

A White Paper

# DEVELOPING A BUSINESS CASE

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## ABOUT THIS GUIDE



### **What is it?**

A guide focused on the activity of producing a business case. It provides a roadmap on developing a high-quality business case document that can be used for your critical projects.



### **Why do I need it?**

The business case guide walks the participant through the process of producing the business case. This guide will also prepare you for the many challenges faced in developing a business case.



### **Who is it for?**

Whether you are developing a business case for the first time, or are familiar with the subject matter, every person using this guide should walk away more confident and better prepared than before.



### **Who is it from?**

This guide was developed by Engage Energy & Industrial Consulting for the specific purpose of helping you develop a robust Business Case.



# What is a Business Case?

The Business Case is a carefully constructed communication tool detailing critical information decision makers need to make sound business decisions. Effective development of a business case creates a disciplined approach to examine the opportunities, alternatives, project stages, and investment needed to formally recommend the best course of action that will create business value.

## **The business case is the “why” an organization is embarking on the project.**

According to the Project Management Institute (PMI) “the business case provides the necessary information from a business standpoint to determine whether or not the project is worth the required investment.” The business case is considered an input to a Project Charter along with a Statement Work.

The organizational benefits for making an investment and taking on a specific project or initiative may be obvious to the person(s) involved with it. However, to the decision makers that must commit dollars, time, and resources to the endeavor, the decision to “go or no go” is often more complicated.

Decision makers may be dealing with a host of competing priorities, business objectives, and resource constraints. The Business Case is the primary tool an organization uses to assess the probability and viability of committing resources to an initiative. The business case is often used to:

- Demonstrate the value of a project.
- Inform stakeholders of risks associated with the project
- Provide alternatives.
- Secure resources such as investment dollars, labor, and materials.
- Prioritize the project within a broad portfolio of projects

The Business Case should answer the following two key questions:

1. “What business value will be gained from this investment?” and
2. “Do we have enough information to make an informed decision to go forward?”

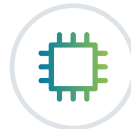
By developing the Business Case, you will be able to confidently present the recommendation(s) to the key stakeholders that will ultimately approve the investment decision and guide the project’s success.

## TYPES OF BUSINESS CASES

Business Cases take several forms. According to the PMI, a business case may be created because of one or more of the following:



**Improved Performance or Reliability**  
e.g., installing new equipment or upgrades to existing equipment to reduce maintenance and extend the life of an asset



**Technological advance**  
e.g., an electronics firm authorizing the development of a faster, cheaper, and smaller laptop after advances in memory and technology.



**Market Demand**  
e.g., a car company authorizing a project to build more fuel-efficient cars in response to gasoline shortages.



**Legal / regulatory requirement**  
e.g., a paint manufacturer authorizing a project to establish guidelines for handling toxic materials,



**Organizational Need**  
e.g., training company authorizing a project to create a new course to increase its revenues.



**Ecological impacts**  
e.g., a company undertakes a project to lessen its environmental impact, or



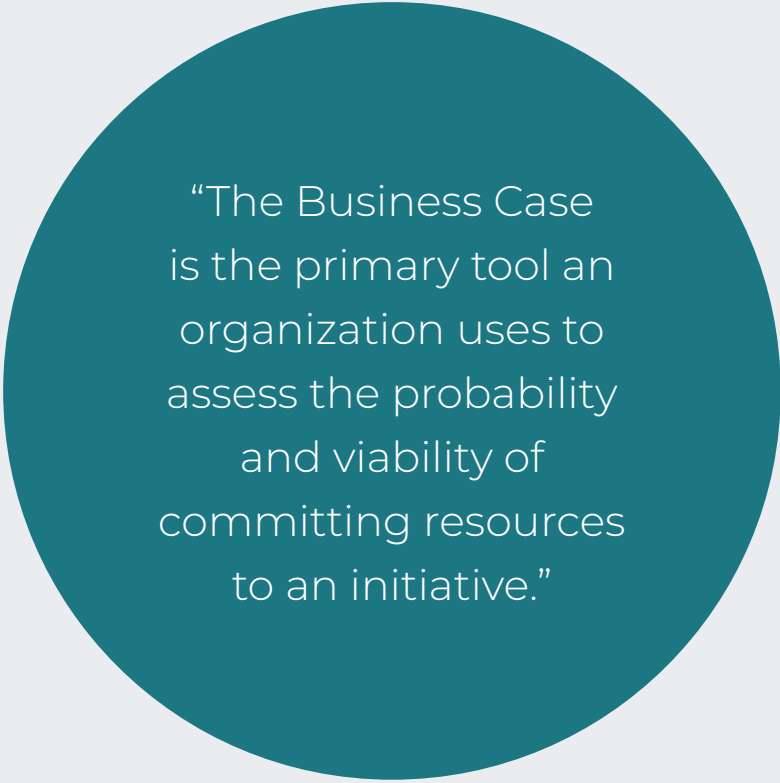
**Customer Request**  
e.g., an electric utility authorizing a project to build a new substation to serve a new industrial park.



