

# Business Case Analyses

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# Presentation Outline

- BCA Fundamentals
  - What are the questions?
  - What financial analytical tools are available?
- When to perform a BCA
- When not to perform a BCA
- Case Design
- BCA Structure & Process
- Analyzing Results
- Presenting the Case

# BCA Fundamentals

- What are the questions?
  - How much is this project expected to cost?
  - How confident are we of accuracy of this cost projection?
  - How much is the project worth to us?
  - What external changes will result in a decision to cancel this project?
  - What alternative means exist to achieve the same or good enough results?

# Financial Tools

- Longstanding financial tools, e.g., NPV, IRR, cost-benefit analyses, Payback, ROI
- Challenge is not the financial calculations but rather setting up the problem, e.g.,
  - What costs should be included?
  - What kind of benefits should be included?
  - How will the benefit value be measured?
  - What about impacts that don't have a \$ value?
  - How do we include risks & unknowns?

# When to Perform a BCA

- Is a decision required as to whether to undertake the project or not?
- Is the project complex?
- Does the project have substantial unknowns and/or a high potential for cost increases?
- Do decision makers exist who need to be persuaded of the value of this project?
- Are there alternative means to accomplish the objective?
- Will the project be considered for cancellation if there are set backs in cost, performance, or schedule?

# When *Not* to Perform a BCA

- One doesn't need to perform analyses to decide whether to repair a leaking roof, e.g.,
  - A decision to incorporate technology to lead or catch up with competitors
  - Basic services required (telephone, e-mail, network security)
- Don't use the BCA to justify a decision that is already made (or should be).
- You can develop a budget without a BCA

# Case Design

- Complete – It includes everything relevant.
- Accurate – It predicts what will occur.
- Objective – Results are not biased towards preferred outcomes.
- Balanced – Alternatives are valid comparisons

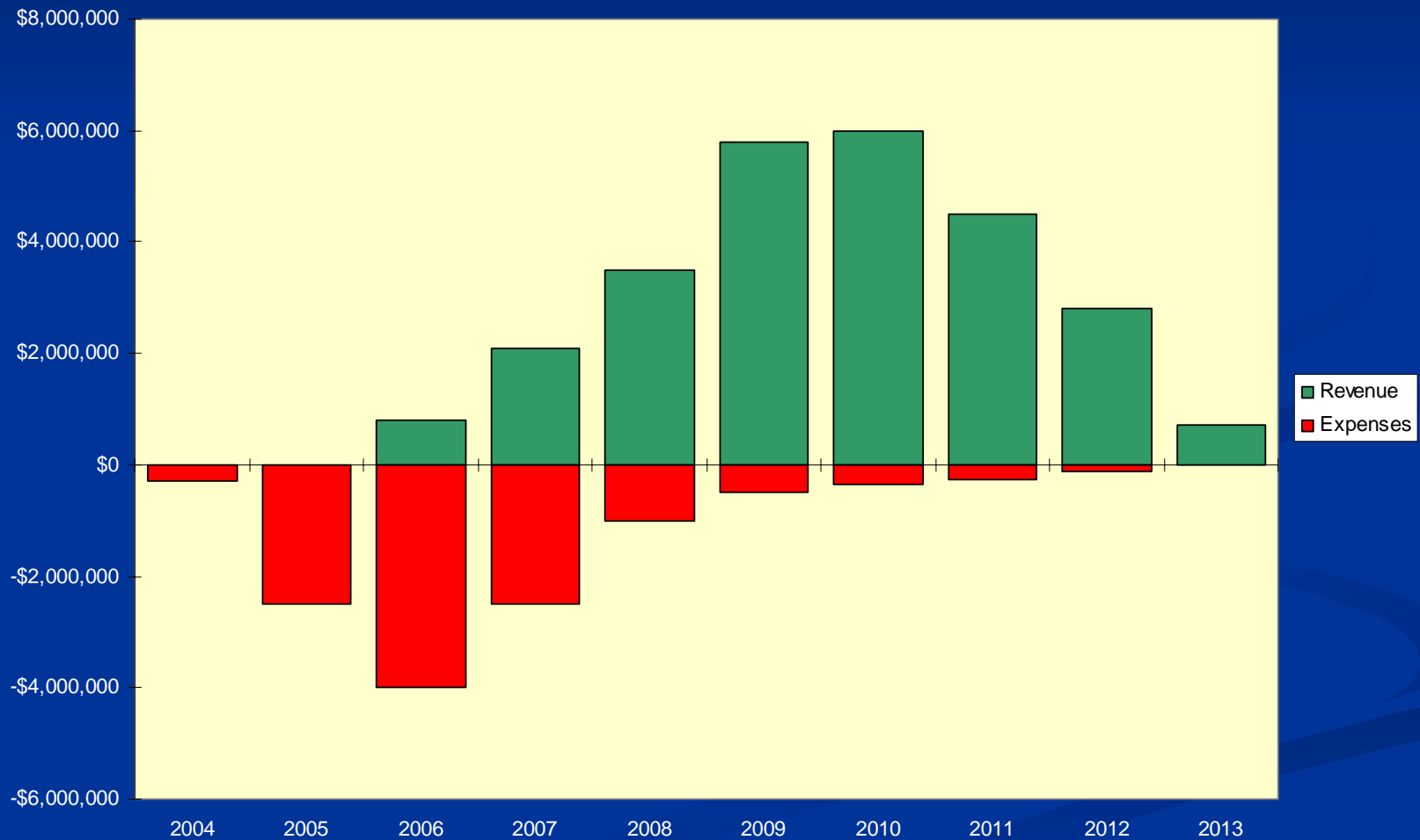
A good case explains its *methods* and *assumptions* so that everyone knows why the costs and benefits were chosen and how they were valued

# BCA Features

- The subject, purpose & scope, and definitions in the introduction are clear.
- Cash flow projections (expenses & revenue) are portrayed along a consistent & logical timeline.
- The assumptions and methodology are defined, explained, and consistently applied.
- All important benefits and costs are included, not just the easy to measure ones.
- Alternatives are provided, explained, and offered using the same, unbiased rationale as the recommended solution.
- Critical success factors are included.
- Risks are identified and measured.

