Did you make your case?

The term 'business case' is used extensively by your prospects, but what does it mean? STEVE HOYLE argues that you need a clear understanding of how it is used – as it presents both a threat and an opportunity for salespeople

At a recent sales conference for a major telecoms provider I heard the phrase 'business case' at least once every hour, often accompanied by a reference to 'outstanding ROI' (return on investment). There was, however, no discussion about what was meant by the term business case, or what was included in the ROI, or even how the ROI had been calculated (I suspect that in many cases it had not actually been calculated).

A few days later I was attending a meeting of finance directors discussing the impacts of the economic crisis on their decision making and investment appraisal processes. This meeting was not as much fun as the sales conference, but a lot more revealing. The FDs also used the term business case, and while they were very clear what it meant to each of them personally, there was clearly no consensus about what a good case should contain. There was, however, very clear consensus on how ROI should be regarded — all of them assumed that any investment case, business case or request for board approval of a project would include a financial case with 'net present value' (NPV) at it's heart (see box 'Time value of money' on page 28).

Finally, when lurking on a forum with a group of MBA students who were also discussing 'business cases', I found once again that they all had very strong views, but little consensus as to what the purpose of one was, and what it should look like.

In all three experiences, it was very clear that business cases are very important and being discussed a great deal. Some aspects, particularly the financial cases being based on net present value are generally well understood (by all but salespeople) and very consistent. Most other aspects, however, are still being fiercely debated by the academics, with real life practitioners experimenting by trying out different approaches and using different formats.

Would you approve this?

Imagine that you are sitting on a board faced with having to approve one of two possible 'business cases'. Which of these would you approve?

CASE 1 This exciting project will improve our image and increase the satisfaction of our employees. The budget needed is £100k, but part of that will be recouped when we can sell it off in year four. We believe that we will make significant savings over the next three years, and we all know that we need to improve our image if we are going to succeed.

CASE 2 This exciting project will improve our image and increase the satisfaction of our employees. It involves a capital outlay of £100k this year, but we have identified realisable cost savings over three years, and we are confident of being able to sell the equipment in the fourth year. These savings represent a 30% return on our investment over the four years, with break-even being half way through year three. We will still make a profit even if we cannot sell off the equipment in year four. In addition there are many benefits from an improved image and increased employee satisfaction.

Projected profit/loss Now: –£100,000; Year 1: £20,000; Year 2: £50,000; Year 3: £50,000; Year 4: £10,000. Total payback: £30k.

ANSWER

In today's tough business climate Case 1 will get shot down by the board. But Case 2 would also not get approved. A finance director is likely to say, "Assuming a conservative discount rate of 12% we would actually lose money over the four years, even if we were able to sell off the equipment. The net present value of the project is minus £330! We should not approve and, in addition, I recommend that we do not entertain any further proposals from the supplier who gave us the original ROI calculation."

Case 2 appears to be more convincing, but is still not a sound financial case as it does not look at the time value of money (see box on page 28) and is not a full business case examining risks, contingencies etc. This case, however, is probably worthy of some more work. The financial case is nearly there and once even fairly conservative estimates are put on the additional business and profit that could come from an improved image and increased employee satisfaction, then the financial ROI should be proven.

Different forms

The term 'business case' has some quite different meanings, but the common elements are that it is a structured proposal for business change, and it will have different forms during the lifecycle of a project. While in some implementations you can see seven or eight different forms of business case, in general there appear to be three different interpretations:

The case to do something. Early in a project an outline business case will look at possibilities and feasibility, with proposals for further investigation and probably for an outline budget.

The case to do something specific. This is where the sponsor or project team has a firm proposal to implement a particular solution with a particular supplier — acceptance of the business case will normally lead to orders being placed or at least detailed negotiations with a single supplier.

The detailed implementation case. This is normally prepared by the project team, who expand on previous cases and include details that will guide them during the whole implementation, for example by restating the functional outcomes expected, measurement criteria etc.