**Social need**  
e.g., a non-governmental organization in a developing country authorizing a project to provide potable water systems.

The depth of analysis and rigor applied may be based on the size and complexity of the project and the rules established by the organization. For example, a business case for an investment of \$10,000 may be much simpler than the business case for an investment of \$10,000,000.

For large investments and/or high-risk projects, a preliminary business case is often prepared as a first step in reviewing the opportunity, securing a placeholder in the budget, or informing regulators prior to preparing the full business case.



“The Business Case is the primary tool an organization uses to assess the probability and viability of committing resources to an initiative.”

## ROLE OF THE BUSINESS CASE IN PROJECT GOVERNANCE

Project Governance is an oversight function that aligns with the organization's governance model and the critical elements of the project management lifecycle.

Project governance addresses how decisions are made and accountabilities are disseminated and assigned between the project team and executives. Good project governance takes discipline. An organization needs to set up governance structures, train the sponsors who oversee them, and enforce basic procedures that will assure the quality of work.

Good governance requires accountability, transparency, and auditability. Poor governance can put a project at risk of failure and allow the team and organization to lose sight of its objectives and responsibilities to its stakeholders, who benefit most from the project's success.

Key elements of strong project governance include:

- ✓ Set up a training event to discuss decision-making processes and information requirements.
- ✓ Discuss the same with your sponsor.
- ✓ Prioritize strong record keeping that creates transparency, accountability, and a ready source of good data to help oversight and decision-making process function robustly.
- ✓ Key documents/components that must be included in the process:
  1. Update Meeting and Agenda
  2. The Project Charter
  3. The Statement of Work
  4. The Business Case
  5. The Project Management Plan
    - > Scope, Schedule, Cost
    - > Performance Report
    - Change Control
- ✓ Establish a stage gate process for your project, regardless of whether your organization mandates it.
- ✓ Set up criteria for important decisions at the outset of projects.





## ROLE OF THE BUSINESS CASE IN PROJECT GOVERNANCE (continued)

The business case forms the foundation of any project. It aligns executive leadership around the goals of the initiative and puts their participation and decision-making authority on point through a formal update and review process. This reduces the likelihood of competing priorities or agendas.

The business case is “the why” an organization is embarking on the project. Your business case must answer the questions the decision makers will and should ask.

These include:

- How does this project align with the organization’s overall mission, vision, and strategic plan?
- What are the benefits of the project?
- How confident are you that the project will achieve those benefits?
- What are the costs?
- How confident are you that all of the costs have been identified?
- What are the risks if we do the project?
- What are the risks if we don’t do the project?
- Does the business case consider a viable range of alternatives or options?
- How will the organization fund and provide resources for the project?
- Does your project represent an optimal use of limited funds and resources compared to competing projects?

The best way to determine your “why” for the project is to formulate a problem statement. A problem statement should describe the undesirable gap between the current-state level of performance and the desired future-state level of performance that the project seeks to remedy. It should not include possible causes or solutions.

# THE BUSINESS CASE PROCESS

## 6 Steps to Effective Development



“Effective development of a business case creates a disciplined approach to examine the opportunities, alternatives, project stages, and investment needed to formally recommend the best course of action that will create business value.”





## KEY ELEMENTS OF THE BUSINESS CASE

# What Content Should Be Included in a Business Case?

The business case document is a communication tool that substantiates that the project meets the needs of the business and is worthy of receiving funding and approval to move forward. By documenting the critical factors together in one story, it is easy to link the issues to the solution and the benefit.

The business case document should also include the required analysis so your leadership team can prioritize this project against the many other initiatives in the businesses project portfolio that are competing for capital investment.

The final important role that the business case document plays is to provide a consistent message to many different stakeholders. It is a high-level view of the entire project and enables all organizations affected by the project to be knowledgeable about the project purpose.

