out the value of your time?

Almost everyone I have ever met in any walk of life thinks they are undervalued. I think every employee would like/ thinks they should be paid more money than they are.

But that is not really what we are asking here; we need to know what your time is worth so we can work out your opportunity costs.

This is an [excellent opportunity cost formula](#) that helps to break down the process.

Opportunity Cost = Return on Most Profitable Investment Choice - Return on Investment Chosen to Pursue

Opportunity Cost Example:

You are a managing director of a printing company. You have worked your way up through the trenches. You have a range of skills at your disposal, and this includes being able to fix photocopiers.

The office copier goes down one day, and everyone needs to print out their reports and client work.

You have two choices now; you can put on a red cape and fly out of your office and save the day. Or you can pick up the phone and get someone in to fix the photocopier.

You know what is wrong with the copier and it will take you an hour to fix it.

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So here is the fun part. You need to work out what the return on your most profitable activity you could be doing and then compare this with the cost of getting a repairman in.

The next step in working out your opportunity cost is to consider what you COULD be doing with your time that could increase value to your business.

You might need to call a client for an hour to discuss next year's contract, or perhaps even contact a customer to get them to 'sign off' on some work, so the company gets paid.

Or maybe, you need to spend an hour answering proposal emails to secure work for the company over the next three months.

In almost all of these cases 'your hour' could net the company thousands of pounds in revenue and from that perspective, it makes the decision to call out the repairman a 'no brainer'.

So in a nutshell, to work out the opportunity cost of an activity, you just need to look at what value your activities bring in and then compare them with the value of the other activity.

But what about intangible activities such as social media and networking, how do they come into play?

Is Social Media And Networking A Good Use Of Your Time?



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In one sense this is great advice because you are promoting what your company does to a new audience, building relationships, getting out of the office and meeting new people (and often getting breakfast or lunch).

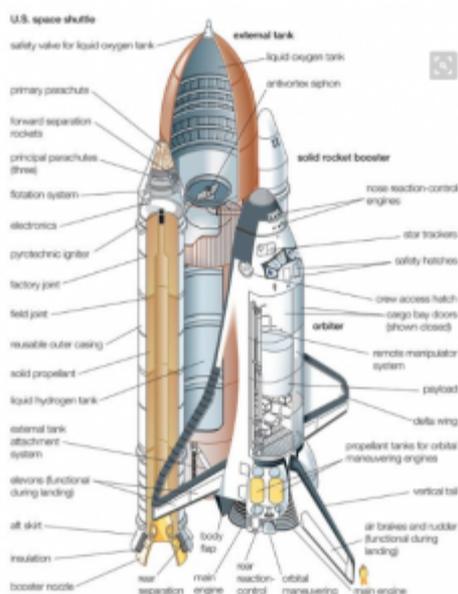
With social media it is pretty much the same without the free breakfast, so how do you measure the value of these activities on your time?

How To Use The 'Rocket Test' To Instantly Measure The ROI Of Your Time.

I created The Rocket Test a few years ago, and it has had a significant impact on what I do on a daily basis in my life and my business, and the best part is that it takes seconds to use.

One of the things that still amaze me every time I see it, is when a Space rocket gets launched. The smoke from the engines, the countdown and the lift off still make my jaw drop each time when I look at the power on display.

When you start to break down a rocket, what do you have?



<https://www.pinterest.com/pin/304837468500136948/>

You have the engine at the base of the rocket, a cargo bay and of course the cockpit.

If you consider yourself to be the pilot of the ship, where are you best placed to be inside to deliver the most value? Of course, it is inside the cockpit.

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From that position, you can fly the ship, direct it, speak to mission control and without you being inside the cockpit the ship would crash.

The Rocket Test works on that basis as well. It is a simple rule to use when establishing the opportunity cost of any activity, and that includes social media and networking. It works like this;

You are the pilot of your business. You are responsible for the direction it goes in, the speed it grows and the safety of your employees (crew). So you break down the rocket test into three questions around the activity you are about to undertake.

1. Is this activity taking my company towards a predetermined goal?
2. Will this activity help my business to grow?
3. Is this activity related to the safety or well-being of my staff?

Let's break each part down:

1. Does this Take My Company Towards A Predetermined Goal?

Your business will have a documented strategy, one that covers a range of activities and is designed to take your company towards a particular direction.

