

How to Prepare a Business Case



APPLIED SUPPORT SERVICES
MANAGEMENT CONSULTING



How to Prepare a Business Case

Applied Support Services can assist you:

- Define the business need and opportunity.
- Clearly document the scope of the project.
- Identify resource requirements, both internal and external
- Prepare a budget for the project
- Complete the cost benefit analysis
- Set the implementation plan, milestones, go/kill points and deadlines
- Monitor the project to ensure it achieves its objectives

Business case templates customised to your needs are supplied in Microsoft Word format and essential tables in Microsoft Excel format.

Business Case Preparation

A business case captures the reasoning for initiating your project and how it will address a specific business need. The business case helps management, stakeholders and investors evaluate the value and risk of a project. A well reasoned business case sets out the benefits you need to achieve and at what cost. It helps determine if your investment in the project is likely to generate a worthwhile return.

Many business projects fail because of poor planning, lack of leadership or internal competition for resources. We are experienced at working with managers, marketing, finance and R&D personnel to prepare the business justification required to fund their projects. We have prepared business plans for firms across sectors ranging from agriculture, biotechnology, chemicals, electronics, food, horticulture, to IT, manufacturing, oil & gas, packaging and transport. Our experience includes working with the private sector, government and multinational firms.

Evaluating a Business Case

Formal business cases are evaluated to ensure:

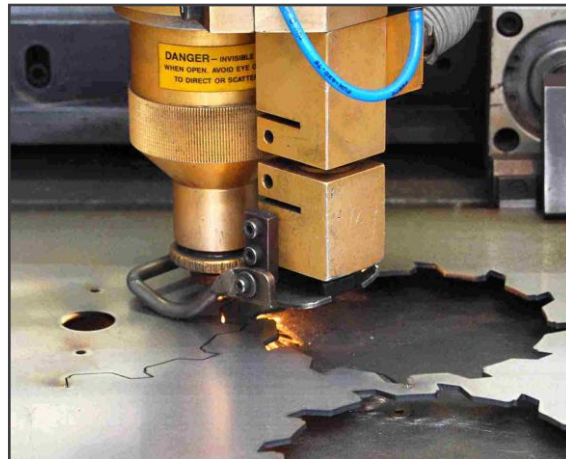
- The investment has value and importance
- The project will be properly managed
- The firm has the capability to deliver the benefits
- The firm's dedicated resources are working on the highest value opportunities
- Projects with inter-dependencies are undertaken in the optimum sequence.



The Business Case Process

The business case process should be designed to be:

- Adaptable - tailored to the size and risk of the proposal
- Consistent - the same basic business issues are addressed by every project
- Business oriented - concerned with the business capabilities and impact, rather than having a technical focus
- Comprehensive - includes all factors relevant to a complete evaluation
- Understandable - the contents are clearly relevant, logical and, although demanding, are simple to complete and evaluate
- Measurable - all key aspects can be quantified so their achievement can be tracked and measured
- Transparent - key elements can be justified directly
- Accountable - accountabilities and commitments for the delivery of benefits and management of costs are clear.



Step1: Business Needs and Desired Outcomes

When defining the business need and the desired outcome make sure the following questions are answered:

- Where are we now? – By describing the current business environment
- Where do we want to be? – By describing the business objectives
- What is the business need? – By describing the problem or opportunity facing the organization and the associated proposed investment
- What has triggered the need for change? – By describing the drivers for change
- What are we trying to achieve? – By describing the business' desired outcomes

Drivers for Change

Identify the drivers that have triggered the investment proposal. Both internal and external drivers of change should be identified and clearly linked to the business need. Typical drivers for change:

- Efficiency: Increase efficiency, effectiveness, or quality;
- Competitiveness: Change in a program's priority or mandate;
- Demographics: Change in the demand for a program;
- Resources: Change in technology or resources;
- Politics: Change in legislation or government term;
- Economics: Taxation issues, international trade and monetary issues, or industry factors;
- Society: Ethical issues, effects of population change, media coverage;
- Technology: Innovation potential, legislation related to technology, or technological upgrades and solutions;
- Law: Regulatory bodies, consumer protection, or employment law; and
- Environment: Ecological or global factors.



Step 2: Options Analysis

In this step identify, describe, and explore every possible option that can address the business need. The list should demonstrate due diligence in exploring options. Include the status quo option (also known as the base case) as it will act as the baseline for the upcoming analysis. Describe each preliminary option. Assess how well each option meets the evaluation or screening criteria. Determine whether a particular option should be discounted immediately or considered for further analysis as a viable option.

Define the evaluation or screening criteria that will be used for screening and analysis of the options and will ultimately determine an overall recommendation. Establish a set of evaluation or screening criteria. Evaluation criteria may include “must have”; “desirable”, or “deal killers”.

Develop a short list of viable options based on the assessment conducted in the screening of options and provide the reasons for retaining or discarding each option. Once the screening is complete and the options have either been ruled out or considered for further analysis, each decision is to be clearly explained—and justified—to demonstrate due diligence in the selection of viable options



Step 3: The Viable Options

The objective of this step is to identify the preferred option from the short list of viable options that answer the investment need and the case for change. A more rigorous analysis of the viable options is conducted at this point in the business case by building on the previous section's analysis. The advantages and disadvantages (with supporting evidence) of each option should be fully explored and evaluated in terms of their costs (total or incremental) and risks. The following questions are answered:

- How will we get there? – By presenting the viable options—and associated costs and benefits—for detailed analysis and assessing them against the evaluation criteria that are used to determine an overall recommendation.
- What is the best option? – By making the case to recommend a preferred option based on its net advantages over all other viable options

Costing and Cost Benefit

Costing is not an exact science, which is why the judgment of financial officers with expertise in costing and of program managers who know the business is essential.