The business case document should include the following elements:

- The key project objectives
- The business need and requirements
- The investment required
- How the project aligns with the organizations strategic plan
- List of benefits, financial and non-financial
- An assessment of the risks and strategies to mitigate
- Provide alternatives/options for management to consider

## Sample Table of Contents

In addition to serving as a table of contents, the following also provides an effective outline to structure and tell the entire story of your project.

1. Executive Summary
2. Project Definition
3. Business Requirements
4. Evaluation of Alternatives
5. Preferred Recommendation
6. Strategic Value to the Business
7. Benefits (Quantitative & Qualitative)
8. Risks
9. Financial Analysis—Return on Investment
10. Project Scope, Stages & Schedule
11. Project Resource Requirements
12. Project Authorization
13. Appendices

The table of contents should not be considered a process flow. Many of the elements in the table of contents will be done concurrently and/or iteratively.

# TABLE OF CONTENTS

## 1. Executive Summary

The Executive Summary should provide a high-level summary of the most critical points from the business case. Include the most relevant facts in clear and concise statements. This typically is no longer than one page. We recommend this section be done last.

The Executive Summary should include the following information:

- Your recommendation for the project
- A list of qualitative and quantitative benefits to the organization for doing the project
- Summary financials and resource requirements
- Project timing (phases and schedule)
- Major project risks



## 2. Project Definition

The Project Definition outlines the project objectives and scope. It is an important component for stakeholders to ensure buy-in. The project definition should be a concise description clearly stating the projects objectives. The objectives should be clearly stated and describe “why” this project should address a need. We recommend referring to the Problem Statement to form the input for the Project Definition.

Additional information for the Project Definition:

- Background—describes the history of how and why this project was initiated.
- Scope—activities that need to be accomplished to deliver the project; it should be clearly articulated and limited to the work that must be accomplished to achieve the project objectives.



### 3. Business Requirements

Business requirements defines the reason behind a project and what objectives will be fulfilled by undertaking the project. There is an intent behind every project and the project must fulfill these needs to be defined as successful.

A business requirement is a set of conditions or capabilities that must be met by the project. Requirements include the documented needs, wants, and expectations of the sponsor, customer, and other stakeholders.

Business requirements must be developed early in the business case process. If requirements are not fully developed, the business case will be at risk of not focusing on the proper business needs.

Based on the size and complexity of the project, the business requirements could be a simple description of business need or a complex set of business objectives involving multiple requirements and dependencies.

These may include:

- **Functional Requirements** — these define how a product/service/solution should function from the end-user's perspective. They describe the features and functions with which the end-user will interact directly.
- **Operational Requirements** — these define operations that must be carried out in the background to keep the product or process functioning over a period of time.
- **Technical Requirements** — these define the technical issues that must be considered to successfully implement the process or create the product.
- **Transitional Requirements** — these are the steps needed to implement the new product or process smoothly.
- **Financial Requirements** — organizations may require a certain return on investment ratio (e.g., 3 to 1 return).

The business requirements should be discovered, understood, and clearly defined and be written from the perspective of the organization and not from the perspective of any stakeholder.

The best way to determine business requirements, is to create a detailed problem statement where the problem or opportunity is fully understood. By developing the business requirements early, you will have a clearer picture of the changes and impacts that the project will likely have on the business.

## 4. Evaluation of Alternatives








The Alternative analysis is the evaluation of different potential choices available to achieve a project management objective. It is an analytical comparison of different factors like costs, risks, time to implement. It requires different tools such as asset life-cycle costing, and cost-benefit analysis. With the evaluation of alternatives, options to the solution are identified to satisfy the needs of the organization.

Many companies require an alternative analysis before they can even start with a project. The recommendations from the alternative analysis determine whether another project should be pursued, or if the existing project that was initiated should be continued.

Alternative analysis is performed to give decision-makers choices. It identifies cost-effective actions to avoid duplication of efforts as well as decrease the risks in delivering successful projects in the future.

The alternatives analysis involves narrowing down the list of options through a structured process based on strategic fit and a detailed appraisal of costs and benefits. At the conclusion of the analysis, the best performing option will become the preferred project recommendation.

