



The Business Case Justification

Solutions for Capital Project Delivery Improvement

(White Paper)



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Introduction

The Business Case is a management tool that Camargo Associates utilizes to communicate justification for a potential solution. It is developed over time, as a living document, as the details and unknowns of possible solutions become known.

The following questions need to be answered in order to develop the Business Case:

- What is one key deliverable?
- What is one key role of the Executive Steering Committee?
- What is a Business Case?

Key Deliverable

One of the key deliverables is “continuous improvement”. All significant new solutions should be validated by a uniquely defined business case and approved by the steering committee.

The objective of this document is to emphasize the importance of the clarity of the process in order to put together a business case.

Key Role of the Executive Steering Committee

All “first time” expenditures should require approval by the executive steering committee unless the authority has been delegated to a person or group within the team. Typically, delegated limits are set in line with some guidelines established by the executive steering committee, dependent on risk. Solutions that exceed spending limits, or which involve novel or innovative solutions, generally require executive steering board approval and require a formal business case.

The lead team should agree with the executive steering committee on how and when the board-approval review process will be conducted so that it becomes part of the team’s decision making process rather than an ad hoc arrangement.

In reviewing the Business Case, the team seeks to make judgments as to whether a solution is affordable, in line with the mission and objectives, and value propositions. In forming this judgment, teams need to consider the risks associated with the process. There should be an iterative process involved in order to develop satisfactory solutions and also to permit rejection of a poor option or unaffordable option.

In addition to deciding whether or not to approve a Business Case, teams should also determine a strategy for keeping in touch with the progress and realization of the value proposition.

Business Case

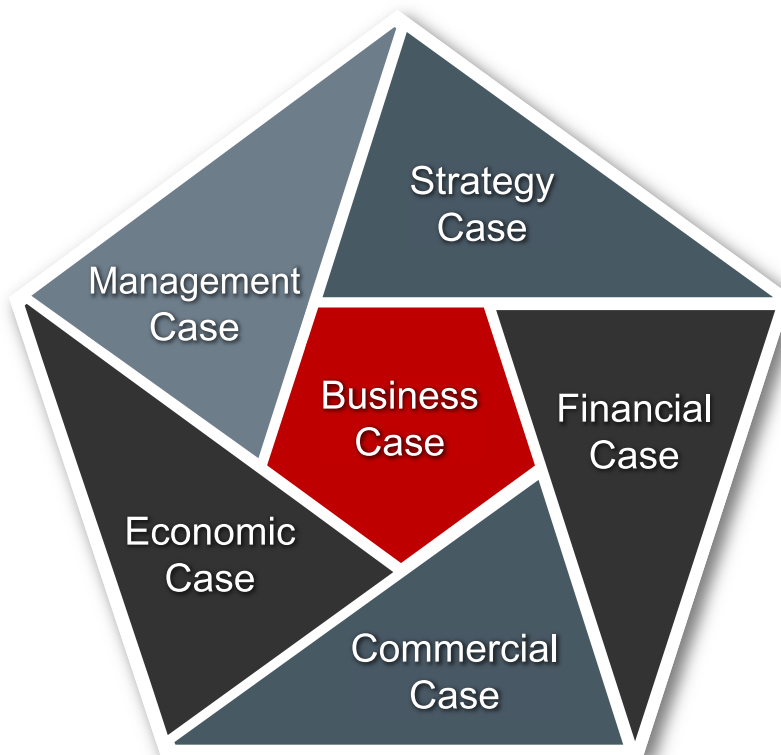
The Business Case keeps together and summarizes the results of all the necessary findings and analysis needed to support decision making in a transparent manner. In the final form it becomes the key document of record for a proposed solution, also summarizing objectives, key features of implementation, and specifics.

Business Cases can cover a wide range of types and levels of spending. Each case should be developed to reflect the type of solution proposal being considered. The efforts expended should always be proportionate to the likely costs and benefits.

