



# Business Case Guide

A **Business Case** is a formal document used to justify investments in new products, product enhancements, and marketing expenditures.

**The purpose of this guide is provide a baseline understanding of and to summarize the basic steps in the creation of a Business Case for your product or product opportunity.**

This guide accompanies the Business Case Presentation Template, to be used to help you present your case to various audiences, and the Business Case Financials Template to be used to create the financial analysis for your Business Case.

A Business Case is prepared in a collaborative manner by a cross-functional product team. It is used as a vehicle to support product planning and decision making – including decisions about whether to create a new product or service, whether to enter a new market, vendor selection, or make vs. buy vs. partner analysis.

Business Cases are generally designed to answer the question: What are the economic outcomes if we choose X or do Y? A good Business Case shows expected *cash flow* consequences of the decision over time, and it includes the rationale for quantifying benefits justifying expenditures. The Case also describes the overall impact of the proposal in terms that every financially astute manager or executive looks for: net cash flow, discounted cash flow, payback period, and internal rate of return.

A **Business Case** is a formal document used to justify investments in new products, product enhancements, and marketing expenditures.

Business Cases can also be used to validate the value or benefits of an investment from a customer's point of view. To put this in context, if the customer were evaluating an investment in your product, would the justification made by the customer be equivalent to the value and benefits you asserted in the Business Case to your own management?

The Business Case is not a budget, not a management accounting report, and not a financial reporting statement. It seeks to rationalize an investment while considering elements of market needs, proposed solutions, and economic outcomes based on varied assumptions.

**Your Business Case should include the following sections. This tool is here to help guide you through the process of creating a business case. The sections below outline each area of content, data and analysis that should be included in your business case.**

## **EXECUTIVE SUMMARY**

The Executive Summary gives a succinct overview of the market / customer needs driving the opportunity, how the proposed product will solve those needs and how it will be implemented. It should be one or two pages in length and should also include a high level financial overview. The Executive Summary is the *last* step in the completion of the Business Case is the Executive Summary.

## **BUSINESS NEED & STRATEGIC ALIGNMENT**

The Business Case is an expression of an opportunity which requires an investment. Another way of articulating an opportunity is to consider it an element of a strategic plan within the organization. Consider then, that the opportunity is part of a larger puzzle and that it is the job of the Business Case team to discuss how the opportunity contributes to the completion of, or complements the strategic puzzle of the organization.

This section highlights the team's understanding of these strategic issues and makes it easier to explain and justify the investment from a strategic standpoint.

## MARKET ANALYSIS

**Best in Class, market focused organizations invest significant effort in understanding the main needs for the segments they are pursuing.**

A marketplace is made up of buyers and sellers of goods and services. Sellers exist in an “industry” made up of organizations with common characteristics. There could also be sub-sectors within an industry. For example, the financial services sector may include banks, brokerages, insurance companies, etc. Technology companies can comprise software companies, system integrators, and hardware devices. Moreover there are many competitors who participate within each industry landscape. Further to that, these competitors try to appeal to the needs of a variety of customer types. Therefore, the marketplace is comprised of Industries, Customer, and Competitors.

## MARKET ANALYSIS, CONTINUED

### THE INDUSTRY

Describe and characterize the industry landscape? Are there any trends that can be discerned and explained? How attractive is the industry and why? One of the simplest and most effective techniques is to complete a PRESTO analysis – that is to examine the political, regulatory, economic, social, technical, or other activities, actions, or trends in a given environment. What’s most important in a PRESTO analysis is to denote the *implication, threat, or opportunity* that comes from the particular industry trend.

**Note:** Industry data can come from a variety of sources, including trade publications, general business publications, industry consortia, events, etc. Make sure to provide the appropriate references or citations in an appropriately labeled appendix section.

### THE CUSTOMERS

Since we eventually want customers to buy your products, you need to know who they are, what drives their purchases (the benefits sought), and the underlying needs. Robust segmentation models are needed to justify who will buy the product and why? Who will respond to a particular marketing initiative, and why?

## MARKET ANALYSIS, CONTINUED

### THE COMPETITION

Understanding the competitive landscape is important because it serves as a platform for validating the positioning for this product, enhancement, or marketing program to support the product. In your Business Case, complete a side-by-side comparison of the various competitors you will face, as well as outline how you will compete against the strengths and leverage the weaknesses of the various competitors.

