

What is a Business Case?

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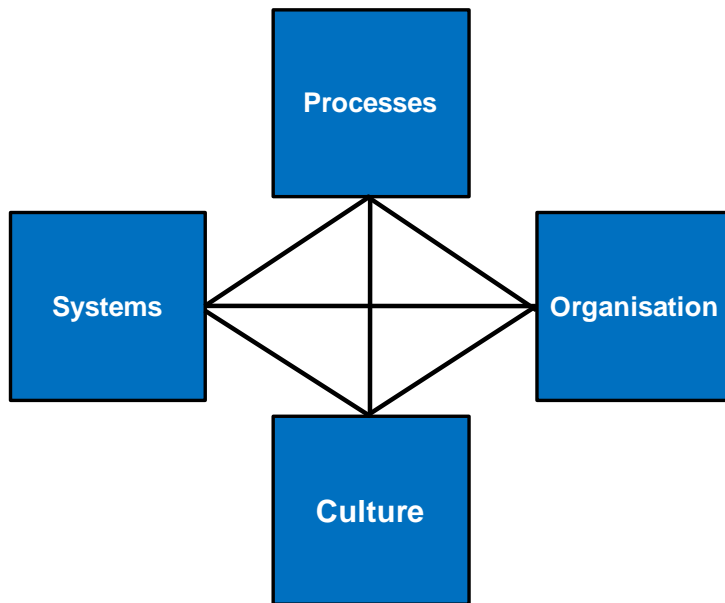
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Agenda



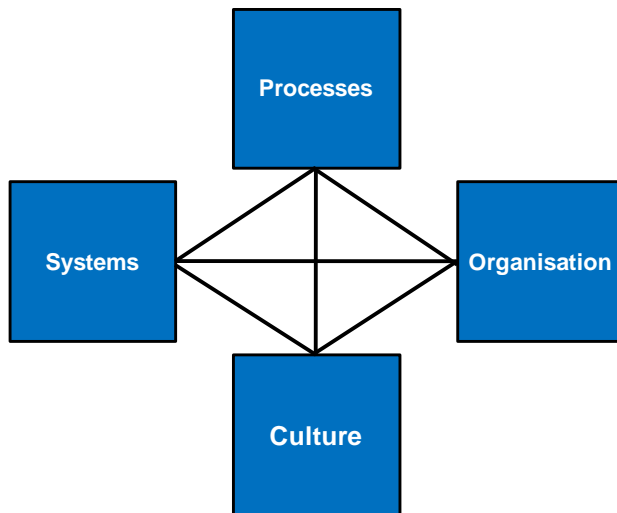
- Challenges
- Business Case
 - Rationale
 - Options
 - Success Criteria and KPI's
 - Stakeholders and Benefits
 - Costs
 - Risks
 - Timescales
 - Investment Appraisal
- Strategies for Success and Golden Nuggets

Challenges



- How to get buy in
- The must haves
- How to measure success (or failure!)
- Pitfalls to avoid