Business Case Structure

Business Cases can be broken down into five different and distinct elements:

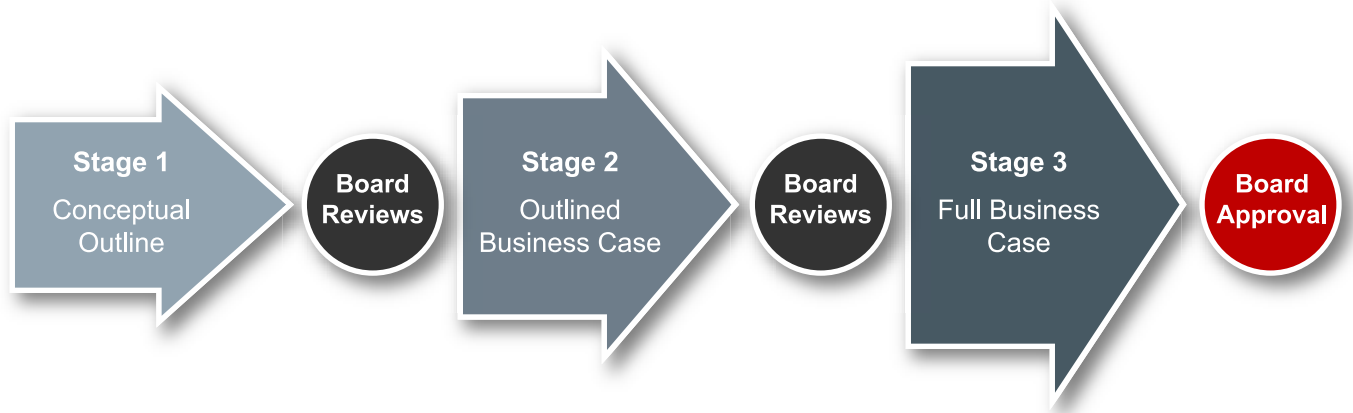
1. **Strategic Case** - What will be different from what we are doing now?
2. **Economic Case** - Why does this financially make sense for our client?
3. **Commercial Case** - How does this impact our terms and conditions with our client?
4. **Financial Case** - How do we afford the cost of implementation of this solution?
5. **Management Case** - How will we implement this solution into operations?



All of these aspects are important. However, their size and complexity will vary from proposal to proposal depending upon a proposal's nature and complexity. Some less complex Business Cases (particularly those not involving significant new spending, new systems, or low cost of implementation) may need little or nothing in the way of a commercial case and require a less complex management case. The cases will be developed as the Business Case progresses.

Business Case Process

The Business Case is developed over time and generally has three stages; with more detail being provided at each stage.



Stage 1 - Conceptual Outline: Scoping Out the Solution

The purpose of Stage 1 is to:

- Confirm the strategic intent of the solution to the executive steering committee.
- Make a robust case for something to be different.
- Provide the stakeholders and clients with an early indication of a proposed solution after a wide range of options have been considered together with the order of magnitude costs.

At this Stage 1 point, we expect our project manager to present the rationale for the different elements:

Strategic Case - Complete this portion fully with the understanding that it could be revised later.

Economic Case - Complete with a list of scenarios/options, including “Doing Nothing Different” for comparative purposes.

Commercial Case - Address the fundamentals of any purchases and/or impacts to the current contract.

Financial Case - Discuss the likely affordability of the solutions.

Management Case - Briefly outline how we would implement.

Stage 2 - Business Case Outline: The Conceptual Planning

The purpose of Stage 2 is to confirm the strategic intent in more detail and to identify a preferred specific option which demonstrates the value proposition; including the details of a successful roll-out.

At this Stage 2 point, we expect our managers to present the rationale for the different elements:

Strategic Case - Revisit the conceptual document for specific selected option and additional input.

Economic Case - Complete with a list of scenarios/options, including “Doing Nothing Different” for comparative purposes, utilizing a “Net Present Value” spreadsheet calculation.

Commercial Case - Address key contractual clauses and payment mechanisms.

Financial Case - Discuss any funding gaps.

Management Case - Develop, in more detail, how this solution will be delivered.

Stage 3 - Full Business Case: The Detailed Final Phase

Stage 3 takes place within the pre-approval phase of implementation, just prior to the formal approval of the executive steering committee.

