How to Build a Business Case

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If you've ever had a purchase request denied, it may have lacked one or more key elements that Management evaluates when allocating corporate funds. In this article, we will address how to build a business case for spending your company's money, no matter if you want to buy something big, something small, or to justify a better raise come annual review time!

Authors' note: Corporations and municipalities can spend years *building business cases for major construction projects, and universities dedicate whole classes to the subject in their MBA programs. Our intent is not to give an exhaustive treatise on how to build a business case, but to offer information that may increase your chance of getting your next purchase request approved.*

Introduction

As the owners of technical writing companies, the authors have observed that many of our employees over the years didn't appreciate how they affected (positively or negatively) the company's cash flow. Later when we started facilitating workshops on how to build business cases, we discovered the problem also existed with corporate employees—especially those in large organizations where what they did (tech writing) was not closely associated with any particular product the company sold. The problem was even *worse* with government employees as none of their organizations offered a product or service that was sold to customers—money just magically appeared in the budget as the kind and generous result of tax payers!

So before we address the mechanics of how to build a business case, let's discuss some of the basic business concepts on which a business case is built.

Direct Costs vs. Indirect Costs

The first thing to keep in mind when building a business case is that it costs money to make a product or deliver a service. For the purposes of this article, we divide costs into two classifications:

- Direct Costs (materials, labor, etc.), also known as *variable costs* or *cost of goods sold* (COGS)
- Indirect Costs (facilities, insurance, etc.), also known as *fixed costs*, *overhead*, or *general & administrative* (G&A))

Say your company manufactures birdhouses. Direct costs would include the cost of the wood and nails from which the birdhouse is built, and the hourly wage for someone to build them. These costs are directly measurable for each unit produced, as you know how much wood it takes and how much time it takes for a worker to build each birdhouse. The total amount you spend on direct costs varies depending on how many birdhouses you make.

Indirect costs are those a company incurs that are *not* tied to each unit produced. Indirect costs include the cost of liability insurance, rent on the office space, electricity, phones, etc. These are bills you have to pay every month to stay in business, no matter how many birdhouses you build or sell. These costs can be amortized (spread out) over how many birdhouses are produced in a day, week, etc. and added to the direct costs to calculate how much it costs to build a birdhouse. However, it is important to realize that a company must sell enough units to cover both the direct and indirect costs involved. A $1,000 heating bill might seem reasonable if you produce four thousand birdhouses a week, but prohibitively expensive if you only produce four!

Ideally, you want to generate more money in sales than it costs you to produce your product or service. Of course, you could just increase the per-unit sales price to cover these costs, but there will come a point where the price becomes greater than what the market will bear. The complex subjects of cost control and product pricing is far outside the scope of this article, but for now simply realize that the more effectively you manage direct and indirect costs in relation to income, the more money you will have left over as profit.

Cost Center vs. Profit Center

It is a simple but true generalization to say Management is concerned with two things: increasing revenues and decreasing costs (both direct and indirect), which hopefully results in more profit. Furthermore, the authors believe that Management tends to look at the world in black and white: In this context you (your job, your department, etc.) are considered either a profit center or a cost center.

A *profit center* is part of a company that generates more revenue than it takes to operate. For example, a sales team that generates $1 million a year in sales but only costs the company $10,000 a year is clearly a profit center! If it costs $5.00 per unit to manufacture a birdhouse (taking into consideration all the direct and indirect costs) and the company sells those birdhouses for $10.00 each, the manufacturing and sales teams would also be a profit center. Another example would be a consulting division that charges its customers $250/hr for its services when it costs the company an average of $108/hr per consultant. In all three examples, the areas cited are directly involved in creating more income *for* the company than they require *from* the company.

A *cost center* is part of a company that generates less revenue (if any) than it takes to operate. For example, the janitorial staff at a company would be considered a cost center. To return to our birdhouse example, the receptionist at the corporate office would be a cost center since that person is not part of a profit-generating team. (One could argue that the receptionist is an indirect cost for both the manufacturing and sales teams and therefore should be considered part of those profit centers, but the point we are trying to make is that cost centers *cost* more money than they generate because they are not *directly* involved in revenue generation.)