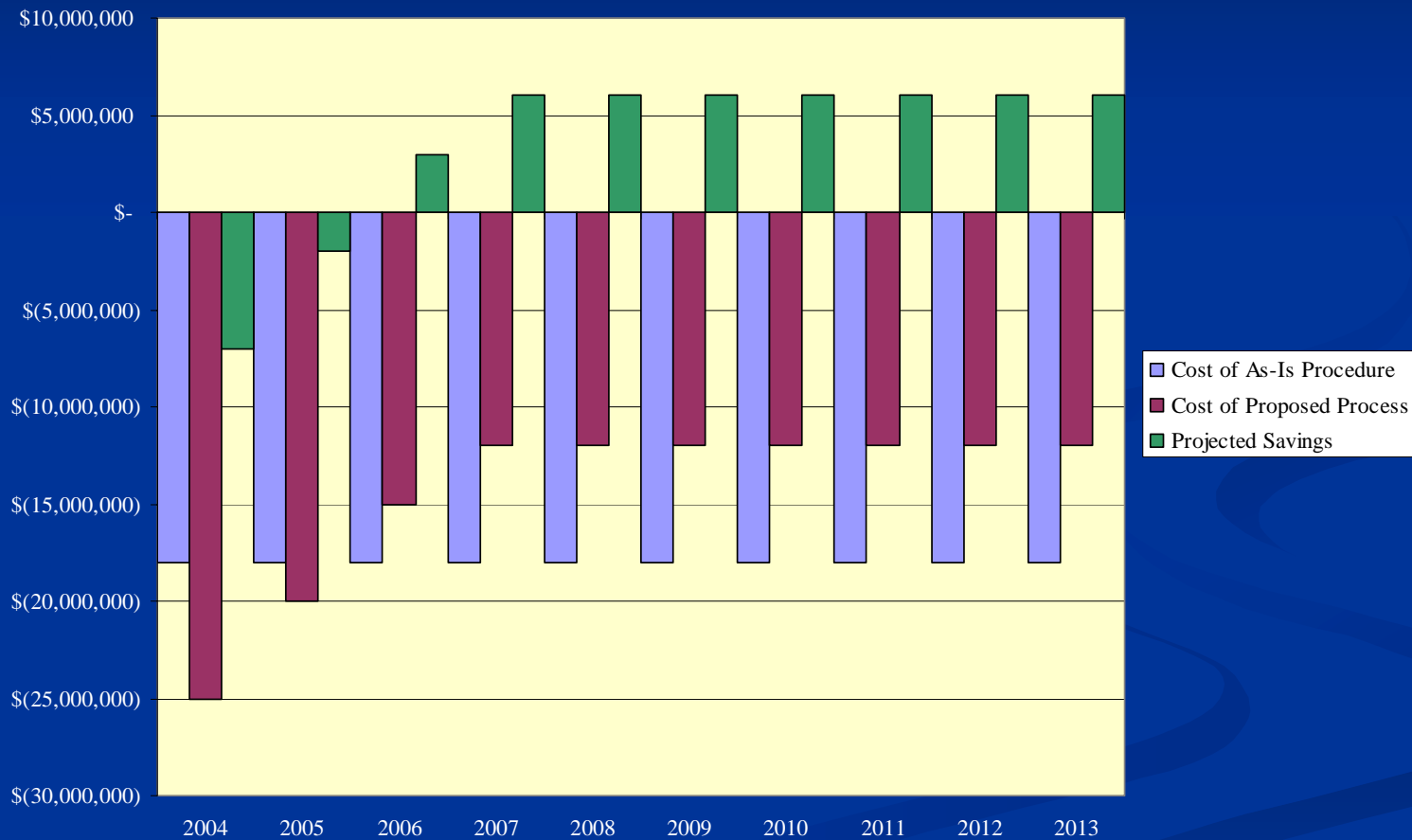
# Cash Flow Projection

## *(Commercial Endeavor)*



# Cash Flow Forecast

## *(Cost Comparison for Government Project)*



# Sample BCA Structure

- A. Introduction
- B. Methods & Assumptions
- C. Business Impacts
- D. Sensitivity, Risks, and Contingencies
- E. Analysis of Alternatives
- F. Conclusions and Recommendations

# Analyzing Results

- “I don’t like where these numbers are taking us!”
  - Is this because of a personal bias towards a different outcome?
  - Have we failed to incorporate some factor in our analyses which gives us faulty results?
  - These are the right answers but the boss isn’t going to like it.
  - Now what?
- “Where did you get *that* value?”

# Presentation

- Recommendations aligned with original study requirements
  - Includes critical success factors
  - Who needs to do what by when
- Rationale provided (more than financial)
- Communicate to all involved
- Be prepared to address alternatives
- Credibility should derive from a structured process, agreement on assumptions and methodology, thorough data collection, unbiased analyses, and professional presentation.