At this Stage 3 point, we expect our project managers to present the rationale for the different elements:

Strategic Case - Revisited and revised, if necessary.

Economic Case - Completed and revised with the findings of any estimate item changes and documented.

Commercial Case - All agreed contract issues formally revised.

Financial Case - Funding issues settled.

Management Case - The detailed plans for delivery and implementation are completed and developed in more detail on how this solution will be delivered.

Detailed Contents of the Business Case

1. The Strategic Case

The Strategic Case sets out the rationale for the proposed solution; makes the case for the change. It should explain the background of the proposed solution and explain the objective that is to be achieved. The explanation should include the fit with other departments and/or stakeholders.

Does the Strategic Case state clearly the objectives which are to be delivered in **‘SMART’** terms? These are the objectives:

- **S**pecific
- **M**easurable (delivery and/or achievement can be monitored objectively)
- **A**chievable
- **R**elevant
- **T**ime Constrained

If not, then how is the objective set out clearly so that its achievement can be monitored? If it cannot be monitored, the proposed solution cannot be judged as a good value proposition.

As well as the main benefits, the associated risks, constraints and dependencies of the proposal should also be considered at a high level and how they are to be managed should be outlined. Lessons learned from previous experience in this area should be briefly set out.

2. The Economic Case

The Economic Case is the essential core of the Business Case and should be prepared accordingly. This section of the Business Case assesses the economic costs and benefits of the proposal to the client as a whole and spans the entire period covered by the proposal. These are not the same as the financial costs to the company or group undertaking the expenditure.

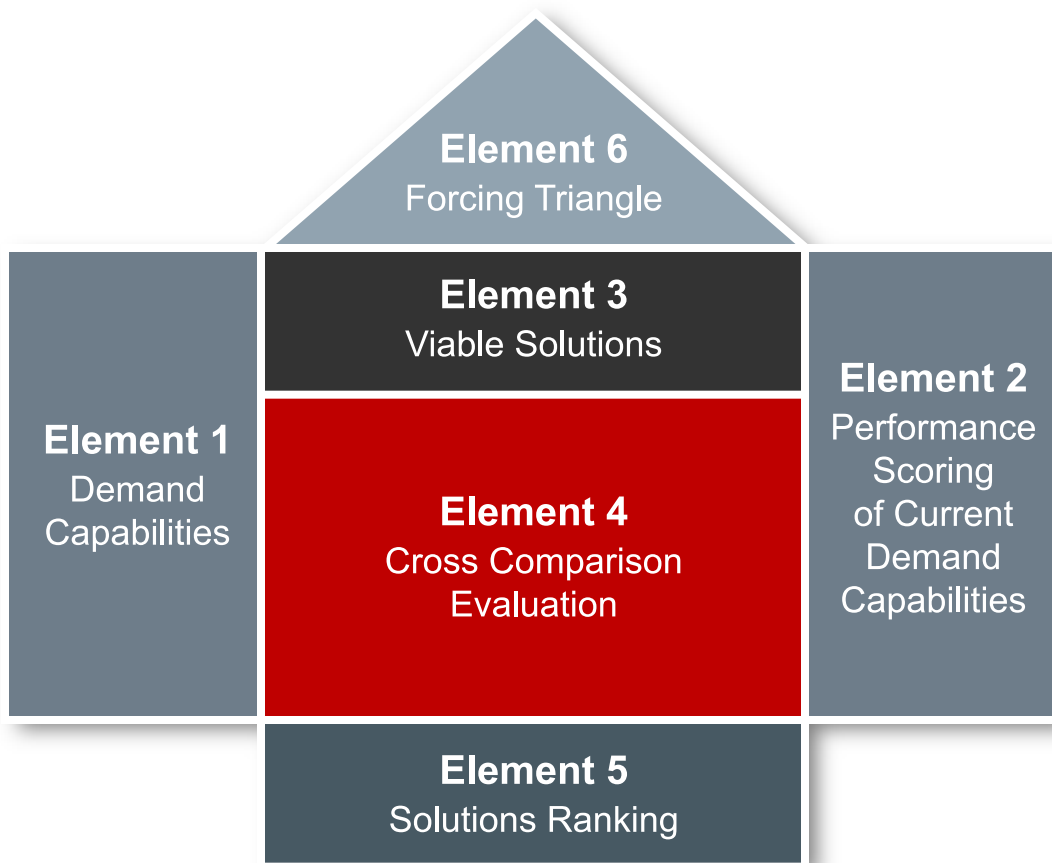
A cost benefit analysis must be performed in which the economic costs (-) and benefits (+) should be calculated for each year covered by the proposal and then summed to produce a net figure for each year. Each of these annual net values is then discounted (as set out by the clients' cost of capital) and the results are summed to give a Net Present Value or NPV. This NPV is the basis on which value for money is assessed. This analysis is undertaken before the decision on which option to adopt is taken.