Organisation

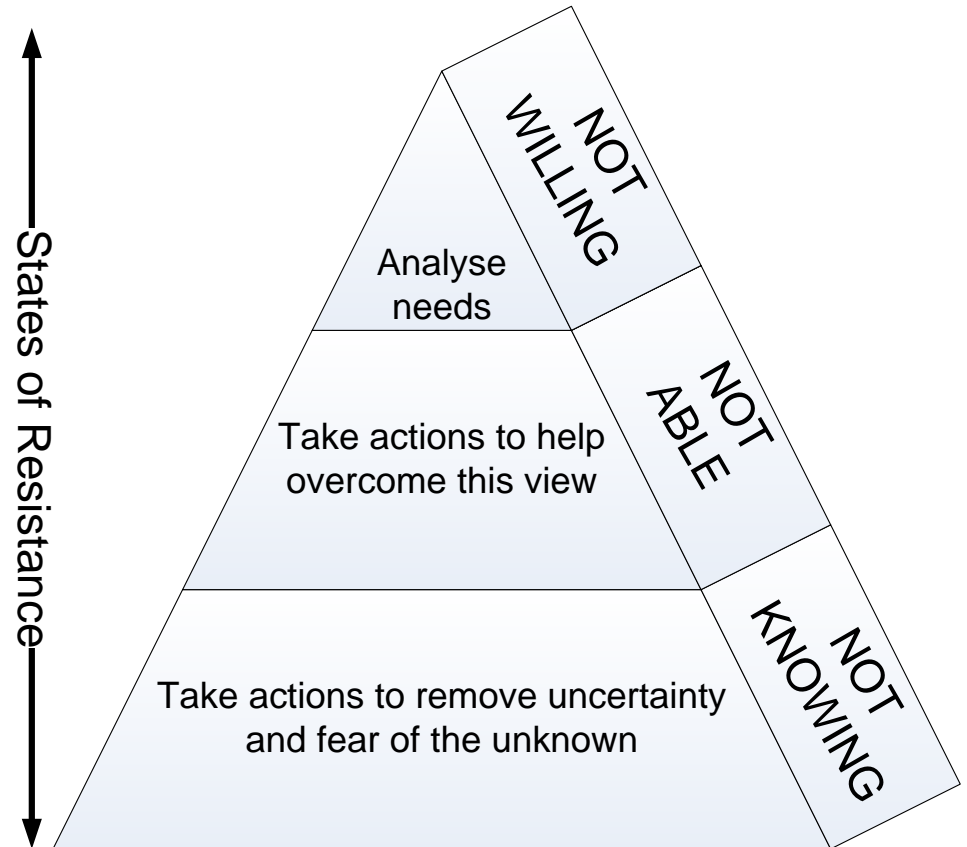


- Stakeholders
 - Who are they
 - Customers and Suppliers
 - Who is opposing /supporting
 - Expected Benefits - VFM
 - Judge Success
- Roles and responsibilities
 - Who is the sponsor?
 - Who is the Business Case owner?
 - PMO
 - Project / Programme Community
 - Business Operations
- Ignore Subject Matter Experts at your peril

Organisation

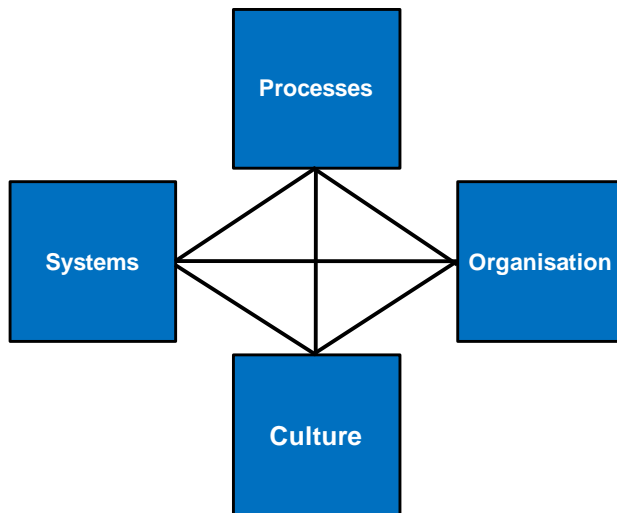


- People first, process second
- Not managing the resistance to change, it takes time for people to accept new:
 - Processes
 - Systems
 - Organisation
 - Culture



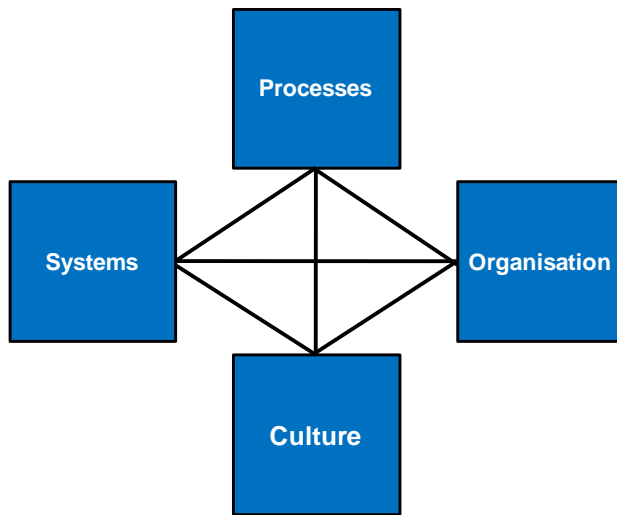
Adapted - The Resistance Triangle © David Williams & Tim Parr 2004