In this area, define any other characteristics about the competition you think might be relevant for the analysis. You might think about:

- *Segmentation models for your competitors*
- *A better understanding of their customers, and why customers buy*
- *Who their suppliers are and why*
- *How actively they advertise and promote*
- *Who is their advertising or creative agency?*
- *Which analysts cover their company (if it's publicly traded)*
- *What are they worried about? Do they have any lawsuits pending?*
- *Are there substitute products from which customers could choose?*
- *Market share estimates for all competitors*
- *The key strengths and weaknesses of each competitor*

## THE PRODUCT

This section conveys the description and characteristics of the product or service. You may describe or reiterate the main wants and needs of customers within each segment, and the targets within those segments so that you can show how those needs will be met.

This section is derived from the product requirements. The requirements should not be re-stated entirely, but the essence of the requirements should be articulated.

That which should be considered include:

- *The business, customer, competitor, or industry drivers*
- *The primary attributes, features, or capabilities*
- *How those attribute solve customer problems or needs*
- *The unique design elements which should be included*
- *If there is a user interface, what will it look like? (Screens, displays, etc.)*
- *Which technologies or platforms are to be used and why*
- *What scientific foundations (if applicable) are to be considered*
- *Describing the general performance characteristics of the product*
- *Consideration for platform or product re-use*
- *If computer systems or technologies are involved, what are the inputs, processes, and outputs (reports, for example)*
- *Cross-elasticities with other products (will this jeopardize the sale of other products?)*

You'll also need to discuss life-cycle implications, including a validation of the market window, how to move from early adopter to mass-market uptake, and post-launch life cycle considerations.



## THE PROJECT PROPOSAL

When new or enhanced products and/or services are developed, or if non-product projects are undertaken, a project plan is created to show how multiple organizations will participate, with what deliverables and committed dates. The project leader (which could be a product manager or project manager) will need to articulate the goals for the project, articulate the deliverables, commit to specific dates, and call out any cross-team dependencies. Define resources required, critical path items and make sure you have suggested ways to mitigate risks of delays, or how to fill slack time (see section on Risk.)

## ASSUMPTIONS

Document any assumptions you may be making as part of your Business Case.

Assumptions may include:

- Client adoption levels
- Year-over-Year growth rates
- Pricing levels
- Resource requirements
- Development timing

## FINANCIALS

In this section you'll be preparing financial estimates and forecasts. The assumptions should be clearly stated and include rationale for choosing a specific forecast. The following major categories are included:

1. Profit and loss estimates
  - a. Unit prices and volumes (sales mix)
  - b. Cost of Goods: standard costs (including material, labor & overhead)
  - c. Expenses by function
  - d. Allocated expenses for uncontrollable expenses or overheads
2. Cash Flow
  - a. Timing of inflows and outflows
  - b. Capital expenditures needed (amount and timing)
  - c. Discounted cash flow (and NPV)
3. Balance Sheet Impacts to Consider
  - a. Asset additions, retirements, depletion or write-offs
  - b. Facilities added or taken off line
  - c. Cash needed to fund the project or notes/debt to finance the project
4. Cost of capital / the discount rate (check with Finance Dept)
5. Financing alternatives (make/buy, lease/buy) for capital equipment (if needed)
6. Depreciation and amortization factors
7. Study period (number of months or years covered by this case) – when does the investment have to start and when does it end? Also, make sure to identify whether the case covers 'calendar years' or company specific 'fiscal years'
8. Break-even point (volume, currency, and/or time)
9. Tax rates, if appropriate
10. Sensitivity analysis (price, cost, volume) and impact on profitability
11. Cost/benefit analysis for specific projects (including goals of cost savings, avoidance, or increased revenue)

## CONSTRAINTS & DEPENDENCIES

Business opportunities and investments are shaped by data from past experiences, as well as current perceptions about the business, by many stakeholders. These are built-in biases which can blur the expected outcomes and expected benefits which would be brought about by the investment. Therefore, use this section to identify the constraints or issues.

