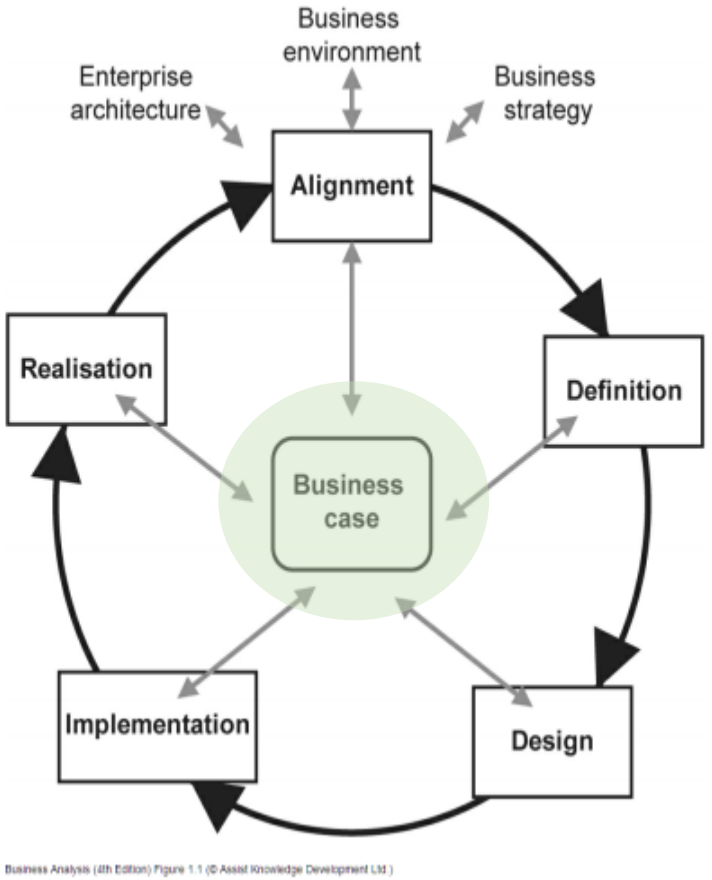
The Business Case

The business case in the project lifecycle

- A business case is a key document in a business change project. It is where the analysts or consultants present their findings and propose actions for senior management to consider.



Business Analysis (4th Edition) Figure 1.1 (© Assist Knowledge Development Ltd.)