Example:

ASSESSMENT CRITERIA	PROJECT OPTION 1	PROJECT OPTION 2	PROJECT OPTION 3
 Options	Insert Text / Details	Insert Text / Details	Insert Text / Details
 Meets business requirements	Insert Text / Details	Insert Text / Details	Insert Text / Details
 Investment Required	Insert Text / Details	Insert Text / Details	Insert Text / Details
 Benefits (Quantitative & Qualitative)	Insert Text / Details	Insert Text / Details	Insert Text / Details
 Risks	Insert Text / Details	Insert Text / Details	Insert Text / Details
 Schedule	Insert Text / Details	Insert Text / Details	Insert Text / Details
 Impact	Insert Text / Details	Insert Text / Details	Insert Text / Details





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### **5. Preferred Recommendation**

The work performed as part of the alternative's analysis should lead to the selection of a project recommendation. The preferred option should deliver the benefits for an acceptable level of risk. The level of rigor applied to the alternative's analysis will be more extensive the higher the potential cost and strategic benefit to the organization.

The preferred recommendation should be summarized as part of the executive summary, and a more detailed summary included in the body of the business case. Supporting documentation should be included in the appendices.

### **6. Strategic Value to the Business**

This section of the business case describes how the project will fit with the overall strategic plan of the business. The Strategic Value to the Business provides the stakeholders who will ultimately approve the project with the assurance that the project aligns with the organization's goals.

## 7. Benefits (Quantitative & Qualitative)

The benefits analysis is the evaluation of benefits of the recommended business case option. The benefits must be aligned with the business requirements. The benefits section is an opportunity to extol the virtues of a project and its contribution to the organization.

This process informs the sponsor of four key criteria:

1. The strategic outcomes of the investment
2. The measurable benefits
3. When the benefits will be realized
4. Who has ownership of the benefits

Benefits can be segmented into financial and strategic.

### Financial

- Revenue enhancement
- Cost reduction
- Cost avoidance
- Return on assets
- Return on equity
- Return on debt
- Internal rate of return
- Payback period

### Strategic

- Reduce Risk
- Business model
- Improved reliability
- Improved productivity
- Increase capacity
- Improve customer service
- Expand brand awareness
- Innovation
- Enhance capabilities
- Sustainability
- Product or service quality
- Regulatory compliance
- Customer satisfaction
- Employee growth and retention



## TABLE OF CONTENTS (continued)

### 8. Risks

All projects face risks. Regardless of how well you plan, unexpected issues will always arise. Risk identification is a critical element of business case development.

For business case development, we advocate for a simple five step risk assessment process:

1. Identify and list potential risks to the project, the business, and likely owners.
2. Analyze each risk.
3. Evaluate and rank each risk.
4. Recommend action plan for each risk.
  - > Avoid
  - > Mitigate
  - > Transfer
  - > Accept
5. Monitor the risks during the project.
  - > Risks can best be assessed by utilizing a Risk Matrix.
  - > Risk matrices take on many forms.
  - > Work with your stakeholder representative to integrate your project into their risk management process.
  - > Utilize your organization's risk matrix to ensure standardization within your stakeholder's project portfolio.

## 9. Financial Analysis — Return on Investment

The financial analysis illustrates the financial benefits and costs of the project. This is often summarized in terms of Return on Investment. This should be conducted in close partnership with your project sponsor.

The financial analysis determines the project's cost, the ongoing operating costs (asset lifecycle cost), and the revenue to be generated from the project.

As noted in the Benefits section, the following Financial Elements are used to determine the opportunity:

- Revenue enhancement
- Cost reduction
- Cost avoidance
- Return on assets
- Return on equity
- Return on debt
- Internal rate of return
- Payback period

The quality of the analysis will be based on the:

- Identification of cost drivers
- Accuracy of estimates
- Accuracy of the payback period

Note: Always include a detailed project cost breakdown in the Business Case Appendices.

## 10. Project Scope, Stages & Schedule

The Project Scope is a crucial tool for gaining stakeholder support and involvement. It defines the product to be supplied, when it must be delivered, and at what cost. It also outlines the boundaries of the work — what the project entails and does not entail — so that each stakeholder gains an accurate outlook of the extent and breadth of the project.

Once the scope is determined, you should clearly explain the timing required (Stages & Schedule) for the project. Your ability to get a project approved, funded, and scheduled has a great deal to do with what resources may be required.

## TABLE OF CONTENTS (continued)

Some questions to consider when preparing a Project Scope include:

- Does the organization have the labor/expertise to implement?
- Is the time of year or weather a concern?
- Does the project have dependencies that must be taken care of first?
- Is there long-lead material required?