What are examples of profit centers and cost centers in your organization?

Gray Areas

While many departments are *clearly* cost centers or profit centers (black or white), there are some “gray” areas—areas that can be a cost center or a profit center depending on how much revenue they generate or (unfortunately) how they are *perceived* by Management.

An example of a gray area is Tech Support. Are customers charged for tech support in your organization? Does the total revenue generated cover the cost of the tech support team and infrastructure? If it does, tech support is a profit center. If it doesn’t, it is a cost center.

Now let’s consider technical documentation. Is the Documentation team in your company considered an integral part of the development team and therefore a profit center that is well-staffed and well-funded? Or are user manuals considered something that “has to be there” like boxes and bubble wrap and therefore a cost center, *a commodity to be acquired for the lowest acceptable quality at the lowest possible price*?

The important factor in the above example is the word *considered*. It is easier to get purchases approved if Management considers your department a profit center than if it is considered a cost center! The issue of how tech comm is viewed in the corporate workplace and how to change that perception is at the very core of the drive to advance our profession and is clearly outside the scope of this article, but for suggestions on how you can help read Jack Molisani's previous articles on how to advance your department's perceived value ("Advance Your Career Using Public Relations," *Intercom*, July/August 1999 and "Expanding Your Sphere of Influence," *Intercom*, June 2005), or look at Bonni Graham's presentation, "Proving Our Worth" on her website *www.manuallabour.com/symposia*

Two Types of Expenditures

Since this is an article on how to get purchase requests approved, let's look at two types of expenditures: spending money to save money and spending money to make money.

Spending money to save money, also known as *cost avoidance* (CA), is when a company spends money with the plan that it will save money over time. Changing the oil in your car regularly is cheaper than replacing your engine when it seizes up, even if that doesn't happen for years. Replacing incandescent light bulbs with energy-saving florescent bulbs would be another example of cost avoidance: the energy-saving bulbs may cost more than the old bulbs, but they use so much less energy you save money over time through lower energy bills. Purchasing and implementing a content management system to help reduce future translation costs would be yet another example. (It may be interesting to note that it doesn't necessarily matter how expensive the purchase is if it results in an even greater cost savings. More on this in the next section.)

Spending money to make money is when an organization invests in some project with the anticipation that the project will generate more money than it costs. An example would be a company spending money to launch a new product line, as Apple Computer did when it launched the iPod™ MP3 player and again with the iPhone™ cell phone. Another example would be a printing company purchasing a digital color printer so they can sell color printing in addition to the black and white printing they currently sell.

Return on Investment

The amount of money that is anticipated to be generated as the direct result of an expenditure is known as the *return on investment* (ROI). ROI is normally measured in time and money: how long it will take to recoup the money spent, and how much money will be generated.

When speaking of the ROI on a cost avoidance expenditure, one states how long it will take to recoup the initial expenditure. In our light bulb example, an energy efficient bulb might cost $7 dollars each. But if they use $0.50 less energy a month, the bulbs pay for themselves in 14 months.

When speaking of ROI on a new investment expenditure, one also states how long it will take to recoup the initial investment—and then some. For example, when FedEx™ bought Kinkos™, one assumes they did so because they predicted the new services they could offer would generate revenue above and beyond what it cost to pay for the purchase.

Note: An interesting aspect of ROI is that the time it takes to recoup the initial expenditure can be as short as months or long as decades. While it may take years for FedEx to recoup the $2.4 *billion* it paid for Kinkos, a client in California localized their documentation into so many languages that they reported recouping the entire cost of purchasing the Author-*it*™ content management software (through reduced translation costs) in just one product release!

So What is a Business Case?