Processes



- **Benefit Management, is difficult**
 - Identification
 - What are they?
 - Not all positive!
 - Quantification (“As is” and “To be”)
 - Measurement - “double counting”
 - Realisation – activities to embed change
- **Stakeholder Engagement, is critical**
 - Strategies
 - Plans
 - Actions and Communications
- **Business case not maintained**
 - Approved and forgotten

Systems



- Little or no benefits data or information / systems
- Ineffective KPI's – *“Can not see the difference”*
- Benefit Management process do not work with the other systems
 - Financial
 - ERP
 - CRM
 - HR

Business case

“The business case provides justification for undertaking a project, in terms of evaluating the benefit, cost and risk of alternative options and rationale for the preferred solution. Its purpose is to obtain management commitment and approval for investment in the project. The business case is owned by the sponsor.”

APM Body of Knowledge 5th edition

Purpose of the business case



- Sets out the justification and strategic rationale for project
- Provides a decision making framework in planning and managing the project and benefits realisation
- Enables the evaluation of the benefits, cost and risk of a solution to a need, problem or opportunity, identified by the sponsor and approved by the funding organisation
- Benefits related to the level of risk and the cost of the project that the organisation is willing to accept
- Created during concept phase and maintained through project lifecycle

“ Business case - information necessary to enable approval, authorisation and policy making bodies to assess a project proposal and reach a reasoned decision.”

BS6079-2002-2

No sponsor no
project?

Authorship and ownership



Sponsor defines Benefits and owns Business Case

- Oversees the development of Business case
- Builds approved Business case into organisation business plan
- Monitors and controls the progress of the project at a strategic level, reviewing the Business case
- Ensures proposed changes of scope, cost or timescale are checked against possible effects on the Business case
- Validates and monitors Business case against external events and against project progress
- Ensures project remains on target to deliver outcomes that will achieve the expected business benefits
- Holds a post-project review to ensure that the benefits have been realised, forwarding the results of the review to the appropriate stakeholders

Contents of Business Case



Reasons	<i>Why</i>
Options (brief description of the different options considered for the project including recommendation of the chosen option) + “Do nothing”	<i>What</i>
Success Criteria – Time, Cost, Quality and associated Key Performance Indicators	<i>How success will be judged</i>
Benefits expected by stakeholders (expressed in measurable terms against today’s situation)	<i>Why</i>
Risks (summary of the key risks of the project)	<i>What threats and opportunities exist</i>
Cost (extracted from the Project Plan)	<i>What</i>
Timescale (summary of the Project Plan)	<i>When</i>
Investment appraisal	<i>How much?</i>

- Of interest to sponsor, stakeholders and project team
- Sponsor sets out the financial criteria to be met

Reasons



- Explanation of the imperative
- Background
 - History and current situation of organisation and what is absent
- Business Objectives
 - Need, addresses organisational imperative
 - Problem, to be resolved
 - Opportunity, to exploited and maximised
- Outcome – what capability will be delivered

Success criteria



- All stakeholders will have different requirements and views of “project success” which must be taken into account
- Success criteria
 - Must be aligned to organisation objectives and goals
 - Need to be agreed with all stakeholders during concept phase
 - Require quantitative measures (KPI's)
 - Can change at any time in project life-cycle via change control
 - Known to have been achieved at Handover and closeout
- Conventional view of project success criteria
 - Within budget
 - On time
 - To defined level of quality or functionality

Success criteria – The qualitative or quantitative measures by which the success of the project is judged”.

