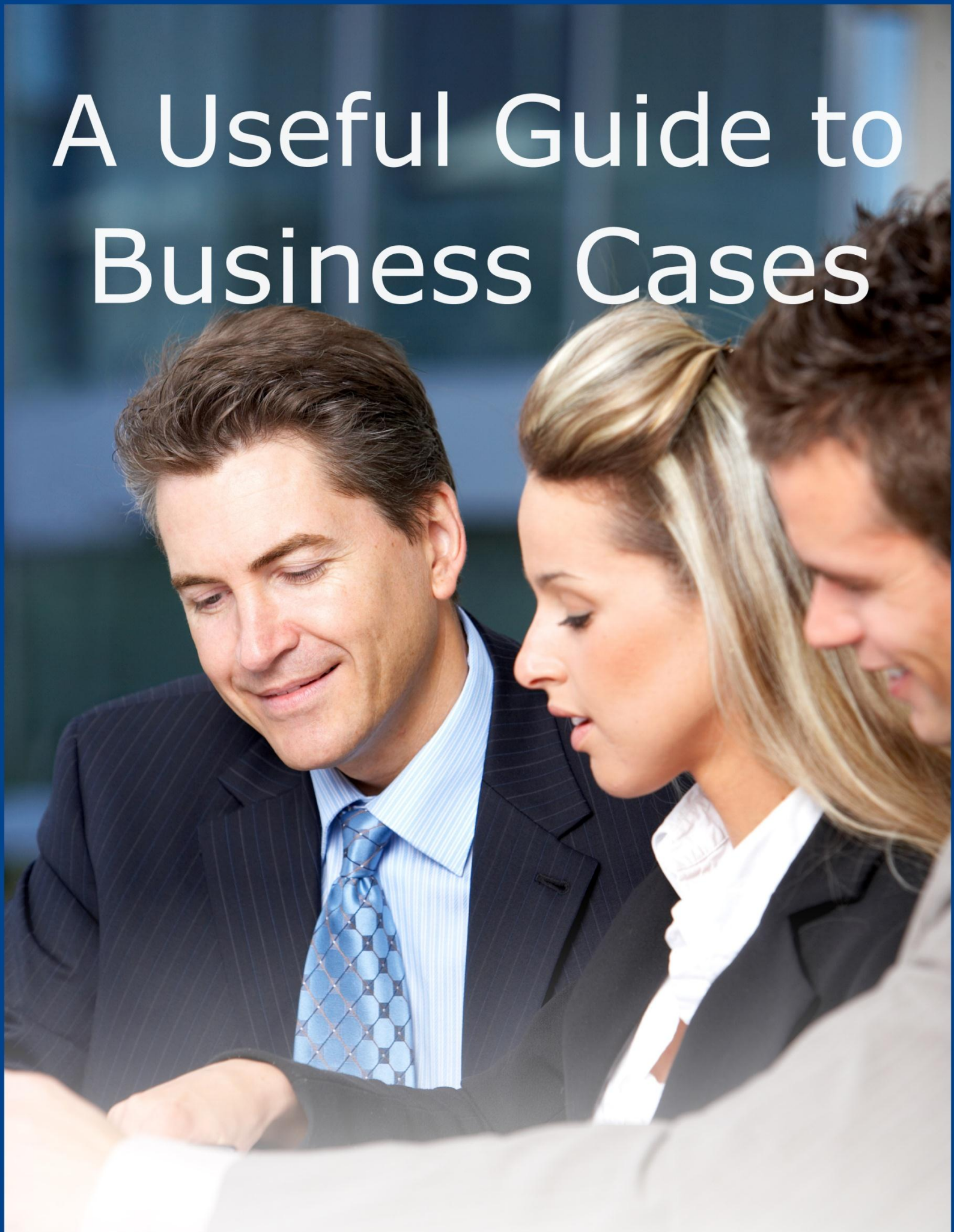
A Useful Guide to Business Cases



Richard Polom

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A Useful Guide to Business Cases

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Written by Richard Polom

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Contents

1. Introduction

1.1 Who this Useful Guide is for

This Useful Guide is for a wide range of people, for example someone who …

- Has to choose between alternative expenditure or resourcing options and needs advice on how to go about it
- Will take responsibility for a preparing or directing a business case
- May have to contribute to, review or make decisions about, business cases
- May not have experience and training in writing business cases or wants to refresh older knowledge
- Could be working in any type of organisation including the Private sector, Public sector or Third/Voluntary sector.

The Business Case is a remarkably flexible concept and could describe any of the following …

- Justification of simple purchase decisions – for example when you need a new laptop or need authority for a business trip
- Approaching a bank or specialist lender for a loan or business investment
- Gaining approval from a company investment committee or governing board
- Convincing yourself or a partner that it's a good idea to put your life savings into setting up a business.

There are a number of checklists and templates for you to complete on your computer - just click here to download the MS Word Toolkit.

The idea of this Useful Guide is to give you an overview of the business case method, a thorough understanding of your role, how to work with others on a business case and how to deliver it successfully.

It shows you how to make sure the essential facts are correctly analysed for decision-making and then presented in a coherent and convincing way.

The Useful Guide does not aim to equip or train you to prepare full business cases. It should however give you a detailed insight into how they are prepared and how they should be interpreted.

1.2 How the Useful Guide works

The Useful Guide shows where the business case fits into the overall process of decision-making and change delivery. It then describes the practical aspects of case preparation and presentation and gives some worked examples to illustrate important points.

The stages covered in the Useful Guide are as follows …

- **Defining a Business Case** – What is it for, when do you use it?
- **The Business Case Step by Step** - The Five Case Model and Other Variants
- **Preparing the Business Case** – Worked examples, analysis, tools and techniques
- **Delivering the Business Case** - Presentation & implementation.

Most sections of this Useful Guide will use the following learning assistance format …

- **The Purpose of this Section** – key points to be covered in the section
- **What you need to do** – the learning from the section, what to put into practice
- **Things to Consider** – some challenges for you in your organisation or problem.

If you are currently dealing with a business case, try to apply these pointers to your problem as you go through the Useful Guide and make notes as you go.

Where necessary the business and financial terms used in each section are explained in more detail in a Glossary at the back of the Useful Guide.

1.3 A Route Map

If you need a short-cut to specific areas of interest try the following profiles …

1. **Beginners Tour** – Preparing a simple Expenditure Business Case, read sections:

2. **Reviewer or Contributor** – Need to get a good working overview, read sections ...

3. **The Financial Calculations** – Need to focus on calculating cost comparisons, read sections ...

1.4 What the Useful Guide will enable you to do next

You should be able to recognise why a Business Case has been prepared, to understand the contents, be able to contribute to it and assess it.

You will …

- **Quickly assess** what kind of response is needed to prepare a business case in a variety of different situations
- **Feel more confident** in approaching decision-makers and experts when leading or contributing to business case preparation
- **Know where** to look for more detailed support in preparing complex business cases.

To give a detailed understanding of the Business Case approach, examples in this Useful Guide will range from corporate-style organisation change to individual business expenditure decisions. The principles here are adaptable to all situations large or small, and the Useful Guide will encourage you to think about how to do this.

2. The Basics – What is a Business Case For?

The Purpose of this Section

Understanding what a Business Case is, what it is used for, and what it might look like.

2.1 A Definition of a Business Case

Here is a definition of what we mean by a business case …

> *A Business Case tells the complete story of a proposed business activity, during which it explains why and how actions should be taken to achieve strategic or operational objectives, and secures approval or authority for those actions.*

If that sounds a bit grand, try a simpler version ...

> *A Business Case is a way of summing up an entire planning and decision-making activity, with a very clear decision-making objective for its chosen audience.*

A lot of time in organisations is spent sorting out misunderstandings, miscommunication and poorly argued proposals. With some method and careful execution a lot of this can be avoided through a well-designed business case.

2.1.1 The Business Case – Setting the Objective

Looking at the first part of this definition it is important to note that the business case should include …

- **The Objective**: What it is that needs doing
- **Why this Objective?**: The reason for doing something and
- **How to achieve the Objective**: An indication of the plan for doing it.

This is essential to ensure that the root cause or need is clearly understood, and that the financial theory ("doing x will be cheaper than doing y") is backed up by some demonstration of the feasibility ("we have the operational agreement of the IT department and a firm quote for supply of the equipment from trusted supplier Z").

2.1.2 The Business Case – Getting it Agreed

The second part of the definition is equally crucial. It shows you need to …

- Get Stakeholder support for the case
- Know how to get a decision
- Maximise your chances of approval.

Getting people committed to something is an essential part of gaining approval. This principle can be scaled up for major projects or down for minor decisions, but it holds equally for both.

What you need to do …

The important thing is to bring the right information to the right place at the right time.

Make sure you know ...

- who to trust to give you the right advice
- any process and protocol
- how to get people on your side
- how to influence them and convince them of the merits of your case.

Do not confuse this with exaggerating or stretching the truth, or leaving out inconvenient facts.

And always state your assumptions as clearly as possible. Make sure you are ready to defend them with evidence or expert advice.

2.2 Getting the Business Case to Tell a Story

The business case needs to tell a story, albeit often quite a technical one. It has a beginning, middle and an end. Get the attention of your readers with some well-designed plot, some believable character development and maybe even a suspense-filled conclusion.

If you do this well you will be able to turn an executive chore into a memorable and even enjoyable challenge. But don't get carried away with story-telling – integrity and depth are much more important than superficial attractiveness.

2.2.1 The Order of Events

The first thing to say is that there is no such thing as a "best" business case structure. It very much depends on the scale of the decision, the people you are aiming the case at, the subject matter under consideration and the environment

in which the decision is being made. This may cause greater emphasis to be put on one aspect or another.

For example a new product line may have a profound impact on a company's entire business, so a great deal of attention should be paid to strategic impact and the risk to revenues. Acquisition of a new warehouse may be much more concerned with the costs of efficient operation and lease vs. buy decisions. Buying a new office chair is about getting quickly to the point and making a simple cost-effective decision within organisation guidelines.

Nevertheless you can make your job a lot easier if you use a style, order of events, techniques and language that give the reader confidence that you are both on familiar territory and are communicating well. Something completely off the wall and unfamiliar has an uphill struggle ahead of it.

What you need to do …

- **Understand your audience** – who are they, what do they want to see
- **Make the case** – say what needs doing, why it needs doing, what is the cost and benefit
- **Prove what you just said** – show your workings, describe the costs and benefits
- **Give evidence that it can be done** – who is going to do it, are they happy to do it, will they succeed.

2.2.2 Essential Questions for the Business Case

Things to Consider …

Regardless of the stage you are at, be clear what question your case is answering, and that you know who has asked it. Ensure that you anticipate the other questions of key stakeholders. Try answering the following questions for a case you are dealing with, or one you know about ...

- **Why are we doing it?** Identifying the need, the strategic purpose, the overall benefit
- **Who is it aimed at?** Identify the target audience, which includes ...
    - The decision-makers (who authorises, who signs it off)
    - The wider stakeholders (people affected and who will influence its success).
- **Who is sponsoring it?** The driving force behind it, who will give it backing when things get tough
- **Who is going to contribute to it?** Which will include ...
    - Functional experts providing subject matter and practical input

- Functional authority owners who will need to validate it
- External parties e.g. suppliers, regulators, consultant specialists.

- **How will you assess the costs and benefits**, what is included and what is excluded?
- **What assumptions do you need to make** and how will they be justified?
- **What are the risks** of undertaking it and who is going to manage them?
- **What effect will it have on the reputation and sustainability** of the organisation?
- **How is it going to be funded and who gets the benefits?** The budgetary question.
- **Who is going to deliver it?**
  - Organisational capability and resource availability
  - Credible designated owner
  - The right project manager
  - Plan for implementation
  - Sustainability.

2.2.3 Structuring the Business Case

We can turn these questions into a more formal structure that will help preparation activities to be organised and managed effectively. Use these steps in greater or lesser detail for all Business cases you are involved in ...

For Read Out Loud Readers: The following table has 8 rows and 2 columns. The headings are Business Case Content and What is covered.

Business Case Content	What is covered
1 The Objective: the problem or opportunity statement	Why does this need to be done? What appears to be the benefit or the threat? What might happen if it is not done? This is the statement that will be tested and reviewed by the business case.
2 How does this proposal fit with the organisation's strategy	Depending on the scale and impact of the Case, the full impact on the organisation's strategy is discussed, considering advantages and disadvantages.

Business Case Content	What is covered
3 Economic evaluation of options	Describing how options were generated, setting out the financial and non-financial costs and benefits of chosen options, deriving a preferred option using investment appraisal, always clearly stating your assumptions.
4 Commercial evaluation	How any goods or services will be sourced, likely contract terms, potential suppliers, contractual frameworks, ensuring the viability of the proposals.
5 Financial assessment	Financial viability: Sources of funding, impact on organisation profit, cash flow and balance sheet, budgeting issues.
6 Implementation	How the proposal will affect the organisation, how it will be implemented, who will be responsible. This is key to gaining stakeholder consent.
7 Risk Assessment	Risk assessment relating to all inputs, outputs and assumptions of the implementation as this will form a key part of the go/no-go decision.
8 Benefits evaluation and post-audit	It is good practice to anticipate and prepare for how the benefits will be assured and reviewed and by whom.

For Read Out Loud Readers: The Table has finished.

2.2.4 Putting the Business Case Together

The development of the case is very likely to be an iterative process. For example, without some early work on the likely options (item 3) and implementation of solutions (item 6) it will not be possible to consider strategic benefits (item 2) or to cost the alternatives.

The planning of research and information gathering for a particular case is therefore an important part of the pre- case development to test feasibility before committing significant time and effort. This may also be a point at which you get formal approval to go to the next stage.

What you need to do …

You should expect to devote some time to initial feasibility work to decide whether to move on to a full case. This will usually be the first stage of the Business Case process. Test out the basic proposition informally or formally with decision-takers, but in a cut-down version.

2.3 When do I use a Business Case? – Business cases, Projects and Plans

The Purpose of this Section

Decisions that are subject to a Business Case can originate in all sorts of ways – a good marketing initiative, a legal requirement, reaction to a competitor or changed departmental policy to name but a few. At some stage the debate and discussion leads to the need to take and implement a decision, and making the right decision is what the business case is all about. This section looks at how that situation arises.

2.3.1 When a Business Case is required

A Business Case is typically used …

Whenever expenditure on a project needs to be justified (to someone).

It's as simple as that.

There is clearly a strong relationship between Business Case and Project …

- Completing and approving a Business Case is usually one of the first steps in a Project Life Cycle
- The Business Case is then referred to during the project, to determine whether it is on track
- At the end of the project, success is measured against the objectives defined in the Business Case.

The completion and authorisation of a Business Case is critical to the success of the project.

The **"project"** could be anything from investing in a new manufacturing plant and buildings, to a product development or just buying some new office equipment. The principle is pretty much the same, but the approach is scaled appropriately.

"Expenditure" may include diversion or redeployment of resources, disposal of assets or anything that has an effect on the value of the organisation or creates

a demand for resources. The rules for deciding what to include in a case will be explored later.

2.3.2 The Business Case in a Project Management Model

The business case is often an early stage in the development and definition of a project. It will usually be required in order to authorise the start of work on a project. It also draws on information that is prepared by and for the project. By ensuring that a well-founded decision is made it allows the project to proceed with proper authority.

This is the process established in PRINCE2®[1] , a project management system that was developed for UK Government, initially for complex IT projects. It is now a de facto UK standard for all major project management work, used worldwide and increasingly in commercial businesses, wherever the model is appropriate. The PRINCE2® website makes it clear that the focus throughout is on the Business Case, which establishes a very strong link between Case and Project.

The Business Case is therefore part of an on-going programme or project management definition process, through which the implementation will ultimately take place. This relationship is likely to be evolved over time rather than just at a particular point. Whether your organisation uses PRINCE2® or some similar project management scheme, it will be a good idea for you to find out how the two can be brought together as part of developing the business case proposition.

To find out more about PRINCE2® have a look at A Useful Guide to PRINCE2®. To find more about project management have a look at A Useful Guide to Project Management.

What you need to do

The Business Case is a fundamental requirement for authorisation to start any project, and continues to be developed as the project moves towards full implementation. Work with a skilled project manager to ensure that the two are developed in tandem and that the business case is ready at the right time. Use the following typical initiation steps …

- **Produce a PROJECT DIRECTIVE or MANDATE** – An executive level statement is secured saying "go and do this", which may contain or require the preparation of an Outline Business Case and Project Brief,

[1] "PRINCE2® is a Registered Trade Mark of the Cabinet Office"

which is a working description of what the project is to achieve and how to broadly to achieve it.

- **Approve the PROJECT BRIEF or TERMS OF REFERENCE** – Approval of the Terms of Reference includes approval of an Outline Business Case, and kicks off the Project Initiation process which will lead to a Full Business Case.
- **Prepare the PROJECT INITIATION DOCUMENT** – the Full Business Case is now required to approve the start of the project. The initiation stage includes using the Project Plan to pull together all the key costs, benefits, risks and assumptions to allow it to be prepared. This is the start of a close alignment between the Plan and the Business Case, and therefore the entire project.
- **Project Executive gives PROJECT AUTHORISATION** – Off we go.

Things to Consider

Consider these advantages and disadvantages of having a strong project structure to the case – which might apply to your case and what will you do about them?

Advantages are …

- **A recognised framework and language**, allows different professionals to work easily together at different levels of detail
- **Gives authority and discipline** to the organisation of resources and activities
- **Allows decision-makers to take control** within a recognised model
- **Involves a wide range of stakeholders** in the consultation and direction-setting
- **Can be simplified** by experienced practitioners so that it is not burdensome.

Disadvantages are …

- **Can get bogged down** in jargon-laden activity that confuses non-practitioners
- **Appears best suited to big projects** that are subject to extensive scrutiny and need documenting, small projects can be scared off by all the implied overhead
- **Can turn off stakeholders** who don't like formal process – leaving them disengaged.

