

The Art of the Business Case

A Presentation by John Gelder

Thank you for that warm introduction. [1] When I was first asked to speak on the topic of the “business case”, I thought sure, no problem. After all this is what we do. On sober second thought though I’ve come to realize that the term “Business Case” is one of those harmless sounding little terms that can mask a lot of complexity. I think that’s because it’s used differently by different people and in different contexts. It’s also a term that is easily internalized which means that for those of us who “do” business planning or provide business management advice you just take it for granted that everyone else knows what it means and how it’s done. I guess it’s a bit like scoring goals or making sales, maybe you think you know how until you have to coach others to do it.

Part of the problem, I think, is that developing a sound business case is more art than science, or to use a music analogy, more jazz than symphony. So I decided to title this

presentation “The Art of the Business Case”. Now, I confess I worried about how this title would go down with a room full of engineers more comfortable with slide rules than crayons and magic markers but bear with me. By “art” I don’t mean abstract art i.e. without formal structure because I believe that a good business case does need to have structure...or more importantly, it has to have a convincing narrative or story line. But there are many ways to tell the story and as Bob Woodward the Watergate/Washington Post journalist once said “getting the story right is simply an attempt to tell the best version of the truth”.

[2] Anyway, having said all that, what I would like to talk about is:

- What do we mean by business case?
- Provide a few examples
- Make the link between business case and business plan
- What makes a case compelling (analytical tools and underpinnings)

[3] Just by way of context, I think it's worth reflecting on the origins of the term "business case". For many of us the broader use of the term is something we associate with advanced business education and specifically the case method made famous by Harvard Business School.

Harvard's case method dates back to 1920 when dean Wallace Donham, a graduate of Harvard Law School, noted strong parallels between the two professions and observed that important elements and principles could be extracted from business cases for teaching purposes. He then argued that business-school faculty needed to develop cases of their own. The rest is history as they say.

Case method at Harvard followed a similar pattern that is still used today, namely: Problem Definition, Analysis, Evaluation of Options/Alternatives and Recommendations.

[4] With this as a backdrop, we can now shift our focus to how the Business Case is used in a decision context (as opposed to a teaching or learning context) as a "document that outlines the justification for a product, project, program or course of action", usually with emphasis on cost/benefit.

Why does it matter? Well there is no shortage of stories of business decisions gone wrong. Remember “New Coke”. Introduced in 1985 during the height of the Cola wars, it was supposed to be Coke’s answer to the Pepsi Challenge.

[5] Well, as Sergio Zyman, former Chief Marketing Officer of Coke noted, things didn’t quite work out as planned [Ref. Zyman quote]. The reasons have a lot to do with the parts of a case that are unquantifiable such as the messiness of human nature and emotional attachment.

[6] Sticking with our arts theme, Cameron Crowe’s movie *Elizabethtown* tells the story of Drew Baylor (Orlando Bloom) a rising star at a leading athletic shoe company who loses his job due to the overwhelming \$billion failure of his latest design. After contemplating suicide, Drew sets out on the road to find himself and eventually meets Claire (Kirsten Dunst) a positive force that sends his life in an entirely new direction.

It would be fun to analyze what was wrong with Drew’s business case and more importantly why it was approved

by his superiors but suffice to say that Drew's imagination gave birth to a product that nobody liked, needed or wanted in a field with a thousand competitive choices. So to say the least, the business case was flawed, although he still gets the girl in the end.

[7] I've always found it helps to keep in mind that a business case is generally created for a specific audience such as senior management, investors, stakeholders and publics. There are also different motivations for creating a case. For example, in one scenario what is sought is objective, dispassionate analysis leading to some conclusion and recommendation for a course of action. Other instances might involve advocacy, persuasion or promotion of a specific policy or agenda. In other words, we start with the answer/premise we want such as "more gun control is good" and then we shape the case to fit the goal. Of course, if you are trying to introduce products that satisfy customer needs, this kind of thinking can be deadly. If you are convinced you know what customers want without doing extensive research and doing it objectively