Options Analysis

In all Business Cases, the Economic Case must include a sufficiently wide consideration of alternative options for achieving the desired objective. This option analysis starts from a long list of all reasonable alternatives including a “do nothing” option or, if doing nothing is not possible, a “do minimum” option.

It is important for us to question how the initial long list of options has been reduced to a short list of options which are then considered in more detail. Although carried out at a fairly high level, is this narrowing process of initial investigation and reasoning transparent?

Utilization of the Lean Decision Matrix amply provides documentation of this process. We should check that the potentially viable best solutions are not eliminated at this stage. The short list should include the “do nothing” or the “do minimum” option.



Important sources of uncertainty or risk in the proposal should be explored through the use of sensitivity analysis, under which ‘switching values’ should be determined and explained. These are the values at which key variables would cause the net cost benefit values to change enough to affect the choice of a preferred option. For example, how much would the cost of procuring a new IT system have to rise to outweigh the expected cost savings it will provide?

The Business Case should show that every effort has been made to quantify all relevant costs and benefits. Sometimes there are genuinely unquantifiable costs and benefits associated with a proposal. This is the case that should be clearly explained along with the reasons why quantification cannot reasonably be made. Where they are relevant to the choice of option, alternative methods may be used to support option selection. It is important however that such analysis is transparent and that it is not structured in such a way as to produce a biased or predetermined result.

The Business Case should provide a transparent case in support of the recommended decision.

Optimism Bias and Risk

In the early versions of the Business Case, when risk management proposals are relatively underdeveloped, optimism bias allowances will be higher than in latter versions when well-defined risk management provisions (and their associated costs) are included. Therefore as more risk management is included and costs are firmed, optimism bias decreases.

Optimism bias and risk questions include:

- Is the level of optimism bias included sensible in relation to the stage reached in preparing the Business Case and does it properly take into account the arrangements for risk management that have been built into the plan?
- Have all appropriate risks been considered? Are the risk management arrangements credible, and is the risk management costs also built in?
- Is the level of optimism bias included reasonable in relation to the stage reached in preparing the Business Case and does it properly take into account the arrangements for risk management that have been built into the plan?
- Have all appropriate risks been considered? Are the risk management arrangements credible, and are the risk management costs also built in?

Distributional Impacts

Although concerned with net cost benefit to the client as a whole, where options have a different impact on different sections of the client then an analysis of distributional impacts should be included and its effects explained.

Other Wider Impacts

It is important to ensure that the proposal has considered any relevant wider issues. These will vary from proposal to proposal but the areas potentially covered include: environmental and sustainability issues; health and safety issues; cultural and international issues; and questions of business impact and administrative burden.

Rationale for Choosing the Preferred Option

The option with the highest NPV is generally taken to be the preferred option. However, there may be decisive but unquantifiable costs or benefits which, although impossible to quantify, are sufficient to override a simple highest economic result. Where this is the case, there must be a clear statement of these decisive factors and why they are considered sufficient to influence the decision; together with the reason for the failure to quantify them in the analysis.

Monitoring and Evaluation

As part of their implementation, all Business Cases should include a plan for monitoring their effects and a plan for subsequent evaluation covering when and by who this is to be undertaken. These should include provision in both Economic and Financial Cases for the associated monitoring and post implementation evaluation costs.