APM Body of Knowledge 5th edition

Using Success Criteria



- Agree with stakeholders, at the start
 - What the project will deliver and when the outcomes will be available to use and operate
 - How the achievement of project will be judged to be successful (success criteria)
 - What delivery techniques increase the chances of successfully delivering those outcomes
 - That full support of the management community is in place to those decisions

Success Criteria

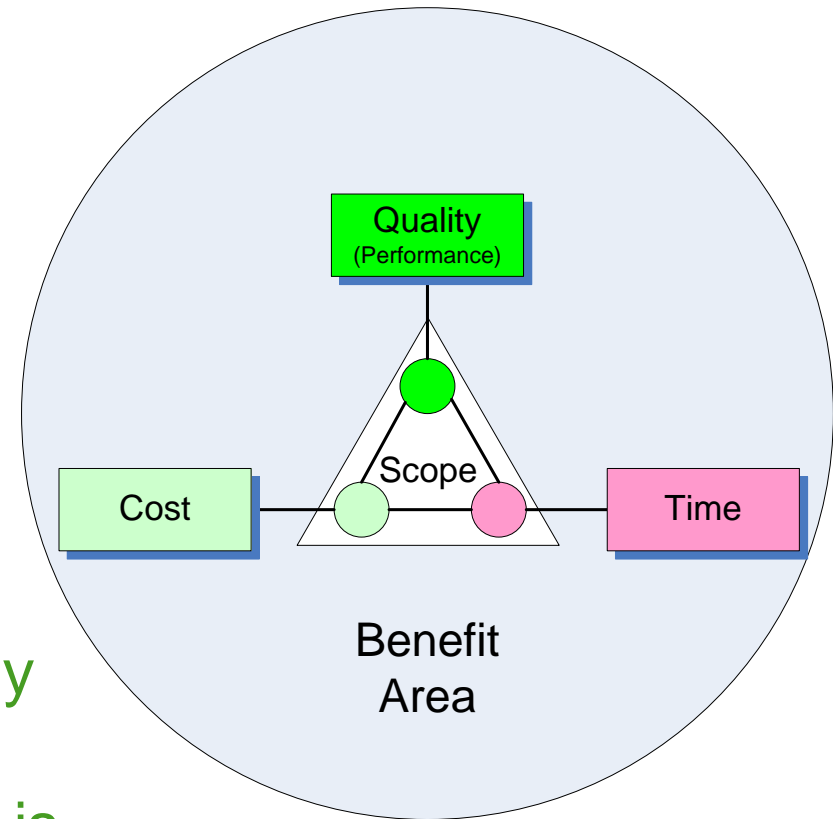


Success Criterion	Interested Stakeholders	Timescales
Increase shareholder value	Executive Board	End + years
Project makes a profit for business	Executive Board	End + years
Satisfies business and sponsor	Business and sponsor	End + years
Satisfies customers	Customers and Business Users	End + years
Achieves programme / project objectives	Business and sponsor	End + months
Meets service specification – “fit for purpose”	Business, Project team	End + weeks
Delivered on Time, to cost and quality	Project team	End
Satisfies programme / project team	Project team	End

Views of Success



- Project Sponsor View
 - Achieved expected benefits
- Business Community
 - Delivering on time
 - Within budget
 - Agreed quality
- Stakeholders View
 - Criteria that should be clearly defined and agreed with stakeholders before project is initiated.



Success Criteria and KPI's



- Stakeholders expect to know what is “success” and how it will be measured
- KPI's
 - Are measures of success criteria, used to assess whether or not success will be achieved by the end of the project
 - Used to track project implementation is progressing towards achievement, enabling corrective action to counter shortfall in benefits
- Success criteria need to be reflected and maintained in the Business Case

“Key performance indicators (KPI) – Measures of success that can be used throughout the project to ensure that it is progressing towards a successful conclusion.”

APM Body of Knowledge 5th edition

KPI Target Values



- Considerations when selecting benefit measures and performance baselines, some
 - Targets may not be suitable for measuring benefits, e.g. cultural improvements
 - Targets may need to change as a result of operational changes, e.g. economic, technology etc.
 - Measures may change as a result of an abnormal operational process
- Current targets may need to be supplemented by other measures to assess the benefits realised

Options



- Outline various options considered to deliver the required project outcome
 - Option A
 - Option B
 - “Do nothing option”
 - Recommend option must indicate why it should be selected
- “Do nothing option”
- Baseline for investment appraisal, provide costs and benefits if the project is not undertaken?
 - Compared to the forecast of completing the project.

