



# Building Business Case for the Enterprise

From *Vision – to – Outcomes*

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“ It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so ”

Mark Twain



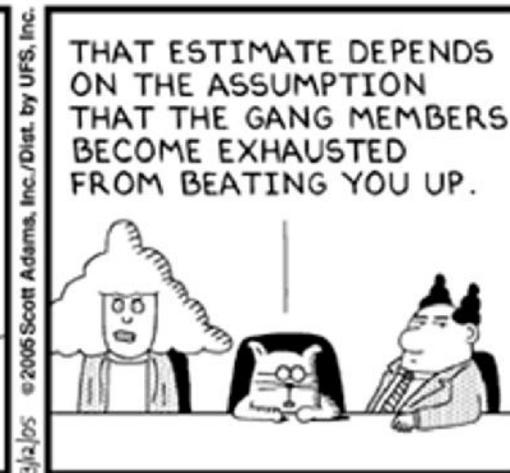
# Presentation Focus



***Business  
Situation***



***Risk  
Assessment***

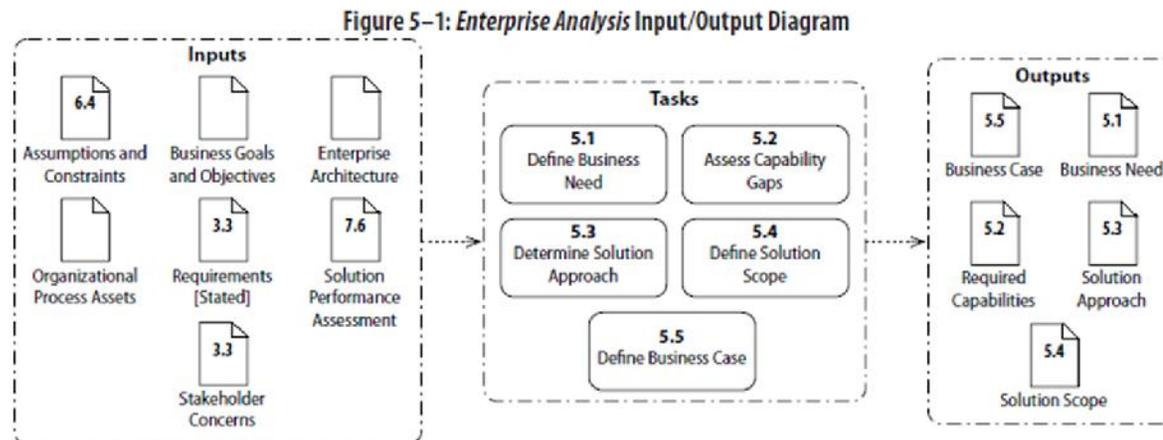


***Sensitivity  
Analysis***

# The *Enterprise Analysis* Knowledge Area



- The *Enterprise Analysis* Knowledge Area describes the business analysis activities necessary to identify a business need, problem, or opportunity, define the nature of a solution that meets that need, and justify the investment necessary to deliver that solution.
- Enterprise analysis outputs provide context to requirements analysis and to solution identification for a given initiative or for long-term planning.



# Business Case vs. Business Plan



	A Business Case....	A Business Plan...
<b>Is organized around...</b>	A single action or single decision and its alternatives.	An organization or the whole enterprise. The plan may cover a single product or product line or the whole organization.
<b>Predicts...</b>	Cash flow results and important non-financial impacts that follow from the action.	Business performance of the organization, especially in the main categories of the income statement. May include projected pro-forma income statements or balance sheets for future years.
<b>Focuses on...</b>	Business objectives for the action. (What the action is meant to accomplish).	Business objectives for the organization.
<b>Is based on ...</b>	A cost model and a benefits rationale, designed for the case, and applied to one or more action scenarios.	The business model for the organization (showing where and how the company makes money, similar to income statement), as well as expected trends, competitor actions, etc.
<b>Measures...</b>	Financial metrics such as NPV, ROI, payback period, and TCO, based on projected cash flow. Also includes important non-financial impacts.	Business performance in terms such as sales, margins, profits, and business "health" by contributions to important balance sheet categories.
<b>In a non-profit or government organization...</b>	The scope of the case may include benefits and costs to the population served as well as the organization itself.	May focus on funding needs, budgetary requirements, and ability to operate within budget.