A business case is a verbal or written proposal that:

- States a problem
- Describes a solution
- States how much it will cost to implement the solution
- States the ROI that could be realized if the solution is implemented

A business case contains several elements. Experts disagree about the order of these elements, but every template that the authors have seen includes at least the following segments:

- Executive Summary
- Current Situation
- Proposal
- Financial Proof (ROI or CA)
- Conclusion

- Supporting Materials

Let's look at each of these in detail.

Executive Summary

The summary functions as an abstract for the rest of the document. Think of it as your vision specifically recrafted for Short Attention Span Theatre. It entices the reader (usually an executive) to read (or at least skim!) the rest of the document. It should include one or two key sentences from each subsequent section.

Tip: Write the summary last. If you try to write it first, the temptation will be to provide all the details that should be in the subsequent sections right here, lest you forget them.

Current Situation

In this section, you describe the current situation:

- What is the problem?

  Be clear and succinct. Don't sound whiny and don't use scare tactics, but explain exactly what the current costs/issues are. Also discuss the future risks (increased costs, risk of lawsuits, etc.) if nothing changes.

  Important Note: Be sure to state the problem in terms *important to your audience*. Remember, Management is concerned with decreasing costs and increasing revenue, so state the problem in those terms. Example: The problem is not “we need a content management system,” the problem is “we are spending more than we need to on translation costs.” State how is the situation a problem for *the company*, not just for *you*!

Tip: Look at the corporate mission statement—how is the current situation affecting the mission? You know Management already really likes those words (they chose them), so use them in the business case.

- *Why* is it a problem?

  Don’t assume Management can see the “pain” of this problem as clearly as you can. They’re looking at different things, and those things may be obscuring the issues the current situation raises.

Proposal

This is where you unveil your Grand Idea. You’ve foreshadowed it in the previous section; you’ve established that the company is experiencing pain. Now you explain how you’re going to make that pain go away.

This section includes clear, specific details about the following:

- What is being proposed?
- How does it solve the problem?
- How much does it cost (if anything)?

Tip: Include the “hidden” costs of labor here—nothing shows management that you’re thinking “big picture” better.

- What new income can be predicted from this initiative and when will that pay off the costs?

  OR

  What costs can be reduced/eliminated as a result of this initiative?

Address both the opportunities *and the risks* of this solution. If necessary, perform a SWOT analysis before writing this section.

Tip: Search the internet for more information on SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis. It’s a common business analysis tool; you should find plenty of information to help you.

Anticipate any objections Management (or anyone else) might have to the plan, and preempt them. Either counter them with information about how they won’t be a factor, or explain how the benefits outweigh the objections.

Financial Proof

Demonstrate the money bits. Using charts and graphs, explain:

- How you calculated the ROI

  OR

  What factors you included and compared in the CA

- The source of those numbers (Did they come from historic company data? An external source? Someplace else?)

Tip: Use your own company's historical data if at all possible. If none is available (and it usually is, if you can make friends in the Finance group), use industry standard numbers. These are almost always available through any associations for your industry; for example, Consumer Electronics Association has a lot of data about the consumer electronics industry (DVD players, iPods, toasters, and the like). If there are no associations, the Bureau of Labor Statistics, the SEC, or other similar government agencies usually have at least some industry data.

Keep it simple (charts & graphs rather than the raw spreadsheet data) and provide full details in the supporting materials.

Conclusion

This section summarizes the problem and the solution, referring back to points made in the body of the document. It states that by spending $___, it will generate $___ in cost savings or new revenue. It reinforces that this is an urgent (or at least important) problem and that *you know the answer*. It ends with a call to action: adopt your proposal.

Supporting Materials

This is your appendix, where you list the supporting details like:

- References and sources

- Raw data (if necessary)
- More detailed financials

A Last Thought

Writing a business case may seem daunting at first, but like most skills it gets easier the more you practice. After all, they are just documents, like any other document we create.

By demonstrating that you understand and share Management's concerns (how to decrease costs and increase revenue), you show you are more focused on the company, more forward-thinking, and, ultimately, less expendable in tough times.

And you stand a better chance of getting your purchase request approved, which is why you wrote the business case in the first place, right?

About the Authors

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