

IN DEPTH: INVESTMENT & FINANCE

From the October 19, 2001 print edition

Expert Opinion

Funding may depend on how well you make your case

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"OK, I like your idea, but I need to see the business case." These words are echoing through corporate boardrooms with more frequency as investments in this uncertain economy are being carefully evaluated. Despite this increasing focus on business cases, too often they seem to arrive at the conference table with more sizzle than steak, lacking the necessary justification for making a decision.

Whether you're planning to present a recommendation to your management or client, or are fielding one yourself, it is essential that you be able to build and evaluate business cases effectively.

The first thing is to define "business case." In simplest terms, **a business case is a tool to plan and manage purposeful business change by examining in advance the consequences of taking an action.** A business case is more than a decision-support tool. A properly developed business case will include supporting data and analysis.

Should the evaluator decide to implement the recommendation, the supporting data and analysis will become key elements of the project plan, which will include time, schedule and cost constraints.

When is it appropriate to develop a business case? Business cases are appropriate in a wide range of investment situations. Investment situations include

the expenditure of human resources as well as capital.

Those situations can arise in virtually any aspect of the business. Here is a partial list divided into several business categories:

General Management

- Mergers and acquisitions
- Retention and recruiting programs
- Headquarters relocations/office consolidations
- Work/life balance programs
- Research and development investments
- Quality assurance initiatives

Sales and Marketing

- New product and service lines
- Customer relationship management solutions
- Advertising campaigns
- Client proposals
- Price discounting strategies
- Partnerships/alliances/teaming

Internal Business Processes

- Work force productivity enhancements
- Process automation initiatives
- Knowledge management initiatives
- Distributed project management
- Data center consolidations
- Reorganizations

Information Technology

- Information security initiatives
- In-house vs. outsourcing (make vs. buy)
- E-commerce and e-business initiatives
- Enterprise resource planning solutions vs. point solutions
- Commercial off-the-shelf vendor selections
- Computer equipment recapitalization

Now that we have defined "business case" and identified some situations in which that tool is appropriate, here are a few hints to help you build one:

1. Use a proven methodology. One of the most important factors in building a business case is establishing credibility. Therefore, you will want to select a proven methodology and describe the use of that methodology to the evaluator. The

evaluator needs to know what your recommendation is and how you arrived at it.

2. Choose the right type. There are three types of business cases: total cost of ownership (TCO), return on investment (ROI), and cost vs. benefit (C/B). In choosing the right type, the determinants include whether cost is the only significant differing factor between alternatives, whether there will be a financial return that can be clearly tied to an investment, and whether there are a number of positive and negative impacts associated with the action.

3. Get all of the stakeholders involved early. Business cases, especially complex ones, may cut across companies, organizations and functional boundaries. To build your business case, you will need to collect data and gain assistance from many different stakeholders. The evaluator will want their perspective, buy-in and support as well. Therefore, it is in your best interest, as well as your evaluator's, to foster a team approach and involve all of the stakeholders early.

4. Never underestimate the value of qualitative assessment. No doubt most people prefer to take investment actions based upon "hard," quantitative data rather than on "soft" qualitative data derived from judgment.

However, in today's fast-paced economy, often there is not enough time to do comprehensive quantitative data collection. In fact, with the emergence of new industries and markets, the desired quantitative data may not be readily available or may require exhaustive efforts to collect. We have found that using collective qualitative judgments of experienced professionals can often supply the best data, particularly for cost vs. benefit business cases.

5. Evaluate multiple alternatives.

Because there are usually multiple approaches to achieving any objective, a business case needs to include an alternatives analysis. A sound alternatives analysis is essential to making a solid recommendation, even if one of the alternatives is the "status quo." For this aspect of the business case I recommend using an evaluation model that requires alternatives to meet "must haves" to be deemed feasible and that uses pre-established evaluation criteria, weighting factors and rating (scoring) systems.

To examine the financial consequences for each of the alternatives, consider organizing them in relationship to time and use appropriate financial metrics such as net cash flow (NCF), discounted cash flow (DCF), internal rate of return (IRR), and payback period.

In closing, building an effective business case is essential when making a recommendation requiring investment. As with a business plan, there is flexibility in defining the structure, and a similar need to support your idea with compelling facts and analysis. Behind the smoke and the sizzle, there has to be some steak.

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