Some judgement on your part may be needed to make sure the right tone is used for your audience.

2.3.3 Who needs a Business Case and Why?

Having established that Business Cases are good for you, it's worth thinking about the people who will be the lucky recipients of your excellent work. Remember, they may not initially be as enthusiastic as you are and it is the job of the Business Case to get everyone on side. These constituents can typically include ...

- **Authorisers:** Organisation budget holders, authorising boards or committees, banks, equity investors etc., anyone that needs convincing of the case for investment or expenditure
- **Operational People:** Those responsible for putting the plan into practice need a very clear picture of what is to happen, what has been authorised and how success will be judged
- **External Bodies:** Particularly in the case of Public Bodies and Third Sector organisations, the case may need to be available to a wider external audience to justify public expenditure or commitment of funding.

These requirements need to be carefully considered when preparing and presenting the larger Business Cases as they may become a primary document subject to review and audit. It's a reminder again of the need to tailor the case to the likely audience.

3. The Business Case - Telling the Story Step by Step

The Purpose of this Section

This section develops the different stages and content of the business case using a very structured approach, but still following the logic and idea of telling a story set out in Section 2. It introduces some of the main technical analysis and presentation devices used in the business case. We will consider what is most relevant to different sized business cases.

3.1 Size and Scope

Inevitably you will need to take a different approach to presenting a business case depending on its value and impact – a £20 million case for investment over 10 years obviously calls for a different treatment to a £500 expenditure on something that will last at best 1-2 years.

However the difference is really only one of scale as the underlying principles are very similar. For this reason I do urge you to work through the full scope of the 5-Case approach in order to understand what should be extracted for use in more straightforward examples.

You can jump forward at any stage to Section 4 to see examples of how a case can be made and presented with less information and analysis where the decision is of lower value or less strategic importance.

3.2 The 5-Case Content Model – Brief Introduction

The 5-Case structure[2] is a simplified summary of the Business Case model set out earlier in Section 2.2. There is no essential difference; this is just a way of simplifying the headings.

You may come across a number of variants of this with four, five or six components. They all cover pretty much the same subject matter. The important thing is to assess all the dimensions and decide how best to present the evidence.

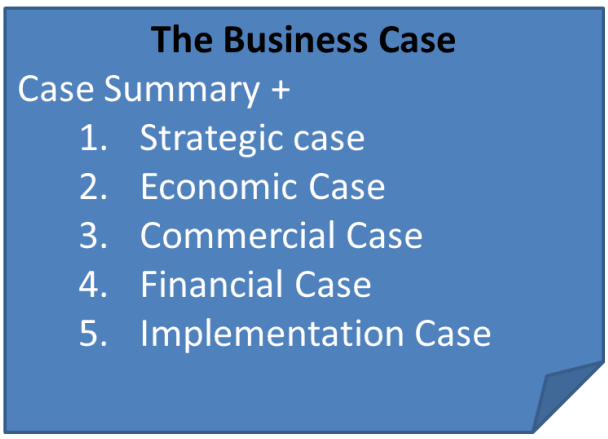
[2] [2] Similar to the 5-Case model used in HM Treasury Green Book (London: TSO 2003) http://www.hm-treasury.gov.uk/data_greenbook_index.htm and http://www.hm-treasury.gov.uk/data_greenbook_business.htm

If you work in an organisation that frequently considers business cases it is likely to have a preferred approach with templates or lists of required headings, so ensure these are always used.

This content model can reflect major projects with extended timescales and multiple teams, or it can be easily collapsed down to a single short document produced by a single author. The examples in Section 4 of this Useful Guide will do this. They key is to recognise what is needed and make it proportional to the value and impact of your decision.

Although there are some significant differences between a private and public sector business case analysis, the overall structure holds good in both.

The Five-Case Content Model



3.2.1 Case Summary

This should make it clear what needs doing, why it needs doing and how it is going to be done. The overall recommended decision is shown together with a summary financial impact. In practice this is usually prepared last. This is your most important piece of communication to decision-makers and must be effective.

3.2.2 Case 1 -Strategic

The essential statement of how the proposal under consideration relates to the organisation's strategy, what has already been decided, whether this modifies the strategy, how it enhances it, and so on.

3.2.3 Case 2 - Economic

This is where the specific, attributable financial and non-financial costs and benefits of the case are set out, showing how savings, quality improvements, revenues, additional investment costs are all to be brought together to affect the long term well-being of the organisation and/or its customers or beneficiaries. This case contains the investment appraisal calculations comparing the available options. The economic benefits analysis is often a key area of difference in assessment between the public and private sectors, to which we will return.

3.2.4 Case 3 - Commercial

This refers to how the change under consideration will be delivered through suppliers, business partners, licensors etc. etc. The important consideration is how and whether it will be possible to make the business agreements and contracts necessary to implement and sustain the proposal over time, and to its end of life phase, and to properly account for those arrangements. It is also important to assess how dependable and capable your suppliers are and ensure any risks are adequately dealt with.

3.2.5 Case 4 - Financial

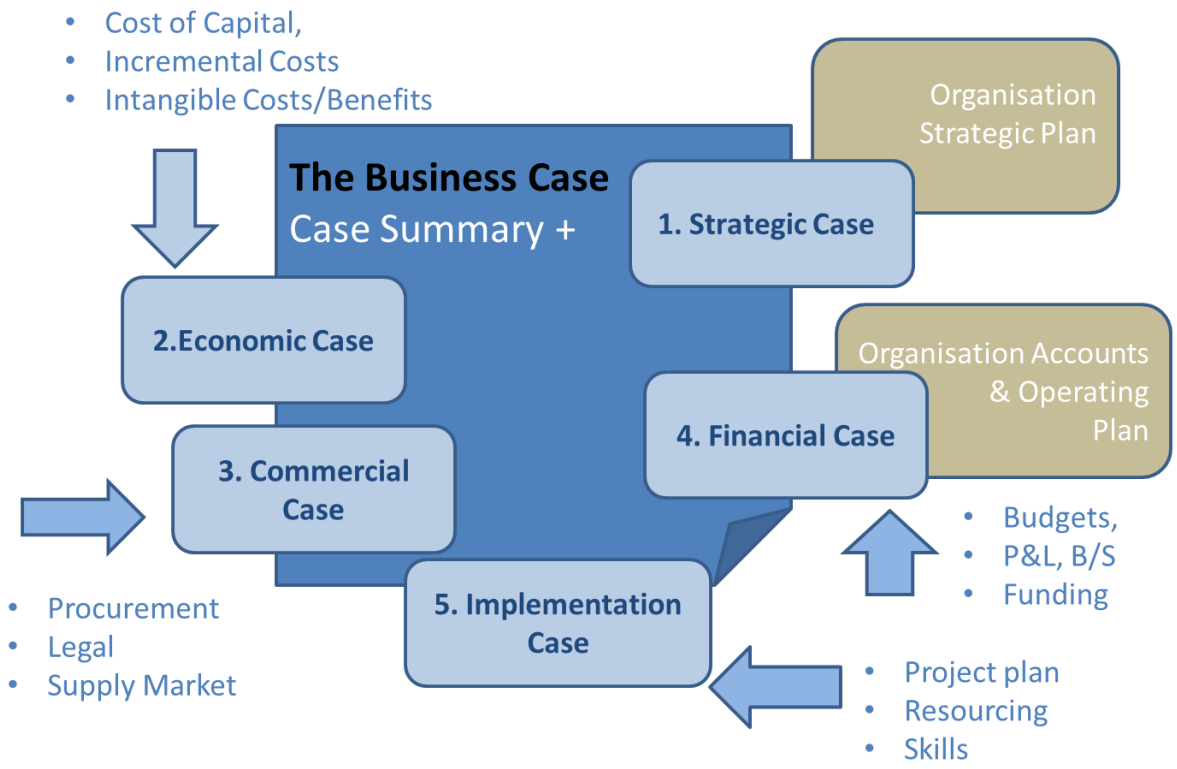
This is often confused with the Economic Benefits Case, to which it is closely related. By Financial we mean the accounting impact of the proposal, how corporate funding will be raised to support it, whether budgetary provision has been made or needs to be secured and so on. In other words who is going to pay for any investment needed and what is the impact on reported organisation performance over the operational lifespan. These are impacts as expressed through the organisation's reported accounts. This may be different from the economic benefits, especially where additional economic intangible (non-cash) or strategic benefits form a major part of the case.

3.2.6 Case 5 - The Implementation or Management Case

This is where the full impact of implementation is considered. Does the organisation have the resources (people and skills) necessary, how will different parts of the organisation accommodate the change, who will run it and how will they do that. It is a question of both quantity and quality, and where any significant risks of operation need to be considered. For this reason I would expect to see a risk management plan included in the section, showing how risks have been assessed, and how they will be handled.

3.3 How the Five Cases Work Together

The next diagram shows how the five cases are drawn from different areas of expert information and planning. In a major project it is usual to have people with specialist background knowledge concentrating on each aspect of the case.



What you need to do

The skill of the business case leader is in coordinating these case perspectives to make sure that the overall story makes sense and is consistent, and the assumptions (time periods, inflation, costs of capital etc.) are kept the same throughout.

If it is just you writing a (much simpler) case then you will have to remind yourself to wear a different hat for each part of the case – even argue against yourself from time to time!

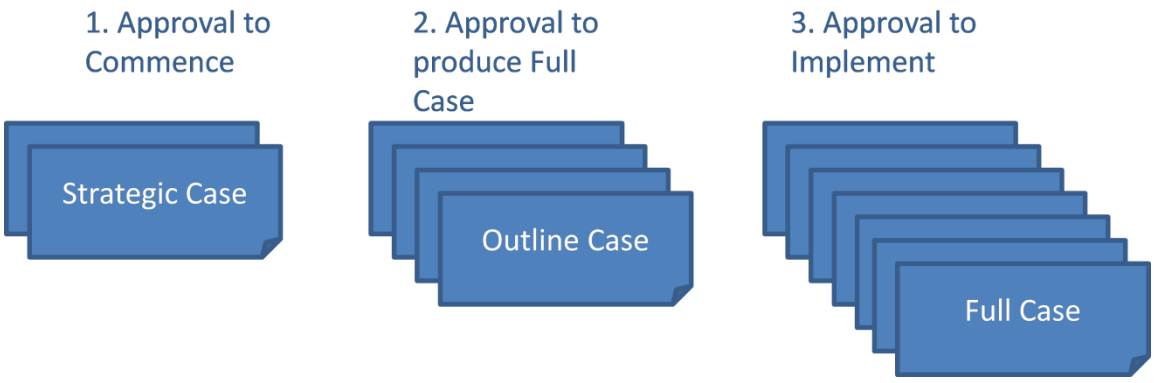
3.4 Business Case Approval in Stages

In the case of a large project, it is unlikely that a business case will be prepared and signed off in one single step. It could pass through a number of iterations in order to build consensus and test options, gaining separate authority to proceed at each stage.

What you need to do

Establish a structured review and documented feedback approach, perhaps using independent reviewers. A less demanding approach can be used in smaller projects by ensuring that peer review, user board review and other "gateway" governance steps are put in place. Decide how your case approval should be staged.

The elements described in the 5-case model would in practice be repeated in increasing levels of detail in each stage. The stages are normally structured as follows ...



It's also important not to forget that the lifecycle is not complete without the Benefits Evaluation where some post-audit and management of the expected benefits is assured. This can be repeated at pre-planned intervals over the life of the project to ensure successful implementation.

Things to Consider

The following sections describe each case's contents in some detail. Consider how they will be relevant to your case, how you would research them, what sources you would use, who you would ask for information. Use these to make some notes to form the first set of headings and outline content for your case.

3.5 Case Summary

Although this section is prepared last, it is the first to be read, so bear it in mind as you progress.

When each of the five cases is ready to be combined into the overall business case, a summary will be needed describing the key features of the proposal, the options to be considered and the decisions to be taken. The scope and style of this summary is very much a matter for what suits your organisation or decision-takers and the nature of the decision being taken. You should draw on each of

the five cases as appropriate and ensure that a balanced and objective picture is presented.

Essential content will usually cover at least …

- A recommended option with investment appraisal measures (NPV, IRR, Payback[3]) and risk assessment
- A Financial report (Accounting performance, budgetary impact & viability)
- Any major assumptions
- Delivery and implementation feasibility
- Strategic alignment statement.

The next several sections will give you the material to select from and use for the summary.

3.6 Case One – the Strategic Case

See also the later Section 6 in this Useful Guide for more discussion on the development of Strategy and its relevance to a Business Case. Headings or content should cover the following – your organisation may have specific documents, processes or descriptors for some of these and you can adapt as necessary.

3.6.1 Business need

Describe the business need that will be met by the case and why the case is needed now. This may be to meet a competitive threat, changes in demand, end of life replacement, take advantage of new technology, and so on. Give a clear reason why decision-takers should give this their attention and priority.

3.6.2 Organisational overview

Where this is relevant to explaining the business case (perhaps to external stakeholders), describe the organisation's main aims, organisational structure and key responsibilities.

Describe the main aspects of the business strategy: strategic vision, mission, strategic plan and continuing aims. This should be relevant to the proposal under consideration.

Where it helps give context to the proposal, other key programmes and projects can be described.

[3] These terms will be explained in more detail in Section 3.7.7 if you have not come across them before.

3.6.3 Contribution to key objectives

Describe how this project will contribute to key organisation objectives – revenue growth, market share, community support, carbon reduction – whatever strategic business measures or goals are relevant.

3.6.4 Stakeholders

Outline the main stakeholder groups and their contribution to, or benefits from, the project. Identify any conflicts, unmet expectations or other relevant costs or benefits. Stakeholders can include organisation employees, suppliers, public interest groups, regulators, financial backers, key customers – the range is potentially very wide. This section should concentrate on those that will determine the success or failure of the proposal, and those affected (positively or negatively) who may have a major impact on the organisation's reputation or brand.

3.6.5 Strategic Summary

- **Outline the current environment**, any existing relevant activities, major contracts with service providers, and the existing in-house function
- **Summarise the potential scope of the project** ...
    - The minimum scope to meet the immediate business need
    - The maximum, ideal desirable scope of a proposed change
    - Any intermediate options or alternatives. Options are important to reassure decision-takers that the problem has been thoroughly thought through.
- **Constraints**: Summarise the main constraints, such as the willingness of senior management to absorb fundamental business change, the affordability of proposals, existing contractual commitments
- **Dependencies**: Outline the internal and external factors upon which the successful delivery of this project are dependent, such as other projects and programmes already underway.

3.6.6 Strategic benefits

Outline high-level strategic and operational benefits such as increased market share, establishing a technology lead, better use of workspace, more reliable services and so on. Link strategic benefits to operational objectives where possible (making them Specific, Measurable, Achievable, Relevant, Timely - SMART).

3.6.7 Strategic risks

Outline the main business risks such as continuing need for the project and changes in business direction; external environmental risks such as changes in the supplier marketplace. Strategic risks should cover factors that affect the future direction or success of the organisation and not be about the implementation of the proposal (see Critical Success Factors). Risks should be developed for and captured in the case or project risk register.

3.6.8 Critical success factors

Define the critical success factors for the project – service risks such as the lack of internal skills to implement the required project and delivery risks such as whether the project is delivered on time to meet a critical date (e.g. ready for a specific sporting event).

Things to Consider

What is your organisation's Strategy? What are the three main things your case will contribute to strategic goals?

3.7 Case Two – the Economic Case

The economic case is where the proposal and its alternative options are described in full detail and the substance of the case is made. The heart of the economic case is the Investment Appraisal where specialised cost analysis techniques are used to examine the merits of one option against another. All relevant costs and benefits need to be described and analysed, whether they are financially or quantitatively measurable (tangible) or perhaps strategic but not immediately measurable (intangible).

3.7.1 Section 4 contains some worked examples for the steps in Investment Appraisal described below. Long and short list of options

Outline the options identified for analysis. Where appropriate, each is subjected to a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis against the contribution to key objectives and critical success factors.

Do Nothing – The analysis of options should always include or be assessed against a "do nothing" or baseline option, continuing the business as-is. This allows a comparison of the true incremental or additional cost of the proposal and makes it clear what continuing without the proposal will cost. And which benefits will not be gained. This assessment of incremental cost / benefit against a "base" is a fundamental of business case analysis.

3.7.2 Opportunities for innovation and/or collaboration with others

Describe the opportunities for innovative approaches noting the risks involved as well as the advantages.

Outline opportunities for collaboration with others – perhaps sharing the costs of developing a new IT system or collaborating to share costs.

Financing options should be considered fully under the Financial Business Case but where such options exist they should be described if they involve a material difference in implementation. For example, resulting in different asset lives or making available new workforce skills due to collaborative working.

3.7.3 Service delivery options – who will deliver the project?

Investigate options ranging from in-house delivery to degrees of collaborative partnership to outsourcing or "turn-key" options. Remember that each of these may have consequential impact on existing costs as well as benefits, such as redundancy costs, idle capacity or increased risk of delivery failure.

3.7.4 Implementation options

Examine options for the timescales and degree of business change required; consider whether the project could be broken down into components e.g. implemented in incremental phases or introduced on a small scale to pilot and then rolled out to a larger community. The opportunity to bring forward income or benefits and defer costs should be considered (see below under DCF and NPV for time value of money considerations).

3.7.5 Detailed options appraisal

This is where the Investment Appraisal is used to evaluate options. It should provide an explanation of the general approach taken to the calculation of costs and benefits, detail the Base Case, together with overview of the key findings that result from each of the short-listed options. Include details of intangible benefits; these are benefits that do not have a direct financial value, such as improved quality of service or enhanced organisation reputation. The options appraisal work will make full use of the toolbox and templates described next.

3.7.6 Which Costs to use? – Definitions & Applications

The challenge is in deciding which costs to use and how to use them to make the right decision.

