THE CFO'S GUIDE TO WINNING YOUR BUSINESS CASE

By GUDRUN GRANHOLM, Box One, Inc.

Originally published by Sbusiness Magazine,
a publication of AFSM International, Ft. Myers, Florida
Summer 2006

For many operational managers one of the most difficult financial challenges involves preparing a business case. Why are some seemingly unimportant projects approved, while other worthy projects never make it to the starting gate? Is there a magic key that improves the probability that your project will be financed? In the next two columns I'd like to share with you the underlying things that help a project reach the approval stage – the CFO's guide to giving your business case the best shot. For the purposes of this column, a business case can be a:

- capital project request for new client management software,
- proposal to add new services to the existing portfolio,
- buying a competitor
- request for funds to capitalize on an existing high growth opportunity
- new productivity initiative to improve routing of service personnel
- major marketing effort to penetrate existing markets.

In short, a business case is anything that requires a significant funding request outside your normal annual operating budget. Many articles and books give helpful lists and discussions on the basics of a good project proposal or business case. Instead of giving you another list, I'd like to focus on the things that many managers miss when preparing their business case.

Go for the Gold

From the outset, assume that all of your business case requests will eventually have to be approved by the Company's top management team. This will ensure that you carefully research, analyze and prepare all of your project proposals, regardless of their impact or size. If you don't feel that the business case deserves the time necessary to hit this standard, the project should probably stay on the shelf. By sticking with this "top management customer" perspective, you will over time develop a reputation as someone that prepares professional business cases. This credibility automatically means you're 50% closer to approval from the very beginning.

Sell your team

Successful execution of any project comes down to the skills and experiences of the individuals involved. Discuss why your team is the one that can deliver results. To support this, detail each person's background, prior achievements within your organization and any prior related experience. Focus every bio on the skills necessary to show the expertise needed to deliver results for this specific project. It is also important to show that this team knows how to work together, especially if it involves a great deal of potential change/conflict.

Wear your marketing hat

Define the market opportunity in detail. This research will support your revenue forecast and provide the critical foundation for a credible business case. Discuss the size of the potential customer base. Provide a profile of the customer as it relates to your service business. What sales and marketing effort will be needed to reach potential customers? Provide extensive detail on any opportunity to sell this service to your *existing customer base*. This is always the least expensive way to generate new service revenues. If your business case is based on a cost initiative, *focus on cost savings*.

Focus on the assumptions

A key part of any business case is the preparation of spreadsheets showing added revenues, added costs, and net contribution to your existing business. Managers that have spent time evaluating business case proposals know that *most of the weaknesses are in the revenue forecast*. The same is true of cost (productivity or efficiency) initiatives. Here the weakness often lies in a failure to quantify the benefits in a *credible fashion*. By contrast, expenses are usually fairly easy to determine once the revenues have been identified. Focus on justifying your revenue and benefit assumptions, going back to the work you did in the prior section ("Wear your marketing hat"). Spend your time on clearly, cogently setting out all of your assumptions. You will either win or lose here. If you can create a compelling vision of the positive financial impact this will have, you have a much higher chance of project approval.

What's the minimum number of years to forecast?

Unless your organization has a prescribed format, financial results should be projected for a minimum of five years. Revenues and related expenses should be shown by month for the first year, by quarter for the next four years.

Know your Gross Margin

Develop a solid estimate of the gross margin this business case can produce. To calculate the gross margin:

Projected Revenue	50,000,000	Prepare a separate schedule showing all market assumptions
Less: Cost of Services	(30,000,000)	Costs defined below
Gross Margin	$20,000,000	Subtract cost of services from revenues to generate the gross margin
Gross Margin %	40%	Divide gross margin into revenues

The key here is to determine the costs that should be reflected in "Cost of Services". Costs should include all of the "people" costs necessary for delivering the service, including consultants, call center and help desk associates. Other costs include depreciation on any facilities or equipment needed to deliver these services, including any associated software costs, such as scheduling software or call center software. Finally, there may be other related expenses such as project travel costs, project-specific training, telecommunication and utility expenses.

What's a gross margin that gets top management excited? The answer is: a margin that's greater than the organization's overall gross margin. Then, as your project kicks in and begins to generate greater revenues, the overall gross margin of the company will increase. For example, between 1999 and 2002 Cisco's hardware margins were declining, while the service business margin increased from 54.8% to 69.6%. During this same time period Cisco's service business tripled from about $1 billion to $3 billion. By comparison, the hardware business grew about 41%. Cisco's hardware margin fell by 4% over these four years (and even more dramatically in 2001, their loss year). Fortunately, the positive impact of the service margins meant that overall company margins declined only 1.5%. Quite a financial contribution from the service side of their business!

A future column will address "Part 2 of the CFO's Guide to Winning Your Business Case", including connecting you business case to the overall company financials and strategy, selling your ideas internally, competing against other worthy projects, and working with the finance

About the Author

Gudrun Granholm is the CEO and Founder of Box One, Inc., a firm specializing in custom financial training, financial skill assessment and related financial consulting for "operational" professionals, managers and executives. Gudrun has devoted her career to helping managers quickly understand the financials from a strategic perspective. The training and consulting connects manager's decisions and actions with their impact on the financials and develops a "total company view". It allows communication across all levels of the organization through the use of a shared financial language using the Box One Model™ in order to drive optimal financial performance. Prior to founding Box One, Gudrun served in a variety of financial roles, from financial analyst, controller to CFO/CEO over a 25 year period, including The Washington Post Company and The Smithsonian. Her training and consulting includes engagements with Fortune 500 organizations, universities and associations. Gudrun received her BA from Harvard University and her MBA from Stanford University Business School. For more information you can reach Gudrun at:

Box One, Inc.
15455 NW Greenbrier Parkway
Suite 250
Beaverton, OR 97006
503.352.0850 x111
gudrung@BoxOneLeader.com
www.BoxOneLeader.com

Box One
Making Sense of Financials™