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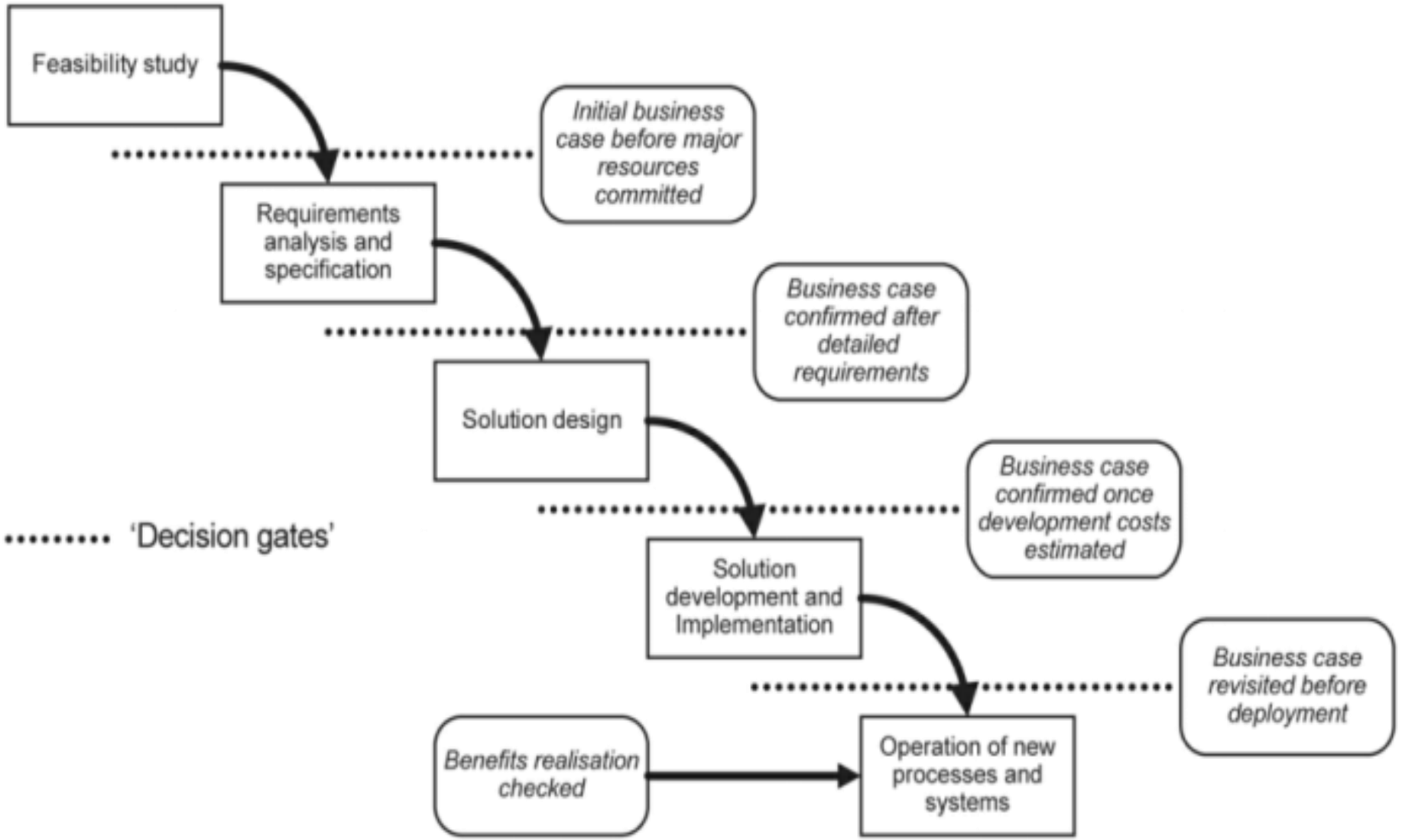
- A business case should support decision-making and often needs to persuade stakeholders of a way forward.

- Therefore, some of the key rules of successful selling apply:

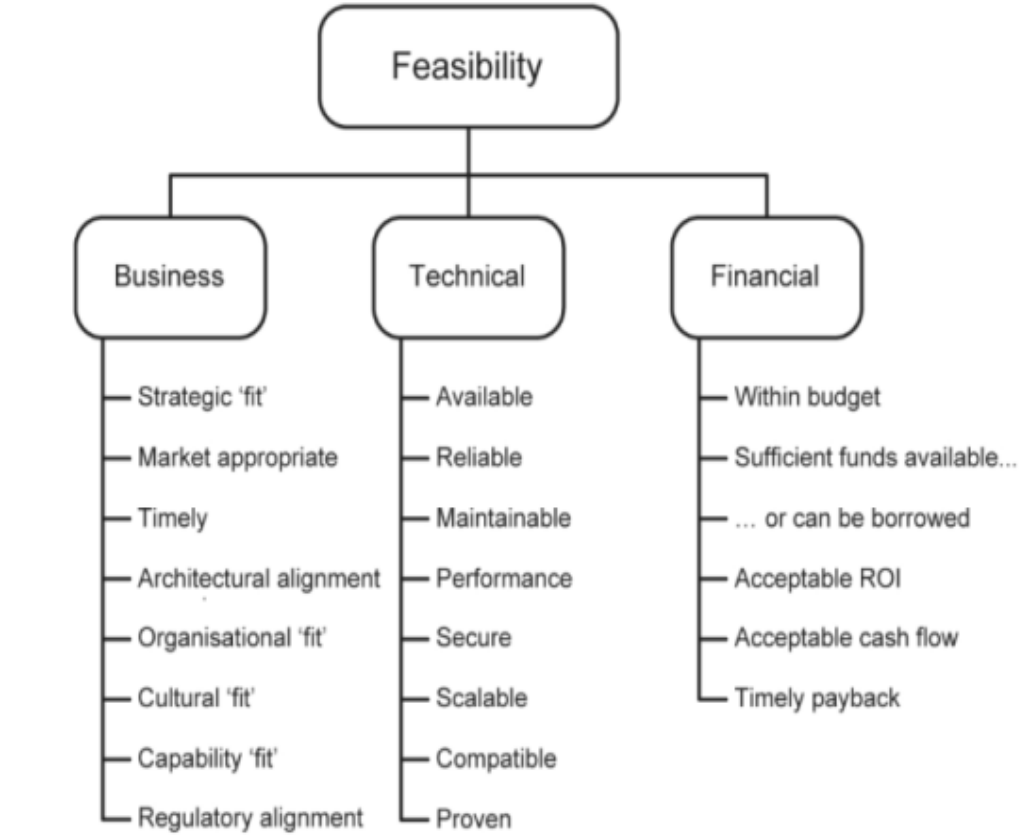
  - Stress benefits, not features;
  - Sell the benefits before discussing the cost;
  - Ensure the ‘buyers’ understand the size of the problem – or opportunity – before presenting the amount of time, effort and money that is needed to implement a solution.