3. The Commercial Case

The Commercial Case is concerned with issues of commercial feasibility and sets out to answer the question, “Can the proposed solution be effectively delivered through the existing contract or a workable deal or deals?” Therefore, the first question is how, if any, does the proposed solution impact the T’s and C’s in place, is it crucial to delivery, and what is the procurement strategy?

The procurement strategy should be set out clearly in the Commercial Case, the ownership of any assets should be defined clearly, and key contractual issues identified and explained, together with the proposed solution.

The allocation of risk must be explained clearly and the Business Case should include a risk table showing risk allocation and the steps which are being taken to mitigate risk. Any personnel implications also need to be explained fully.

4. The Financial Case

The Financial Case is concerned with issues of affordability, and sources of funding. It covers the lifespan of the solution and all associated costs. The Financial Case needs to demonstrate that funding has been secured and that it falls within appropriate spending limits. The focus in this section of the Business Case is on capital and resource requirements (near-cash or non-cash). Therefore, capital charges should be included, if appropriate. The Financial Case is concerned with the impact upon budget totals (S, G & A of the client and/or of the entity.)

5. The Management Case

The Management Case is concerned with the deliverability of the solution and is sometimes referred to as program management or project management of the solution. The Management Case must clearly set out management responsibilities as well as governance and reporting arrangements. If it does not, the Business Case is not yet complete. The responsible sponsor should be identified.

The Management Case should include a delivery plan with clear milestones which relate to but are at a more detailed level than milestones. The management plan applies to any program or projects required by the solution proposed. Program and project plans must include business assurance arrangements. Where significant change management is involved, a structured change management and stakeholder management plan should be included.

The management plan should also set out clearly the review arrangements, and should contain a benefit realization plan and commitment schedule.

The management plan should also include a contract management plan and arrangements where contracts are required. There should be a contingency plan with arrangements and plans for risk management and a risk register.

We should also consider whether the Business Case has been appropriately signed-off within the organization. For example, has the executive steering committee approved the Business Case?

Business Case Example

Economic Case Portion of a Business Case - Small Cap Group

Objective: This particular client was interested in knowing what the “value” would be of implementing a new small project delivery group to execute small project work at over eight of their manufacturing sites. The analysis was focused on “indirect” cost savings, utilizing a Benefit Cost Ratio (BCR) approach. BCR focuses on cash flow differences and is most appropriate for public sector clients; though this method could easily be modified for other methods of analysis.

Exhibit A - “Business As Usual” model (Option 1)

Exhibit B - “Do as little change to the business as possible” model (Option 2)

Exhibit C - “Doing all projects regardless of complexity, under \$10mm TIC, using a small cap work process and delivery group” (Option 3)

Exhibit D - Summary: Economic Conclusion of the Business Case

Exhibit A - "Business As Usual" model (Option 1)

		TOTAL	Year										
			0	1	2	3	4	5	6	7	8	9	10
Option 1 - Business as Usual	Indirect %												
Site capital investments (mm-USD)				600	618	637	656	675	696	716	738	760	783
Large Caps				200	206	212	219	225	232	239	246	253	261
Mid Caps				200	206	212	219	225	232	239	246	253	261
Small Caps (33% of Site Investments)				200	206	212	219	225	232	239	246	253	261
Large Cap Direct Costs													
Mid Cap Direct Costs													
Small Cap Direct Costs				123	126	130	134	138	142	147	151	155	160
CD1 - Conceptual Design Plus Options	1.50%			2	2	2	2	2	2	2	2	2	2
CD2 - Preliminary Engineering	5.00%			6	6	7	7	7	7	7	8	8	8
CD3 - Detailed Design	15.00%			18	19	20	20	21	21	22	23	23	24
CD3 - Procurement Services	3.00%			4	4	4	4	4	4	4	5	5	5
CD3 - Engineering Support During	2.50%			3	3	3	3	3	4	4	4	4	4
CD4 - Construction Management	12.00%			15	15	16	16	17	17	18	18	19	19
CD4 - Commissioning & Start Up	12.00%			15	15	16	16	17	17	18	18	19	19
Total Indirect Cost - Non-Owner	51.00%			63	64	66	68	70	73	75	77	79	82
Net Present Value of Non-Owner Indirect Cost @ 3.5%	\$592												
Pre-Project Planning - Owners IC	4.00%			5	5	5	5	6	6	6	6	6	6
Program/Project - Owners IC	4.00%			5	5	5	5	6	6	6	6	6	6
Operations Support - Owners IC	4.00%			5	5	5	5	6	6	6	6	6	6
Indirect Cost - Owners Only	12.00%			15	15	16	16	17	17	18	18	19	19
Net Present Value of Owner Indirect Cost @ 3.5%	\$139												
Total Indirect Costs - Non-owner & Owner	63.00%			77	80	82	84	87	9	92	95	98	101
CASHFLOW		\$886											
Net Present Cost @ 3.5%	\$731												