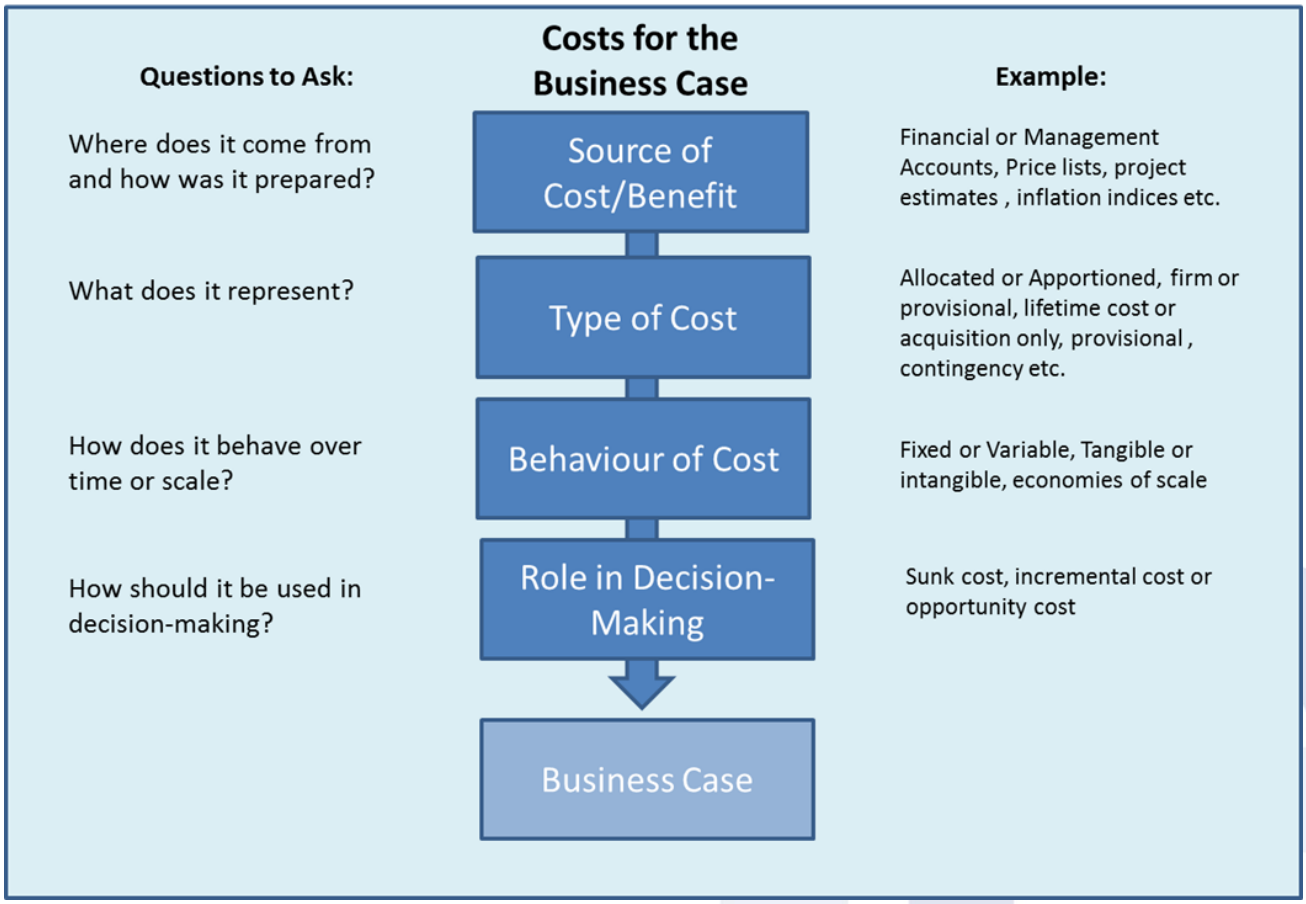
KNOW YOUR COSTS! THEY ARE NOT ALL THE SAME!

There are numerous sources of cost information, knowing their origin, how they behave and what their significance is to your decision is the key to making this work. Think of your job as being to tell the story of each cost and the path it takes in its life. Get to know them, ask questions about them, find out who their friends are and what sort of things they like and don't like.

The categories that follow are not the only way of looking at this, but the underlying principles are widely recognised, so please concentrate on thinking about what you are dealing with and how to accurately present a decision rather than just follow rules.

This knowledge will be especially helpful if you are trying to read and understand a business case prepared by someone else, and need to challenge the basis of the proposed decision.

The business case decision is based fundamentally on the cash flows involved in a proposal. This is basically the expenditure followed by the income generated, but may also include expenditure avoided or income foregone. The costs and benefits included in the Economic Case are used quite differently from the accounting profit or loss which is described in the Financial Case. The tricky question is which costs to include and how to measure them.



a) SOURCE OF COST

- **Tax cost/benefits** – tax should be kept very clearly separate within the business case analysis. If a project gives rise to incremental tax effects (increase or decrease) then it is clearly an incremental cash flow – and therefore to be included in the business case. Examples might be differences in VAT or corporate tax allowances between options. Tax benefits are however sometimes subject to interpretation and may be at risk of change over time due to government policy. Public sector cases usually ignore differential VAT effects as they are net neutral to the public sector as a whole. For this reason a professional evaluation of risk and sustainable benefit may be needed, and in the case of the public sector the Treasury Green Book is a source of advice.
- **Cost of Capital** – Many organisations have a general target rate of return on capital, which the proposal must achieve (like an additional cost) in order to break even. This will be looked at further in the next section on DCF and NPV. This rate is often a Weighted Average Cost of Capital or WACC, which reflects the cost of different sources of investment funds used across all projects. This is usually a combination of the cost of borrowing and the return to equity, but may include other specific return requirements. In a public sector organisation the return may reflect the cost of public borrowing plus or minus a factor to reflect non-financial costs of public investment or Social Time Preference. In the absence of one of these targets, you should use the actual cost to your project, taking advice from a finance professional.
- **Inflation** – Inflation is an additional cost to a project. How so? Well it means that future income is worth even less than that discounted by the cost of capital, because if general prices have meanwhile gone up, the investor will need a higher income still in order to buy the same things as at today's prices. We can deal with this either by ensuring that all future prices and incomes are at outturn or future expected (including inflation) prices, and that the discount rate includes a general inflation rate as well as the cost of capital, or by using only deflated values (i.e. taking inflation out) for future flows and using the cost of capital discount rate only. To complicate further, if different costs (or incomes) inflate at significantly different rates, there is a marginal cost of inflation to account for. Don't forget that certain goods or services may be expected to fall in price relative to others and this should be reflected too. Inflation, especially differential inflation, is therefore a risk to the case and needs to be analysed and planned for. Explicit assumptions should be stated.

b) TYPE OF COST

- **Lifetime cost / total cost of ownership** – when estimating the future cost of a project it's important to think through all the associated costs of acquiring an asset, a workforce or a facility. There may be maintenance, re-training and end-of-life disposal costs (including environmental restoration costs such as ground pollution) to name but a few. Minimising the whole life cost is as important as reducing the acquisition cost. By taking a lifetime cash flow approach this should become clear.
- **Allocated costs** – These reflect the cost of people or resources diverted from other uses. This is another way of looking at Opportunity Costs. For example, your project may depend on warehouse employees to handle product distribution. This may or may not result in additional people or overtime and spread across all services. The total costs will need to be allocated to each product line (possibly even reducing the average cost) so your project will have this cost deducted from its overall profit, and it is usual to also treat this as a business case cost as they would usually have an alternative use or avoidable cost.
- **"First Mover" Cost** - This is when an investment in a general facility that will eventually be used by many projects (e.g. an updated IT service or a major warehouse build) would appear to be a cost fully allocated to the project that first requires it. This could immediately make the project unviable. In this situation you will have to argue the case for deferring some of the allocated costs to future projects and only taking a proportionate share. This then becomes part of the decision-making process.
- **Supplier costs** - **Estimated** (only indicative, with a degree of risk and uncertainty), **Quoted** (potentially firm but subject to contract or order) or **Published** (which you can assume will be firm within reasonable timescales and volumes). Knowing how reliable your cost information is can be critical in analysing the risk and uncertainty of a project, and contingencies or provisions may have to be held.
- **Contingencies or provisional sums** – At some points you may well have to provide a financial cost to represent uncertainty in the case. These should be carefully considered as they are bound to attract attention and be the first target for challenge when the case is reviewed. They will be based on assumptions that you have to justify. Excessive provisional costing will undermine the credibility of your case, and can make it unviable if the returns become very poor. A Contingency sum is an estimated cost that is provided to meet a specific "contingent" situation

which may occur (e.g. if the new public safety legislation is approved then the cost of fire protection will increase by £XXX – it is something that may or may not happen, but if it does, a good estimate of the cost has been made). It should be based on the best possible costing of the situation and should not be a guess or a general fund against the unexpected. There may be a case for a general contingency fund to cover a range of uncertainties, but again these should be broadly identified and a range of feasible costs provided. A Provisional sum is slightly different - it may be allowed for items which are not yet fully understood or costed, or need more definitive quotes or estimation work. The main difference is that a provisional sum is one that is expected to occur but is not yet firm. Avoid using general or undefined sums in costings.

c) BEHAVIOUR OF COSTS

- **Sunk Cost** – Is a cost previously incurred under a different decision process, and which cannot be recovered. Once it's gone it's gone. So it is free unless it has an opportunity cost (e.g. can be sold for scrap or recycled product, or put to some other alternative use).
- **Fixed and Variable Costs** – Another way of looking at the behaviour of costs (including Incremental, sunk and opportunity costs) is to consider whether they are, during the life of your project, fixed or variable. Which means do they vary with time or volume and by how much? For instance many costs are fixed in the short term, possibly by contract, or because they cannot easily be disposed of, but are variable in the longer term when these things can be changed. Semi-variable costs are those that change in a step fashion perhaps as volume or capacity limits are reached. So, if someone tells you a cost is fixed, you need to ask how fixed, under what conditions and for how long. If it can be taken away in the long term then it becomes an incremental saving to the project – the key is the behaviour of the cost not what it is called.
- **Tangible and Intangible** – The only way to allow for intangible benefits in a business case is by describing them and attributing a general value. For example "The benefit to our brand of having low carbon emissions vehicles in city centres is potentially worth £10M pa in positive press and public awareness". Just because that benefit cannot be identified as a tangible cash flow does not mean it is not real. Of course it could be made tangible by reducing the PR and Marketing budget by £10M over X years to produce real savings, but at the risk of lost PR and Marketing products (and probably a lost Marketing Director too).

d) ROLE IN DECISION-MAKING

- **Cash Flow** - The costing for a business case investment appraisal looks primarily at cash flow, or anything that would give rise to a cash flow under appropriate circumstances. Misleadingly perhaps this can include things that don't actually result in a movement of cash from one bank to another but represent cash potential. See Opportunity Costs for more detail. Be wary of accounting charges and apportionments which may not actually represent a cash flow or even a potential cash flow, but result from the need to match reported income and expenditure over a chosen accounting period.
- **Opportunity Costs** – Opportunity costs are a way of valuing an indirect cost to the proposal – something other than cash-flow. An empty warehouse is to be used for the new project. But the company already owns it and no new expenditure (cash flow) is involved. So isn't it free to the project? Well no because the best alternative use value of the warehouse must be considered. If it could be rented out or sold then that is an opportunity lost and therefore a cost to the project. Only if it has no other use and the cost of ownership is inescapable would it truly be "free". The same will apply to use of existing workforce – generally there will be an alternative gainful employment for them, so their pay and overhead is charged to the project costing. It assumes that any other project in the organisation "queue" will have to pay for workforce and replace their contribution to overheads. There may be circumstances in which this assumption does not apply but if so it must be robustly examined as a reason for not attributing their cost.
- **Marginal Costs and Incremental Costs** – Marginal costs are the true additional costs incurred from use of a resource. Usually defined in economics as the change in total cost as a result of a change (marginal change) in volume or quantity. If a stock of previously printed paper has no alternative use and no net value as scrap, then the marginal or incremental cost of using it is just the cost of bringing it to the point of use (for example moving it from storage to the point of use and overprinting it with additional information). The original cost of printing the paper would of course be a Sunk Cost (see above).

Things to Consider

Where would you obtain the relevant costing information for your case? How would you decide how to use it? Try some example costs or income from a case you are familiar with and think through how they originated and what the

problems might be in using them in a different situation – for example, were the costs based on what happened in the past or what might happen in future, who provided the costs and what do you think of their judgement, how will fixed costs change over time, how certain are the income forecasts? You can look at the examples in Section 4 of the Useful Guide to doing this and apply the logic to your own organisation. Use the costing template and examples in Annex 4 as a guide to recording and classifying costs.

3.7.7 Financial Calculations for Decision-Making

The following descriptions are of the key calculations used for decision-making in the Economic Case. There are variations for specialist decisions (e.g. investing in financial instruments) but the basic concepts are the same.

a) **Annualised Costs** – A very simple way of comparing things that involve an initial cost and then are used over a number of years. The drawback is that it is not very good at comparing things that have different life expectancy.

> **EXAMPLE:** Buy a tent for hire and rent it out each summer. There are two models available and one needs re-proofing every 2 years. They both have a life expectancy of 6 years.
>
> **Tent 1:** Cost £500, rent £150pa. Annualised cost = £500/6 = **£83.33**
>
> **Tent 2:** Cost £300, rent £150pa, and re-proof £50 every 2 years. Annualised cost = (£300 + 3x£50)/6 = **£75.00**

This is a very simple test and works well for many basic comparisons. It tells you that in either case, the annualised cost is exceeded by the rent, so you should make a profit. As the income is the same for both options, by comparing costs we see that Tent 2 has the lower annualised cost and therefore higher profit.

The problem with this will be when you compare tents with very different life expectancy, when income or benefit flows vary and when you need to take account of the cost of capital over time. That is when more analytical methods of comparing value are needed.

b) **Payback** – The workhorse of many business case financial calculations: Simply, how long does it take to receive more in benefits than you have spent on the project? This is a basic measure of how long your outlay is at risk of not being recovered, and then how much you will make in excess of the cost. In times of uncertainty and rapidly changing markets, a rapid payback is a very attractive measure. You may expect a payback of 18 months to 2 years on product or service launches, whilst leasing property may be over a much longer period. This is the simplest way of seeing if your case is justified, and where the

timescale is short and the sums small, may be all that you need. You can of course also compare two options and see which pays back soonest.

EXAMPLE: Buy a tent for hire for £500 and rent it out for £150 each summer. Here payback occurs mid-point between 2015 and 2016, with a final surplus of £100.

PAYBACK

YEAR	2012	2013	2014	2015	2016
Expenditure	£500.00				
Income		£150.00	£150.00	£150.00	£150.00
Cumulative Net	-£500.00	-£350.00	-£200.00	-£50.00	£100.00

c) **DCF and NPV** – If Payback is the workhorse then **Discounted Cash Flow (DCF)** and **Net Present Value (NPV)** are perhaps the racehorses. The simple concept is that money earned now is worth more than money earned in the future, measuring the **Time Value of Money**. How much more is it worth? You can measure it by the interest payable on borrowing (or the weighted cost of business capital used) plus possibly a premium to reflect the owners' reward expectations for a particular type of project

Money tied up in the project has to pay a "rent", and money generated by a new project "earns" a return from being usable elsewhere in the organisation, so they are both subject to Time Valuation. The sooner you get income and the later you spend it, the better

The cash flow is therefore discounted for this cost of time, added up over the lifetime of the project and the expenditures deducted from income, to give the Net Present Value. Hence the % rate used in the calculation is called the **Discount Rate**, which is what is used in calculating the Discounted Cash Flow. This is similar to an interest rate cost of money, but can reflect a wider range of funding costs and risks for a particular organisation (see Cost of Capital on page 28 for more discussion of this calculation). You should use the discount rate required by your organisation – if you don't have one, then you will have to decide what your cost of capital or required rate of return is. Using the Discount Rate gives the true value to you in today's money of future income and expenditure, the total cash surplus less the cost of "time". Any positive NPV is good, meaning the project will exceed its expected cost over time, including a return to capital or target return. When comparing options, the one with the

highest positive NPV for the same investment gives the best return, provided any risk associated with different payback periods is not significant.

EXAMPLE: If the Time Value of Money discount rate is 8% (which in this simple case represents bank interest on lending), then the discounted value of income or expenditure in each future year is: £X(1/(1+0.08)n) where £X is the cash flow and n is the period of the cash flow (year 1, 2 etc.)- [see footnote[4]].In the same example as for Payback, we see that the undiscounted future surplus of income over expenditure will be £100 over the five years. However, if the future income is discounted by the time value of money at 8%, the present value equivalent is in fact minus £3.18. You still receive the £100 net in the future, but in reality it is worth less to you than if you had received it today. If the NPV had been zero you would have broken even, but negative NPV means the investment makes you worse off than if you had not undertaken it at all, in this example assuming you could leave the money on deposit and make 8% per annum.

