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Business Case Mistakes and How to Avoid Them and then you will be Successful

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Business case analysis has become mandatory for important decision making and planning in government, business, and non-profit organisations everywhere. As a result, most case-building responsibilities now belong to those who are not "finance" people.

Everyone talks about the business case but surprisingly few people really know what that means.

That was true in the early 1900s, when business case analysis was born along with a new, developing discipline called finance. In those days, most people thought that business case analysis was "finance." They thought the job of building and using case results should be left to financial specialists.

Lack of business case understanding is pervasive in 2016, as well, but there's a difference: more than 90% of the professionals called on to produce or use case results today are people who do not practice finance for a living*. They generally have little or no financial background. They are product managers, project managers, agency directors, sales people, engineers, training consultants, and many other things that are not "Finance." Now, it is they who are asked to build the case. We see many of these people in our `our business case seminars. ` They ask: What happened?

Fortunately, the difference between a strong case and a weak case has very little to do with finance and everything to do with understanding a few simple elements of case design. To help understand why, consider briefly a "Top Five" list of common business case mistakes. For more on these issues, please see Business Case Essentials or the Business Case Guide. See details below.

Mistake 1: Thinking it's "finance" and it's a job for financial specialists

For those who build the case for decision support or planning, the challenge is not financial mathematics. The case may use a few simple financial metrics to communicate results, but the central challenge is deciding which costs and which benefits belong in the case in the first place. That is not finance. It s a matter of identifying all the important consequences of a proposed action, systematically and thoroughly.

Equipped with a few simple tools like the cost model and the "benefits rationale," for instance, the task of ensuring that everything relevant comes into the case is straightforward and clear (it may be tedious at times, but it is straightforward and clear). See, for example, Business Case Essentials.

Mistake 2: Projecting income instead of cash flow

People may think that the primary result of the business case is a pro forma income statement. For the business case, however, the fundamental metric is cash flow, not income. Why?

First, many cases look into the consequences of actions that have little or nothing to do with producing income, especially in government or non-profit organizations. Beyond this, however, evaluating costs and benefits in terms of cash flow is a direct measure of each item's worth. Income (or profit), on the other hand, measures less directly, because income reflects accounting conventions such as allocated costs, depreciation expense, and others. These factors "muddy the waters" when trying to measure consequences that actually follow from one action or another.

You may include a projected income figure besides the expected cash flow if decision makers want to know what the proposal will do for reported income per se. But cash flow, not income, is the clearest first answer to the basic question: Is this a good business decision?

Mistake 3: Omitting scenarios that help address the main question

We propose actions in order to make something better, trying to achieve cost savings, improved service quality, or increased sales revenues, for instance. A business case for an action aimed at any of these objectives needs at least two scenarios: a "proposal" scenario and a base case or "business as usual" scenario (sometimes the base case is called the "as is" scenario, or "current course and speed).). Is the "business as usual" scenario really necessary?

The terms "savings," "improved," and "increase" are relative terms. We have to ask: Savings, relative to what? Improvement, relative to what? Increases over what? The "what" is a base case scenario that projects consequences if the proposal is not implemented. The base case scenario is indispensable if you want to know how much things will change.

Mistake 4: Using financial metrics blindly

The business case is not an exercise in finance (No. 1 above) but it may use a few simple financial metrics to help show the meaning of projected cash flow values. Some popular financial metrics include ROI (return on investment), IRR (internal rate of return), NPV (net present value), TCO (total cost of ownership) and PBP (payback period). I have heard senior managers say, for instance: "We'll choose the investment with the better ROI," or "We do not undertake any major spending unless there's a payback period of 18 months or less."

Should important business decisions really turn on one or two such measures?

Each financial metric has strong points: it tells you something useful about projected cash flows that might not be apparent from the cash flow figures themselves. However, each financial metric also has weak points: Each can mislead you when used blindly. Different metrics from the same projected cash flow statement, moreover, can point in different directions: one action has a high ROI but low NPV, the other action has a low ROI but high NPV. Which metric do you follow?

Also, each metric can be defined in several different ways. And, there is a lot of bad or just plain erroneous guidance coming from superficially respectable business case tools on the market. One vendor's tool, for instance, tells you that IRR "...is cash flow received over a period of time vs. capital outlay." You should know that that IRR has several definitions but that is not one of them. Following that kind of guidance will not enhance your credibility.

You do not need an MBA to build or use the business case. You do need a comfortable, definition-level understanding of a handful of `simple business measures`, and their strengths and weaknesses.

Mistake 5: Omitting important benefits because they are "soft benefits" or "intangible."

There is a widespread belief that some benefits (positive contributions to meeting business objectives) of the action under analysis) are second-class citizens. Unfortunately, real contributions to important objectives are sometimes labelled "soft," or "intangible," and omitted from the case.

"Soft" usually means "unlikely" or "cannot be measured in financial terms." The term "intangible," moreover, means there is "nothing to touch," no evidence that the benefit exists. Many people use it when they really mean "non-financial." If there is no objective measurable evidence that a benefit exists, then yes, it is intangible and does not belong in the case. However, when the organization has important business objectives having to do with customer satisfaction, branding, image, quality, safety, risk reduction, employee satisfaction, professionalism, or with other outcomes defined first in non financial terms, and when a proposed action contributes towards meeting these objectives, the contribution can be both important and tangible--even if it is non financial. Does your proposed action contribute to one of these objectives? If so, the benefit belongs in the case! (For more on bringing "soft" and "intangible" benefits into the business case, see our `Business Case Essentials`.

Remember that assigning financial value to benefits should be one of the last additions to the business case structure, not the first: if you can show in tangible terms that your proposal contributes to a business objective, the benefit is real.

Take action!

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at a ` Building the Business Case Seminar`. Learn more about business case design from one of our books, the `Business Case Guide`, `Getting Your

Budget Approved`, or the world's most frequently cited business case book, 'Business Cass Essentials`. See details below.

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Colin is a former successful Managing Director of Transactional/Document Manufacturing Plants, Document Management/Workflow Solutions companies and other organisations, former Group Chairman of the Academy for Chief Executives, Non-Executive Director, Mentor - RFU Leadership Academy, Mentor - Coventry University, Mentor - The Chartered Institute of Personnel and Development, author/writer Business Advice Section for IPEX, Graphic Display World, News USA, Graphic Start, plus many others globally, helping companies raise their `bottom-line` and `increase cash flow`. Plus, helping individuals to be successful in business and life in general. Author of several publications, research reports, guides, presentations, business and educational models on CD-ROM/Software/PDF and over 4000 articles/reports and 35 books published on business and educational subjects worldwide. Plus, International Speaker/Visiting University Professor.

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