and well, you could become the next Drew Baylor, or you could end up with a billion dollar boondoggle called the gun registry. And sometimes the research is flawed (Coke). It's also instructive to look at what's generally included in a business case. Since I am a big Google fan, I Googled just to see what I could find that might be worth a look as "case" examples. [8] The first one I noted was *A Business Case for Usability*, which is a big topic these days. The author, (John Rhodes), a proponent of establishing usability labs and functions within organizations as a means of ensuring products meet customer needs, attempts to make the case. To support his argument, he notes that IBM receives a payback of between \$10 and \$100 for every \$1 invested in software usability testing. Microsoft is big on usability testing as well with over 30 usability labs which they claim as a key source of competitive advantage. It's worth taking a look at the contents of Rhodes case, the topics covered and the vocabulary used, which are fairly typical. Closer to home, the federal government spends significant amounts of money on web site usability testing

including cross-cultural aspects to ensure that visitors can navigate with minimum effort.

[9] The *Business Case for Active Living at Work* is the Public Health Agency of Canada's attempt to make the case for employers to provide support for employee health programs. The PHAC case includes a cost/benefit analysis and a set of templates to help organizations make their own case for getting involved in employee health programs. After all, *it's in their own interest*. So I ask you, is this objective analysis or advocacy? PHAC is trying make the case for employers to get on board since it has a stake in helping to contain the \$\$\$ spent on health care in Cda currently at \$142B and rising at 7% per year.

[10] The third example I found is called *A Business Case for Sustainability* by KPMG. This paper, produced by a team of KPMG professionals across the globe outlines why incorporating sustainable practices makes good business sense. Perhaps this is an example where public and private interests intersect for everyone's benefit.

[11] In terms of content, we see some fairly common ground across all these examples. But business cases are not always or even often stand alone exercises. They are integral to larger business or project plans which themselves are derived from a planning effort of some sort – an effort that hopefully reflects some collective wisdom of the management team.

Since business plans also serve a variety of purposes, again it's important to know the audience and structure the plan accordingly [refer to slide examples]. [12] You might even say that the business plan is itself a kind of cost-benefit document. Costs are specified in operations and investments while benefits are reflected in anticipated revenues and profits, growth or return to shareholders. The plan must also contain a compelling evidence-based story.

[13] The marriage of business plan and business case is not always seamless especially in the face of serious constraints and multiple stakeholders. This was the situation recently at one federal agency and it serves as a case in point. Here

the challenge was to make the case for reducing revenues by about \$2 million and for shedding the “bricks and mortar” in order to allow clients direct access to data on demand at point-of-purchase. Making the case for shrinking the business may sound counterintuitive but that’s exactly what was involved. [14] Some of the key considerations, again not all quantifiable: [refer to slide].

[15] The final example I want to talk about is actually a program where the strength or weakness of the business case plays a critical role in financing. The Canadian Association of Management Consultants operates a 3 day advisory service for innovative SMEs. The program is called the Management Advisory Service or MAS for short and is partly supported by the National Research Council’s Industrial Research Assistance Program (IRAP). IRAP provides funding for early stage technology companies. Actually, they don’t fund the companies themselves, rather they fund projects. The 3 day service itself is a case study of the role business cases can play in a company’s success because IRAP can be quite rigorous in how it allocates its

limited funds. Basically, no compelling business case, no funds. As a result the 3 day MAS service generally revolves around advice needed to strengthen the business case and plan. The goal is to help the SME to reach a point where he/she is able to answer some key questions... [16] so that IRAP can answer some key questions of their own [refer to slide]. [17] The MAS process, which can take anywhere from a few days to a few months, is meant to address information “gaps”, but also to look at key strategic issues about priorities, direction and focus. Most start-ups cannot afford to waste their energies and limited resources pursuing too many opportunities; they need to focus to get the “maximum return on effort”. Notice I didn’t say “return on investment”. This is because the investment at early stages is often in the form of “sweat equity” and “love money”. ROI in the normal sense is not a particularly useful measure. How do you measure sweat? Accountants have a hard time with that as they do with human capital in general.

Good diagnostics, disentangling symptoms from causes etc. is part of the process. Ask most SMEs what their main

challenge is and the answer 9 times out of 10 will be “lack of financing”. But the research shows that there are large pools of risk capital available for those opportunities that are “investment ready” which is code for a strong business plan and case.