DCF and NPV

YEAR	2012	2013	2014	2015	2016
Expenditure	£500.00				
Income		£150.00	£150.00	£150.00	£150.00
Net	-£500.00	£150.00	£150.00	£150.00	£150.00
Total Net Income					£100.00
Discount Factor 8%	1.00	0.93	0.86	0.79	0.74
Net DCF	-£500.00	£138.89	£128.60	£119.07	£110.25
Net Present Value	-£3.18				

d) **IRR** – Whilst a positive NPV says that the project makes more than the cost of money (more than the "discount rate"), it doesn't say how much more. If the target (discount rate) is 10%, you just know that it makes more than 10%. The Internal Rate of Return is the calculation of the actual rate of return it makes. This is not the same as the percentage profit or margin. It is the Discount Rate in DCF that would make the NPV equal to zero. In mathematical terms you just keep trying a higher discount interest rate in the calculation until the NPV reduces to zero, and that is the IRR. Fortunately you don't have to do

[4] [4] A table of pre-calculated discount factors from 1% to 10% is included in the Annex to this Useful Guide.

this as most spreadsheets have an IRR function. In the above example the IRR is very close to 8% - slightly less in fact, as it does not achieve the target of 8%.

e) **ROI** – (Return on Investment) or ROCE (Return on Capital Employed) are accounting measures of financial performance. ARR or Accounting (average) Rate of Return is sometimes used. These calculations look at the percentage accounting profit made on the capital investment and average it over the project life, so giving a "per annum" rate of return. This is a simple idea and therefore attractive at first sight, especially as it lines up with the published accounts, but there are many pitfalls with the calculation that mean it is not the best way to assess business case options. For instance it cannot (on its own) differentiate between big and small projects, and it does not adequately reflect the life expectancy of assets. Neither does it take account of the time value of money. In addition, a number of non-cash deductions are usually made from income before showing the accounting profit. Therefore, just be aware how popular it is but do not rely on the technique for business case decision-making.

Things to Consider

What is your organisation's target cost of capital or other rate of return target? If you don't have one what rate discount factor will you use and why? What payback period will you need to achieve? How would you deal with specialist cost problems using these techniques e.g. more than one currency and exchange rate?

3.7.8 Risk Quantification and Sensitivity Analysis

The Purpose of this Section

Understand what types of risk are relevant, how they can be classified, quantified and dealt with in a Business Case and project.

a) **Risk** - The first distinction to make is between the identification and management of a risk event during the development of the case (typically as listed in the project Risk Register), and that of its impact on the project decision through the effect on the expected returns. The project risk register should of course be used as the guide to those major cash flow risks that need to be analysed in this way. Project risk management will be dealt with separately later. Here we are concerned with risk as a set of quantified expected outcomes.

b) **Method (i)** - Probability Analysis - One way that risk can be included as a cost variable in the financial appraisal is by giving a probability to a range of outcomes or scenarios for each major cash flow. This then allows comparison of two options where each has the same expected NPV, but by considering the

upside and downside risks for income and expenditure, multiplied by the likelihood or probability of them occurring, some adjustment can be made to the NPV that reflects the inherent riskiness of one option over another.

> **EXAMPLE:** This example takes only the net total cash flow as an illustration. You can see that to do this for each major cash flow each period for a number of scenarios would be very tedious and would challenge the patience of the people you have to ask to estimate all the multiple cash flows. For this reason comprehensive financial risk analysis is usually now based on computer simulation rather than scenarios (as described in the next section).

The result in this example is that the overall mean position is slightly positive, but as there is a wide range of positive and negative outcomes in each scenario, this would not be a strong recommendation to proceed. This is because the great range suggests there is a high degree of uncertainty surrounding the project.

Risk-Adjusted Expected NPV

Expected net cash flow	Range	Mid-point	x Prob-ability	= Risk-adjusted
Scenario 1	-£2,000 -£1,000	-£1,500	0.5	-£750
Scenario 2	-£300 £2,500	£1,100	0.2	£220
Scenario 3	£1,000 £3,000	£2,000	0.3	£600
Total / Mean expected			1	£70

c) **Method (ii)** - Adjusting the discount rate for risk is also an option but it does not achieve a distinction between options based on estimated probability. It can ensure that the same generic risk is "priced" into the NPV for each option on its own. It is also very simple and therefore is widely used; it is a general way of making the case decision more risk-averse.

d) **Method (iii)** - Sensitivity analysis is also a simple technique which simply shows, for each major cash flow, by how much it needs to vary in percentage terms in order to reduce a positive total NPV to zero. This does not of course give the probability of it happening but it does give a guide to impact, and combined with probability risk analysis is a good simple impact test.

EXAMPLE: This example of a loss-making project shows by how much a cash flow total would need to increase or decrease to move the NPV to zero. To

interpret this, initial expenditure 1 would have to reduce by 35%, or income would have to increase by 28% (note that the latter seems more attainable, so you might focus on this as a way of recovering the project). Reducing expenditure item 2 or 3 by more than 100% is clearly impossible.

Sensitivity Analysis

YEAR	2012	2013	2014	2015	2016	Total	Sensitivity
Expenditure 1	-500					-500	**35%**
Expenditure 2	0	-46	-43	-40	-37	-166	**106%**
Expenditure 3	0	-93	-43	0	0	-135	**129%**
Income	0	185	171	159	110	626	**28%**
Net DCF @8%	-500	46	86	119	74	-175	
Net Present Value	-175						

e) **Method (iv)** - Payback can also be combined with other risk analysis to show how long the project is exposed to the risk of cash flows varying from the expected path. A long payback period combined with high probability (risk) of variance starts to look relatively unattractive.

Things to Consider

Is risk a major consideration for your case, what types of risk are you dealing with and how will you quantify them? How can you reduce the effects of risk in your case?

3.7.9 Risk - Monte Carlo Simulation

This subject would probably justify a Useful Guide all to itself so I will restrict this comment to principles only.

The technique has become increasingly popular as software versions capable of running on desktop computers put it within reach of the average business case analyst. This also means that decision-takers increasingly demand a Monte Carlo Simulation discussion in major business cases. However it is not widely understood as a tool so consider the needs of your stakeholders carefully before using it in your business case – you could give yourself a major problem having to explain it for, in some cases, relatively little benefit. Having said that, it is such a powerful and reliable technique that, in the right circumstances, it should always be considered.

Risk Simulation – To put it simply, it is possible to use the computation technique of Monte Carlo Simulation to examine many possible combinations of

probable outcomes in an investment appraisal model to simulate actual risk – far more than would be possible by varying one input at a time in scenario-based risk analysis as used in the previous examples. Given a set of estimates of correlation between the major variables, it can sample sufficient combinations to produce a full picture or distribution of the range of outcomes. This means that the probability of exceeding a zero NPV can be calculated much more reliably than by sampling a few specific scenarios. However, this is still only a prediction, and still needs someone to make the range predictions perhaps with the help of historic data, and does not of course preclude the worst case scenario from actually occurring despite a favourable prediction.

What you Need to Do

You would probably only use Monte Carlo Simulation if there were many possible variables with influences and outcomes which were uncontrollable (e.g. highly competitive markets with many agents subject to rapid change in behaviour) – in which case it would be more likely to reflect the real world too. This is why it is used extensively in financial traded product analysis. My advice – speak to an expert before deciding whether it is of value in your case. An illustration of a simplified use of Monte Carlo Simulation is included as an annex so you can follow the logic.

3.7.10 Preferred option

And finally, the Economic Case needs to provide a preferred option. This is of course preferred on the basis of ranking the economic criteria outlined above …

- Best economic cost (preferably the highest NPV)
- Internal Rate of Return
- Speed of Payback
- Risk & Sensitivity analysis.

... and will need to be considered alongside the evidence from the other cases within the Business Case.

3.8 Case Three - the Commercial Case

The commercial case is the case for purchasing or procuring the goods and services needed for the proposal. It shows how resources are to be obtained on appropriate commercial terms from specific suppliers. Any beneficial incremental cost or funding options available through the alternative methods of procurement should be explained and carried over in summary to the economic case options.

3.8.1 Output Based Specification

What is needed must be specified clearly in a comprehensive document that will ultimately be a suitable basis for obtaining supplier quotes or for tendering documentation. This section of the case summarises the requirement in terms of outcomes and outputs, describing any generic or technical requirements that restrict suppliers' options for meeting the output specification. This is a product of the project's development and implementation planning work and leans heavily on the expertise of operational people.

3.8.2 Sourcing options

Outline the commercial options for sourcing to meet the business need – e.g. partnerships, framework agreements, and existing supplier arrangements, with the rationale for selecting a preferred sourcing option.

For example this could include licensing essential technology rather than developing or purchasing it, outsourcing maintenance work rather than expanding the workforce, renting rather than buying, turn-key solution rather than tendering for separate services.

3.8.3 Payment mechanisms

Outline the proposed payment mechanisms – e.g. if linked to performance and availability, providing incentives for alternative revenue streams. Breakpoints for different volume levels, payment on completion of milestones, days to pay - which could be relevant for very large cash flows where working capital cost needs to be minimised and timing of payments relative to income earned affects the NPV.

3.8.4 Risk allocation and transfer

This is a slightly elaborate way of saying that the purchasing contract must specify who pays what when things go wrong. In addition there may need to be provision for cancellation, suspension or step-in rights in case of contract non-performance by a supplier. This should summarise an assessment of how the types of risk might be apportioned or shared, with risks allocated to the party best placed to manage them subject to achieving value for money.

Whilst ensuring robust allocation of risk and related costs is very prudent and a gives big incentive to perform, be wary that excessively demanding contract terms may well simply incentivise a supplier to walk away from a difficult contract when things start to go wrong and/or operate extremely cautiously, always ensuring that difficult decisions are taken or endorsed by the client.

One kind of risk that can never be transferred is reputation risk. If a supplier fails in a big way, they may suffer some damage but the client may suffer irreparable reputation and brand harm, despite any financial compensation. This kind of risk must be clearly identified with a mitigation plan proportionate to the risk.

Things to Consider

Are your existing supplier contracts a source of competitive advantage or disadvantage for your case? How would you change them to ensure cost and risks are better dealt with? Make a list of key contract terms that should be achieved and how you will achieve them.

3.9 Case Four – the Financial Case

This may seem like repetition – haven't the costs already been detailed and assessed in the Economic Case? Whilst it is true that both cases are largely measuring the results of the same incremental expenditure and income, there are some very significant differences between the accounting treatment in the financial case and the cash flow costings in the economic case.

In addition, the overriding issue is how the cash demands of the single business case will be met by the organisation and how this affects its overall short term trading position (given all the other demands for cash) as well as longer term profitability.

3.9.1 Sources of Funding

Depending on your organisation, the financial case and budget may be a critical document necessary to the presentation of the Business Case to external funding agents, banks, shareholders or other interested parties. If you have an internal treasury department this may well be dealt with as part of a portfolio approach to project funding, in which case finance endorsement of the economic case may be all that is needed. Either way you need to know how funding will be approved and managed.

3.9.2 The difference between Accounting costs, Budgeted Costs and Decision-Making costs

Although there is only one cash flow into and out of the organisation, the way costs and income will be shown in the financial case for the proposal may differ in some important respects from those in the economic case. It is important to be able to recognise these to ensure they are being treated in the right way. Take some examples …

1. **Purchase of machinery** …

- **Economic Case** – this will be a single cash flow for purchase charged at the time of acquisition.. The cost of capital needed to fund the purchase is included in the Discount rate so is not a separate cash flow
- **Financial Case** – the initial cost of purchase and installation of machinery is capitalised and recorded on the accounting Balance Sheet. The capital value is then depreciated and charged to the Profit and Loss account as a series of payments during its lifetime of use. The cost of capital (e.g. interest, shareholder dividends) is charged to the profit and loss account when periodically paid out.

2. **Income received** …

- **Economic Case** - Income is shown in the calendar period as received. The cost of money tied up in goods sold (working capital financing cost) is included in the Discount rate's weighted average cost of capital.
- **Financial Case** – the sale and supply of goods or services creates a debtor shown in working capital on the balance sheet (but no cash flow takes place at that point). The debtor balance is reduced when cash is actually received. The average debtor balance over the year incurs a cost of funding which is charged to the Profit and Loss account on a periodic basis.

Whilst most of these differences are technical in nature, and over time we would expect the performance measured to be broadly equivalent, it is important to distinguish costs being used for one purpose or the other as the all-important timing of cash flows can be very different. Ensure that you have a clear understanding of the difference.

Similarly the Budget to be established for the case will show actual (new cash) budgeted income and expenditure to be added to the organisations departmental business plan, which may be different from the incremental business case figures. The budget may need to include the total cost of purchasing new equipment for example, whereas the scrap credit for old equipment may appear against the departmental budget of another department.

The incremental cost doesn't appear anywhere except the Business Case and of course is netted out in the consolidated accounts of the organisation, which only show total income and expenditure. The budget can also include an allocated share of overheads – again it is a nominal cost as it is incurred and managed elsewhere in the organisation and may be different from the incremental overhead effect on the business case.

If this all sounds a bit confusing, my advice is just to carefully question the source and purpose of all costs, income and cash flows to know whether they are relevant to decision-making or budgeting or both.

3.9.3 Cash flow and the Balance Sheet

A positive economic case NPV is fine (and necessary), but if the demands on cash for investment result in accounting liquidity problems for the organisation, the long term benefits may never be achieved, as it will go bust before that day ever arrives. The job of the Financial Case is also to demonstrate …

- How the cash demands for fixed assets, working capital and operating costs will be met by sources of funding – will it be out of cash reserves, by raising shareholder funds, bank borrowing or other debt instrument?
- How the business case will affect reported profit and relevant reporting ratios – will a large increase in debt funding affect the share price and therefore performance and future opportunities?

These issues will need to be worked through and included in the final business case decision. Have a look at the worked example in Section 4.1.5 to see how different the effects can be.

3.9.4 The Funding Decision

As the discussion in the previous section suggests, the specific source of funding is not a major concern of the economic case except where it gives rise to a major incremental cash flow or a change in discount rate. In fact it is usual to focus only on the additional financial contribution (more cash or less cash) of the activity and leave the question of methods of funding to the financial case. So the rule is …

- First determine if the proposal makes / saves money on its cash flows
- Second decide how it is going to be financed
- Third assess the impact of financing.

The financing decision for a large project is often a specialist matter requiring assessment of impact on the organisation's funding arrangements and existing commitments, discussion with stakeholders etc. The method of financing chosen or available may add cost to the organisation if it exceeds the average cost of capital (or vice versa), but this is usually taken as part of the capital infrastructure expense rather than charged to the project itself. It will however be taken into account in overall assessment of the business case decision.

Things to Consider

How does your organisation fund new projects? What bearing will this have on how you develop a business case? Do you need to present a financial case to external backers or banks? Who will be responsible for this and what information will they need? If internal, who is the finance authority and what requirements do they have?

3.10 Case Five – the Implementation Case

This section describes a general approach and must be carefully tailored to organisation capability and existing operating models, particularly any project management models in use.

3.10.1 Feasible and Credible

The final test of credibility of the Business Case is whether there is a feasible plan for implementing it.

Feasible means, for example …

- The organisation has the capability or is able to secure the capability
- The timescales are reasonable
- There is a plan
- There is support from stakeholders
- There is budget provision
- Risks have been fully anticipated and mitigated
- The organisation is able to integrate the project without being disrupted.

Credible means of obtaining agreement to the plan, which will very much depend on the past experience of the organisation, current concerns, relationships between key operational managers and a whole host of specific issues that you will need to research in your own organisation (see especially Stakeholder Management).

Just having a formal project plan prepared according to the manual will seldom be enough to provide conclusive evidence of ability to implement – although it is always an essential part of the process.

3.10.2 Project Plan

The first priority is to be clear who will deliver the proposal and their various project roles, including …

- who will be responsible for making the investment decision (whether a management group or an individual)

- the Senior Responsible Owner or Officer (SRO in PRINCE2® terms) or equivalent as the named individual who will be personally accountable for the success of the project. Why are they the right person for this role?
- the Project Manager – the person who will actually manage progress, including production of a Business Case. What are their qualifications, experience, and track record of success?
- the main stakeholders – what is their interest, how will they play their part?
- key members of the project board or other decision making group – their roles and who they represent.

Confirm that as well as the SRO and project manager having appropriate skills and experience for the project, they will have access to specialist expertise (e.g. financial and economic) to supplement their skills if required.

Any project methodology chosen to represent the plan must be understood and easily recognised by the key stakeholders, and proportionate to the task. If your organisation has a standard requirement (e.g. PRINCE2®), as a business case lead you should ensure that it is being applied sensibly and supported effectively.

3.10.3 Procurement Strategy

Set out the timetable and justification for the proposed procurement approach. Procurement means identifying the suppliers of goods and services and negotiating an agreement with them to suit the project and its stakeholders. Ensure the following …

- A suitably qualified and experienced person is in place to organise and operate the procurement process from end to end
- Any procurement and buying professionals needed to endorse and operate the procurement are fully supportive and have provided for this in their work schedule
- Any external specialist advisors have been identified and costed (e.g. property, IT contracts, licensing)
- All procurement lead-times are provided for in the project plan – time for tendering and adjudication for example, or compliance with European Community procurement legislation in the case of a public body
- Background and financial stability checks have been carried out on preferred suppliers and any relevant risks identified in the business case.

Failure to properly plan procurement activities and gain the active participation of procurement specialists is a frequent cause of business case failure or delay,

and can lead to poor contracting decisions taken in haste. Don't leave it until last!

3.10.4 From Business Case to Operation

The final part of the implementation plan should be a clear description of the transition from project into operation. It can happen that a carefully assembled project team, often with many consultants and contractors, develops, specifies and buys a solution that the operational teams in the organisation are unable or unwilling to put effectively into day to day operation.

This must be avoided by planning the involvement of key operations people from an early stage, including operational handover (and related costs) in the project plan, having the right representation on project boards, procurement planning and in business case approval.

Things to Consider

Who is responsible for implementation of your case? Who is affected by implementation of your case? How will you obtain their agreement? Can you think of an example of poor implementation planning in your organisation – what would you have done differently?

4. The Finished Product – Example Business Cases

The Purpose of this Section

We have been through principles and theories so it is about time to look at how they could be applied in practice. This section gives examples of both small scale and a large scale Business Cases in order to illustrate the application of ideas. Given that many larger business cases can easily run to 50-60 pages of evidence and analysis this is of course a simplification and focuses on the main presentational points only.

Examples in this section cover …

- A large industrial business case involving strategic issues and investment over time
- A small investment case involving replacement of a computer
- A small expenditure case involving the simple choice of low cost supplier
- Issues to consider when presenting a business case to an external bank or other lender

In all cases you should always refer again to the following content structure as a guide, reducing or combining the headings and sections as appropriate ...