# Why do we need a Business Case?



- Business Case is developed for several kinds of reasons:
  - To address **decision support** questions, such as “Should we fund the proposed project?”
  - To address **business planning** questions, such as “How much funding will we need if we approve the project?”
  - For **management and control** questions, such as “How do we maximize returns and minimize risks?”
  - For **accountability** questions, such as “How do we show that we complied with vendor selection requirements?”
  - To identify Critical Success Factors (CSFs) and contingencies to achieve business results

*A Business Case is a Tool that Supports Planning and Decision Making*

# How is business case success defined?



- Successful Business Case provides practical guidance to case builder and reviewer
- A successful business case meets these criteria:
  - **Credibility:**  
The case is believed
  - **Practical Value:**  
It enables decision makers and planners to act with confidence  
It enables them to manage the action for optimum results  
It discriminates clearly between proposals that should be implemented and those that should not
  - **Accuracy:**  
It predicts what actually happens



# Practical



- Build in practical value from the beginning:
  - Which decision criteria are important to reviewers?
  - Which financial and non-financial outcomes reviewers are looking for?
  - Other important factors that may influence reviewer decisions
  - Specific information needs (e.g., total capital costs, or payback period for an investment)
  - How much uncertainty reviewers are willing to accept in projected results?

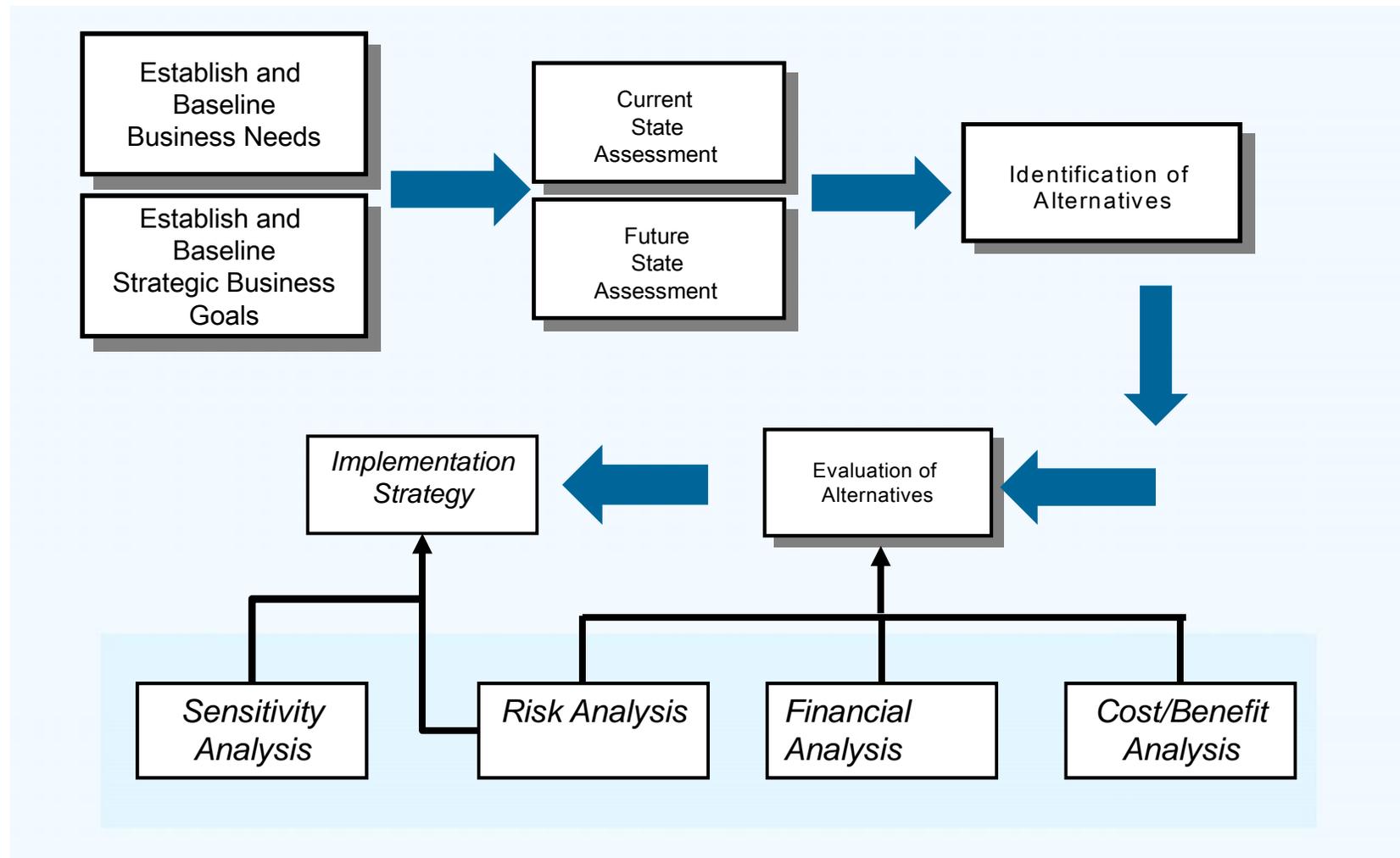
# Business Analysis Activities



## ■ Business analysis activities:

- Analyze business situation to fully understand business problems and opportunities
- Assess the capabilities of the enterprise to understand the change needed to meet business and strategic goals
- Determine the most feasible business solution approach
- Define solution scope and develop the business case for a proposed solution
- Define and document business requirements: business need, required capabilities, solution scope, and business case

# BCA Methodology



# Baseline Business Needs and Strategic Business Goals

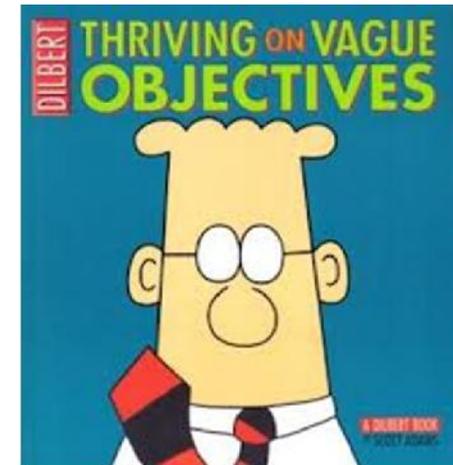


Establish and  
Baseline  
Business Needs

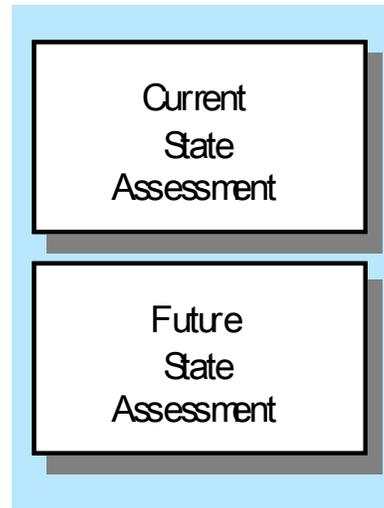
Establish and  
Baseline  
Strategic Business  
Goals

Establish clear understanding of the current business processes and practices:

- Collect 'Status Quo'
- Define 'Current State'
- Identify performance goals



# Current and Future State Assessment



Purpose: *Evaluation of the technical and resource requirements associated with both the Current and Future State*

Objective: *To capture and quantify the resources and business practices.*

Need: *Sufficient cost and performance data to support quantitative evaluation*

*Current State: As-Is Model with clear understanding of areas to be affected by initiative*

