

## PM WORLD BOOK REVIEW



Book Title: ***Net Present Value and Risk Modelling For Projects***

Author: **Martin Hopkinson**

Publisher: Routledge – *Taylor & Francis Group*

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Reviewer: **Ash Jantrania**

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### Introduction

During the project selection process, we need to make the right decision on determining project feasibility.

In order to do this, we need to perform the cost-benefit analysis by forecasting a financial number of a project's benefits. The Net Present Value (NPV) is traditionally used to arrive at this number. The book suggests conducting NPV risk modelling for better visibility.

### Overview of Book's Structure

The Net Present Value (NPV) forecast forms core of the business case on majority of projects. The author explains when and how the NPV model approach can be integrated with the risk management process.

At the beginning of the project life cycle, when uncertainty is at its highest and when the opportunities to influence the project's plan are at their greatest, NPV models are typically used.

The author has highlighted how an integrated approach of combining project financial forecasting and risk management principles can be used to improve NPV forecast numbers.

### Highlights

The book provides an understanding to the foundation concepts and advantages of using Net Present Value approach, its calculation with detailed illustrations.

The author Martin Hopkinson has provided interesting worked examples, comparisons and limitations of financial modelling approaches to evaluate a project's feasibility.

A detailed explanations of Discount Rates, Internal Rate of Return (IRR) Payback Periods and Developing a Net Present Value Model has also been explained with examples as well as graphical illustrations.

Project Risk Management has been explained in conjunction with NPV concepts, with an emphasis on Composite Risk, Risk Prioritization, Risk Efficiency Concept, Net Present Value Risk Modelling and Risk Estimating strategy.

### **Highlights: What I liked!**

The author has successfully attempted to show a method of integrating the project financial forecasting and risk management principles in order to improve NPV numbers resulting in a 'risk-robust project'.

The book contains multiple detailed examples, graphical illustrations and calculations in order to get a deeper understanding of the concepts. It also gives a deeper understanding of Monte Carlo simulation and Tornado Diagrams, which I did not find in similar other books.

### **Who might benefit from the Book?**

The book will immensely benefit first-time users (Portfolio/Program/Project Managers and Risk Managers) as well as advanced users to utilize the methods described.

All users should immensely benefit from the templates and models used in this book.

### **Conclusion**

The book is well written and provides a deep understanding on a very important concept. Extending the conventional Net Present Value to integrate NPV with Risk Management should result in improved decision-making and management of projects.

A project is worth doing provided its costs are justified by its benefits. NPV modelling is a method to test forecasting the financial value of a project's benefits and comparing it to project's cost. NPV risk modelling is an extension of NPV method that can provide an enhanced way of representing the implications of project-specific risks.

NPV risk models are more sophisticated because they allow inputs to fluctuate in ways that represent the effects of risks on both costs and benefits.

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For more about this book, go to: <https://www.routledge.com/Net-Present-Value-and-Risk-Modelling-for-Projects/Hopkinson/p/book/9781472457967>

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## About the Reviewer



### **Ash Jantrania**

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**Ash Jantrania, PMP, CSM, Six Sigma Green Belt** is a seasoned Project Manager based in the Dallas Fort Worth area of north Texas, USA. He has extensive Project Management and Business / Systems analysis experience in Telecom, Transport, Mortgage Banking, Health, E-Commerce, Retail & Non Profit organizations. Ash holds PMP, Scrum Master and Six Sigma certifications and has comprehensive knowledge of project management in both Waterfall and Agile/Scrum methodologies. He can be contacted at [ajant1@yahoo.com](mailto:ajant1@yahoo.com).