For Read Out Loud Readers: The table has 2 columns and 8 rows

Business Case Content	What is covered
The Objective: the problem or opportunity statement	Why does this need to be done? What appears to be the benefit or the threat? What might happen if it is not done? This is the statement that will be tested and reviewed by the business case.
How does this proposal fit with the organisation's strategy	Depending on the scale and impact of the Case, the full impact on the organisation's strategy is discussed, considering advantages and disadvantages.

Economic evaluation of options	Describing how options were generated, setting out the financial and non-financial costs and benefits of chosen options, deriving a preferred option using investment appraisal, always clearly stating your assumptions.
Commercial evaluation	How any goods or services will be sourced, likely contract terms, potential suppliers, contractual frameworks, ensuring the viability of the proposals.
Financial assessment	Financial viability: Sources of funding, impact on organisation profit, cash flow and balance sheet, budgeting issues.
Implementation	How the proposal will affect the organisation, how it will be implemented, who will be responsible. This is key to gaining stakeholder consent.
Risk Assessment	Risk assessment relating to all inputs, outputs and assumptions of the implementation as this will form a key part of the go/no-go decision.
Benefits evaluation and post-audit	It is good practice to anticipate and prepare for how the benefits will be assured and reviewed and by whom.

For Read Out Loud Readers: The table has finished

Narratives and economic calculations have been prepared for each example so that you can see how the techniques can be applied. These are by no means the only way of presenting a case for decision. You should spend some time thinking what you might do differently when dealing with a similar size case in your own organisation to achieve the result you need.

4.1 A Large Industry Business Case – ALLCOTE plc.

ALLCOTE plc. is a producer of industrial coatings, based in England but with customers across Europe. It is experiencing steady growth and will shortly run out of production capacity to meet demand. ALLCOTE has options for increasing capacity, but each has their drawbacks. A decision must be made.

4.1.1 The problem or opportunity statement

Why does this need to be done? What appears to be the benefit or the threat? What might happen if it is not done? This is the statement that will be tested and reviewed by the business case.

The company has significant capacity problems at the West of England production facility. Without further investment, sales opportunities will be lost and long-term market share will be eroded. Our estimate is a loss of 25% of current market share and value over five years, depressing profits and returns to shareholders. The investment will also be a chance to install new technology and environmental features, although this brings risks of its own. The question is therefore whether to invest in additional capacity, in UK or other territories or pursue other options such as buying a competitor's plant.

4.1.2 How does this proposal fit with the organisation's strategy?

Depending on the scale and impact of the Case, the full impact on the organisation's strategy is discussed, considering advantages and disadvantages.

ALLCOTE'S strategic drivers are: To be market leader in specialist coatings, exceed all standards for ecologically safe and sustainable coatings production, establish industry-leading production facilities in emerging markets.

The proposal will contribute to market leadership by maintaining capacity, will give an opportunity to invest in highly environment-friendly production, and will put investment resource into establishing facilities in other markets. Therefore a strong strategic alignment exists.

4.1.3 Economic evaluation of options

Describe how options were generated, setting out the financial and non-financial costs and benefits of chosen options, deriving a preferred option.

A range of options was considered by conducting industry surveys and a series of executive team workshops. Options generated were …

1. Extending existing facilities using existing technology, upgrading environmentally
2. Investing in an additional facility using new technology
3. Building a separate new technology plant to replace the entire existing facility
4. Investing in additional capacity in other markets and importing product
5. Acquiring existing plant from XB plc.
6. Sourcing product from a third party reseller

Options 5 and 6 were discarded as not being sufficiently compliant with company environmental strategy. Option 3 was discarded due to capital constraints on investment. The evaluation was carried out using options 1, 2 and 4. The base or "do nothing" case would be to continue operating existing plant and steadily lose sales and market. These options are therefore compared with the base to identify incremental costs and benefits (all shown at current price values), including the difference in net cash flows due to the impact of expenditure and income flows on taxation payments[5] .

Things to Consider

When looking at the three short-listed options below, what other costs or incomes can you think of that would be relevant to this situation? Are they true incremental costs/revenues? What about intangible (non-quantitative) costs & benefits?

Option 1 – Increase Existing Plant Capacity

It would be possible to install additional capacity alongside the existing plant using second-hand equipment, recruit a small extra workforce and operate additional shifts. Retro-fit environmental improvement technology would be relatively costly but would offer measurable benefits. A residual value for the investment is shown after 5 years. Some sales volumes will be lost during re-fit.

For Read Out Loud Readers: The table has 2 columns and 8 rows.

Additional Income/Expenditure	Intangible Cost/benefit
- Purchase of second-hand plant	+ Environmental improvement
- Building extension	- No emerging market presence
- Workforce costs	- Misses strategic environmental goal
- Environmental Upgrade	- Workforce morale adversely affected

[5] The examples which follow show a net tax cash flow for each which results from: (i) a benefit from capital allowances on investment in plant (ii) the reduction of taxable profit by deduction of additional cost of sales (iii) the increase of taxable profit by additional sales and reductions in operating costs. This is a simplified representation of actual allowable tax to show that a project can have a significant incremental tax impact on the company's cash flow and that the cost or benefit needs to be considered using expert taxation advice.

Additional Income/Expenditure	Intangible Cost/benefit
- Lost sales during rebuild	
+ Increased sales post-rebuild	
+ Incremental tax benefits	

For Read Out Loud Readers: The table has finished

Coatings Plant: Option 1 Cash Flow

£000

YEAR	2012	2013	2014	2015	2016
Plant & Building	-£400				£75
Workforce addn. cost	-£5	-£10	-£10	-£10	-£10
Environmental upgrade	-£100	-£2	-£2	-£2	-£2
Lost sales contribution	-£20	-£30			
Additional sales contrib.			£100	£125	£200
Net total	-£525	-£42	£88	£113	£263
Taxation		£58	£25	£15	£5
Net Cashflow After Tax	-£525	£16	£113	£128	£268

Option 2 - Add New Plant at the Existing Site

This would require building a separate facility at the existing site, duplicating some facilities and overheads. The existing plant would need environmental upgrade. However it could be brought into production rapidly without interrupting production. A residual value for the investment is shown after 5 years.

For Read Out Loud Readers: The table has 2 columns and 4 rows

Additional Income/Expenditure	Intangible Cost/benefit
- Build of new facility on site	+ Environmental improvement
- Building extension	+Rapid market response
- Workforce costs	- Partly misses strategic environmental goal

Additional Income/Expenditure	Intangible Cost/benefit
- Environmental Upgrade	- No emerging market presence
+ Increased sales	
+ Incremental tax benefits	
+ Incremental tax benefits	

For Read Out Loud Readers: The Table has finished

Coatings Plant Option 2 Cash Flow

£000

YEAR	2012	2013	2014	2015	2016
New build	-£700				£350
Workforce addn. cost		-£5	-£5	-£5	-£5
Environmental upgrade	-£40	-£1	-£1	-£1	-£1
Additional sales contrib.		£150	£175	£200	£250
Net total	-£740	£144	£169	£194	£594
Taxation		£44	£31	£20	£4
Net Cashflow After Tax	-£740	£188	£200	£214	£598

Option 4 – Build New Plant in an Emerging Market Location

A new plant would be built in an emerging market location. This would take advantage of lower local labour and material costs, as well as improving access to local markets and increasing sales. Although advanced plant would meet company environmental goals, local sourcing to the same standard may be more problematic. Product would be imported to the UK to meet growth in demand. A residual value for the investment is shown after 5 years.

For Read Out Loud Readers: The Table has 2 columns and 5 rows

Additional Income/Expenditure	Intangible Cost/benefit
- Research location & build of new facility	+ Environmental improvement
- Cost of transport to supply UK market	+ Rapid market response

Additional Income/Expenditure	Intangible Cost/benefit
+ Increased sales in new markets	+ Emerging market presence
+ Reduced workforce costs	- Partly misses strategic environmental goal
+ incremental tax benefits	- Potential problems from UK job loss

For Read Out Loud Readers: The table has finished.

Coatings Plant: Option 4 Cash Flow

£000

YEAR	2012	2013	2014	2015	2016
New build	-£500	-£500			£500
Workforce savings		£10	£15	£15	£15
Import costs		-£7	-£10	-£12	-£15
Raw Materials savings		£10	£15	£20	£25
Additional sales contrib.		£150	£200	£250	£300
Net total	-£500	-£337	£220	£273	£825
Taxation		£100	£147	£98	£60
Net Cashflow After Tax	-£500	-£237	£367	£371	£885

Economic Analysis of Options: Summary

Applying a DCF at a 10% rate of return to these cash flows shows that Option 4 always gives the highest NPV at £144,000 pre-tax and £471,000 post-tax. There is not much to choose between Options 2 and 4 on Payback, with the investment at risk until halfway through the final year of the costing.

Option 4 also has a higher ranking on intangible and strategic goals, with its immediate application to emerging markets and contribution to environmental targets. There are, however, risks associated with such a move and these will need addressing.

All options contribute a net tax benefit to the company due to the timing and size of capital investment tax reliefs, with some offsetting increases in tax due to reduced operating costs and additional taxable income receipts.

The tax benefits to Option 4 are substantial and due largely to the capital allowances arising in the first two years. Option 4 still has the best positive NPV without tax benefits.

Conclusion: On economic grounds Option 4 provides superior performance yielding most in excess of the 10% target, and making a valuable contribution to Group strategy.

Coatings Plant Investment: Summary of Options Comparison - Post Tax

£000

YEAR	2012	2013	2014	2015	2016
Net Cash Flow Post Tax					
Option 1	-£525	£16	£113	£128	£268
Option 2	-£740	£188	£200	£214	£598
Option 4	-£500	-£237	£367	£371	£885
Discount Factor 10%	1.0000	0.9091	0.8264	0.7513	0.6830
Discounted Cash Flow Post Tax					
Option 1	-£525	£15	£93	£96	£183
Option 2	-£740	£171	£165	£161	£408
Option 4	-£500	-£215	£303	£279	£604

NPV Pre Tax		**IRR Pre Tax**	
Option 1	-£226	Option 1	-6%
Option 2	£82	Option 2	14%
Option 4	£144	Option 4	16%

NPV Post Tax		**IRR Post Tax**	
Option 1	-£138	Option 1	0%
Option 2	£165	Option 2	18%
Option 4	£471	Option 4	31%

Payback					
Cumulative DCF Post- Tax:					
Option 1	-£525	-£510	-£417	-£321	-£138
Option 2	-£740	-£569	-£404	-£243	£165
Option 4	-£500	-£715	-£412	-£133	£471

4.1.4 Commercial Evaluation

How any goods or services will be sourced, likely contract terms, potential suppliers, contractual frameworks, ensuring the viability of the proposals

Option 4 will require negotiation of contracts for build, employment and operation, including on-going purchase of materials and services for production. The company already has good emerging market supply contract terms due to existing sourcing arrangements. However a number of new contracts will be required and present both commercial and reputation (environmental) risk. These will require further evaluation prior to approval. Indicative quotes already received from suppliers suggest that prime costs for construction and supply are achievable.

4.1.5 Financial assessment

Financial viability: Sources of funding, impact on organisation profit, cash flow and balance sheet, budgeting issues.

This investment will produce a net contribution to profit after tax and earnings per share from year 1. Investment will be raised from existing reserves and current cash flow, with an increase of debt not to exceed £250,000 in 2012-13. This sum is within the current agreed bank facility. There will be no new shareholder capital required. Some budget adjustments will need to be made to the UK plant business plan in order to divert planned growth expenditure to the new facility.

[This is a simplified layout to represent only major accounting and cash flow items and reconciles total Accounting Profit and Net Cash Flow – note that some timing and accounting differences might be expected in respect of revenues and costs, here it is assumed for presentation that most occur in the same period as the DCF cash flows.]

Option 4: Financial Accounts reconciled to DCF - Incremental effects

£000 YEAR	2012	2013	2014	2015	2016
Revenue	£0	£150	£200	£250	£300
Materials	£0	£10	£15	£20	£25
Transport	£0	-£7	-£10	-£12	-£15
GROSS PROFIT	£0	£153	£205	£258	£310
Workforce cost	£0	£10	£15	£15	£15
EBITDA	£0	£143	£190	£243	£295
Depreciation (10%)		£50	£100	£100	£100
EBIT	£0	£93	£90	£143	£195
Tax	£0	-£100	-£147	-£98	-£60
PROFIT AFTER TAX	£0	£193	£237	£241	£255
Add back:					
Depreciation	£0	£70	£130	£130	£130
Capital spend	-£500	-£500	£0	£0	£500
NET CASH FLOW	-£500	-£237	£367	£371	£885

See footnote for definition of accounting terms[6]

Things to Consider

Note the significant presentational difference between investment appraisal cash flow each year and the reported impact on accounting profit. The difference is of course attributable to the fact that the cash to pay for the investment is coming from the balance sheet and effectively from shareholders and lenders. They are rewarded by a profit increase and therefore return to their investment on payment of dividends and interest. But wait, isn't that funding an incremental cash flow too? Well no, because it is already allowed for in the weighted average cost of capital in the Discount Factor. As long as the case makes that return it meets the need to reward investors and creditors for their lending.

4.1.6 Implementation

How the proposal will affect the organisation, how it will be implemented, who will be responsible. This is key to gaining stakeholder consent.

A planning and design team will be assembled from the existing business and relocated to the new market for the duration of the build. This will require a new executive position responsible for overseeing the expansion. The project team will be completed with in-country consulting specialists to ensure local requirements are fully understood. This is a relatively high-risk implementation and will require close management to ensure the plan stays on target.

The project board will be chaired by the head of production. Implementation costs are included in the project start-up plan.

4.1.7 Risk Assessment

Risk assessment relating to all inputs and outputs of the implementation as this will form a key part of the go/no-go decision

Significant operating risks include the economic stability of the target country, leading to currency exchange risk. These will be hedged as far as possible. The quality of local subcontractors and raw material suppliers will need careful monitoring to ensure the risk of reputation damage and loss of or interruption to sales is minimised. Remote management of the new build is a significant risk

[6] EBITDA = Earnings (profit) Before deduction of Interest, Tax, Depreciation and Amortisation (which is the writing-off of any loss of intangible asset values). EBIT = Earnings Before deduction of Interest and Tax but after deduction of Depreciation and Amortisation. These are commonly used terms in accounting performance reporting. To reconcile Accounting Profit to Economic Cash Flow, Depreciation is added back to Profit as it is not a real cash flow, and Capital Spend is deducted instead as it is a cash flow.

with reasonably high probability of delay. However the incremental sales benefits would have to fall by nearly 30% to reduce the NPV to zero so this risk is regarded as acceptable.

4.1.8 Benefits evaluation and post-audit

It is good practice to anticipate and prepare for how the benefits will be assured and reviewed and by whom.

Benefits evaluation will focus on the following ...

- The Executive committee will ensure initial facility build costs are managed on target
- The remuneration committee will be responsible for agreeing targets to achieve sales
- The Audit committee will oversee all project costs and be responsible for assuring operational savings during project life.

A post-implementation report will be prepared for the executive committee to be used as a benchmark for future investment in new market entrance.

4.1.9 The Summary and Recommendation

This section will of course appear at the beginning of the Business Case and takes the form of an executive briefing and recommendation. In this case it would read as follows:

The company has significant capacity problems at the West of England production facility. Without further investment, sales opportunities will be lost and long-term market share will be eroded.

Three options were considered. Applying a DCF of 10% to all cash flows shows that Option 4, building a new additional plant in an emerging market, gives the highest NPV at £144,000 pre-tax and £471,000 post-tax. Payback is however only achieved over 4 years which may represent a high risk in an unstable economic environment.

Option 4 also has a higher achievement on intangible and strategic goals, with its immediate application to emerging markets and contribution to environmental targets. There are significant implementation and operation risks associated with such a move and these will need addressing through implementation planning. The high return to this project does provide confidence in delivering a positive NPV and would appear to be an adequate compensation for the unquantifiable risks involved.

Conclusion: On economic grounds Option 4 provides superior performance yielding most in excess of the 10% target, and making a valuable contribution to group strategy. Subject to suitable governance, risk-management and decision-making safeguards this option should be adopted.

Things to Consider

Do you agree with this recommendation? Is it fully supported by the evidence? What other risks would you consider relevant?

If you could, what would you do to improve the case for Option 2? What would be the effect on cash flow, returns, risk and so on? Calculate the NPV benefit of your proposals and write an improved business case summary using your assumptions.

4.2 A Small Investment Business Case – Laptop Replacement

This example shows how the 5-case headings might be shortened and combined in order to cover the same scope but in much simpler terms. It also shows how important it is to focus on the real decision points and not get drawn into over-analysis of costs. There are some potential shortcomings with this case, so see if you can use your new knowledge to challenge the case as you read it through.

The case

Derek is having problems with his five year old laptop. Although it works, he cannot use the latest versions of office software and he is regularly losing operational time for minor repairs. He wants to choose a new model that is not on the approved supplier list.

4.2.1 Summary of the proposal and requirement

My laptop is now 5 years old and is well below current standard specification. My role now requires increased remote working and access to complex business case and project information. Having experienced a series of problems and failures in use, I have been advised to make a case for a replacement machine. There are some new options available that I think will significantly increase my productivity. I believe that a Tablet PC using Cloud-based software solutions will be the best choice, offering the lowest costs and greater operational advantages.

4.2.2 Options and preferred choice with costings

I do not believe that continuing with the existing laptop is an option. By September the new release of Project software will render it unusable. It will have a negative scrap value due to the safe disposal and recycling charge of £50. The choice is therefore between …

1. **Standard portable** – high specification Windows PC, standard office packages and expected to have a 5 year life in service
2. **Apple Mac Pro** – medium specification, non-portfolio but excellent cross-project team software working facility
3. **Tablet PC** – high specification, ultra-portable, essential software only and relies on accessing central servers for storage of large files and software applications.