*Future State: To-Be Model high level description of the changes to the As-Is model required to achieve the strategic goal*

# Identification of Alternatives



*Objective: Identify alternatives to achieve the To-Be model*

Identification of  
Alternatives

Evaluation of  
Alternatives

*Data required to perform analysis :*

Workload: How much work is performed by each activity

Performance: Efficiency each business area accomplishes its work

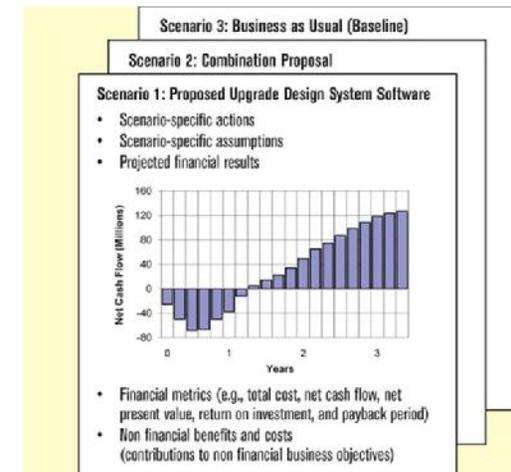
Cost: Cost data associated with performed activity

Standard: Describes minimum level of acceptable performance

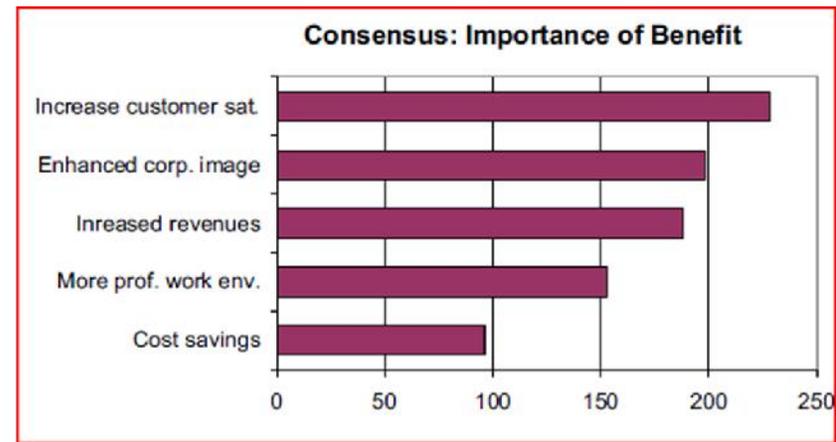
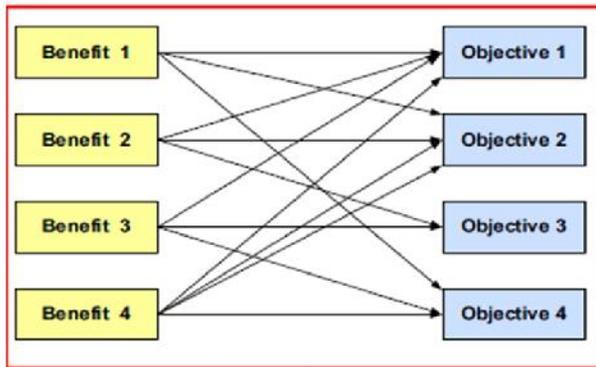
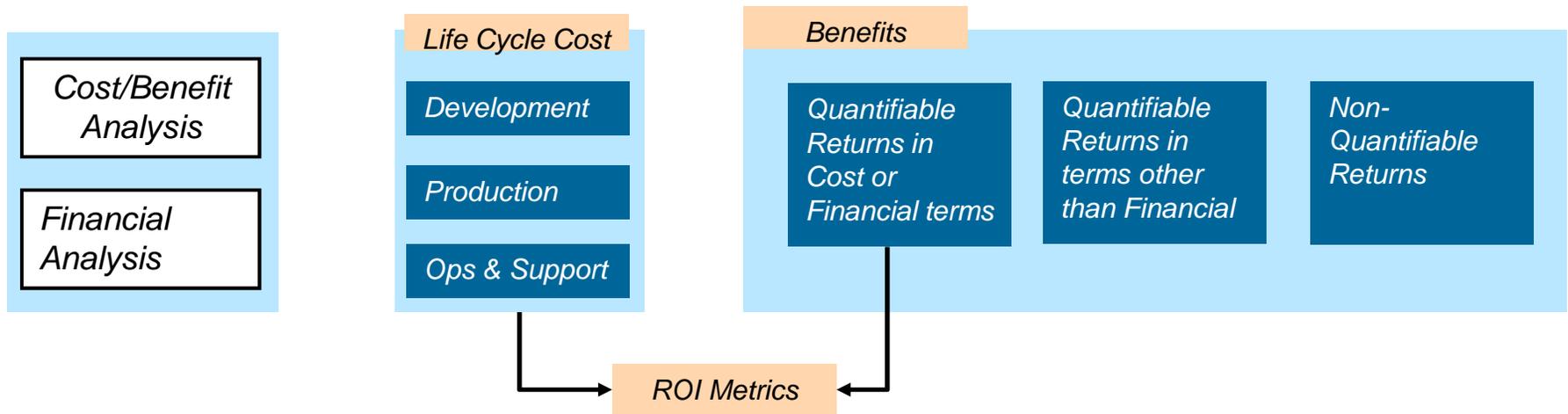
**Scenario 1:** Proposed upgrade of design system software.

