

Strategy Insight:

5 Steps to Develop a Solid Business Case



The process of developing a solid business case is critically important for securing the approval for projects and investments. A well-executed process enables you to increase the benefits and the value of the proposed investment, and it reduces risks. It will also lead to a much greater likelihood of securing support to proceed with the investment.

Here are the five key steps for creating a solid business case.

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5 Steps to Develop a Solid Business Case

What is a business case?

It is becoming increasingly important for the board and senior management to focus on investments that deliver true business value. Initiatives throughout the business, including innovation; business ventures; factory relocations; new products and services; and IT investments, are accepted or rejected based on the business value they deliver.

In order to get the board or management to approve a project, it is necessary to build a business case that demonstrates why the project is needed and what the benefits of the project will be when it is finalised. The reasons and benefits of a project may seem perfectly obvious to you and others who are intimately involved with it, however to stakeholders and other decision makers it may not be so obvious. Often they are dealing with a myriad of different business units and objectives and tasks which need to be done. A well-prepared business case can help your project standout amongst the competing priorities within the organisation and may be the key to getting approval and finances for the project.

The business case is a process to critically examine the opportunities, alternatives, project stages and financial investment to make a recommendation for the best course of action that will create business value.

A business case is different to the business plan

A business case answers the question: “what will happen if we proceed with this investment decision?” The justification for the business case is presented in a carefully constructed document detailing the rationale to convince a decision maker to approve the investment recommendation.

The fundamental questions to consider in developing the business case are:

-) Which of the alternatives should we invest in to generate the most value for the organisation?
 - o Are other alternatives more profitable?
 - o Will this investment deliver benefits of high value?
-) Is it strategically the best approach?
-) Should the organisations consider investing at all in this proposal?

The practical question must also be addressed: can the business proposal be implemented as planned, delivered to time and budget and produce the expected benefits?

The making of a business case will carefully examine the benefits and risks involved proceeding with the recommendation; the alternatives and the benefits of the recommendation; and the risks of not proceeding. A strong business case will make a compelling recommendation for implementation.

In comparison, a business plan is a documented set of business goals, objectives and strategies that an organisation is aiming to achieve over the next three to five years. The business plan includes market information, customer segmentation, products and services, sales forecasts and cost estimates, and financial forecasts.

Why create the business case?

Preparing the business case enables you to take a disciplined approach to critically examine the opportunity, the alternatives, the project stages and the financial investment to make a recommendation for the best course of action to create the business value.

When the time is taken to develop a solid business case, the investment proposal is much more informed. In turn, this will increase the benefits and value of the project and reduces the risks. There is also a much greater likelihood of securing support to proceed with the investment.

A business case is required when you need to:

-)] Demonstrate the value of a proposed product or service would generate for your organisation;
-)] Obtain board approval for investment;
-)] Decide whether to outsource a particular function;
-)] Relocate business operations and manufacturing facilities;
-)] Prioritise projects within your organisation that are competing for funding and resources;
-)] Secure the financial funding and resources to implement the project.

By well-documenting the business case, you be able to proficiently present the recommendation to stakeholders whose support is required for approval. The documented business case will provide confidence and a level of certainty that the considered proposal will be successful.

The business case document

A business case document should explain the following:

-) Key objectives;
-) Outline the business need;
-) Provide important background and supporting information to put the investment into context;
-) Describe how the investment aligns with the organisation strategic business plan;
-) Provide a robust estimate of the whole-of-life costs of the investment, and its financial benefits;
-) Estimate the non-financial benefits of the investment;
-) Describe the approach to be used, including timelines, resources, the procurement strategy and governance;
-) Rigorously assess the inherent risks, including how they are likely to affect the investment and outline strategies for mitigating them;
-) Convey the level of uncertainty surrounding the proposal;
-) Provide options for the board and management to consider in reaching a decision.

Types of business cases

The required depth of analysis that is documented in support of your case will be based on the size and complexity of the investment decision. The business case for an investment of \$5m or less is much simpler than the business case for an investment of \$500m or more.

The business case sets out a justification for the investment that would be required by a potential investment. For large investments and high-risk projects, a preliminary business is often prepared as the first step in preparing the full business case. It is used to decide whether the potential project merits being investigated in more detail. For example, the preliminary business case may include cost estimates that have a 20% tolerance, whereas the full business case would include costings with less than a 10% tolerance.

