

Building a Benefits-driven Business Case

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These days it has become an accepted requirement that all new projects should be justified with a comprehensive business case. There are good reasons for this. Everyone has heard horror stories about IT project failures: massive overspend, systems way overdue, absence of benefits, poor user acceptance. It is not the purpose of this article to discuss in detail all the reasons why projects fail, but some of the reasons are connected to the subject matter and those will be examined.

This article argues that a comprehensive business case should be a detailed cost/benefit analysis showing the investment impact of the project and setting out the business benefits and how they are to be achieved.

In the past, as far as many people were concerned, producing a business case meant setting out the reasons for doing something, stating the potential effects if it was not done (sometimes these were the same) and itemising the costs involved.

Given that this approach is no longer sufficient (if it ever was), the purpose of this article is to outline what, in the current business environment, is needed in a comprehensive business case and to offer guidance on how to prepare and achieve the best results.

What is a business case?

According to the website of the Office of Government Commerce, "The business case documents information necessary to support a series of decisions. These decisions, over time, increasingly commit an organisation to the achievement of the outcomes or *benefits possible* as a result of a particular business change." (Italics are mine.)

This is interesting because it talks about a "series of decisions", that "over time, increasingly commit an organisation to the achievement of the outcomes... of a particular business change." In other words, the business case should be written not to seek a single all-or-nothing, yes/no decision to go ahead but to support a process of gradually increasing commitment over time. It follows that, at any time, the decision could be to discontinue. It emphasises not the action to be taken, but the "benefits possible" or results of the action. This is a sound approach and enables the company to take account of changing circumstances rather than fixing the case at a moment in time.

A good business case helps the organisation to determine exactly what it wants to achieve and how it will do so, rather than just being used to obtain funding. It should support sound investment decisions that are based on strategic fit, adequate options explored, affordability, improving efficiency, achievability and appropriate commercial arrangements that are value for money, informed by more reliable estimates.

Obviously the "series of decisions", the period of time and the size of the business

case should be in proportion to the scale of the project in terms of cost, duration or impact on the business.

Irrespective of size, any business case should contain information covering five key aspects:

- Strategic fit.
- Options appraisal.
- Commercial aspects.
- Affordability.
- Achievability.

Again according to the OGC, a concise, well-written business case should allow organisations to:

- Make the right investment decision.
- Deliver the changes.
- Realise the benefits of those investments.

Once again, the realisation of the benefits is a key point.

So, the purpose of a business case is:

- To document the justification for the undertaking of the project, assessed on the estimated costs of development and implementation and the risks versus the anticipated business benefits and savings to be gained.
- To gain Management commitment and approval for investment in business change, through rationale for the investment.
- To provide a framework for planning and management of the business change.
- To enable you to monitor and measure the realisation of the benefits of the project.

We can see from this summary that the business case is a touchstone throughout the life of the project. It documents the justification, it gains commitment, it provides a framework for project planning and it monitors the realisation of the benefits once the project is live and the system is in production.

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Why produce a business case?

Justifying the investment – Once upon a time, IT investment was seen as “a good thing” per se, but in this highly competitive age, as with any change in the business, investment in IT has to be seen to offer benefits to the business: results such as reduced transaction costs, improved customer service or increased margins. IT investment must compete on an equal footing with any other business investment.

Reducing the risk of failure – Due to the high profile of many projects and the associated bad news whenever a failure occurs, management is much more aware of the potential risks of IT projects, and we all want to avoid being associated with a failed project. If a sound, logical, justified case can be put forward, showing benefits to the business, it is possible we can reduce the risk or at least put the project on a sound footing.

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Increasing the likelihood of approval – Apart from the above, as IT professionals we want to increase the chance of a project being approved and thus preserving our livelihood, so it makes good sense to produce a business case anyway.

- “A project is 60 percent more likely to be approved with a cost justification and business case.”

Gartner

- “More than 82 percent of IT decisions now require a cost versus benefit analysis.”

Information Week

- “Return on investment is king, and projects with a quick and clear cost versus benefit are much more likely to get funding in today’s uncertain business climate.”

The Industry Standard

In all the above statements, the idea of benefits comes through, either implicitly in a cost justification, or explicitly.

Another interesting statistic:

- In a survey of over 700 sites by CSC, 82% of respondents said that their ERP implementation was successful, but only 22% said that they had achieved the anticipated benefits.

There are three questions here.