**Scenario 2:** Combination proposal: Train, reorganize, and upgrade software.

**Scenario 3:** Business as usual (none of the proposed actions taken).



# Benefits and Financial Analysis



$$ROI = [(Benefits - Investment) / Investment] \times 100$$

# Risk Analysis



*Risk could be viewed as “undesirable implication of uncertainty”*

*Risk Analysis*

*Risk can be classified as:*

- *Business Risk*
- *Performance / Process Risk*
- *Technical Risk*
- *Organizational Risk*



*Risk analysis relies on understanding of individual assumptions and how each contributes to overall results*

# Sensitivity Analysis

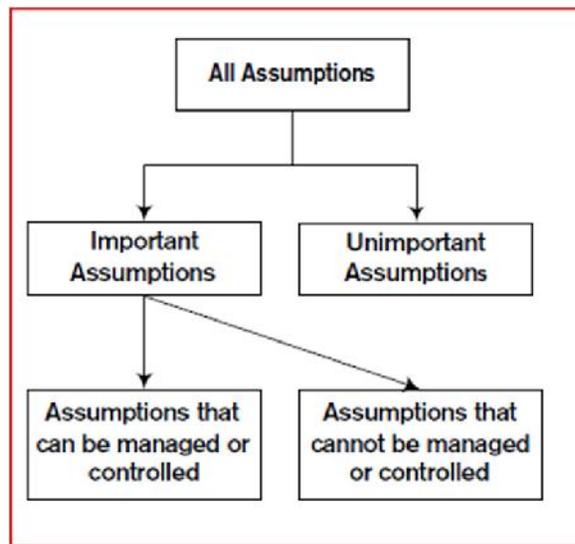


*Evaluation of the variability of the initiative's cost risk and benefit with respect to change of specific factor*

Sensitivity  
Analysis

*Sensitivity analysis asks a questions:*

- *What happens to predicted results if the assumption change?*
- *Which assumptions have strong influence on results?*
- *Which assumptions are relatively unimportant?*



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# Implementation Strategy



Implementation Strategy

Put together a basic Plan of Action and Milestones to show how your recommendation becomes reality.  
*This is good “marketing”.*



Actions	1stQtr	2ndQtr	3rdQtr	4thQtr
Get Money	▲			
Solicit Bidders		▲		
Award Contract		▲		
Process Review			▲	
Test & Eval			▲	
Final Spec			▲	
Customer Survey				▲
Penetrate Market				◆

# Functional Performance and Metrics



- There are four classes of performance measures used in both functional and economic analysis:
  - **Outcome** measures to assess actual results or impacts of a program activity compared to its intended purpose
  - **Output** measures to describe goods or services produced, the level of activity recorded, or effort that was realized
  - **Efficiency** measures as a ratio of output to inputs
  - **Effectiveness** measures to identify critical characteristics of the output that meet customer requirements

**Key Performance Indicator (KPI)** - A selected indicator considered key for monitoring the performance of strategic objective or outcome important to the success of an activity and growth of the organization.