Exhibit B - “Do as little change to the business as possible” model (Option 2)

		TOTAL	Year										
			0	1	2	3	4	5	6	7	8	9	10
Option 2 - Conventional Facilities	Indirect %												
Site capital investments (mm-USD)				600	618	637	656	675	696	716	738	760	783
Large Caps				200	206	212	219	225	232	239	246	253	261
Mid Caps				200	206	212	219	225	232	239	246	253	261
Small Caps (33% of Site Investments)				200	206	212	219	225	232	239	246	253	261
Large Cap Direct Costs													
Mid Cap Direct Costs													
Small Cap Direct Costs				143	147	152	156	161	166	171	176	181	186
CD1 - Conceptual Design Plus Options	0.50%			1	1	1	1	1	1	1	1	1	1
CD2 - Preliminary Engineering	2.00%			3	3	3	3	3	3	3	4	4	4
CD3 - Detailed Design	10.00%			14	15	15	16	16	17	17	18	18	19
CD3 - Procurement Services	1.00%			1	1	2	2	2	2	2	2	2	2
CD3 - Engineering Support During	1.50%			2	2	2	2	2	2	3	3	3	3
CD4 - Construction Management	8.00%			11	12	12	12	13	13	14	14	14	15
CD4 - Commissioning & Start Up	8.00%			11	12	12	12	13	13	14	14	14	15
Total Indirect Cost - Non-Owner	31.00%			44	46	47	48	50	51	53	54	56	58
Net Present Value of Non-Owner Indirect Cost @ 3.5%	\$419												
Pre-Project Planning - Owners IC	3.00%			4	4	5	5	5	5	5	5	5	6
Program/Project - Owners IC	3.00%			4	4	5	5	5	5	5	5	5	6
Operations Support - Owners IC	3.00%			4	4	5	5	5	5	5	5	5	6
Indirect Cost - Owners Only	9.00%			13	13	14	14	14	15	15	16	16	17
Net Present Value of Owner Indirect Cost @ 3.5%	\$122												
Total Indirect Costs - Non-owner & Owner	40.00%			57	59	61	62	64	66	68	70	72	75
CASHFLOW		\$655											
Net Present Cost @ 3.5%	\$540												

Exhibit C - “Doing all projects regardless of complexity, under \$10mm TIC, using a small cap work process and delivery group” (Option 3)

