



Building a Business Case for Technology Investment

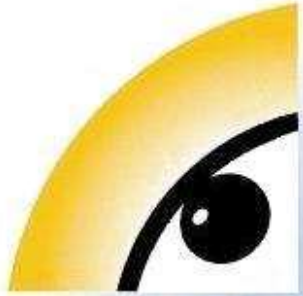
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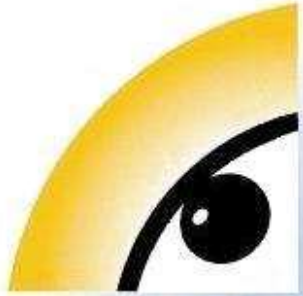
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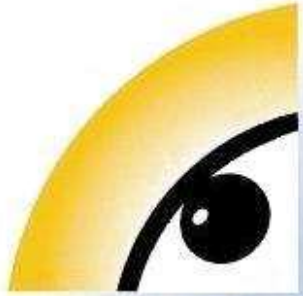
What is a Business Case?

- First step in investment planning
- Opportunity to present compelling case to achieve a specific goal(s)
- Document to generate support, participation and commitment
- Financial Analysis tool for evaluating projects



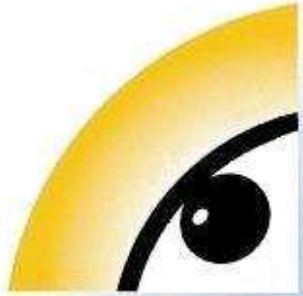
Why is a Business Case Needed?

- Support good practices for technology governance
- Ensure financial investments are focused on the most appropriate projects
- Provides structure for project team to think through the implications and impact of the project



What Does it Contain?

- Presents an idea, opportunity or problem
- Provides context and content around problem
- Describes desired outcomes
- Identifies who will be affected and how
- Identifies alternatives, impacts, risks, costs & benefits



Who is Responsible to Develop?

- The business or program area leads
- Additional stakeholders are involved as needed:
 - Information Technology Department
 - Change Management representatives (e.g. HR)
 - Financial Analyst
 - Other impacted parties
 - Project Sponsor



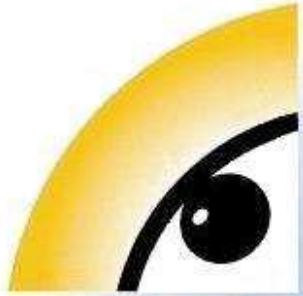
How Long Does it Take to Write?

General Rule of thumb:

Business case time = approx. 5-10% of anticipated implementation project time.*

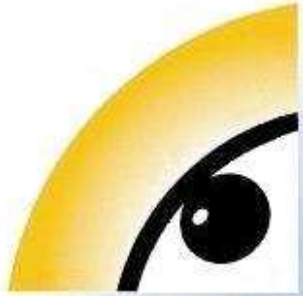
- 25 day project to implement the business opportunity = 2 days to put together a complete but straightforward and simple business case
- 3 month project = 9 days (appropriate detail)
- 1 year project = 1 – 1.5 months (detailed)
- 3 year project = 3 months (comprehensive)

* - Oregon Dept. of Human Services, Guidelines to Developing a Business Case & Business Case Template



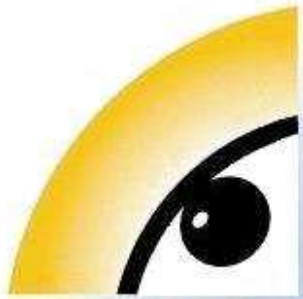
Elements of Business Case

- Four “mandatory” sections:
 - Purpose
 - Background and problem identification
 - Benefits
 - Identification of business value
 - Financial Investment
 - Investment required and when realized
 - Risk
 - Risks to business and project



Purpose

- Start with the business strategy
- What problem are we trying to solve?
- What/who is currently impacted?