While the formats of business cases will differ dramatically, there are some common themes:

- An explanation of the business context and background to the project
- What they are trying to achieve
- The method and detailed costs of how it is done at present
- Alternative methods with detailed costs
- Details of assumptions, risks, contingencies and measurements
- Recommendations.

Examining methods and different costs is the interesting part for selling organisations, because it is here that the majority of the 'selling' can take place. In general, the different alternatives are looked at in terms of 'total cost of ownership' (TCO), taking into account all the direct and (as far as possible) indirect costs of the different alternatives. Because different alternatives will have costs coming in and going out at different times, this analysis is then normally expressed as a net present value (see box left). At this stage, a good salesperson will be very adept at designing in and pointing out the lower TCO offered by his or her solution.

In practice, the more advanced sales teams look at different categories of cost saving, typically:

- Direct cost savings from the solution, eg. lower maintenance costs of a system etc.
- Direct efficiency cost savings for the function, eg. it now only takes two rather than five people to complete the task
- Direct (and indirect) effectiveness gains, eg. freeing up 5% of the time of my salespeople gives them 10% more time in direct selling activity, which will increase revenues by 8% and net profits by 2%
- Indirect savings, eg. improving our complaint handling will lead to more satisfied customers, which will help our revenue growth — by how much is a 'guesstimate'.

Clearly, it is relatively easy to calculate TCO in the first category, and increasingly more difficult as you go further down the list. For this reason, it is becoming more common for business cases to be presented showing the 'minimum position' (which can be rigorously defended with hard numbers) and 'best position' (with estimates, assumptions and judgements) plus sometimes 'best predicted position' (somewhere between the two, using most-likely estimates).

Selling with business cases

While the views of marketing people from vendors and MBA students are interesting, it is much more instructive to listen to finance directors discuss these issues, and also to learn from the few salespeople who are successfully incorporating

Time value of money

Embedded in any business case will be a financial ROI model that will almost certainly include the 'time value of money' concept which, in most cases today will use something called 'net present value' or NPV.

For some reason, many salespeople become scared as soon as financial terms are used, but NPV is a relatively simple concept, and very easy to calculate.

The central principle is that money in the future is not worth the same as money today. If you receive £100 today, it is worth £100. But, if you have an IOU that will give you £100 in12 months time, that is really not worth £100 because you could have earned interest on it, or could have had to pay interest on an overdraft until you received it. If you assume an interest rate of 5%, then £100 today will be worth £105 in 12 months time; conversely, the 'value' of £100 that you will receive in 12 months is only approximately £95 at today's values.

To evaluate any proposal, you must look at what is paid out (outflows) and what you get back (inflows) over time. Clearly, because of the time value of money, paying out later or getting money back earlier is good. There are many methods of helping you to look at the value of money over time including 'internal rate of return' (IRR) and 'payback period', but by far the most common is NPV.

NPV takes all of the money going out (outflows), which typically include the initial price of a new solution plus recurring maintenance or licence costs, and compares this with the returns over time, which are typically cost savings or increased profits, which generally occur later than the outflows. Crucially, NPV then takes into account the time value of money by using an agreed discount rate (rate of interest).

For example, say a new solution costs £100 today, but allows you to save £50 a year for three years, totalling £150. A first glance this looks like a 'return' of £50, but because you don't get those savings immediately, you have to account for the time value of money. This will depend on the assumed rate of interest, and if we were to assume 10%, then in this case the actual return, expressed as NPV, would only be £20.09, which is still not bad, but not nearly as compelling as first thought. It is also the way that the finance director would judge the case and compare it with other projects that have different outflows and inflows over different timescales.

How did we arrive at £20.09? There are two answers to this, one involving a very complex formula, the other an Excel function called NPV, where you simply enter the discount (interest) rate that you are using, and the total of inflows and outflows in each period. Excel 'help' files also include an excellent description of NPV and some simple worked examples.

business case selling into their approaches.