		TOTAL		Year									
			0	1	2	3	4	5	6	7	8	9	10
Option 3 - Conventional Facilities & Nuclear Facilities	Indirect %												
Site capital investments (mm-USD)				600	618	637	656	675	696	716	738	760	783
Large Caps				200	206	212	219	225	232	239	246	253	261
Mid Caps				200	206	212	219	225	232	239	246	253	261
Small Caps (33% of Site Investments)				200	206	212	219	225	232	239	246	253	261
Large Cap Direct Costs													
Mid Cap Direct Costs													
Small Cap Direct Costs				132	136	140	144	148	153	157	162	167	172
CD1 - Conceptual Design Plus Options	1.00%			1	1	1	1	1	2	2	2	2	2
CD2 - Preliminary Engineering	4.00%			5	5	6	6	6	6	6	6	7	7
CD3 - Detailed Design	12.50%			16	17	17	18	19	19	20	20	21	21
CD3 - Procurement Services	2.00%			3	3	3	3	3	3	3	3	3	3
CD3 - Engineering Support During	2.00%			3	3	3	3	3	3	3	3	3	3
CD4 - Construction Management	10.00%			13	14	14	14	15	15	16	16	17	17
CD4 - Commissioning & Start Up	10.00%			13	14	14	14	15	15	16	16	17	17
Total Indirect Cost - Non-Owner	41.50%			55	56	58	60	61	63	65	67	69	71
Net Present Value of Non-Owner Indirect Cost @ 3.5%	\$516												
Pre-Project Planning - Owners IC	3.50%			5	5	5	5	5	5	5	6	6	6
Program/Project - Owners IC	3.50%			5	5	5	5	5	5	5	6	6	6
Operations Support - Owners IC	3.50%			5	5	5	5	5	5	5	6	6	6
Indirect Cost - Owners Only	10.50%			14	14	15	15	16	16	16	17	18	18
Net Present Value of Owner Indirect Cost @ 3.5%	\$131												
Total Indirect Costs - Non-owner & Owner	52.00%			68	70	73	75	77	79	82	84	87	89
CASHFLOW		\$784											
Net Present Cost @ 3.5%	\$647												

Exhibit D - Summary: Economic Conclusion of the Business Case

Cost Savings Per Site			
Option 1	Net Present Value of Owner Indirect Cost @ 3.5%	\$139	
	Total Indirect Costs - Non-owner & Owner	63.00%	
	CASHFLOW		\$886
	Net Present Cost @ 3.5%	\$731	
Option 2	Net Present Value of Owner Indirect Cost @ 3.5%	\$122	
	Total Indirect Costs - Non-owner & Owner	40.00%	
	CASHFLOW		\$655
	Net Present Cost @ 3.5%	\$540	
Option 3	Net Present Value of Owner Indirect Cost @ 3.5%	\$131	
	Total Indirect Costs - Non-owner & Owner	52.00%	
	CASHFLOW		\$784
	Net Present Cost @ 3.5%	\$647	
Option 1-3	CASHFLOW Savings over 10 years		\$102
Option 3-2	CASHFLOW Savings over 10 years		\$129
	Total Cashflow Savings		\$231
Option 1-3	Net Present Cost @ 3.5%	\$84	
Option 3-2	Net Present Cost @ 3.5%	\$107	
	Net Present Cost SAVINGS	\$191	

About Camargo Associates

Camargo Associates, LLC is a small but growing professional organization of program and project delivery experts. We exist to provide guidance, expertise and knowledge which, when implemented, offer significant “value added” to our clients. We are the place that people come to learn how to provide better and efficient project delivery services to their stakeholders.

We exist to improve the effectiveness in which project and / or program capital dollars are invested. Through in depth interview and analysis and / or using recommendations of benchmarking results, we drill into specific detail actions that are necessary to improve and maximize capital assets. We provide hands-on state-of-the-art processes and tools to discover and identify specific strategic and tactical plans to make capital investment dollars go farther. Once detailed recommendations are approved, we work with our clients to implement them into their organization so that they “stick”.

Formal benchmarking reviews have been undertaken by many of these same companies to provide valuable indicators of how they perform with respect to other “peer” competing companies in their business area. These efforts are extremely important as they provide comparisons along with generalized recommendations for improvement. Descriptors like, capital effectiveness, capital efficiency and predictability are all synonymous to define the performance characteristics in which they deliver projects.

Today many organizations routinely misuse up to 15 cents out of every one dollar in the project delivery arena, sometimes considerably more. Many companies today have capital spending plans nominally exceeding \$1 billion annually. There is quite a bit at stake! As an aggregate, trillions are wasted and thrown away.

Generally, all organizations want to improve. Many even know what those general improvements might be defined as but they are not sure how to fully implement them within their groups. Camargo Associates, LLC was founded because of the unmet need from those organizations to provide improved performance and return on investment and benefits to their users and stakeholders. We believe in offering neutral and un-biased recommendations.

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