An example of this might be that your business is logo design. This is what you are great at and your aim is to become the number one logo design company in the UK. However, you are getting asked to do web designs as well.

At this point, you need to consider the direction this step would take you towards. Doing that website might help you to make some money for the business, but does it take you a step towards your goal? In the time it takes to create a website you might have been able to finish three more client logos.

2. Will This Activity Help Your Business To Grow?

This is the question that will justify your networking and use of social media because those activities present opportunities for growth.

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If you undertake any activity, you need to consider the growth implications. So you head out for dinner with a prospective client and 99% of the conversation is around family, the kids and just life in general. Was this a waste of time?

Of course, not, you have spent time developing a relationship, and if the client does come on board, you will have helped your business to grow. But does fixing the photocopier help your business to grow?

You can apply this question to a range of activities.

For example, you might have to drive 2 hours each day to work. That is a total of 4 hours that you focus on driving and not your business growth.

I knew a man once who realised this and hired a driver, and people thought he was crazy, yet every day he had 4 hours extra to work on his business. If you remember, we mentioned that the average person only has 170 hours to work on their business and this man added at least another 80 hours per month!

You might not be able to afford a driver right now in your business, but you can look at the growth cost of any activity.

3. Is This Activity Related To The Safety Or Well Being Of Your Staff?

The last question in the rocket test is simple because it revolves around others and not yourself.

People are the most important assets any business can have. When you consider the work that goes into hiring them, training staff and then the cost of wages, etc. You need to look after them.

So perhaps the hour spent discussing the career path of a member of the IT team might seem pointless, but it might be key in ensuring your staff member feels valued, so they do not start looking for careers elsewhere.

Or perhaps there is a health and safety issue that you need to address urgently. This question passes the Rocket Test instantly because your 'crew' are essential so that you can complete the mission.

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Now you might be thinking, 'OK but what about all the other things you do, that do not pass The Rocket Test?'

In this situation you need to master the art of delegation and outsourcing which we will cover next;

How To Become A Master Of Delegation And Outsourcing To Keep Your Business Flying



We know that if you take your eyes off your key tasks of direction, growth and the well-being of your staff, your business will suffer.

So the only chance is to delegate everything out to other people, and you have two options;

1. In-house staff

2. Outsourcing

If you choose to delegate your task in-house, you will need to consider the 'opportunity cost' of that task to your staff member.

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For example, if you decide to take on that website project and you hand it to your logo designer that you know can build websites, you need to consider what that would have cost you regarding how many logos' could they have designed in the time it took to complete the website.

Also, you might have to consider how this also impacts the rest of the team if they have to take on additional work that their colleague could have handled.

In such situations, if the opportunity cost is too big you need to either say 'no' to the task or possibly outsource.

Outsourcing is when you give the work to a person outside of your company to complete and is a very popular model/ way to achieve business.

The outsource business market is worth around £88 Billion and for a good reason. When you consider that **20% of employment cost is estimated to go to the government** and that an employee can take up to 2% of the business owner's time up with admin alone, you start to see the sense of outsourcing.

How To Choose A Great Outsourcing Team

In many cases hiring a team or even individual for outsourcing seems easy, that is until you try it.

Many sites offer freelancers to hire, often at a ridiculously low price. In my experience, hiring someone local to your business is often the best idea.

This way you often get to chat face to face with the person and again deepen their connection.

However another method is to hop onto Skype with the outsourcer, you can start to get an idea about what they are truly about even from a Skype video.

Ultimately, though, a great deal of insight can be gained from an outsourcer website. If they have a good standard and regularly updated site which features great content it shows they care about their business.

Conclusion

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So by now you understand how to work out the 'Opportunity Cost' of your activities about your business. So now what?

The next step for you is to start to activity sample.

You need to record what you are doing for a week and write that down on either some paper or a spreadsheet.

Simply, create a Google sheet and then title it. Once this is done you need to add columns for the activity, the time it has to take you and also the 3 Rocket Test questions.

After a week you will have a lot of data around your activities and be able to see just how much of your time is spent on your doing things to grow your business.

To make life easier we have created a spreadsheet for you that you can use here:

Ok, so what do you think? Are you going to sue The Rocket Test or do you have another system, comment below to let us know.

Thanks, Kevin Ackland

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About the author

Kevin Ackland has run Systems and Solutions IT Support company based in Witney, Oxfordshire for the past 23 years.

Kevin went 10 years without a holiday because he didn't want to leave his customers without support.