[18] What are some of the key considerations? While a compelling technology and great opportunity are important, what really grabs investors is not any single element but how it all fits together to create a convincing narrative. For many, the most important determinant of whether an opportunity is investment worthy has nothing to do with ROI, IRR or NPV. It has to do with the quality of the management/leadership team.

The reason MAS works for IRAP is that it provides an objective 3rd party reality (sanity) check to the SME’s assumptions that may be hatched in the deep reaches of the family basement or garage. While the entrepreneur can possess a missionary zeal, his or her ideas are often conceived without the benefit of solid research. [19]

Inventors are particularly prone to falling in love with their own inventions without the slightest proof that anyone other than aunt Betty or uncle Fred will actually buy them.

[20] Plans from early stage technology ventures generally have some common flaws which affect the credibility of the plan and detract from its appeal to investors. For example, it is not credible to simply take the size of an industry and assume you can reach a certain % of market share within a specified time period. Yet this is what we see all the time. The employee-to-sales ratio rarely adds up. Furthermore, any entrepreneur that says he has no competitors just hasn't looked hard enough. But again, we see this all the time.

Even with those start-ups that have exciting technology with great potential, few have the ability to articulate a value proposition [21] that explains the benefits of the technology in ways investors can understand. A value proposition is a *benefit statement* and those benefits must be differentiated from competitive offers in the eyes of the

customer, otherwise there is no reason for him or her to buy your product.

[22] So all of this means that in addition to the human aspects (good management and leadership), putting together a strong case depends on strong analysis and compelling narrative. It helps to be conversant with some of the standard analytical tools, methodologies and frameworks that are often used to get the message across which include: [23-27] trend analysis, SWOT, life cycle and adoption diffusion analysis, segmentation analysis, product portfolio analysis (BCG), analysis of core competencies and others. These tools sometimes seem academic when used out of context but can be very useful when applied to analysis of specific technologies and market opportunities. [28] Consultants would be lost without the 4 cell matrix but one that I use all the time is the product / market grid. It's a great way to introduce some sanity into the often confusing discussions about products and markets. [29] Another tool that has proved useful for IRAP is the Canadian Innovation Centre's Market Preview Analysis. CIC uses a simple matrix to plot

a company's ability to compete with a new innovation against an assessment of market attractiveness.

Technologies that are positioned in the upper right quadrant [refer to slide] usually get supported, the rest don't.

[30] Geoffrey Moore, the technology guru [and former English professor] has made a career of recycling, refreshing and applying basic marketing concepts such as the life cycle and technology adoption / diffusion models to innovative early stage technology companies. [31-33] His book *Crossing the Chasm* borrows heavily from the standard adoption/diffusion model we saw earlier and is all about how tech companies have trouble breaking free from early adopters into mainstream markets, all of which brings us to “marketing” or as the feds like to say “commercialization”. Moore is a strong proponent of the marketing concept, which is to say focusing on satisfying customer needs. [34] Apart from the traditional 4Ps, it is vital to look at strategic marketing issues such as segmentation, positioning and differentiation. Many tech business plans and cases are, not surprisingly, very weak in

this area because by definition, tech companies led by engineers and scientists are naturally tech heavy and marketing lite. Covering off marketing's "4Ps" can only strengthen the plan; to the 4Ps should be added a fifth P for "positioning", along with segmentation and differentiation which together form what I like to call the 3 Strategic Keys of marketing [35]. As far as business cases go, marketing is a lot like execution. It's the fuel that creates momentum and propels things forward. Even the best case and best plan will stagnate without really good salesmanship or if you prefer a strong "market champion" with a thick skin [36]. We can take a look at the rest of Sergio Zyman's quote and ponder in amazement at how the business case might have been rewritten to fit his revised version of reality [BTW, he left Coke in 1987 and was hired back in '93]. [37] So in conclusion, I guess you could say that every good case deserves a strong champion but if history tells us anything about the business case it's "don't stake your career on it". Even the best cases can be better and it is wise to treat them as living documents constantly evolving in light of new information and insight. Also,

even when you think you've got all the numbers and analysis in your favour, there is usually more to the story and it's often found in the margins and shadows of the unexpected. That's why it's more about the "art" than the "science". [38-39] Thank you for inviting me. [40]