Here are some examples:

- If there is a market window for a product, what exactly is it, and why? All too often, products are either rushed to market and the market isn't ready, or rushed because a competitor already introduced a similar product. Sometimes, products are introduced just because they're ready for the product release "cycle" of the company (very often in the high technology industries).
- Look at how well product launches have fared in the past. Look for signals or clues to make sure that the sequencing of activities and tasks is as comprehensive as possible, using all known or shared information from people in the organization with similar experiences.
- One of the most often overlooked aspects for any investment is the ability to operationalize or implement it. IT systems may not have the requisite performance and capacity, or the IT group may have a project backlog. If buildings or facilities need to be arranged (built, modified, etc.) the facilities and real estate organization needs to make sure it is within their means to support.

## **CONSTRAINTS & DEPENDENCIES, CONTINUED**

- Some projects may necessitate the hiring or additional human resources with specific skill sets. The human resources organization should be involved so that the right job descriptions exist and realistic hiring intervals can be considered within the context of the entire project, and on behalf of all business functions.
- With businesses expanding to other countries, it is easy to overlook local business requirements. Design elements, regulatory approvals, distribution options, local content, labeling, and a host of other issues may appear and could cause project delays. Make sure all of these are being considered.

## **IMPLEMENTATION & OPERATIONAL**

This section addresses the practical realities of the Business Case. Essentially, it describes the ‘what’s and how’s” of the Business Case.

Where would the product be produced or where would the project be completed? Are there adequate facilities available? Do you need to expand plant capacity? Do you need to purchase additional machinery? Are adequate materials or resources available?

Make sure that each department’s functional support plans are considered (e.g., manufacturing, supply chain, logistics, IT systems for ordering and billing and inventory, accounting systems, financial reporting, etc. Also, make sure that there is a customer service plan, a marketing plan, a sales plan, etc. These inputs from functional organizations provide the ability for you to execute on the ‘business’ of this case. Revisit the support plans from each business function to make sure that every element of the project can be carried out

## **RISK & MITIGATION PLAN**

If one were to examine the constraints, dependencies, project plan elements, and a host of other variables, it becomes clear that any Business Case can be plagued by a variety of risks. Using all available data, the team needs to view the project very carefully to identify the risk areas.

What are the specific risks involved. You may look at any dimension of this case, or any functional area and ask the question: What if? Here are some examples:

- What if we miss the market window?
- What if we can't source the material at the price we originally thought?
- What if we can't secure all the resources for the project?
- What if a competitor hits the market first?
- What if our prices are too high?

By understanding what can go wrong, you'll have a better understanding of how to mitigate those risks, or to have a tactical plan to counter the situation if it arises.

## RECOMMENDATION

One of the last activities for the Business Case is to communicate to management your opinion about the project. To achieve this, you will need to draw appropriate conclusions and include your recommendation for go/no-go. It is important to remember that the positive outcome you might envision as you begin to assemble this case may indeed be different from what the facts, data, and assumptions reveal. Remember, just because your team invested a considerable time in developing the Case does not mean it should be a ‘go.’ That would obviate the need for the Case – therefore, if the Case just does not make good business sense, or doesn’t fit with the profile of investments expected by management, then incorporate good business judgment and do not recommend. Remember, solid, believable Business Cases builds credibility, and making the right decision is of utmost importance.

## APPENDICES

If needed, you can include appendices in your Business Case to provide more detailed information on your research and project. Examples of information included in an appendix would be: charts, graphs, other data visualizations; detailed supporting data; citations and references; consultant studies.

## **BUSINESS CASE AUDIT**

After the investments are made and the projects are carried out, how will the major stakeholders be assured that the investment fulfilled its goals? The best way to achieve this is to assemble the primary project team members and key management stakeholders and conduct a formal review. The timing is dependent on the size and complexity of the investment and the planned time frame by which results would be realized because of the investment. A structured meeting should be carried out with a formal agenda and time frame. If the Business Case identified measurements and milestones.

Topics should include a restatement of the Business Case goals, drivers, and benefits and the actual outcomes against those goals as well as a way to document and share key lessons learned.



For more information or further guidance, contact Sequent Learning Networks at [contact@sequentlearning.com](mailto:contact@sequentlearning.com) or 212.647.9100.