Benefits Expected



- The “Why” in the Business Case

“Benefit – The quantifiable and measurable improvement resulting from completion of project deliverables that is perceived as positive by a stakeholder. It normally have a tangible value, expressed in monetary terms, that will justify the investment.”

APM Body of Knowledge 5th edition

Benefits Management Process



- Identification – of each benefit and (dis-benefit) expected
 - Define in measurable terms
 - Assign owner, person responsible for business change and benefit realisation
 - Link benefits to stakeholders expectations
 - Create a Benefit Map (Enablers, Change and Benefits)
- Quantification and Estimation - current status so that measurable improvements can be assessed
- Measurement – what, who, how, when and where
- Transition and Review – planning implementation
- Realisation – embedding change, reviewing and assessing improvements

“Best thing the PMO
ever did for us.”

Generic PMO Benefits



- Reduced effort for PPM community in carrying out work
- Reduced effort and cost in the preparation of the projects Business case
- Better control of programme and project processes
- Ensure organisation benefits from experience & knowledge
- Reduced effort putting right repeated mistakes
- Reduced effort in developing PM standards
- Improved quality – more products “fit for purpose”
- Faster project definition and implementation phases
- Increased competences planning, monitoring and control
- Additional skill sets “right person for the right job”
- More delivered projects, less resource

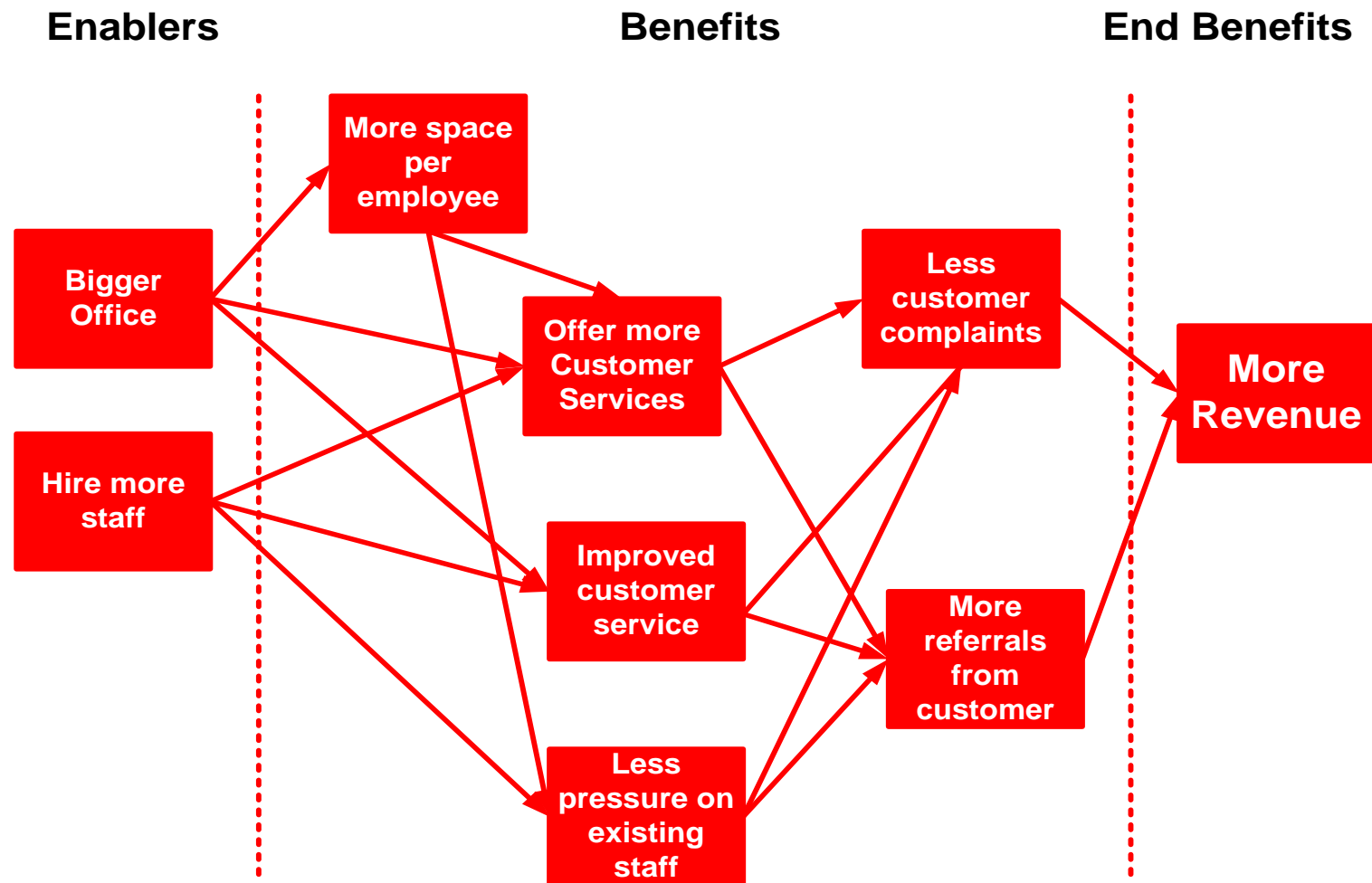
How would you
identify the expected
benefits?