- 1 If only 22% could say they achieved anticipated benefits how could the other 60% know that their project was successful?
- 2 How do you measure success if not by benefits to the business?
- 3 Why could only 22% say they achieved the anticipated benefits?

This is where reasons for failed projects relate to the subject of this article. There are many reasons why a project can fail.

Failure may be a case of poor project governance (by governance, I mean the whole project structure including staffing, scoping, planning, initiation, project management, risk management, quality), or it may be poor preparation for change within the organisation and therefore poor take-up of the system by the users. No matter how good the system, if the users can’t or won’t use it, it is a failure.

In many cases it is that the business case was not properly prepared. Perhaps it was too superficial, or not aligned to the business drivers, or it only considered costs rather than cost versus benefits. Equally, it may be that the case was well prepared but no monitoring of benefits was carried out. Sometimes, even though a project has seemed successful it is viewed as unsuccessful, perhaps because of poor perception by the users. In this case, documented results that prove success through comparison to the identified expected benefits can often change these perceptions. Without a business case properly setting out the reasons for the change, the strategy to be adopted, the benefits to be achieved, and gaining management buy-in, a project is off to a shaky start.

How should I prepare for the business case?

You will need to do a lot of preparatory work before you can produce your case. For example, you will need to understand the decision making process; who is involved and what motivates or interests them, who has the power and who has the influence, what decision-making criteria are there and what else is going on.

- Who expects what?
- What is the process for making the investment decision?
- What are the primary business drivers?
- Why do it now?
- What are the boundaries? What is the scope of the intended change?
- What are the intended outcomes and benefits?
- What options are there for making the intended changes? What products or services would be required?
- Who is the executive sponsor?
- Who is involved in the decision-making?
- Who cares about what?
- What are the decision criteria that will be used?
- Are the changes achievable and affordable?
- With what other possible projects are you competing?

What should be in a business case?

A business case typically contains the following sections:

- Management summary.
- Outline scope, reasons, strategic fit.
- Options appraisal. Benefits expected and quantified. High level cost/benefit analysis of (ideally) at least three options for meeting the business need. Include analysis of ‘soft’ or intangible benefits that cannot be quantified in financial terms.
- Recommendation, preferred option with reasons for choice.
- Costs & timescales. High level plan for achieving the desired outcome, with key milestones and major dependencies (e.g. interface with other projects).

- Investment appraisal, calculation detail, cash flow, payback, ROI.
- Risks and mitigation. Contingency plans for non-delivery.
- Assumptions.
- Source information, proof, validation.
- Benefits realisation plan.

“The level of detail required at each stage depends on organisational standards and the scale or complexity of the project.”

Here is the first mention of *how* to realise the benefits – a benefits realisation plan. For many this is a new concept but if you are going to justify a project based on savings, you better be clear how you are going to achieve them in reality. If done correctly, this should be a great help when the project goes live and you want to measure the results. It may also be the difference between a perception of success or failure.

Once you understand the playing field and have gathered your information; start putting your case together.

- Get it right!!! Be sure of your facts; check your calculations. Nothing undermines your presentation like an incorrect calculation spotted by a director – “Go away and come back when you have got it right”.
- Make it relevant. Gear it to what you know about the decision makers and the company drivers.
- Focus on the top five costs, but do not overlook other costs. Directors will want the headline costs but not the minutiae. Aggregate the smaller costs. Beware of hidden costs.



- Provide explanation, document well. It has to be a standalone document that readers can follow. Remember, you will have to come back to it later and understand what you did.
- Define formulae and variables. Show how you arrived at results. Do not leave gaps where questions or doubts can arise.
- Obtain metrics and calculate. Evaluate the expected benefits using data from the company. Be realistic. Use measures that are important to the company.
- Make metrics easily measurable, if possible. When it comes to assessing whether benefits have been achieved you will want to be able to do so without too much trouble.
- It's OK to estimate. In some cases you will have to, but be realistic and explain your logic.
- Include assumptions. Ensure people can understand how you arrived at a conclusion.
- Determine proof needed and provide evidence. Back up your assumptions and estimates with relevant evidence, using industry data if possible and anecdotal evidence as well. E.g. Company B increased their throughput by 15% when they implemented this system.

How big is a business case?

This may seem an odd question, but many people have not been exposed to a serious business case exercise so have no feel for appropriate size. It is no good trying to justify a multi-million pound project with one page of A4; conversely, 20 pages may be overkill for a new server, so the size is important.