The business case in the project lifecycle



Business Analysis (4th Edition) Figure 9.1

Identify the areas of feasibility assessment



Business Analysis (4th Edition) Figure 9.2 (© Assist Knowledge Development Ltd.)

PESTLE for feasibility assessment

- **Political:** *Is the proposed solution politically acceptable?*
- **Economic**: *Can the organisation afford the solution?*
- **Socio-cultural:** *Does the solution fit with the organisation's culture?*
- **Technological:** *Can the solution be achieved, technically?*
- **Legal:** *Does it comply with legislation?*
- **Environmental:** *Does it raise any 'green' environmental issues?*

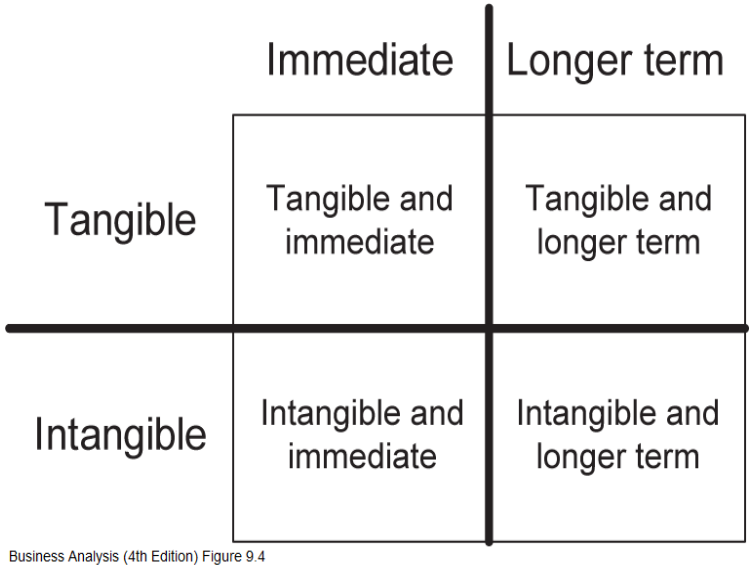
Structure of a business case

Introduction
Management (or executive) summary
Description of the current situation
Options considered
Option description
Analysis of costs and benefits
Impact assessment
Risk assessment
Recommendations
Appendices, with supporting information

Analysis of Costs and Benefits

Tangible

Costs	Benefits
• Project staff costs • Business staff costs • Equipment • Infrastructure • Packaged software • Relocation	• Staff savings • Reduced effort and improved speed of working • Faster responses to customers • Reduced accommodation costs • Reduced inventory • Other cost reductions



Business Analysis (4th Edition) Figure 9.4

Intangible

Costs	Benefits
• Disruption and loss of productivity • Recruitment	• Increased job satisfaction • Improved customer satisfaction. • Improved management information • Greater organisational flexibility • More creative problem-solving time • Improved presentation or better market image • Better communications