KPIs make objectives quantifiable, providing visibility into performance of individuals, teams and organizations and enabling decision makers to take action in achieving the desired outcomes.



# Sample BCA Format



## ***Executive Summary***

---

### ***Introduction/Overview***

***Subject, Purpose, Scope, Baseline, and Objectives***  
***Background***  
***Organization***

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### ***Major Assumptions and Constraints***

***Financial Metrics Used and Defined***  
***Analysis Methodology***  
***The Cost and Benefit Model Used***  
***(Explanation of Cost Types and Categories)***

---

### ***Description of Baseline***

***Description of Alternatives***  
***Costs and Benefits Over Time***  
***Financial Analysis***  
***Non-quantitative Factors, Criteria,***  
***and Rationale for Their Use***  
***Comparison of Alternatives (quantitative and qualitative)***

---

### ***Sensitivity Analysis***

***Risk Analysis***

---

### ***Conclusions and Recommendations***

***Results Rationale***  
***Scenarios and POA&M for Implementation***  
***Strategy and Tactics to Optimize Results***

***Introduction***

***Methods and Assumptions***

***Business Impacts***

***Sensitivity and Risks***

***Conclusions &  
Recommendations***

# Building the BCA



*The best executive summary contain the whole case (be BRIEF!):*

- *subject, purpose, scope, baseline summary*
- *important objectives addressed*
- *key financial results*
- *significant non-financial impacts*
- *major assumptions that control results*
- *sensitivity and risk considerations*
- *conclusion and recommendations*



***Executive Summary is CRITICAL!!***

# Building the BCA



*Subject: BOUNDS THE CASE: i.e. the end item, scope, and environment; it helps shape or define everything else in the case.*

*Purpose: WHY ARE YOU DOING THE BCA?  
Strategic objectives: broad, narrow, cost, performance? It frames the analysis*

*Baseline Summary: What is your starting point “AS-IS” State? Summarizing the baseline provides a point of reference for the reader.*

*Objectives: DESCRIBE THE DESIRED “TO-BE” END STATE*

- regardless if the status quo remains, or is replaced by another alternative*
- Objectives are the reason for considering a decision in the first place.*



*Executive Summary*

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*Subject, Purpose, Scope and Objectives  
Background  
Organization*

*Major Assumptions and Constraints  
Financial Metrics Used and Defined  
Analysis Methodology*

*The Cost and Benefit Model Used  
(Explanation of Cost Types and Categories)*

*Description of Alternatives  
Costs and Benefits Over Time  
Financial Analysis  
Non-quantitative Factors, Criteria,  
and Rationale for Their Use*

*Comparison of Alternatives (quantitative and qualitative)*

*Sensitivity Analysis  
Risk Analysis*

*Conclusions and Recommendations  
Results Rationale  
Choice of Scenarios for Implementation  
Strategy and Tactics to Optimize Results*

# Building the BCA (continued)



## What type of cost/benefit model is used?

### Executive Summary

Introduction/Overview  
 Subject, Purpose, Scope and Objectives  
 Background  
 Organization

Major Assumptions and Constraints  
 Financial Metrics Used and Defined  
 Analysis Methodology  
 The Cost and Benefit Model Used  
 (Explanation of Cost Types and Categories)

Description of Alternatives  
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 Non-quantitative Factors, Criteria,  
 and Rationale for Their Use

Comparison of Alternatives (quantitative and qualitative)