Stakeholders



Key Benefit and Dis-benefit by Stakeholder	Directors	Functional Management	Operational Managers	Programme Managers	Project Managers	Suppliers	Project Staff	PPSO	Customers existing/future
Expected Benefits									
More delivered projects, less resource									
Improved quality – more products “fit for purpose”									
Reduced effort in developing PM standards									
Dis-Benefits									
More delivered projects, less resource									

Benefits Map



Measurement



Quantitatively

- Finance (T,C,Q)
 - £,%,n
- Delivery capability
 - £,%,n
- Deliver capacity
 - £,%,n

Qualitatively

- Improving organisational reputation – brand position
- Increasing customer satisfaction
- Enhancing customer
- Improved morale in the Project Management Community

What assumptions are we making about the projects objectives / constraints?

Could we modify the projects scope?

Risks



- Threats - hinder the project and need to be avoided
- Validating and analysing project assumptions and objectives / constraints
- Responses
 - Avoid
 - Transfer
 - Mitigate
 - Accept
- Opportunities - help the project and need to be exploited
- Changing project scope to achieve beneficial outcomes for stakeholders
- Responses
 - Exploit
 - Share
 - Enhance
 - Ignore

Costs



- Accommodation, Machines, Equipment and People
- People and Materials
 - Staffing (Selecting and Hiring)
 - Training (PMO, Sponsors, and PM Community)
 - Coaching, Mentoring, Consulting
- Machines and Equipment - Infrastructure
 - PM System (Configuring and Enhancing)
 - Methods and procedures
 - Tools, Techniques and Templates
- Information comes from the Project Plan
- Development, operational, maintenance and support
- Linked to Investment Appraisal

Timescales



- Come from the Project Plan
- Linked to Investment Appraisal
- Need to be realistic
- May be necessary to outline timescales if Project Plan not yet completed
- Indicate major outcomes
 - Big Bang vs. Increments
- Identify “Quick Wins”

Investment Appraisal



- Investment based upon an expectation that organisation realises benefit(s) in the future
- Balance costs of the project against the financial value of the expected benefits over a period of time
- Baseline is the 'do nothing' option
- Techniques include:
 - Payback - non-discounted cash flows
 - Net Present Value (NPV) – discounted cash flows

Payback (Non-discounted cash flow)



Year	Option A			Option B		
	Cash Flow	Culmative Cash Flow	Pay Back	Cash Flow	Culmative Cash Flow	Pay Back
0	-£500,000			-£500,000		
1	£325,000	£325,000	No	£200,000	£200,000	No
2	£275,000	£600,000	Yes	£250,000	£450,000	No
3	£225,000	£825,000		£250,000	£700,000	Yes
4	£195,000	£1,020,000		£300,000	£1,000,000	
5				£115,000	£1,115,000	
Payback Period Years	1.64			2.20		
Payback Period Years and Months	1 year and 8 months			2 years and 3 months		