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Impact Assessment

Organisation structure
Interdepartmental relations
Working practices
Management style
Recruitment policy
Appraisal and promotion criteria
Supplier relations

Risk Assessment

Description
Impact assessment
Probability
Countermeasures
Ownership

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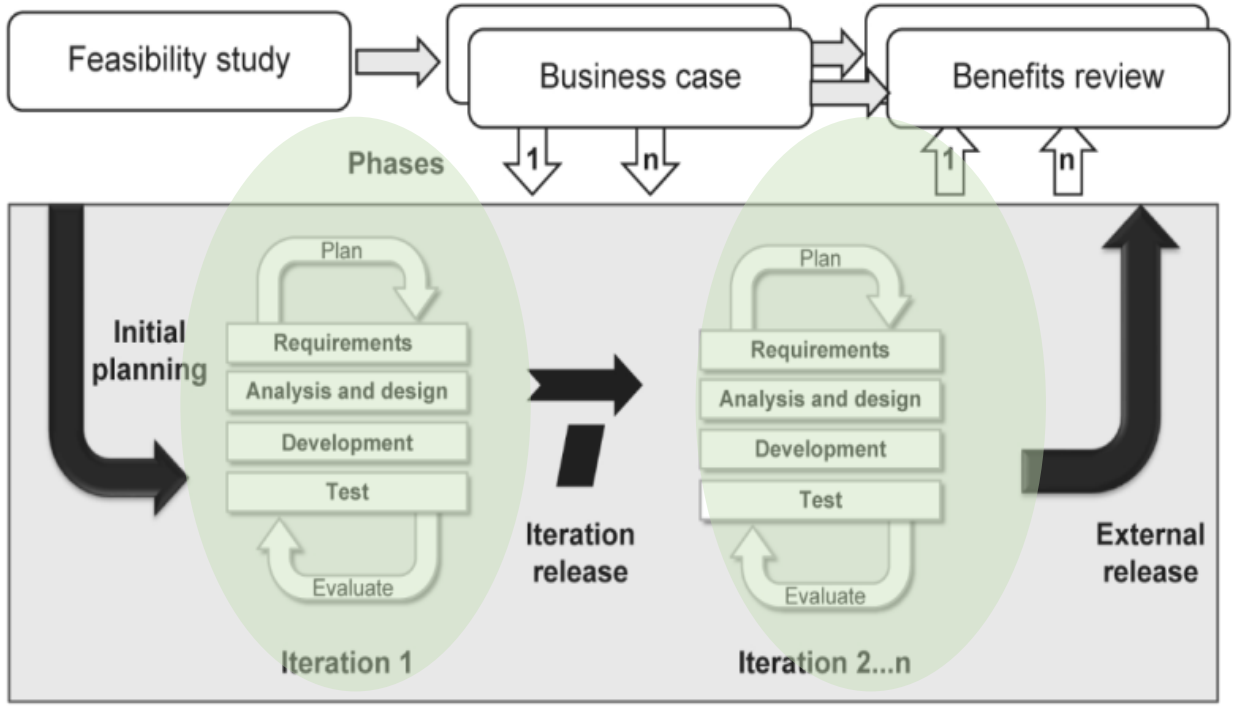
Business case within an Agile context

The diagram below shows that there may be **a series of iterations during which the requirements are refined and the solution is analysed, designed, developed and tested**. two or more iterations may be associated with a release of the solution.



Business Analysis (4th Edition) Figure 9.6 (© Assist Knowledge Development Ltd.)

The CARDI Log

- A RAID log documents risks, assumptions, issues and dependencies. A CARDI log covers these areas and also includes constraints.