Because developing a business case is a collaborative effort, the involvement of key financial and management personnel from the sponsoring department throughout the process will help ensure a successful costing exercise.

Properly executed and documented costing exercises support decision making and performance monitoring. All financial proposals and decisions are strengthened when there is a clear and complete understanding of the implications on resources.

Based on the costs established for each option, describe how those costs are weighed against the benefits. Conduct the cost-benefit analysis for each option taking into account costs, benefits, and risks. Identify the time frame of the cost-benefit analysis based on the expected life cycle of the project, i.e. from when costs begin to be incurred to when the benefits are expected to be achieved.

Express the data of the cost-benefit analysis in terms of revenue, income, or some other pertinent financial measurement.

Assess the initial costs and ongoing expenses of the viable option against the financial measurement attributed to the business benefits, outcomes, or other results.

The risks identified for each viable option should also be assigned a value, which is then added to the costs. For example, one of the risks of the viable option is that insufficient training could lead to a loss of productivity, which has a very real, measurable value that increases the cost of that option.



Risk

The first decision when faced with an investment proposal is whether or not to proceed. The better the risks are understood and planned for, the more reliable decisions will be and the better the chances for overall project success. Each viable option (including the status quo option) poses a set of risks with the potential to impact both the sponsoring organization and stakeholders. As such, risk identification and assessment should be conducted and a risk response developed for each option.

Risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organization's objectives. Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on, and communicating risk issues. Risk management is an ongoing process that continues throughout a project's duration. Risk management helps guide investment-related decision making. The risk management process commonly includes the following four functions

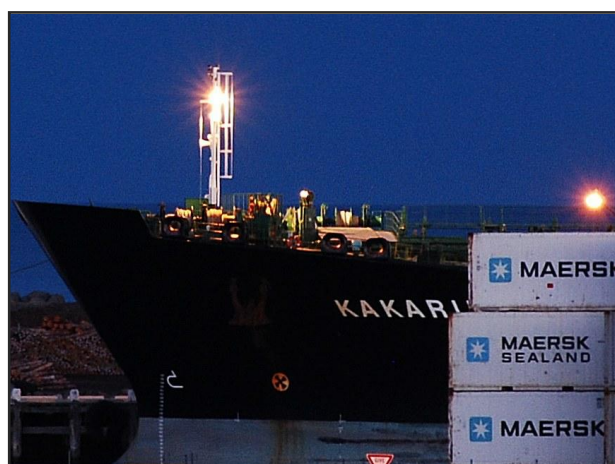
- Risk identification
- Risk assessment (measuring likelihood and impact)
- Risk response
- Monitoring and evaluation

Delivery Risk

The distinction between delivery (project) risk and outcome (benefits) risk is an important one. Delivery risk identifies those aspects of the project's "construction" that may lead to late delivery, budget overages, failure to deliver the intended capabilities, and so on.

Outcome Risk

Outcome risk deals with unmet return on the investment despite the capabilities being delivered according to plan, the budget and the timeframe. In other words, "even if you build it, the benefits may not come."



Step 5: Justification and Recommendation

Present the viable options (including the status quo option used as the baseline) and compare them against a standardized set of criteria (financial and non-financial). It may be preferable to organize the comparison in a table format. Nothing in the business case will be questioned or scrutinized more than the justification supporting the recommendation to adopt the preferred option. With the detailed analysis of each viable option (including the status quo option). The goal of this section is to identify a preferred option and demonstrate why the option is deemed preferable over all others.

To ensure that decisions made about a business case are fair and transparent, it is crucial that all of the identified viable options undergo the exact same analysis. The selection criteria and comparative values should be relevant to the type of investment and support an informed investment decision.

Step 6: Management and Capacity

Finally the business case should present an outlined of how the project will be governed and how the risks and the investment will be managed. The objective of this important final step in the business case development process, is to describe—at a strategic level—how the investment, project, initiative, or event will be managed, while also demonstrating an acceptable level of due diligence. A secondary goal is to further reinforce the key messages of the business case, ensuring its soundness and conformity to commonly acknowledged best practices for business.



Our Experience

Applied Support Services can assist and mentor you through all stages of preparing a business case. We can help you establish realistic objectives, budgets, and timetables. Our approach ensures business case preparation and business planning skills are transferred to your staff. We have completed business cases for the private and state sectors, both locally and internationally. We can help you prepare your business case presentation to your target audience

Useful Links:

Business templates.

Sources of business funding and support.

Government business planning advice.

New Zealand Private Equity & Venture Capital Association.

The Australian Private Equity & Venture Capital Association.

Help planning and managing business projects.

Help planning and managing research and development projects.

Excel spreadsheets and excel business models.

Marketing strategy and marketing plans.

Market research and market analysis.

Dropbox for sharing business planning files across the internet.

Business news from Fortune Magazine, The Economist Magazine, The Financial Times.

Help with export marketing plans and export market research

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This revision dated 3 October 2011. Source material includes guidelines sourced from the Treasury Board of Canada, Secretariat and their Guidelines. The following organizations contributed to the Treasury Board of Canada, Secretariat Business Case Guide including (a) Office of Government Commerce, UK; (b) Office of Management and Budget, US; (c) Australian Government Information Management Office; (d) MIT Sloan Management Review, McKinsey & Co., Inc. (e) Project Management Institute; and (f) NZ Ministry of health.

Other sources include Applied Support Services Limited business templates and business planning processes.

