

# LavaCon2006



How to Build a Business Case  
Presented by Jack Molisani

## Overview

- Basic Business Concepts
- How to Speak CxO
- How to Build a Business Case
- Recommended Reading

## About the Speaker

- Project Officer, U.S. Air Force Space Division
- Documentation Manager, Software Company
- President, ProSpring Technical Staffing
- President, LavaCon Conference

## Ground Rules and Warnings

- Group Participation
- Speaking in Hypertext
- Chinese Artists

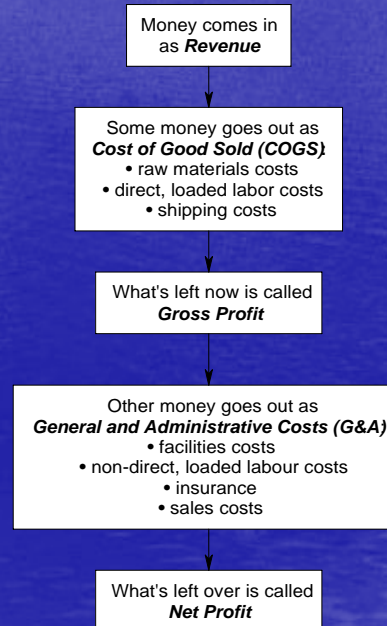
## Basic Business Concepts

- The goal of most companies is to make money for its owner or shareholders (profit)
- To make a profit, a company must take in more money than it pays out
- That is, unless you are a .com company whose investors throw money at you like it's going out of style....

## Basic Business Concepts

- It costs money to make a product
  - Direct Costs (materials, labor, etc.)
  - Indirect Costs (facilities, insurance, etc.)
- The more effectively you manage these elements, the more profit you make

## Basic Business Concepts



## Cost Center vs. Profit Center

- Management tends to look at the world in black and white:
- You are either a Profit Center...
- ...or a Cost Center

## Profit Center

- Part of a company that generates more revenue than it takes to operate
- Examples:
  - Sales Team
  - Consulting Unit
  - Product Developers

## Cost Center

- Part of a company that generates *less* revenue (if any) than it takes to operate
- Examples:
  - Receptionists
  - Accountants
  - IT department

## Gray Areas

- While many departments are clearly a cost center or profit center (black or white)...
- ...there are some "gray" areas

## Gray Areas: Tech Support

- Are customers charged for tech support?
  - Per call?
  - Included in a "maintenance fee"?
- Does the revenue cover the cost of the call?
  - More than the cost = Profit Center
  - Less than the cost = Cost Center
- "What if we off-shore the call center...?"

## Gray Areas: Documentation

- Are technical writers in your company considered an integral part of the development team and therefore are considered a profit center?
- Or is documentation considered something that “has to be there” like boxes and bubble wrap and therefore is considered a cost center...
- ...a commodity to be acquired for the lowest acceptable quality at the lowest possible price?

## Speaking CxO

- Upper management looks at expenditures differently than you and I do.
- By “upper management” I mean CxO:
  - CEO: Chief Executive Officer
  - COO: Chief Operating Officer
  - CFO: Chief Financial Officer
  - CIO: Chief Information Officer
  - CTO: Chief Technology Officer

## Speaking CxO

- CxOs are concerned with:
  - Increasing revenues
  - Decreasing costs (both direct and indirect)
  - Which (hopefully!) results in more profit

## Two Types of Spending

- Spending money to make money  
"Return on Investment" (ROI)
- Spending money to reduce costs (current or future)  
"Cost Avoidance" (CA)

## Return on Investment (ROI)

- The amount of revenue that is anticipated to be generated as the direct result of an expenditure
- Measured in time and money
  - Must state how long it will take to recoup the money spent
  - And how much money will (hopefully) be generated
- The return can be from boosting existing revenue sources or generating new revenue sources
- Can also be applied to non-monetary returns like "good will"
- Examples

## Cost Avoidance (CA)

- Is an action taken to decrease current costs or prevent future costs
- Similar to ROI, but the "return" is on *money saved* rather than *revenue generated*
- Examples

## What is a Business Case?

- A business case is a verbal or written proposal that:
  - States a problem
  - Describes the solution
  - States how much it will cost to implement the solution
  - States the ROI or CA that will be realized if the solution is implemented

## Elements of a Business Case

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

**Business Case Elements:**  
**Executive Summary**

- Summarizes the problem
- Entices the reader to read the rest of the document

**Business Case Elements:**  
**Current Situation**

- Describe the current situation:
  - What is the problem?
  - *Why* is it a problem?
- The problem *must be presented in terms the audience will understand*
- The business case should describe why it is a problem for *the company*, not just for you.
- Exercise

**Business Case Elements:**

**Proposal**

- What is being proposed?
- How does it solve the problem?
- How much does it cost (if anything)?
- What is the ROI or CA?
- Address both risks and opportunities
- Anticipate objections and preempt them

**Business Case Elements:**

**Financial Proof**

- Demonstrates the ROI or CA:
  - How did you calculate the ROI or CA?
  - Where did you get those numbers?
- Use historical company data or industry standard numbers if possible
- Keep it simple and provide full details in the supporting materials

**Business Case Elements:**

**Conclusion**

- Summarizes the problem and the solution.
- It states by spending \$\_\_\_\_, it will generate \$\_\_\_\_ in cost savings/revenue.
- It ends with a call to action
- You can also ask for approval right on the form if the reader is the decision maker:  
Approved \_\_\_\_\_ Not Approved \_\_\_\_\_

**Business Case Elements:**

**Supporting Materials**

- List references and sources
- Provide raw data (if necessary)
- Provide more detailed financials

## Recommended Reading

- *Speaking from Experience*  
L. Ron Hubbard
- *Business @ the Speed of Stupid*  
Dan Burke
- *What Your CEO Wants You to Know*  
Ram Charon

## Contact Info

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