- Length of time required to recover the project investment
- The larger the cash flow (time period), the riskier the project
- Involves estimating project cash flows and calculating after how many periods the investment is covered by project incomes
- Payback is when the Cumulative Cash flow goes positive

Net Present Value (NPV)



Year	Option A Cash Flow	Option B Cash Flow	Discount Rate 10%	Option A Discounted Cash Flow	Option B Discounted Cash Flow
0	-£500,000	-£500,000		-£500,000	-£500,000
1	£325,000	£200,000	0.909	£295,458	£181,820
2	£275,000	£250,000	0.826	£227,260	£206,600
3	£225,000	£250,000	0.751	£169,043	£187,825
4	£195,000	£300,000	0.683	£133,185	£204,900
5		£115,000	0.621		£71,404
Total	£1,020,000	£1,115,000		£824,945	£852,549
Less Investment				-£500,000	-£500,000
NPV				£324,945	£352,549
% NPV on investment				65.0%	70.5%

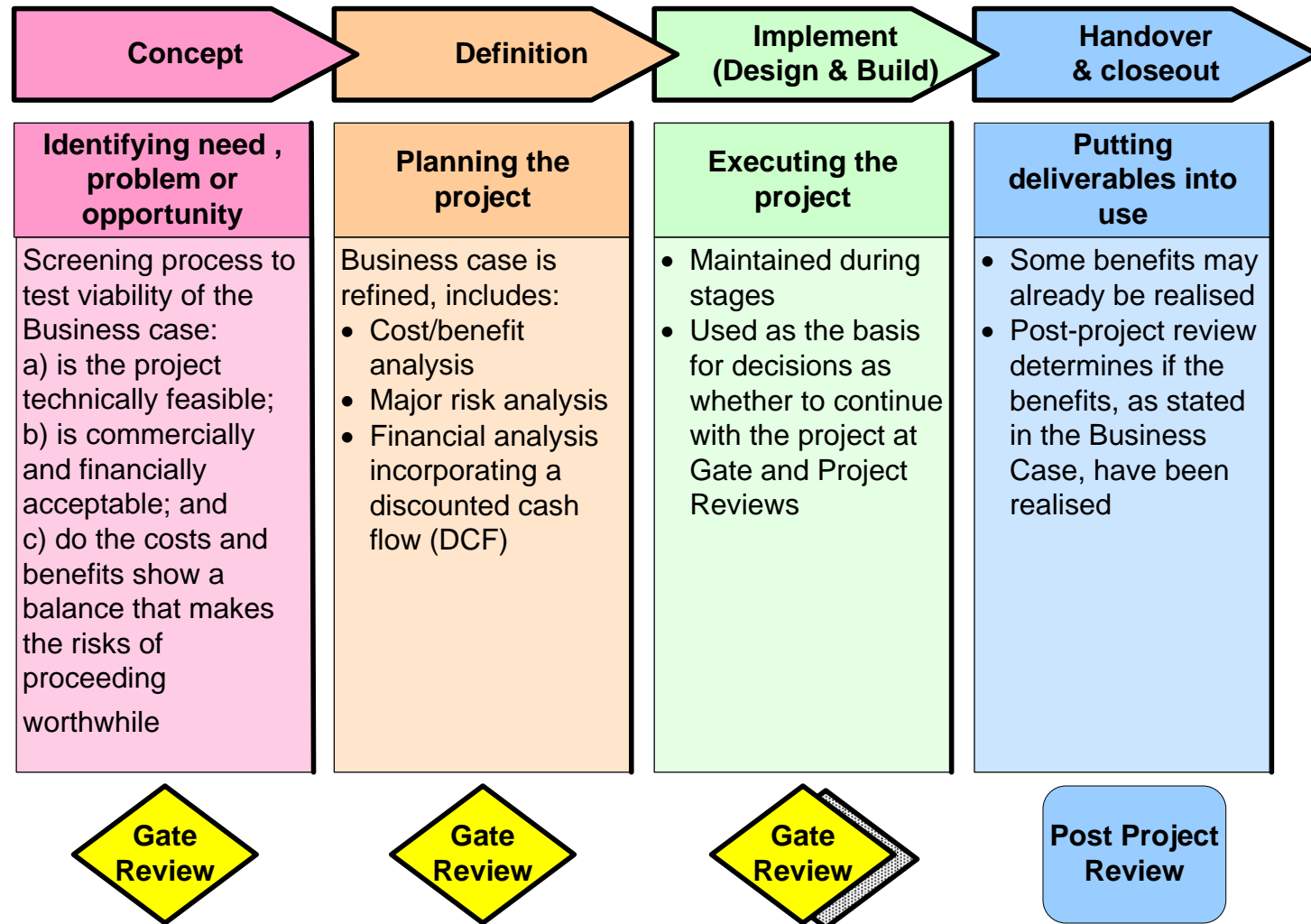
- NPV is a measure of the value (shareholders wealth) of a project investment, expressed in current £'s
- Discount rate varies depending upon organisations business and / or economics (inflation, interest rates, etc.)