Costings are as follows ...

PORTABLE COMPUTING OPTIONS	Purchase Cost	Initial Software Cost	Annual Support Charge	Life span	Simple Annual charge
1. Standard PC	£700	£300	£400	5	£600
2. Apple Mac Pro	£1,000	£500	£350	4	£725
3. Tablet PC + Cloud	£550	£350	£300	3	£600

Although Options 1 and 3 have the same annual cost, the operational advantages of Option 3 are considerable and it will allow me to be much more productive, keeping up with new developments and techniques. I therefore recommend approval of Option 3 and authorisation of the total external expenditure involved of £900 on 2012 and £300 recurring cost in each of the subsequent 3 years.

What you need to know

What Derek has done here is to simply annualise the cost of ownership and eliminate the difference in life expectancy, which avoids the need to do a full costing with cash flows.

This may be perfectly acceptable if you can expect to replace things more or less like-for-like over a number of years. It would not be the right thing to do if you were expecting big changes in products, prices or your need for certain functions

– e.g. it would not make sense to buy something lasting five years if it would be technically redundant in three.

Since both Option 1 and Option 3 have the same apparent cost, let's have a look at whether a DCF analysis would produce a better result.

The cash flow is set out over a five year period. When discounted at 10%, the time value of money begins to affect the present value of the expected future expenditure. This makes Option 3 look significantly cheaper than the others. However this is misleading as it does not allow for the different life expectancy of each option.

Cash Flow

Year	0	1	2	3	4	5
Option 1	£1,000	£400	£400	£400	£400	£400
Option 2	£1,500	£350	£350	£350	£350	£0
Option 3	£900	£300	£300	£300	£0	£0

Discounted Cash Flow @10%

Year	0	1	2	3	4	5	PV (actual life)	PV (3 yrs)
Option 1	£1,000	£364	£331	£301	£273	£248	£2,516	£1,995
Option 2	£1,500	£318	£289	£263	£239	£0	£2,609	£2,370
Option 3	£900	£273	£248	£225	£0	£0	£1,646	£1,646

In order to deal with the life expectancy question you will have to introduce a future cashflow for the replacement of options 2 and 3 before the five years are up. However, if you simply put in the total cash flow it will distort the comparison by not giving any credit for the remaining life of options 2 and 3.

Cash Flow - With Replacement

Year	0	1	2	3	4	5	Total Cash Flow
Option 1	£1,000	£400	£400	£400	£400	£400	£3,000
Option 2	£1,500	£350	£350	£350	£350	£1,850	£4,750
Option 3	£900	£300	£300	£300	£1,250	£300	£7,750

Back to the drawing board then – and allow for the remaining life by reducing the proportion of replacement cost used for options 2 and 3. This could be done by taking the replacement cost , divide it by the expected life and multiply by the number of years to the end of the costing – e.g. £900 divide by 3, multiply by 2 – not forgetting to add in the annual maintenance costs.

When discounted this gives a very different result ...

Discounted Cash Flow - With Replacement - @10%

Year	0	1	2	3	4	5	PV (extended life)
Option 1	£1,000	£364	£331	£301	£273	£248	£2,516
Option 2	£1,500	£318	£289	£263	£239	£583	£3,192
Option 3	£900	£273	£248	£225	£615	£186	£2,447

In fact it puts options 1 and 3 back on almost level-pegging, exactly as the simple annualised cost analysis did in the first place. This means you will probably have to look for other reasons than pure cost to make the decision between options.

Things to Consider

Obviously the uneven lives problem is a realistic one and you will need to consider it carefully. When carrying out a DCF you will immediately have to deal with it. Be careful that you do not simply introduce spurious accuracy. In this case there are probably a lot more important non-financial factors to consider before making the purchase decision.

The simple annual cost has been a useful guide in this case and can encourage the decision-maker to concentrate on other more important issues rather than spend a lot of time working up and reviewing complex costings.

4.2.3 Proposed supplier

The supplier of Option 3 will be Boatphone warehouse. They offer the lowest advertised purchase cost. There is no call-out support but a 24-hour return by post service will replace any faulty equipment. A three year warranty is included in the price.

4.2.4 Budget assessment

Replacement of the existing laptop has not been budgeted in the current period as life expectancy was originally 5 years. The expenditure will be funded by deferral of other project costs and by increased productivity. The total budget requirement in the current year will be external expenditure of £900 plus a recurring support cost (online subscription) of £300. No allowance has been made for internal IT cost as there should not be any requirement.

4.2.5 Operational impact

This will be the first Cloud-enabled IT application in the organisation so there may be a steep learning curve for anyone involved in support. However since Cloud services are effectively outsourced and offer a broadly based service standard this should not have an impact on users of older technology. The concerns of the IT support department should be overcome with time.

4.2.6 Risk Assessment

There are some risks associated with early adoption of the new technology. These will be mitigated by keeping a back-up of the existing laptop which in any

case only has negative disposal value. There is also the risk of early obsolescence of Option 3 but the short planned life suggests this will be minimal. Security of applications run on Cloud applications could be a concern but we have not heard of any in press reports to date so will need to keep an eye on this question.

Things to Consider

- How would you recommend this case be decided?
- Do you think the productivity and performance benefits outweigh the risks?
- Do you feel that the internal stakeholders have been adequately dealt with (e.g. the IT support department)?
- What else would you expect to include in the case to make it more robust?

See Suggested Answers in Annex 4 when you have tried your own.

4.3 A Simple Expenditure Business Case Decision – Parcel Delivery Options

Finally here is a very straightforward decision that you may make regularly without thinking too much about it. You may from time to time be asked to explain it to someone else or have to ask for it to be authorised. Instead of saying "it's obvious" why not make a clear and conclusive case and impress someone with your business case skills?

The Case

Susan has to make an urgent delivery to an office 60 miles away. She basically has the choice of taking it herself by car or train or paying for a courier. Her organisation's rules require a case to be made for spending of this type.

4.3.1 Proposal

I request authorisation for spend to deliver a special package to the Leeds office by courier, at a cost of £75. If this package is not delivered by 17.00 today the customer presentation taking place tomorrow will have to be cancelled.

4.3.2 Options

1. **Deliver by car**: Mileage 120 x rate of 40p = £48 plus lost working time of 3 hours x £50 = £198
2. **Deliver by train**: Fare (off peak) = £35 plus taxis £15 = £50 plus lost working time of 3.5 hours x £50 = £225

3. **Courier**: Delivery charge £75 plus preparation time 0.5 hours x £50 = £100

Recommendation: Use courier as the saving in lost working time is worth considerably more than the £27 additional cost of a courier over the cheapest alternative.

4.3.3 Proposed Supplier

Axle Couriers, gives the best of three prices offered and is available on existing contract. Previous performance of this supplier has been excellent.

4.3.4 Budget

This will be charged to corporate office services (budget holder approval has been obtained).

Things to Consider

In this case there is no need to consider cost of capital, time value of money, internal rate of return or any complex economic calculations. The case does however preserve the essentials of ...

- Being clear on the objective and the results
- Setting out costed options
- Giving a rationale for choice of supplier
- Confirming how the case will be funded

Is there anything you would add to the case? Is it clear on all the main points?

See Suggested Answers in Annex 4 when you have tried your own.

4.4 Insight into: A Business Case for Securing Bank Funding

This is a specialist application of the business case approach, but only because you will need to adapt your case to the expectations of a lender and recognise the authorisation and approval steps specific to their organisation. This can of course vary from bank to bank, but you can expect a lender to be very concerned with questions of liquidity, managing risk and the ability to pay existing debts and obligations, and only then to be interested in future potential of new opportunities.

For this reason, the Financial Case part of our 5-Case structure would need to be given priority (see again Section 3.2.5 for an example analysis)

Whereas small businesses in the past often had a quite close and mutual understanding with their bank, this is seldom the case now with more

automation, remote services and many formal lending compliance steps. You cannot always rely on a prior relationship and confidence to gain agreement. This then often means having to present not only the business case that needs funding but probably also a current business plan for the organisation as well.

The logic of this is quite simple – the lender needs confidence that the organisation overall is soundly run and will stay in business long enough to ensure that the business case under consideration can be delivered and pay back its funding. You probably do not have a Moody's or Standard and Poor's credit rating for your small business.

In any given situation you will have to judge how much of the bank's prior knowledge and confidence you can assume and how much needs refreshing and representing. Many lenders have a pro-forma available online through their small business support activity and which needs completing every time. There is no harm in asking of course.

This can lead to some confusion over whether what is required is a business plan or a business case (see Section 6 on Business Planning for a discussion of the difference). The likely answer is that it is both in order to tell the complete story of the organisation's business health and viability, as well as the benefits that will come from making a specific investment or expenditure. No-one wants to throw good money after bad.

This kind of scrutiny is not usually seen in an internal company business case, where the financial or funding case carries the implicit stamp of corporate approval of the organisation's overall financial health and resources.

The sort of fundamental questions that might be asked by a lender are …

- What is your business idea?
- How do you plan to develop it?
- Who are your customers?
- How will you market your business?
- What previous business successes can you demonstrate?
- Who are your competitors?
- How will you fund it?
- What is your vision for its future?
- How is your business sector performing?
- What is your credit history?
- What capital do you have?
- Will you be able to service a loan?
- How much security can you offer?

The financial business plan to underpin this, in addition to the Financial Case from the 5-Case structure will probably need to show …

- A complete business plan, with details of your capital, cash balance and cashflow patterns, profit and loss forecasts, and sales forecasts for the next three to five years
- Your assets and how you will secure the loan
- Past three years' accounts for any previous businesses you have run
- Employment record, highlighting significant achievements
- References and testimonials from previous employers and customers.

The development of a full financial business plan for lender analysis is beyond the scope of this Useful Guide.

Only after satisfying these questions will it be possible to look at the business case on its own merits (i.e. the economic case for a proposal, whether it pays back, what sort of return it makes, what is its NPV).

5. Delivering the Business Case

The Purpose of this Section

There are two key areas to focus on to ensure your case gets the hearing it deserves. The first is **Stakeholder Management**, as decision-making is all about people, their perceptions, understanding and judgment. The second is **Presentation**, as how you put the message across will make all the difference. This section gives you some approaches to dealing with them.

5.1 Stakeholder Management

We have noted the importance of working out who the stakeholders are and what they are concerned about. It's time to tackle the question of managing them.

5.1.1 Friend or Foe

A positive-thinking approach to stakeholder management would advise that there are no friends or foes, only people or groups with different interests. That is largely true and it is good advice designed to take the heat out of the consultation and negotiation of objectives. However, it's also realistic to expect that there may be key people who militantly oppose what is being proposed, are not interested in contributing, have their own alternative plans, or simply don't want to understand what the change involves. Some tools of implementation planning will be useful here.

5.1.2 Stakeholder Management as part of Implementation Planning

There are (often) five key roles that a stakeholder can play …

- **Partners**, who support the case by contributing finance, staff, direction, etc.
- **Sponsors**, major funders or providers of authority to go ahead
- **Advocates**, who have a stake in the outcome and can influence other stakeholders
- **Change Agents**, who are involved in the implementation, such as major suppliers, the project team, client representatives
- **Targets**, the individuals or the groups affected by the implementation and who need to accept and operate the outcome.

What you need to do

Understanding the variety of needs and interests is crucial when deciding how to work with stakeholders. Identify some of your stakeholders and follow these steps to decide what category to put them in and how to deal with them.

STEP 1 - The first step in planning will be to classify stakeholders according to their status and degree of **Influence** and **Interest**. This is not an entirely scientific approach but you do need to understand where the most effective support and effective opposition will come from and deal with it accordingly. They could be one of four broad types ...

☑☒ **Influential but not very interested** - Your tactic: Actively meet their needs

- engage & consult on their interest area
- try to increase levels of interest by finding benefits for them
- aim to move into a higher positive interest position.

☑☑ **Influential and very interested - Key player** – Your tactic: Actively engage

- key players so focus efforts on this group
- involve in governance/decision making bodies
- engage & consult regularly, make sure all needs are met.

☒☑ **Very interested but low influence** – Your tactic: Show consideration

- make use of interest through involvement in low risk areas
- keep informed & consult on interest area
- potential supporter/ goodwill ambassador so give support.

☒☒ **Not interested, low influence** - Least important- Your tactic: keep informed and generate support

- minimum effort – but prevent becoming negative
- inform via general communications – newsletters, website, mail shots
- aim to move to higher interest level if cost effective to do so.

STEP 2 - Understand Your Key Stakeholders

You need to know your key stakeholders. You need to know how they are likely to feel about and react to your case, and how best to engage them in your project.

Key questions that can help you understand your stakeholders are …

- What financial or emotional interest do they have in the outcome of your work? Is it positive or negative?
- What motivates them most of all?
- What information do they want from you?
- How do they want to receive information from you? What is the best way of communicating your message to them?
- What is their current opinion of your work? Is it based on good information?
- Who influences their opinions generally, and who influences their opinion of you? Do some of these influencers therefore become important stakeholders in their own right?
- If they are not likely to be positive, what will win them around to support your project?
- If you don't think you will be able to win them around, how will you manage their opposition?
- Who else might be influenced by their opinions? Do these people become stakeholders in their own right?

STEP 3 - Decide how to work with your Stakeholders …

- You can use stakeholder opinions to shape your projects at an early stage. Their input can improve the quality of your project
- Gaining support from stakeholders can help you to secure access to resources – this makes it more likely that your projects will be successful
- Communicating with stakeholders early and frequently, you can ensure that they fully understand what you are doing and understand the benefits, communicating this on your behalf
- Through feedback you can anticipate what people's reaction to your project may be, and build into your plan the actions that will win support.

Things to Consider

How many stakeholders can you afford to accommodate? Which ones can you not do without?

5.1.3 And now a word on Sponsorship

A particularly important form of stakeholder is a Sponsor - if the subject of your business case will result in a significant change implementation in your organisation or market, it is absolutely imperative that you have …

- Sponsorship at the highest level

- Active personal cascading of sponsorship down the organisation (not skipping any levels)
- Active management of progress and feedback up the organisation by the people at the top

This is quite simply the only way to make a major change stick. There should therefore be a clear requirement for this in the business case implementation plan and it must be achieved as part of the sign-off. If it is not your job to manage stakeholders and sponsorship you can at least insist on its importance in the business case development process.

5.2 Presentation and Packaging

The Purpose of this Section

To give you a number of pointers on the communication of the business case to your decision-making audience.

5.2.1 Making an Impact

Business Case presentation can probably be summed up in two potentially conflicting ideas …

- **Compliance**
- **Making an Impact**

Complying with expectations of format, quality, style and especially financial authorisation, is very important in order to gain empathy quickly with your decision-takers – do not cut corners or be lazy with this.

On the other hand, especially if your case is likely to be controversial, innovative or just unexpected, it will be important to pick out those arguments and features that make it stand out in a positive but compliant way.

Your own style and impact will also be important – whether it is in a written submission, stand-up address or through other people – it must be executed well and not leave anyone doubting the quality or substance of the case.

5.2.1 Presentation Points

What you need to do

Just remember the following points developed so far in this Useful Guide …

- **Know your audience** and their roles, anticipate their needs and expectations
- **Know what it takes to get a decision** in your organisation, research things carefully. What do you need from them?
- **Make sure you have allies before the event**, make sure you use their support positively and leave their reputations enhanced
- **The first 5 minutes are the most important**, whether it is face to face or in a written document. Get off on the wrong foot and it's over.
- **Who are you?** Establish your role and what you represent
- **Make sure you start with the key points** - tell a really coherent and compelling story about why your case should be agreed, using all the relevant evidence. Test it out first with someone you trust
- **Keep it simple:** evidence that the right analysis has been carried out is important but present it as clearly and succinctly as possible e.g. tables, graphs and comparisons
- **Follow the Business Case structure** in the 5-case model – it's what they expect
- **Don't avoid discussing the bad news**, and expect to have some challenges, be ready
- **Back-up**: Make sure you have the professionals to back up your assertions and that they have checked your facts, Finance, Operations, HR for example
- **Summarise clearly** with fundamental points drawn from all areas of the business case.

Of course all of these steps need to be adjusted to the scale and scope of your case. A one-page case has less detail but should still hit all the key points above, explicitly or implicitly.

Things to Consider

You can find out more about good report writing and presentation skills elsewhere in the Useful Guide series or in a variety of training courses. These are of course most useful when you know what you want to achieve, so having a particular business case presentation in mind is very helpful.

6. Supporting Acts

The Purpose of this Section

Section 6 looks at subject areas closely allied to the development of the Business Case. It's definitely worth understanding them in order to make best use of them when building a Business Case.

6.1 Strategic Planning

"Corporate Strategy is how an organisation finds, gets and keeps its customers".

That definition makes it clear that how your proposals contribute to that strategy will be of extreme interest to senior business figures.

It is one thing to read and to understand what your organisation's strategic plan says, maybe another to appreciate what sort of analysis led to the plan. Knowing how your organisation's leaders came to conclude that the published strategy is the right one in the context of all the things they considered relevant would be a great way to ensure that the business case most clearly meets their needs.

Most CEOs who fail do so not because of bad strategy, but because of bad execution – it's all about communication, implementation and effective management. Put simply, the problem can be that the things a failing organisation does may be done well, but may well not be those that the strategy requires.

So how do you make sure this isn't down to you? Consider the following when getting ready to put a business case together.

6.1.1 How a strategy is put together

Deciding a Vision & Mission – The idea of what the organisation stands for, what it thinks it is (and will be) good at and how it will be successful in future. This is usually derived from knowing what the organisation is good at now, how it will get better, who its customers are and how they will be retained and grown in the future.