Sensitivity Analysis  
 Risk Analysis

Conclusions and Recommendations  
 Results Rationale  
 Choice of Scenarios for Implementation  
 Strategy and Tactics to Optimize Results

- How are you going to portray and compare your cost data? by function? by fund type?
- Assures the case includes all relevant line items, and only relevant line items
- An organized list of cost and/or benefit items, usually arranged in cells

	FY12	FY13	FY14	FY15
Direct Costs				
Indirect Costs				
G & A				
Other Direct Costs				

	FY14			
	R & D	Procurement	O & S	Disposal
Hardware				
Software				
Personnel				
Facilities				

# Building the BCA (continued)



## Executive Summary

### Introduction/Overview

Subject, Purpose, Scope and Objectives

Background

Organization

### Major Assumptions and Constraints

Financial Metrics Used and Defined

Analysis Methodology

The Cost and Benefit Model Used

(Explanation of Cost Types and Categories)

### Description of Alternatives

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Comparison of Alternatives (quantitative and qualitative)

### Sensitivity Analysis

Risk Analysis

### Conclusions and Recommendations

Results Rationale

Choice of Scenarios for Implementation

Strategy and Tactics to Optimize Results

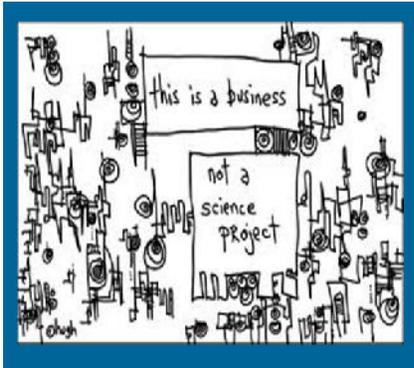
## Conclusions:

- *Effective conclusions are organized around the objectives stated up front in the case*
- *Did the recommended alternative cost less?*
- *Was it ‘best value’?*
- *Point out any surprising or unexpected results or findings that could be misinterpreted.*

## Recommendations:

- *Bring closure to the case*
- *Reminds the reader the “ball is in their court”*
- *Just like a court case, the business case should provide support for your recommendation that a “reasonable person” would find compelling.*

# Last Advice

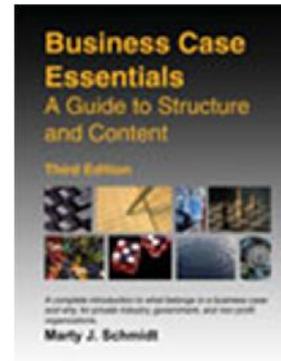
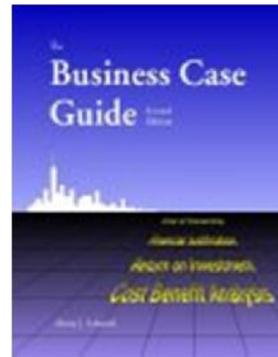


- Assure solution **costs** and timelines are acceptable to management
- Determine the **complexity** of each solution in terms of time and ease of completion
- Identify potential **impact** (change to the baseline) of each solution. Explain how each solution will address the root cause and impact real change in performance.
- Financial **benefit** = benefit of solution – cost to implement
- Assess the **risks** associated with each solution and the likelihood of occurrence
- Determine need to involve/notify customer concerning any product or process changes

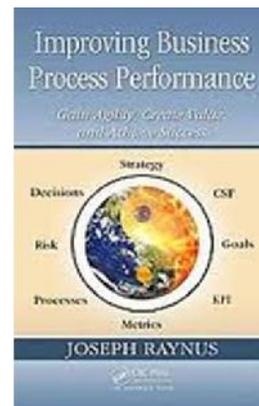
# Resources



*Business Case Essentials and  
The Business Case Guide*  
by Marty J. Schmidt



*Improving Business  
Process Performance*  
By Joseph Raynus



**PMdocs**  
Project Management Docs

[www.ProjectManagementDocs.com](http://www.ProjectManagementDocs.com)

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**Questions?**

**Thank You!**