Benefits

- Think strategically & tactically
- Look “globally”
- How will this directly (quantifiably) contribute to the business goals?
- Identify all potential benefits (including intangibles)



Financial Investment

- Calculate the financial investment required, and payback period
- Examine *all* costs
- Several ways to calculate cost:
 - Payback
 - Return on Investment
 - Net Present Value
- May require more than 1 calculation
 - *Check with your management to determine which calculations are needed*



Payback

- Indicates when an investment's benefits are expected to exceed its costs
- Time-based
- Simple to calculate

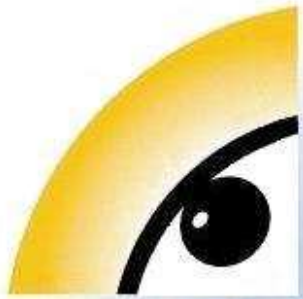
$$\frac{\text{Investment}}{\text{Savings/revenue}}$$



Return on Investment

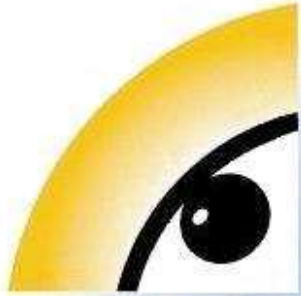
- ROI is the earnings obtained by investing capital in a project
- Ignores payback period
- Simple to calculate

$$\left[\frac{(\text{Savings/revenue} - \text{Investment})}{\text{Investment}} \right] * 100$$



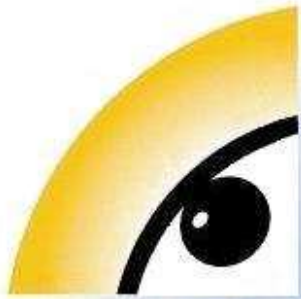
Net Present Value

- The present value of future cash flows minus the present value of the investment & related outflows
- Considers value of \$ over time
- More complex calculation
 - Savings and return depend on length of analysis period
 - NPV over \$.01 indicates positive return on investment
 - More realistic expectation of cost



Sample Business Case

- Implementation of web-based Payroll Self-Service
- Cost =\$130,000
- Headcount Savings
 - \$35,000 first year
 - \$70,000 2nd & 3rd years



Calculations

- Payback:

$$\frac{\$130,000}{\$4861 \text{ per month}} = 27 \text{ mos.}$$

- ROI

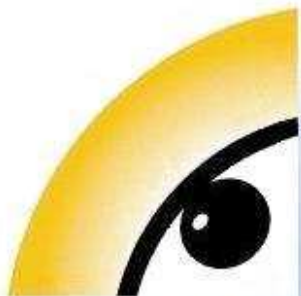
$$\left[\frac{\$175,000 - 130,000}{\$130,000} \right] * 100 = 34.6\%$$



Calculations (cont.)

- Net Present Value
 - Present value of \$1:
 - Year 1 .90909
 - Year 2 .82645
 - Year 3 .75132

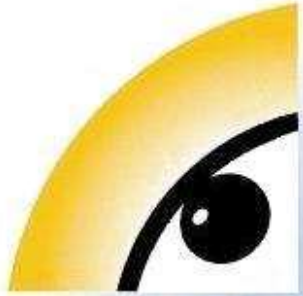
* assume 10% rate of investment



Calculation of NPV

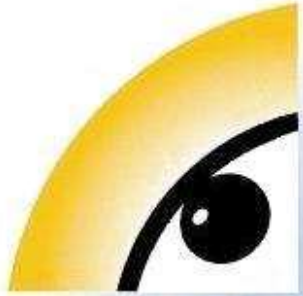
	Cash Flow	PVIF	PV for Each Year	Cumm. NPV
Year 1	\$35,000	0.909	\$31,815	\$ 31,815
Year 2	\$70,000	0.826	\$57,820	\$ 89,635
Year 3	\$70,000	0.751	\$52,570	\$142,205

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Risks

- Identify *all* risks
 - Risks to business
 - Project risks
 - Technology risks (e.g. “cloud”)
- Perform risk analysis
- Identify mitigation strategies
- Understand risk triggers



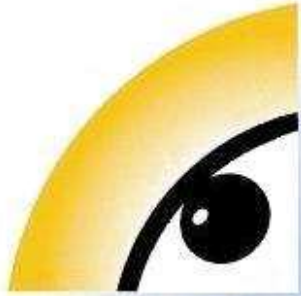
Risk Factors to Consider

- “Sugar coated” or unrealistic assessment of financial investment
- Unrealistic expectations for results
- Impacts to dependent functions
- It’s not about the technology.....



Keys to Success

- Start small and plan for growth
- Consider all alternatives - choose the best solution
- Look outside the organization for potential benefits
- Consider savings as well as revenue opportunities
- Include all costs
- Quantify as much as possible
- Measure actual results and learning for next project



Resources

Sample Generic Business Case Document

<http://www.insightfulsolutionsinc.com/index.php/downloads/viewdownload/3-templates/2-generic-business-case-template>

Need assistance? Contact:
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