Understanding the Business Environment - to get to the strategy, the senior team will need to establish through high quality analysis how the organisation is performing, what its competitors are doing and what it will need to do to be successful in future. Michael Porter's Five Forces model is very widely used to analyse the different dimensions of: entry barriers, suppliers, customers,

substitute products, and industry rivalry in order to understand how the organisation is performing relative to others on all five dimensions.

Access to this thinking will clearly be of great value in testing whether a business case will deliver the strategy.

6.1.2 Implementation & Evaluation – turning strategy into action, getting the vision made into reality.

This is the critical part, and you should by now be very familiar with the idea of the way the business case brings together strategy and implementation and puts them to the test.

There are three distinct implementation phases …

1 Get clarity of intent

- What is the intent behind the strategy? What does it mean?
- What does it mean for each operational unit within the organisation?

2 Develop the strategic thrusts and broad based action plans

- What are the few important themes that need to be worked on to deliver the intent?
- What are the sub-themes and projects?
- What will success look like and how will it be measured?

3 Put in place detailed work plans

- How will the projects be led and resourced?
- Who will be responsible for each task?
- Are individual work plans aligned?
- What is the review process?

6.1.3 So to summarise on Strategy

What you need to do

Make sure that your case addresses the following points …

1. **The case for change** – the immediate reason why
2. **Rationale** – how this needs to be done
3. **Background** – environmental considerations
4. **Policy context** – if your organisation is policy-driven
5. **Strategic fit** – how well does this fit with the strategy, but if it doesn't, give a clear reason why it should diverge.

Things to Consider

Get hold of your organisation's strategy and make sure you understand it. What strategic projects are in progress in your organisation? What benefits or financial returns are they intended to deliver? How were they justified and improved?

6.2 Business Planning

6.2.1 Business Planning and the Business Case

The Business Plan of an organisation is in effect the case for its continued operation and existence. It sets out the business activities to be undertaken, costs incurred and revenues earned. It shows how those ensure its financial viability and success into the future.

The earlier sections of this Useful Guide show how to assess the impact of an additional or changed activity on the existing business plan – demanding scarce resources, funding requirements, impact on timescales etc. – so the case and plan must be considered together and not in isolation.

The relationship between a Business Case and Business Plan should essentially be that the plan for the future consists of the sum of the business cases that have previously been developed and approved.

The main distinction is therefore that ...

The Business Case is largely pre-decision and the Business Plan is post-decision

In other words, the Plan is something that everyone has agreed should and will (other things being equal) be done.

6.2.2 Business Plan Costs and Benefits

The Business Plan is aligned to the Financial Accounting of the organisation as it is designed to deliver the overall performance measured by the accounting Profit and Loss account and Balance Sheet. As we have discussed in the preparation of the Economic Case, the costs and benefits analysis used for decision-making presents information differently from that used for the financial accounting. It is important to be able to put the two side by side in the business case and ensure that they reconcile correctly as well as providing essential financial management information.

6.2.3 Benefits Evaluation in the Business Plan

Someone will carry responsibility for ensuring the Business Plan delivers the intended results. This will involve benefits evaluation and performance monitoring, and an organisation should monitor the original case to ensure that the benefits are realised. This is notoriously difficult to achieve but all too easy to ignore – once the case has been agreed it then too often disappears into the wider sea of operational plans.

The challenge is to find ways of measuring Business Case benefits through effective monitoring of the Business Plan, and to say how this will be done in the Business Case for approval.

The question then is who should be rewarded for success or bear the responsibility for failure of the project? An operational manager will be reluctant to cooperate with implementation if a project is risky and looks likely to depress their overall results. Some way of ring-fencing performance management may well be needed to ensure full buy-in, but not to the extent that it insulates everyone except the case manager from responsibility for making the initiative a success.

6.2.4 Which has Priority - Business Case or Business Plan?

If a business case is a major strategic "game changing" case, it effectively becomes the bulk of the future business plan. So it will be important not to constrain an essential strategic business case just because it doesn't fit comfortably with an existing plan.

Equally the business plan may have to meet very strict corporate funding, asset ratio and performance targets which make some types of case unsupportable even though they show a good positive economic return.

This is a good example of how organisation tensions may sometimes need to be understood, played out and resolved between stakeholders in order to make a successful case. A business case will rarely exist in a vacuum and only need to consider its own merits. This would typically only be the case if it is very small, completely self-funded or deliberately set outside mainstream business for tactical reasons.

Things to Consider

Do you know what your organisations business plan targets are? Are you aware of your organisation's corporate funding strategy and how this affects decision-making on major projects? How would they affect your business case?

6.3 Risk Management

The Purpose of this Section

Discusses the relationship between project risk and business case risk and indicates ways of dealing with it.

6.3.1 Risk and the Business Case

The activity of assessing and managing risk is at the heart of managing the business case so whether formalised or not, it should be at the front of everyone's minds in developing and approving the case. The subject of project risk management and its techniques is too broad for this Useful Guide to cover in detail, so this section will concentrate on risk in the decision-making process and how management of risk can enhance the business case. Project management handbooks give plenty of advice on the subject.

Business cases of all shapes and sizes carry inherent risk. That is in their nature, whether it is divergence of expected costs, disappointing sales, reactions of competitors, or failure to recruit skilled people, and the list can go depressingly on.

The section on Risk in the economic case shows how risk estimation and simulation can be used to quantify the expected and by implication uncontrollable risks in a project. Risk management is also about identifying and dealing with risks by taking steps to mitigate their effect through planning, contracting and adopting response tactics.

6.3.2 Managing Risk

What you need to do

The point is not to avoid all risk or to spend all your time trying to eliminate it but to anticipate it and manage it within reasonable limits …

IDENTIFY – establish a method of gathering risks from all interested parties, ensure that risk identification is encouraged and made easy and not suppressed. Use facilitated workshops, refresh from time to time. Identify the cause of risk, the event that may result, and the effect on the case.

ASSESS – use a recognised risk management framework or tool to record and manage risks - score the risks for impact, likelihood of occurring and agree ownership.

MANAGE – ensure all risks have owners and that they are reviewed according to priority by the senior group, to demonstrate strong control and action. Escalate

unmanageable risks to ensure that action is taken beyond the project or that the degree of risk is understood by decision-takers.

6.3.3 Problems Managing Risk

BEING TOO INWARD-LOOKING - It is sometimes easy to concentrate on the risks arising from doing the project rather than looking at the wider environmental or market risks. This can often happen because the risk tools and processes are part of the project management toolset and often operated by the project team, who end up operating it primarily as a delivery support mechanism. It is very important that the risk management process is owned by the business owners and project executive, and that they insist that the register deals with the full range of risks.

PREFERRING RISK AVOIDANCE – identifying risk should not be a way of encouraging a risk-averse culture and avoiding or over-compensating for difficult problems. The business case must allow for risks and the case managers must ensure that effective management steps are taken to deal proportionately with all risks by establishing risk tolerance levels and applying them.

IT'S BORING – risk management tools and reports often deal at an abstract level and require a lot of estimation and prediction to operate and maintain them. This is frankly a chore many operational managers can do without. Ensure that risk is a top item on management meeting agendas and that action is taken to ensure that risk is managed visibly and effectively. Present risks for debate and decision in a clear and informative way.

Things you should Consider

What risk-management tool does your organisation use? How would it be used in a business case? How would you classify your organisations attitude to business risk and reward – low/high? Risk averse/risk taking? Consider your attitude to risk and whether that is different from the business risk your organisation takes – does that affect your decision-making in business?

7. Sustainability and Business Cases

The Purpose of this Section

This is an introduction to the subject of business sustainability and its relevance to the business case.

Although Sustainability as a topic is not new, it has gained fresh impetus from recent turmoil in financial markets and the subsequent reality check for western economies. It probably deserves a great deal more prominence than it currently has in the language of business cases and decision-making.

7.1 Definition of Sustainability

By Sustainability I mean here the long-term sustainability of an organisation in the context of its changing business environment, emerging competitors, reputation management, the risks surrounding it, and the volatile expectations of stakeholders. This includes along the way all the headline issues of environmental conservation and reduced fossil fuel consumption.

The relatively predictable and stable post-1945 world of western economic supremacy is rapidly changing. Uncertainty and volatility has increased. But simply shortening the investment pay-back period or increasing the target return to offset uncertainty is not going to work. Many of your competitors (whether business or political) are playing a much longer game. And those that do, appear to be winning.

7.2 Impact of Sustainability Issues

The implicit objective of a good Business Case has always been to show how a proposal enhances the long term sustainability of a business or organisation. This used to be couched in simple terms of balance sheet measures of shareholder return - the more return the better - but perversely often driving a short-term focus on higher margin and rapid payback.

Although small expenditure cases may have little apparent impact on an organisation's strategy, they can nevertheless play an important role in reinforcing the organisation's values such as careful management of resources and ethical supplier choice. Evidence is emerging that thinking sustainable and long-term creates long-term benefits – and supports day to day business much more effectively.

Recent research at Harvard Business School concluded that …

Over an 18-year period, the high-sustainability companies outperformed the low-sustainability ones in terms of both stock market and accounting measures. The annual above-market average return for the high-sustainability sample was 4.8% higher. The high-sustainability companies also performed much better by return on equity and return on assets.

Critics of sustainability argue that it destroys shareholder value. The study found exactly the opposite. Companies that manage their environmental and social performance have superior financial performance and actually create more value for their shareholders. Failure to have a culture of sustainability is quickly becoming a source of competitive disadvantage. It is the key to creating value for shareholders and all other stakeholders over the long term, thus ensuring the sustainability of the company itself.

7.3 Business Case Treatment of Sustainability

What you need to do

Develop a sustainability profile for your business case, considering the full range of issues that are relevant to long-term sustainability. Ensure that these are correctly valued in your case. Use the check-list below.

First, the organisation needs to have sustainability as a strategic goal, otherwise you are fighting a big uphill battle. The business case should then demonstrate its contribution by a wide range of innovations including …

- Identifying and valuing risk reduction opportunities, reducing insurance costs etc.
- Finding process improvement and cost reduction through using sustainable techniques
- New product opportunities, reflecting future developments in customer preferences
- New market opportunities, through adopting sustainable product & manufacturing
- Brand and company culture benefits, recruitment & retention benefits
- The opportunity to change and influence key stakeholders and investors to prefer sustainability

There is of course no magic bullet but there is no doubt that the forward-looking decision-making and risk assessment role of the business case is the ideal opportunity to ensure that a long-term sustainable business is developed.

8. Public Sector and Private Sector Business Cases

The Purpose of this Section

Understand some of the different motivating factors and the business drivers that result in differences. Be aware of these when dealing with public and private sector clients or stakeholders

Throughout this Useful Guide the techniques and approaches have been treated as being broadly applicable to both the public and private sector organisation. There are however situations where what is measured, what is valued and what is used in decision-making will be very different.

The two sectors often present a very different risk profile, depending on political ownership, governance, policy uncertainty and accountability, which results in different behaviour for suppliers and operators alike.

For Read Out Loud Readers: The table has 3 columns and 5 rows

	Commercial	Public
Strategic case	The overall driver of commercial businesses is long-term financial return through product and market growth or acquisition. Other strategic objectives are in support of this.	Delivering policy objectives and mandates, optimising their roles and taking a much more system-wide approach to strategic success. Measures of success will include cost performance but will prioritise service objectives and measures.
Economic Case	Priority given to tangible costs and benefits to achieve market returns. Risk management focused on matching risk to achieving the target returns.	Market prices of inputs are sometimes a poor indicator of social value, so a wide range of tangible and intangible costs and benefits reflect the wider societal impact of a proposal. High levels of compliance and accountability may make the project risk averse.

	Commercial	Public
Commercial Case	Focus on achieving best value through highly competitive tendering. Use commercial position to negotiate best terms.	High levels of public accountability ensure procurement is very open and operated on a strictly level playing field. Processes often lengthy and subject to European legislation on process. Supplier risk & uncertainty often results in terms less favourable than commercial equivalent.
Financial Case	Identifies best method of financing the case and assists in offsetting risk and uncertainty. Focused on generating cash flow and showing how investment returns are secured.	Observes strict accountability and budget setting rules, funding options tightly controlled. Most projects are expenditure based with income being incidental. Authorisation may require a wide range of stakeholder consents.
Implementation Case	Adopts best practice to suit the organisation. Identify responsibilities in accordance with own governance. Risk is managed extensively through supplier & employee contract incentives.	Governance must comply with Treasury requirements for larger projects with formal external review and sign-off, potentially approval by Parliament for the largest. Compliance with PRINCE2®, and Treasury Green Book. Tolerance towards risk has a much lower threshold, with potential for public sanctions for failure not matched by enterprise reward.

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Regardless of organisation type, the essential requirement is a high standard of professionalism and quality of judgement in all the areas discussed so far. The emphasis is on meeting stakeholder needs, clear alignment with the organisation's strategy and objectives, and effective communication of the decision content.

Things to Consider

To what extent do public policy issues affect your organisation and its decisions? What about legislation such as Health & Safety, Working Time Directives? Is your industry regulated by a statutory regulatory body? What are the cost and non-cost advantages or disadvantages?

Feedback

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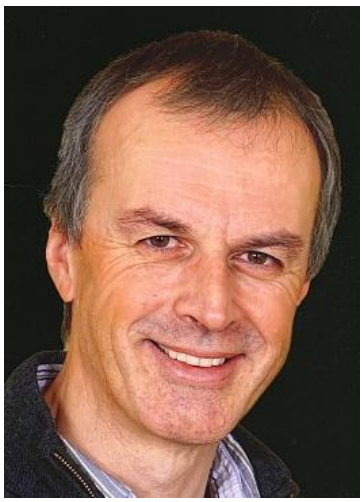
About the Author



Richard Polom is an Interim Manager and Consultant - with special expertise in ...

- Negotiating internal and external business arrangements, commercial agreements and contracts
- Leading pricing and investment case analysis, business case preparation and procurement operations
- Functional or programme leadership, team management and development skills.

After leaving university Richard worked in financial and commercial management in British Telecommunications plc. for 25 years, followed by 6 years as Commercial Director at the Qualifications and Curriculum Authority. He then set up his own business delivering management and consulting services to a range of clients including Education, IT, Energy and Public Sector.

He has been a business partner, programme director and Senior Responsible Officer in major projects and programmes and has special expertise in developing business cases and proposals, complex supplier and collaboration contracts, and business solutions for IT and education services. As a member of executive teams Richard was responsible for reviewing and authorising many projects and programmes.

Earlier in his BT career Richard was a finance lecturer at the BT Management College, designing and delivering courses on audit, accounting and investment decision-making to hundreds of BT employees in engineering, management and operations.

Richard has a BA in Economics from Portsmouth University and an MA in Economics from Essex University. He is a qualified accountant, a Fellow of the Chartered Institute of Management Accountants.

When not writing or with clients Richard is a long-suffering supporter of Ipswich Town FC, a 60s and 70s classic & sports car enthusiast and an occasional runner and walker.

Glossary

For Read Out Loud Readers: The table has 2 columns and 46 rows

AMORTISATION	The depreciation of an asset, but usually an intangible (non-physical) asset.
ANNUALISED COSTS	Dividing the total lifetime cost of acquiring and operating an asset by its expected life to give a constant annual charge.
ARR	Accounting Rate of Return - the accounting profit made over time relative to accounting costs (before interest and tax).
B/S	Balance Sheet - the record of accounting value an organisation's assets and liabilities at a point in time.
CAPITAL EMPLOYED	The total long-term funds invested in or lent to the business and used by it in carrying out its operations.
CASH FLOW	Actual cash payments in and out of an organisation recorded at the time of payment.
CEO	Chief Executive Officer - the operational head of an organisation.
CLOUD	Generic name for computing services used by an individual or organisation but hosted and operated by a third party and accessed over networked data connections.
CONTINGENCY COSTS	Costs that may occur if a given set of circumstances prevails.
CONTRIBUTION	The additional profit contributed by an economic activity, the difference between its marginal income and marginal cost.
COST OF CAPITAL	The general or specific costs incurred in raising funds for investment, e.g. interest on debt, dividends on shareholder funds.

DCF	Discounted Cash Flow - the process of applying a discount factor to the future cash flows arising from a project to show them in present value terms.
DEPRECIATION	The accounting charge in the P&L which is a proportion of the initial cost of a tangible (physical) asset.
DISCOUNT RATE (TEST DISCOUNT RATE)	The percentage discount, based on the cost of capital and other required rates of return, applied to future values to give a present value equivalent.
EBIT	Earnings Before Interest and Tax - Profit after deduction of all costs except Interest and Tax.
EBITDA	EBIT, Depreciation and Interest - Profit after deduction of all costs except Interest, Tax, Depreciation and Amortisation.
FIXED COST	A cost that is unaffected by changes in business volume or use (within limits).
GOODWILL	The accounting term for the difference between a company's balance sheet value and its acquisition cost, representing future potential value on the balance sheet of the buyer of the business.
GROSS PROFIT	Income minus direct operating costs (such as materials and services).
INCREMENTAL COSTS	The total additional costs that occur as a result of a single change to existing activities.
INTANGIBLE COSTS	Accounting costs that represent the acquisition of non-physical assets such as goodwill or intellectual property.
IRR	Internal Rate of Return - the percentage discount rate that gives a NPV of zero.

IT	Information Technology - generic name for services and/or equipment employing computing capability and installations.
LIQUIDITY	A measure of the organisation's readily available cash funds, including things that can be sold quickly for cash.
MARGINAL COSTS	Similar to Incremental Costs.
MONTE CARLO SIMULATION (for investment appraisal)	The statistical estimation of the probability of an outcome (e.g. of a positive NPV) using repeated NPV calculations of random income and cost combinations within a pre-defined range.
NPV	Net Present Value - the sum of positive and negative discounted annual cash flows. A positive NPV indicates that the target discount rate of return has been achieved.
OPPORTUNITY COSTS	An existing asset or resource used in a project is valued at its "next best" alternative use e.g. profit made on another activity, its sale or scrap value.
P&L	Profit and Loss account - the financial accounting record of income, expenditure and apportioned costs relating to a single accounting period.
PAYBACK	The point in time at which cumulative income received exceeds the cumulative expenditure.
PRINCE2®	A project management method used throughout UK government and by many other organisations. See also A Useful Guide to PRINCE2®.
PROVISIONAL COSTS	Costs that will probably occur but which will not be known with any certainty until a future date.