The size of the business case should be proportionate to the size of the project and its impact on the business. (5 – 15 pages excluding appendices). The management summary should be about 10% of the document.

For small projects, you may only need to produce the business case in one stage, with confirmation of prices, funding availability and other relevant material.

For larger projects, you should consider a multi-stage approach:

- Preliminary business case (or Strategic outline case) to confirm strategic fit and business need, typically no more than one or two pages.
- Outline business case – indicative assumptions to support the preferred way forward (including procurement strategy, where applicable), variable length depending on the scale of the project.
- Full business case – validated assumptions to support the investment decision, variable length depending on the scale of the project. The level of detail required at each stage depends on organisational standards and the scale or complexity of the project.

The full business case should include a benefits realisation plan.

To give you an idea of the size of the exercise, it is recommended that you should spend up to 3% of the project's potential investment on building the business case. (So, on a half million pound project, that's £15000 or 15 – 30 days depending on your costing.)

Documenting the business processes that will be affected

One useful exercise that can be carried out for a relatively modest outlay is to map the business processes operating in the affected areas. This serves several purposes:

- It encapsulates the scope of the project for which you are developing the business case.
- It provides a graphical description of the scope for inclusion in the business case.
- It enables you to understand how the processes work.

- It enables you to capture the knowledge that normally resides in peoples' heads.
- It allows you to see processes that are "broken".
- It provides a sound basis for process improvement when the project gets under way.
- It forms the basis of your testing and training materials.
- It assists with benefits realisation by allowing you to monitor the improved processes.
- Identify and describe the benefits that the proposed project should provide to the company.
- Record intangibles.
- Identify the metrics to be used – those measures that are relevant to the project and important to the business.
- Quantify the metrics in the current situation using company data where possible, or industry standard data if not.
- Document your reasoning, your assumptions, the costs, the metrics, the calculations, the evidence.

"With the right tool and consultants, you can carry out interactive workshops with the users and get their involvement and buy-in."

Find a specialised tool that enables you to maintain the process maps together with all the associated information and data on a server, so that you can easily maintain them as the processes change. Word and Powerpoint are frequently used for this sort of thing, but the results are static and tend to get filed away and forgotten.

Find a consultancy company who, equipped with and trained in the use of that tool, have the skills to help you carry out the initial exercise of identifying and documenting the processes.

Involve the users. With the right tool and consultants, you can carry out interactive workshops with the users and get their involvement and buy-in. This gives you an improved understanding of the processes, leading to a more thoroughly researched business case.

Producing the results

Before you can produce your business case, you need to gather and record all the information, carry out the calculations and analyse the results.

The key part of the business case is the investment analysis. This is the foundation for your conclusions and their justification. Different companies use different measures and some measures mean different things to different people, so make sure you know what are the preferred measures in your company. As with many things in life, it is not always simply what the numbers say, but a combination of factors that decide the best course of action; however, make sure the numbers back you up.

- Estimate the improvements based on what you know about the new system. E.g. reduces time to process a claim from three minutes to two. Try not to over- or under-estimate.
- Quantify the metrics in the new situation based on your estimated improvements.
- Calculate the benefits.
- Compute final results (IRR, NPV, ROI, payback period, whichever is used in your company).

When you have produced the numbers, you will then be able to derive your conclusions and recommendations.

- Evaluate each benefit in turn.
- Identify themes. Several minor, apparently unrelated benefits may add up to a particularly relevant one.
- Check for compelling benefits for different levels of the organisation. A percentage increase on the return on capital employed may not mean much to the Procurement Manager but it might to the CFO.
- Match results to acceptance criteria. Obvious really!
- Include charts & diagrams. Some of your audience may not have time to read the verbiage but may take in a graph at a glance. You know what a picture is worth.

- Determine recommendations. Analyse the numbers, decide which appears to be the best option(s) and make sure your decision is a result of reason, not emotion. By this I mean, don't work backwards to justify a pre-conceived conclusion.
- Use a worksheet layout to present the results, it imposes order.
- Keep it simple – one or two pages – any more and people will lose interest.