Constraints
Assumptions
Risk
Dependencies
Issues

Investment and Appraisal Techniques

Payback

Discounted Cash Flow

Internal Rate of Return

Payback

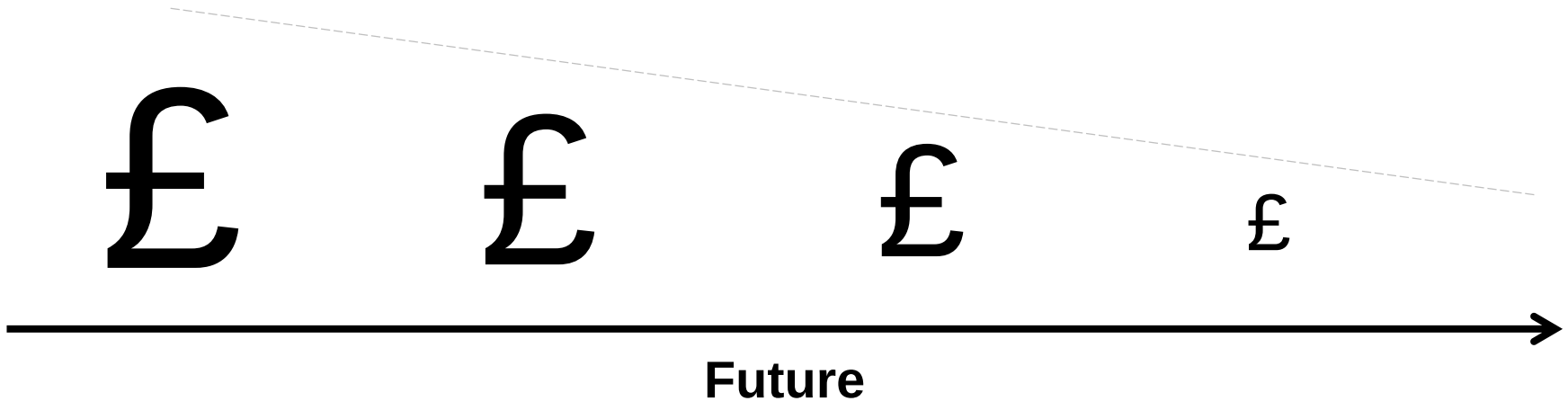
Item	Year 0 (£)	Year 1 (£)	Year 2 (£)	Year 3 (£)	Year 4 (£)
Hardware purchase	400,000				
Hardware maintenance	60,000	60,000	60,000	60,000	60,000
Software purchase	300,000				
Software support	60,000	60,000	60,000	60,000	60,000
Staff savings	300,000	300,000	300,000	300,000	300,000
Cash flow for year (savings less costs)	-520,000	180,000	180,000	180,000	180,000
Cumulative cash flow	-520,000	-340,00	-160,000	+20,000	+200,000

Business Analysis (4th Edition Table 9.1

The project should have paid for itself in year 3 and returned 200k by year 4.

Payback and Risk – Time Value of Money

Time value of money : A term descriptive of the fact that money received or paid in the future is worth less than money received or paid today



This drawback can be mitigated by applying the payback method to **discounted cash flows.**

Discounted Cashflow

Item	Year 0 (£)	Year 1 (£)	Year 2 (£)	Year 3 (£)	Year 4 (£)
Hardware purchase	400,000				
Hardware maintenance	60,000	60,000	60,000	60,000	60,000
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Cumulative cash flow	-520,000	-340,00	-160,000	+20,000	+200,000

Business Analysis (4th Edition Table 9.1

Requires adjustment to take account of the time value of money

Year	Net cash flow (£)	Discount factor (£)	Present value (£)
0	-520,000	1.000	-520,000
1	180,000	0.909	163,620
2	180,000	0.826	148,680
3	180,000	0.751	135,180
4	180,000	0.683	122,940
NPV of project:			**50,420**

10%

Business Analysis (4th Edition Table 9.2

The project still pays for itself, but not until year 4, and with a drastically reduced margin (~50k versus 200k).

Internal Rate of Return

Year	Net cash flow (£)	Discount factor (£)	Present value (£)
0	-520,000	1.000	-520,000
1	180,000	0.909	163,620
2	180,000	0.826	148,680
3	180,000	0.751	135,180
4	180,000	0.683	122,940
NPV of project:			**50,420**

Business Analysis (4th Edition Table 9.2

10%

A discount factor of 10% yields a return of £50k

A discount factor of 14% yields a return of Zero

Therefore, the IIR for this project is 14%

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