RESIDUAL VALUE	The value of an asset at the end of its useful life or the duration of a project - what it can be sold for or its value in alternative use.
ROCE	Return On Capital Employed - profit before interest and tax, divided by capital employed x 100 to produce a percentage figure.
ROI	Return on Investment - the profit made from an investment over time: Profits derived as a proportion of and directly attributable to 'book value' of an asset, liability or activity, net of depreciation.
SMART	Specific, Measurable, Attainable, Relevant, Timely - a shorthand for the attributes of an ideal objective-setting process.
SOCIAL TIME PREFERENCE	Where investment is made in public or social goods, an adjustment to the pure financial discount rate is often made to reflect policy-makers' preferences regarding the consumption of current or future generations.
SRO	Senior Responsible Officer or Owner - the individual named in a PRINCE2® project as having overall responsibility for delivery of the project.
STAKEHOLDER	A person, group or organisation that may have a position of influence, a decision-making role, or will be affected by the outcome of the business case.
SUNK COST	Money already spent and which has zero value in an economic case costing unless it has an Opportunity Cost.
SWOT	Strengths, Weaknesses, Opportunities, Threats - a method for gathering, structuring, presenting and reviewing data within a business or project planning process.

TANGIBLE COST	Expenditure on physical assets and shown as such on a financial accounting Balance Sheet.
TIME VALUE OF MONEY	The idea that money received or held now is worth more than money in the future, due to interest costs, risk and preferences.
VARIABLE COST	A cost that changes with volume or use. Sometimes it is a semi-variable cost if it changes in step fashion.
VAT	Value Added Tax - VAT may be relevant in a costing if there are significant cashflow effects due to difference in timing of receipt and payment, or if unrecoverable sums occur.
WACC	Weighted Average Cost of Capital - firm's cost of capital in which each category of capital is proportionately weighted. May reflect shares, bonds and any other long-term debt.

For Read Out Load Readers: The table has finished

Annex 1: Monte Carlo Simulation

The construction and operation of a Monte Carlo risk simulation model for a business case investment appraisal application involves a number of steps using a spreadsheet tool, some of which may require expert advice to execute correctly. The following is a very simplified example and series of steps used to illustrate the basic principle and interpretation of results. Further reading on this subject will quickly show you how complex such an exercise can become and that it needs expert handling. However it is very useful if you know how to interpret the results in general terms and apply judgement to what they are telling you.

Step 1: Build an investment appraisal model using discounted cash flow.

This is simply identifying the essential incremental income and expenditure flows as set out in the Useful Guide so far, and using an appropriate discount factor. In the example below these have been summarised and simplified for presentation purposes to an annual net sum.

DISCOUNTED CASH FLOW ANALYSIS

	YEARS					
	0	1	2	3	4	5
Annual Net Cash Flow	-£102,000	£22,000	£24,000	£26,000	£28,000	£30,000
Discount Factor 8%	1	0.9259	0.8573	0.7938	0.735	0.6806
Discounted Cash Flow	-£102,000	£20,370	£20,575	£20,639	£20,580	£20,418
Net Present Value	£582					

Step 2: For each year's net cash flow create a probability distribution that matches possible outcomes.

This is where people with practical knowledge of the project cash flows need to make a judgement on the possible range and occurrence of high/medium/low outcomes. The use of expert project knowledge to establish the true distribution of data is needed to make a Monte Carlo result most reliable. For example, a normal distribution is one very common possibility; there are others that can be modelled for specialised purposes. The most common alternatives for investment appraisal are the Normal and Triangular Distributions. Triangular is simply where probability estimates are made of worst, best and most likely outcomes (like plotting three points of a triangle on a graph, with a linear distribution between each point).

Using the simple net cash flows from the first spreadsheet, a "triangular" distribution of probable outcomes (worst, best, most likely) has been assigned to each year's net cash flow. Note also that the rate of return is given a range to suggest that the required return could also vary.

Summary of Probability Distribution Estimates (using Triangular Distribution)

	Lower	Most Likely	Upper
Year 1	£15,000	£22,000	£30,000
Year 2	£16,000	£24,000	£33,000
Year 3	£17,000	£26,000	£35,000
Year 4	£18,000	£28,000	£38,000
Year 5	£19,000	£30,000	£40,000
Discount Rate	0.07	0.08	0.09

Step 3: Carry out a simulation by sequentially selecting a value from each probability distribution using a random number generator and sum the resulting estimates to provide an overall estimate for project NPV. Repeat the simulation many times (i.e. 1000 or more) to provide an estimated distribution for NPV for the project.

This allows many combinations of outcomes to be tried one after the other and a software package capable of handling the many iterations is required to do this. As typical packages allow the choice of different distribution profiles and options for handling correlation interdependencies between the variables, you may need a skilled operator who can construct a model that accurately depicts the required characteristics.

The Monte Carlo Simulation is then run by the programme assigning a random number to each range and combination of values, in this case re-calculating five thousand times, and then summarising to show what the expected total effect could be. The probability of achieving a NPV greater than zero (i.e. one that exceeds the required rate of return) is then calculated in this example as 66.92% (round to 67%).

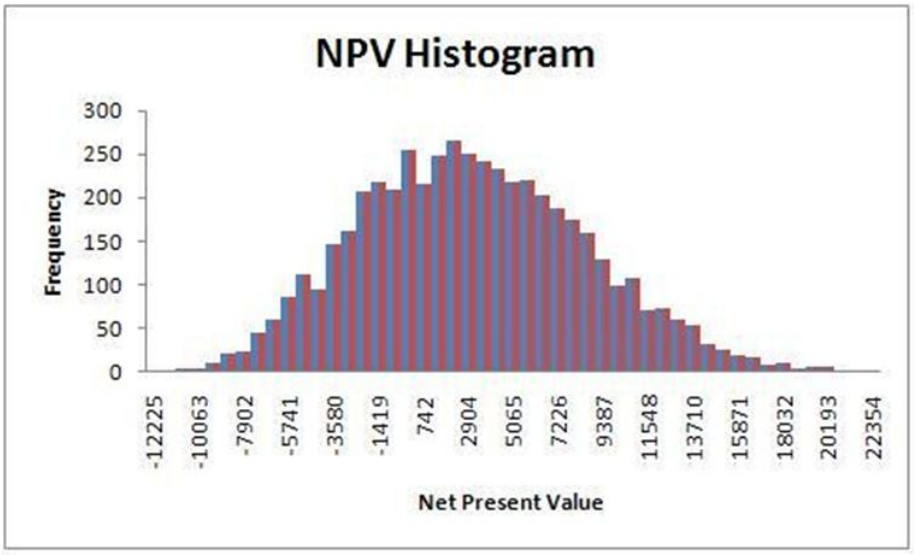
Monte Carlo Simulation Results

Number of simulations:	5000
Minimum output function value:	-£12,945
Maximum output function value:	£23,075
Average output function value:	£2,763

Probability Analysis:

Probability of NPV less than zero:	33%
Probability of NPV greater than or equal to zero:	67%

The final chart shows visually how, instead of there being only one calculated NPV, or if different discrete scenarios were modelled perhaps three or four, the entire set of five thousand different NPVs and their occurrences appears as a distribution. In this example, the greatest likelihood is clustered around the positive NPV area. The results that were most frequently calculated by the random simulation are seen clearly across the range of NPVs in the centre of the chart.



Step 5: Decide whether the probability that the project NPV may be negative is, or is not an acceptable risk and proceed accordingly.

Ultimately someone will have to take a view of whether the prediction of the model is to be relied on or not, having regard to the assumptions made and the reliability of the data used – the calculated outcome it is never a guarantee of actual outcome. In this case the suggestion is that with a 67% probability of

positive NPV there is a very good case but not a cast iron one and other factors should probably be considered as well.

Annex 2: Table of Discount Factors

DISCOUNT FACTORS

	Discount rates										
Year	1.0%	2.0%	3.0%	3.5%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%
0	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
1	0.9901	0.9804	0.9709	0.9662	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091
2	0.9803	0.9612	0.9426	0.9335	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264
3	0.9706	0.9423	0.9151	0.9019	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513
4	0.9610	0.9238	0.8885	0.8714	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830
5	0.9515	0.9057	0.8626	0.8420	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209
6	0.9420	0.8880	0.8375	0.8135	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645
7	0.9327	0.8706	0.8131	0.7860	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132
8	0.9235	0.8535	0.7894	0.7594	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665
9	0.9143	0.8368	0.7664	0.7337	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241
10	0.9053	0.8203	0.7441	0.7089	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855
11	0.8963	0.8043	0.7224	0.6849	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505
12	0.8874	0.7885	0.7014	0.6618	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186
13	0.8787	0.7730	0.6810	0.6394	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897
14	0.8700	0.7579	0.6611	0.6178	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633
15	0.8613	0.7430	0.6419	0.5969	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394
16	0.8528	0.7284	0.6232	0.5767	0.5339	0.4581	0.3936	0.3387	0.2919	0.2519	0.2176
17	0.8444	0.7142	0.6050	0.5572	0.5134	0.4363	0.3714	0.3166	0.2703	0.2311	0.1978
18	0.8360	0.7002	0.5874	0.5384	0.4936	0.4155	0.3503	0.2959	0.2502	0.2120	0.1799
19	0.8277	0.6864	0.5703	0.5202	0.4746	0.3957	0.3305	0.2765	0.2317	0.1945	0.1635
20	0.8195	0.6730	0.5537	0.5026	0.4564	0.3769	0.3118	0.2584	0.2145	0.1784	0.1486
21	0.8114	0.6598	0.5375	0.4856	0.4388	0.3589	0.2942	0.2415	0.1987	0.1637	0.1351
22	0.8034	0.6468	0.5219	0.4692	0.4220	0.3418	0.2775	0.2257	0.1839	0.1502	0.1228
23	0.7954	0.6342	0.5067	0.4533	0.4057	0.3256	0.2618	0.2109	0.1703	0.1378	0.1117
24	0.7876	0.6217	0.4919	0.4380	0.3901	0.3101	0.2470	0.1971	0.1577	0.1264	0.1015
25	0.7798	0.6095	0.4776	0.4231	0.3751	0.2953	0.2330	0.1842	0.1460	0.1160	0.0923
26	0.7720	0.5976	0.4637	0.4088	0.3607	0.2812	0.2198	0.1722	0.1352	0.1064	0.0839
27	0.7644	0.5859	0.4502	0.3950	0.3468	0.2678	0.2074	0.1609	0.1252	0.0976	0.0763
28	0.7568	0.5744	0.4371	0.3817	0.3335	0.2551	0.1956	0.1504	0.1159	0.0895	0.0693
29	0.7493	0.5631	0.4243	0.3687	0.3207	0.2429	0.1846	0.1406	0.1073	0.0822	0.0630
30	0.7419	0.5521	0.4120	0.3563	0.3083	0.2314	0.1741	0.1314	0.0994	0.0754	0.0573

This table provides, for a range of percentages from 1%-10% (per annum) and project periods from 1-30 (years) the calculation of the discount factor to be applied to a future cash flow. The discount factor is (1/(1+0.0y)n) , where y is the percentage desired rate of return and n is the period of the cash flow (year 1, 2 etc.). The future cash amount is then multiplied by the factor to give its Present Value equivalent.

For example, the Present Value today of £500 received in year 18 with a target rate of return/discount rate of 5% is: £500 x 0.4155 = £207.75.

Annex 3: Business Case Templates

These templates are taken from real examples to give you an idea of how the case can be presented differently for different purposes. They can be downloaded from the MS Word Toolkit here. You should be able to recognise the standard 5-case development format of the business case within this; the information is simply presented and titled in different ways. Try completing one either using a case you are working on or from the worked examples in this Useful Guide. If your own organisation has standard formats you should use them instead.

Template 1

(Organisation-Affecting Business Case)

Business Case Proposal

For Read Out Load Readers: The table has 5 columns and 5 rows

Proposer name	Department

Title	Date	Reference No.

For Read Out Load Readers: The table has 5 columns and 5 rows

1. Introduction

Give a brief description of the proposal including the key objectives.

2. Strategies

Identify aspects of the Organisational Plan and/or Information Strategy that are addressed.

3. Benefits

What are the opportunities and benefits for the Organisation and User(s)?

4. Implications of not undertaking Proposal

What problems will arise if the proposal does not go ahead?

5. Alternatives

What are the alternatives to undertaking the proposed development?

6. Organisational Areas Affected

What staff, processes and systems will be affected by the proposed development?

7. Risks

What risks are involved in implementing the proposal and how will they be managed?

8. Investment Costs

What is the summary of capital investment costs for the proposed development?

a) Staff
b) Training
c) Equipment, etc.
d) Other
TOTAL

9. Running Costs

What are the costs to run this proposal as a service?

a) On-going Annual Training (to cover staff turnover, manuals, refresher training etc.)
b) Licence renewal, etc.
c) Maintenance
TOTAL

10. Payback

How and on what timescales will the projected costs be recouped as savings or benefits?

11. Decision

Has the proposal been approved, rejected, deferred etc. and do any conditions apply?

Authorised by	Post	Date

Name of Assigned Project Sponsor	Date

Template 2

(General Project Business Case)

Project/Programme Details

Project/Programme Name			
SRO (Senior Responsible Officer)			
Project/Programme Manager			
Group		**Objective No.**	
Start Date		**Completion Date**	

Document Details

Document Ref		**Version No.**	
Status	Approved/Draft	**Approved by**	
Issued Date		**Last Update Date**	

Background

Strategy

Scope

Objectives

Options

Proposed Solution

Benefits

Risks

Dependencies

Affordability

Analysis of costs and Phasing of expenditure

Stakeholder engagement

Change control procedures

Critical success factors

Procurement procedures

Additional Information

SRO signature……

Template 3

Business Case Template

(Short Case Format)

Summary
In this section you should summarise the content of your business case into no more than 500 words.
Introduction/Background/ Context
In this section you should describe the background and scope of your project. This section should address the current situation and rationale for the proposed change.
Drivers/Objectives
In this section you should examine the evidence that change / development is needed.
Options
In this section you should present the options from exploration of what others are doing from literature and/ or views collected.
Appraisal of the Options:
In this section you should explain how the options were compared which tool was utilised, and consideration of a cost benefit analysis. This could be presented in table form.
Recommendations and Conclusion
Here is where you make your recommendations for how things could be improved /developed drawing your conclusions from your work.
Appendices
Appendices should be clearly labelled and a list included in the table of contents.

Annex 4: Suggested Answers to Exercises

Exercise 4.2 – Things to Consider (suggested answers)

1. **Do you think the productivity and performance benefits outweigh the risks?**

Suggested answer: Options 1 and 3 are equal on financial outlay. But there are considerable risks and uncertainties with option 3 which have not been tried before. Despite this, Derek's dedication and desire to make the proposal work, together with the relatively limited financial exposure, suggest that it is worth proceeding and monitoring his progress for benefits that may be deployed more widely. Security risks in particular have not been fully addressed and need more expert comment before it can be approved.

2. **Do you feel that the internal stakeholders have been adequately dealt with (e.g. the IT support department)?**

Suggested answer: There is no evidence that this has been done, and it would be important for a senior decision-maker to do some work to ensure that there was reasonable IT buy-in to the policy departure before allowing it to proceed. This would ensure that a key stakeholder is in favour rather than opposed to the initiative, and will be essential to ensure that monitoring of security issues is effective.

3. **What else would you expect to include in the case to make it more robust?**

Suggested answer: Some estimation of the "bail-out" impact is needed in case the proposal does not work, with an estimate of costs. Some provision for monitoring and reporting on progress to check that things are working well and lessons being learned for wider benefit. A security management and impact plan is required before signing-off.

Exercise 4.3 Things to Consider (suggested answers)

1. **Is there anything you would add to the case?**

Suggested Answer: The impact of cancelling the customer presentation could be described in commercial terms, e.g. how much sales revenue is at risk, what would the reputation damage be. There is also no costing of the saving in lost working time which would emphasise the benefits.

2. **Is it clear on all the main points?**

Suggested Answer: The description of the proposal would benefit from naming the customer, the owner and subject of the presentation in case any questions arise. The other two courier suppliers should be named, information about failed bids is just as useful as successful ones. There is no information on any impact on the office services budget, and the budget holder approval should be evidenced.

Section 3.7.6 - Costing Assessment Template

Use this checklist to understand what kinds of costs are relevant to your business case. You can also use it to keep a record of sources and key assumptions.

For Read Out Load Readers: The table has 5 columns and 5 rows

Cost Description	Source of Cost	Type of Cost	Behaviour of cost	Relevance to Decision Making
E.g. Building Rent	Building Lease 2001-2020 already in effect	Apportioned – floor space Contracted & firm	Semi Variable – inflation indexed	Opportunity cost – assume it is charged to business case at full cost
E.g. Aluminium granules	Competitive contract bid for project volumes, 3 year supply	Contract not signed yet – provisional cost held firm for 3 months	Minimum volume fixed, unit price for additional volumes with annual inflation escalator	Fixed cost per month plus marginal cost for additional ordered volumes
E.g. Warehouse staff	Existing workforce agreement rates for scale 2	Firm for 2012, annual negotiation	Semi Variable – basic rate plus overtime for volume variations	Fixed cost per employee plus marginal overtime costs
E.g. Short term redeployed staff	Existing payroll costs	Firm for 2012	Fixed – not eligible for overtime	Sunk Cost – there is no alternative employment within company, so no charge to business case

For Read Out Load Readers: The table has finished.