Presenting the business case

When you have pulled it all together, analysed the results and drawn your conclusions, ask yourself the following questions:

- Is the business need clearly stated?
- Have the benefits been clearly identified?
- Are the benefits consistent with the organisation's strategy?
- Is it clear how the benefits will be realised?
- Is it clear what will define a successful outcome?
- Where there is external procurement is the sourcing clear?
- Is it clear why this is the preferred sourcing option?
- Are the risks faced by the project explicitly stated?
- Are the plans for addressing those risks explicitly stated?
- Is it clear what the preferred option is and why it is preferred?

All of this sounds like it is a pretty labour intensive and manual exercise. This is true and I would suggest that for a large exercise you put a team together to share the load. Some people are better than others at writing, some are better at numbers and some like doing the investigation but not the analysis. If the exercise is going to involve 3% of project expenditure on a large project, it needs a leader and it needs to be planned. Its execution will also very likely have to tie in with board meetings.

One way of mitigating the effort is to find a supplier with a tool that is designed to assist with producing the investment analysis. Whilst you could do it yourself in Excel, a purpose built tool that allows you to record information about the factors or benefits, hold related metrics and calculate results, i.e. quantify the benefits in multiple scenarios, can save you a lot of time and effort.



With a purpose-built tool you can:-

- Explain each calculation.
- Use it at any level.
- Create as many scenarios as you want.
- Be optimistic or conservative.
- Include set-up costs and running costs.
- Include intangibles.
- Refer back to it.
- Repeat the exercise with different values.
- Show savings over a selected number of years.
- Show IRR, NPV, ROI, cashflow & payback period.
- Provide reports and charts.
- Use it to monitor results.

Conclusion

For IT projects of any size, a business case is a must. You must be clear about the business reasons for undertaking the project and about how it will benefit the business. The investment analysis is a key part of the case and should show quantified business benefits versus costs. The understanding of how the decisions will be made, who will make them and with what other requirements for funding you are competing is as important as the business case itself. When you put all this together to produce a benefits-driven business case, your project will stand a better chance of being approved and of being successful.

For more information about building a business case, refer to the web site of the Office of Government Commerce: http://www.ogc.gov.uk/delivery_lifecycle_business_case_management_.asp

With acknowledgement to the Office of Government Commerce.

About the Author



Derek Hancock has spent 23 years in the Applications Software business, joining MSA in 1985. Following seven years in sales and

services with Marcam, he joined JD Edwards as a Client Manager in 1997, staying there until the completion of the Oracle take-over in March 2005. Whilst at JD Edwards he spent three years running a Customer Outreach program aimed at helping customers get more value from their software. He has worked in the JD Edwards marketplace ever since, spending time with Differentia and Cincom Systems. Now with Whitehouse Consultants, the only Oracle Certified Advantage Partner for JD Edwards in the UK, he still concentrates on working with the existing customer base to ensure they continue to get value from their software investment.

10g Upgrade Companion

The Oracle Upgrade Companion helps you upgrade your Oracle Database from Oracle9i Release 2 to Oracle Database 10g Release 2 (10.2). The guide is not an automated tool but instead, provides guidance for pre-upgrade, upgrade, and post-upgrade steps. This document is continually updated as new information becomes available. Please check back prior to your upgrade. The latest version of the 10g Upgrade Companion (v. 2.00) was released on February 13, 2008.

This current version includes information about:

Changes in the behaviour of Oracle Database 10g Release 2 that will affect customers who upgrade

This section documents important changes in the behaviour between Oracle Database Release 9.2 and Oracle Database 10g Release 2 (10.2). It also focuses on behaviour changes that require a DBA to make an informed decision in order to minimise the risks that may be introduced by the changes.

Best practices for pre-upgrade planning, upgrade operations, and post-upgrade analysis

The Best Practices section is not a replacement for the Oracle Database Upgrade Guide but rather a companion document – emphasising and elaborating on

recommendations and requirements. Oracle technical staff derived the Best Practices which is an accumulation of real world knowledge and experience obtained whilst working with our customers.

Critical and recommended patches, by platform

This section will help you prepare for an upgrade by providing a list of patches that are recommended for your platform. This list of patches is based on the most common issues encountered by customers on version 10.2.0.3 of the database. Carefully review each patch and only apply the patches specific to the components that are currently installed on your database.

The document is completed through a reference list about relevant Oracle documentation. It is available in printable and interactive versions.

Please review MetaLink Note 466181.1 for details: https://metalink.oracle.com/metalink/plsql/ml2_documents.showDocument?p_database_id=NÖT&p_id=466181.1 (MetaLink login required.).