The business case should be prepared early in the project before any decision has been made to initiate. It allows the organisation to explore the high-level options for meeting business requirements. This may include an assessment of comparable projects.

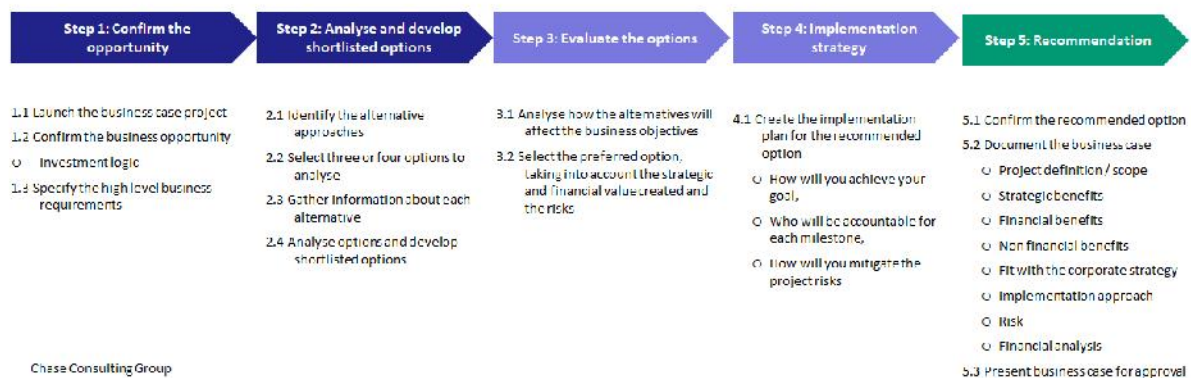
Experienced organisations may have in-house expertise allowing them to prepare a business case. However, some organisations will not have the full range of skills required and may wish to appoint independent management consultant to assist them.

5 steps to developing a solid business case

The process of developing the business case is important; a well-executed process enables you to develop a solid business case that increases the benefits and value and reduces the risks. This also leads to a much greater likelihood of securing support to proceed with the investment.

Here are the five key steps for creating the business case.

5 Steps to Developing a Solid Business Case



Step 1: Confirm the opportunity

Describe the situation and the business opportunity that your proposal will impact. This will include the background to project, the investment logic and the high-level business requirements.

Step 2: Analyse and develop shortlisted options

Identify the alternative approaches and select three or four options to analyse. Gather information about each alternative, analyse the options and develop the shortlisted options.

Step 3: Evaluate the options

Evaluate how the alternatives will deliver on the business objectives, then select the preferred option, taking into account the strategic and financial value created and the risks.

Step 4: Implementation strategy

Create the implementation plan for the preferred option, detailing how to achieve the business objectives, who will be accountable for each milestone, and how to mitigate the project risks.

Step 5: Recommendation

Confirm the recommended option. Create the business case documents and present the business case recommendation to the board and management team for approval to proceed.

You will need to complete all of these step to create a solid a business case.

Case Study Example

A leading Australasian chemical distributor was looking for a demand planning and forecasting system to improve inventory management, reduce supply chain costs and make better purchasing decisions.

Chase Consulting Group developed the business case for their demand forecasting system project. The project identified the critical organisational requirements, short-listed suitable vendors, modelled the financial benefits as part of the business case, and developed the implementation plan.

Since implementation, the Client reduced their inventory by over twenty-five percent; \$3m better than projected in the business case, while simultaneously achieving a ten percent growth in sales. The business managers who are responsible for ordering and managing stock, use their industry and market knowledge along with the demand forecasting system recommended order quantities and timings to make better purchasing decisions.

One flow-on effect of the implementation has been a reduction of aged stock by over fifty percent. The client gained direct benefits from the systemised purchasing procedure. In conjunction with improved forecasting accuracy, they are able to produce accurate and timely purchasing plans that can be easily adapted to the changing conditions of the business.

Chase Consulting Group

Chase Consulting Group is a boutique Australian management consulting firm. We support companies with important decisions on strategy, innovation, customer and market insights, performance improvement to create sustainable growth.

We bring a unique approach to our clients' opportunities and challenges, ensuring the right balance of expertise and real-world experience. We act with the highest level of integrity, providing value for money and experience in providing pragmatic advice. Our clients rely on us through proven results and innovative solutions.

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