

Jeff Oltmann on Mastering Projects

## *Think Like an Investor!*

### Is It Worth Doing?

Organizations always have limited resources. They must pick projects that will leverage these limited resources to deliver the most value. Does the value that will be created by the project justify the investment it will require? The job of a business case is to answer this question. Each person who proposes, leads, or approves projects should understand the basic elements of a business case. Do you?



### Elements of a Business Case

Business cases don't have to be mysterious, with mumbo-jumbo understood only by gurus. A business case for a project has three mandatory sections:

1. *Alignment* - What opportunity or need does this project address? How does it align with the objectives of the organization?
2. *Value* - What will the benefits be? Quantify the benefits in terms such as revenue, profit, or monetary savings. However, early in the life of an idea, it may not be possible to get to such detail. In that case, list qualitative benefits, such as increased capabilities, higher quality, or improved customer satisfaction.
3. *Investment* - What investment will be required to complete the project?

This may include costs such as labor, capital, and expenses.

A minimal business case with just these three sections is useful, but a good business case adds five more.

4. *Target Dates* – When you first create a business case at the beginning of a project, you have not done much planning. However, you should still estimate rough dates for key milestones and project completion. These target dates are not commitments, but they will keep everyone “on the same page,” helping you create better forecasts for the other sections in the business case.



5. *Return on Investment (ROI)* – ROI combines information from the value and investment sections to create a single “bang for the buck” metric. This metric shows how much value the organization would get from its investment in the project. Since it is a standard metric across projects, it allows decision makers to compare proposed projects, helping them decide which ones to invest in.
6. *Uncertainties in the Forecast* - How cloudy is your crystal ball? Make sure your reader understands the uncertainties in your cost, benefit and ROI forecasts. For example, if your project is developing a new product, it is very difficult to forecast market penetration and sales three years in the future. Unfortunately, those numbers greatly influence the benefit calculation. Popular ways to

communicate the uncertainty include giving a range of estimates, an error margin, or a sensitivity analysis.

7. *Risk Assessment* - How risky is this project? Let's be real – many projects, especially risky ones, fail to completely deliver



their intended benefits or features. Don't avoid risk, but be a savvy investor. Require that risky projects have strong potential for a high return on investment. Will your organization get sufficient benefit for the risk that it will take with this project? If not, invest your money elsewhere.

8. *Opportunity Cost* – If the organization invests in this project, what other things will it lose the opportunity to do? Looking at a project's ROI in isolation is not enough, because money and resources reserved for this project will not be available for other, possibly better, projects. That's *opportunity cost*, which is above and beyond a project's direct costs.

For example, a sales manager saw a one-time opportunity to increase sales to a long-standing customer, so he proposed the necessary project to the VP of engineering. The project would increase sales in the next year by \$150,000, for the small investment of two engineers for three months. Engineering time cost about \$10,000 per engineer per month, so within a year the company would earn back more than more than double its investment! As is often the case, the VP didn't have any extra engineers. The only way to get those six person-months was

to cancel development of a new product that would generate \$200,000 a year for the next three years. The VP reluctantly declined the sales project. Even though it had a great return on investment, approving it would have prevented an even better project.

## Tips for Writing a Business Case

- *Customize.* Every organization creates business cases a little differently. That's OK - create a template customized to the needs of your organization (they may already have one), then use it repeatedly. For example, I've seen clients add sections for a summary of features, a market assessment, and a technical assessment.
- *Be specific.* Drive out fuzzy justifications by quantifying your analysis as much as possible. For example, "an investment of \$10,000 this quarter will net us recurring manufacturing savings of \$250,000 per year" is more useful than "we'll reduce manufacturing costs significantly if we approve this project." Remember that the people who approve projects speak the language of dollars. They may want all business cases to use standard financial metrics that make it easier to compare all proposed projects.
- *Don't go it alone.* The financial details of a business case can be complicated, especially when a detailed analysis is necessary. Partner with your financial controller to sort out how your organization



prefers to deal with these computations. Similarly, ask other subject matter experts to help estimate costs, sales, and savings.

- *Don't confuse precision with accuracy.* Very precise numbers do not imply an accurate forecast. In reality, early estimates may be more than +/- 50% off, no matter how many decimal places you carry the computation to.



- *Expect changes.* A business case, forecasts many things that are fuzzy and far in the future. With this level of uncertainty, some of your initial estimates will be wrong. Don't use that as an excuse to do a shoddy analysis, but commit to periodically communicate updates as the project progresses.

## End Point

To succeed, you must be able to understand and create business cases. Creating a good business case just takes common sense and a willingness to dig and ask thoughtful questions. If you want further references or a template for a simple business case, send me e-mail.

## About the Author

Jeff Oltmann is principal consultant at Synergy Professional Services, LLC in Portland, Oregon ([www.spspro.com](http://www.spspro.com)). He is also on the faculty of the department of Management of Science and Technology at the OGI School of Oregon Health and Science University. Jeff welcomes your questions and ideas. You can contact him at [jeff@spspro.com](mailto:jeff@spspro.com).