From the FDs there are two overwhelming conclusions. First, business cases are here to stay, they will be insisted on, and they will be applied more rigorously. Second, because they expose the true business benefit of a solution, and quantify it, they open up the possibility of some part of the deal being based on payment by results, which is very attractive as it helps to manage risk — even if the company ends up paying more out in the end.

It is difficult to find many salespeople fully integrating business case selling into their approach, but there are some, and their experiences are instructive. What appears to be happening is that business case selling forces a much deeper analysis of the customer business and applications earlier in the sales cycle, which demands better and more rigorous qualification of opportunities. To really assist with a business case will require a broader account team approach, involving not just technical but also business and finance specialists. Overwhelmingly, the experience of people who are using business cases is that you cannot do them for the customer, but you can provide examples early on to gain interest and credibility, and you can sit alongside the customer and help them to construct their own case.

In all situations there will be estimates and judgements required in constructing the case, and this is a marvellous opportunity to influence the outcome in your favour.

The type of conversation that you have will be quite different because often business and finance analysts have different behaviours and outlook to technical or functional buyers or procurement specialists.

Interestingly, those salespeople employing business case selling also report another phenomenon, which is that the relationship with the customer can often change dramatically. Over the years, we have seen salespeople move from an adversarial 'shopkeeper' type of relationship towards more of an adviser or consultant role. By working with the customer on the business case this relationship progresses to another level where you can be seen not as an independent adviser with an axe to grind, but as what we might call an interdependent partner. The implications of this are wide ranging in terms of gaining access to different people, having different conversations and developing new forms of mutually beneficial business models, such as payment by results.

Threat and opportunity

It is clear that business cases are here to stay. Boards have always asked for some form of justification before agreeing to any proposal to spend significant amounts of money, but in today's world, with increased scrutiny and transparency of business decisions, this whole process has become more structured and formalised, with the business case being used for this. One aspect that has certainly come to the fore is the insistence on solid financial cases, with ROI (involving comparison TCO expressed as an NPV) now being insisted upon universally. Serious B2B salespeople need to be comfortable with these approaches.

The emergence of the business case as a tool for more effective decision-making is both a threat and a great opportunity for salespeople operating in complex B2B markets. It is a threat in that new knowledge, tools, techniques and conversations will be called for. But it is a major opportunity as it opens the door to providing real thought leadership and working in genuine partnership with customers to provide solutions that provide quantifiable business benefit — to everyone's advantage.

> “*The emergence of the business case as a decision-making tool is both a threat and a great opportunity*

The government view

The UK government has done a lot of work and, in many aspects, led the development of business cases, which it uses extensively to justify expenditure on everything from new motorways to personal computers. Much of the focus is on ensuring best use of public funds and anyone within government who wants to spend money has to answer two basic questions:

- Are there better ways of achieving this objective?
- Are there better uses for these resources (opportunity cost)?

This means that every business case in UK government should:

- Identify other possible approaches
- Where feasible, attribute monetary value to all impacts
- Provide an assessment of the costs and benefits for relevant options.

And these appraisals will:

- Adjust costs over time, using an ROI calculation based on NPV
- Consider potential risks and uncertainty
- Adjust for bias (by looking at historical cases and learning from under- or overestimates)
- Consider other benefits that cannot be costed.

The government's business case guidelines are included in the famous Green Book, which is essential reading for anyone involved in major government projects, and also provides a good appreciation of full business cases for salespeople selling into any larger enterprise.

The Green Book includes the 'ROAMEF' framework, which sets out a six-stage process for appraisal and evaluation of programmes, beginning at the proposal stage. The acronym stands for Rationale, Objectives, Appraisal, Monitoring, Evaluation, Feedback. ROAMEF is now being adopted by a number of companies, as it forces people to think through how they are going to monitor and evaluate the claims made initially. For example, if the business case projects direct cost savings, how will they be measured and who will be accountable for making sure that the benefits are enjoyed?

The Green Book guidelines can be accessed at: www.hm-treasury.gov.uk/data_greenbook_index.htm

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