Key steps:

1. **Prepare a project scope document.**  
This should be summarized and included in the Executive Summary.
2. **Include an overall project timeline.**  
We recommend utilizing a Gantt chart that is easily viewable. The required start date and completion or in-service date should be clearly stated.
3. **Clearly articulate the organization's required stage gates.**  
If you do not meet the organization's criteria to pass from one stage gate to the next, your project will likely be delayed and at risk of a no-go decision.

## 11. Project Resource Requirements

Once the tasks within the project have been defined, the resources required by each task must be determined. To do this, we provide estimates.

Estimate resource requirements is the process of estimating the type and quantities of material, human resources, equipment, or supplies required to perform each activity.

The key benefit of this process is that it identifies the type, quantity, and characteristics of resources required to complete the activity which allows more accurate cost and duration estimates. Quotes from suppliers are often gathered to ensure estimating accuracy.

For small projects there are four major types of resources:

1. Labor
2. Tools & equipment
3. Material & supplies
4. Fixed cost items like subcontractors, etc.

Generally, you would perform task estimates from the bottom up. In other words, each task is given an individual estimate which is then rolled-up into the overall project estimate.

## 12. Project Authorization (Sanctioning)

Project authorization is a formal process that gives permission for a project to start and/or be developed further. Project authorization helps to ensure that nothing is done on a project without it being formally planned and budgeted for. It provides clarity for all stakeholders on who has the authority to propose, fund and commit resources to the project.

Project authorizations are often defined for stakeholders when their roles and responsibilities on a project are being determined. A Delegation of Authority or policy may be established within the organization for the sole purpose of budget control.

Project authorization also ensures that key personnel have the formal authority to control the sequence of work and commit resources to project activities in accordance with the agreed upon budget.

Proper project authorization served the organization in a number of ways:

- It is a crucial component of a project's quality control.
- It ensures the project is planned, defined, understood and implemented in accordance with pre-agreed requirements.
- It provides boundaries for the project scope.
- It sets limits on spending beyond the levels planned.
- It provides safeguards to the Project Manager, the person ultimately responsible and accountable for the management of the project.

Most companies will have a formal portfolio and project review committees that meet on a regular basis to review project proposals, project business cases, and project progress reports.

Note: A formal signature page authorizing the project should be included on the Project Charter as a matter of policy.



Engage Energy & Industrial Consulting is dedicated to transforming how value and profitability are driven through Business Transformation, Enterprise Asset Management, and Corporate Social Responsibility programs.

Our customers benefit from a focused strategy and roadmap that balance risk with the financial opportunities available. We enable companies to create innovative and sustainable improvements —with bankable, double-digit returns on investments.

**“Our mission is your transformation.”**

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TEMPLATE

# Business Case Development Program

Business Case Template







## WHAT IS A BUSINESS CASE?

The Business Case is a carefully constructed communication tool detailing critical information decision makers need to make sound business decisions. The development of the business case enables you to take a disciplined approach to examine the opportunities, alternatives, project stages, and the investment required to make a formal recommendation for the best course of action that will create business value.

**The business case is the “why” an organization is embarking on the project.**

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The Business Case should answer the key question(s):

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By developing the Business Case, you will be able to confidently present the recommendation(s) to the key stakeholders that will ultimately approve the investment decision and guide the project’s success.

# BUSINESS CASE TEMPLATE

## 1. Executive Summary

# BUSINESS CASE TEMPLATE

## 2. Project Definition




# BUSINESS CASE TEMPLATE

## 3. Business Requirements



# BUSINESS CASE TEMPLATE

## 4. Evaluation of Alternatives



# BUSINESS CASE TEMPLATE

## 5. Preferred Recommendation


# BUSINESS CASE TEMPLATE

## 6. Strategic Value to the Business



# BUSINESS CASE TEMPLATE

## 7. Benefits (Quantitative & Qualitative)





# BUSINESS CASE TEMPLATE

## 8. Risks

A large, empty rounded rectangular box with a thin green border, intended for writing the risks section of the business case. The box is currently blank.

# BUSINESS CASE TEMPLATE

## 9. Financial Analysis—Return on Investment



# BUSINESS CASE TEMPLATE

## 10. Project Scope, Stages & Schedule

A large, empty rounded rectangular box with a thin green border, occupying most of the page. It is intended for the user to input details regarding project scope, stages, and schedule.


# BUSINESS CASE TEMPLATE

## 11. Project Resource Requirements



# BUSINESS CASE TEMPLATE

## 12. Project Authorization





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