Investment Appraisal Considerations



- Ease of use/degree of simplicity required
- Degree of accuracy required
- Extent to which future cash flows can be measured accurately
- Extent to which future interest rate movements can be factored in and predicted
- Necessity of factoring in effects of inflation
- Never rely on one method to make the decision

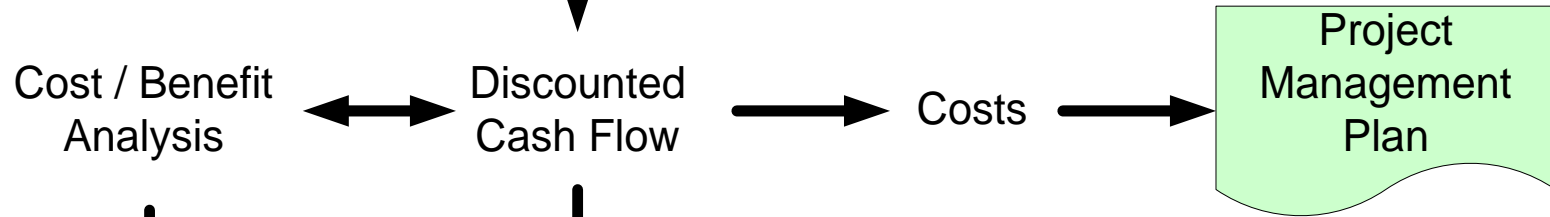
Business Case and Project life-cycle



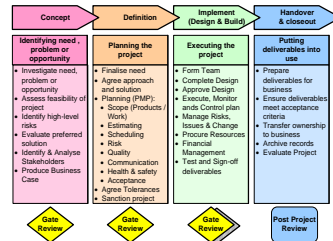
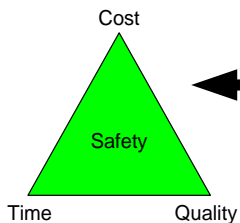
Business Case & Documentation



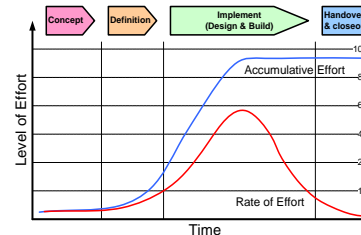
BUSINESS CASE



OBJECTIVES



Life cycles Phases



Process Procedures

PROBABILITY			
IMPACT			

Risk Register

Strategies for Success



- People first, process second
- Find the sponsor, to advocate the change
- Recognise and engage your stakeholders
- Remember the resistance to change
- Build a robust and realistic Business Case
- Link expected benefits to stakeholders, secure support
- Do not under estimate resources / costs
- Validate assumptions, minimise threats and maximise opportunities
- Keep the investment appraisal simple
- Focus outcome to deliver quick wins, to maintain support

Golden Nuggets



- Sponsor owns and approves Business Case
- States “Why” and forecasted benefits
- Justifies the investment in the project
 - Costs of implementation
 - Ongoing costs of operation
 - Income / Cost savings expected after delivery
- Business Case drives planning, decision making and change control process
- Must be able to validate and confirm that Business Case can be met at all times
- Only stakeholders can judge success
- Keep it simple

“Setting the level of the bar”



What are you going to differently?