

Making the Compelling Business Case

Course Handbook V2.0

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This course points out how to formulate and present a professional judgment on corporate investments based on the elements of cost, benefit, risk, and strategic flexibility. Your learnings can be applied in the management consulting and corporate environment all the way from market expansion scenarios, marketing campaigns, information technology investments, and also sales situations.

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1. About the Course

Maximizing value for the enterprise, for its shareholders, and for its customers is at the core of corporate governance. And making this happen by extracting value from investments is what management is all about.

The course on “Making the Compelling Business Case” explains the fundamentals for building sound business cases. The business case is viewed both as a document and as a process. It increases your capability to formulate a professional judgement by exploring the underlying financial concepts, examining cost categories, quantification of business benefits, risks, and strategic flexibility options. It has been designed to provide a practical framework and increase your skills of writing and presenting compelling business case reports for management approval. Your learnings can be applied in the management consulting and corporate environment all the way from market expansion scenarios, marketing campaigns, information technology investments, and also sales scenarios.

The approach to the topics has been designed to be academically rigorous and practical at the same time using content-driven lectures, examples, and spreadsheet exercises.

Introduction

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Corporate managers often make decisions on projects that result in failed initiatives, missed delivery goals, and over-running costs. A business case (as a document) can help to provide a top-down justification for a rational decision and the business case (as a process) simultaneously builds a consensus among stakeholders. This course shows how to formulate and present a professional judgment on corporate investments based on the elements of cost, benefit, risk, and strategic flexibility.

2. Course Objectives

The aims of this course are to help you:

- To develop factual knowledge (terminology, classifications, methods, trends) about business cases, key financial concepts used to value investments.
- To develop the ability to apply course material to improve rational thinking, problem solving, decision making, and to build sound business cases.
- To quantify intangible business benefits, risks, and future strategic flexibility options.
- To be able to perform business case calculations using a spreadsheet.
- To present the business case as a compelling document.
- To appreciate the importance of stakeholder alignment and learn how to (and what to) communicate to senior management.

3. Evaluation

This is a graduate-level course and as such contains graduate-level work. This includes active participation in class discussions and activities; high-quality written work is expected. Much of a manager's success depends on communication. Therefore, effective written and oral communication will constitute a significant portion of a student's grade. Written work should be clear, logical, grammatically correct, spell-checked, persuasive, and backed up by citations for any data, ideas or other content used. It should always represent your best effort. To do well on the writing assignments, you will need to incorporate and apply the course readings.

Your final grade in this course will be based on the following weighting:

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| • Course paper (group) | 35% |
| • End-of-course examination (individual) | 55% |
| • Classroom participation (individual) | 10% |

Common sense warning: Just as ethics and integrity are important in management practice, academic integrity is important in this course. Ignorance is not an excuse for violation!

Course paper

Participants should form groups of 3 or 4. Details on the assignment will be discussed in the first session.

Select an upcoming or past investment in a corporation and write a business case report for presentation to senior management. Alternatively, you may also identify a sales scenario and write a business case driven sales proposition. You can also see if it's possible to turn a loss-making business around. Or you have a business idea of your own in mind for which you want to develop a business case. The topic for this project should be prepared in consultation with me; if you are really short of ideas, here are some examples that will work:

- Starting a coffee shop on campus

- Opening a fitness studio in a shopping mall
- Opening a Pizza Hut or McDonald's franchisee
- Starting a walk-your-city tour organizer (e.g. www.bangalorewalks.com)

Your report should broadly cover the following steps or factors:

1. Preface (the one-sentence business case)
2. Executive briefing
3. Introduction
4. Analysis
 - a. Assumptions
 - b. Cash flow statement
 - c. Costs
 - d. Benefits
 - e. Risk assessment
 - f. Future strategic options (if applicable; optional)
 - g. Opportunity costs (if applicable)
5. Conclusion, recommendation, next steps
6. Appendix: Resources utilized/references, footnotes, bibliography

You are expected to make adequate use of quality frameworks, tools and techniques as taught in this module. The report should not exceed 3,000 words, not including figures, diagrams, and appendices. Please remember that this is a business report and not an academic essay or reflection paper; you are writing it for a busy and intelligent manager.

The marking scheme will be as follows:

1. **Research [10%].** You should provide evidence of relevant and extensive research into the subject of your business case. Document all your sources of information.
2. **Financial calculations [20%].** All financial calculations should be correct, realistic, and plausible.
3. **Knowledge, understanding, and completeness [20%].** Your knowledge about business cases should be comprehensive in depth and breadth. Show evidence that you are able to relate business case theory to a practical example.
4. **Convincing and believable business case [20%].** A business case is not only an Excel sheet, its story and presentation is also important. The business case should be believable throughout. Your business case report should be clear to understand and not leave any questions open.
5. **Presentation [20%].** You are expected to submit work that follows a clear and logical structure; it should be well organized and easy for the reader to follow. A professional lay-out is important with respect to formatting, diagrams, headlines, etc. Appropriate use of figures and tables will enhance your grade.
6. **Writing mechanism [10%].** Your writing should demonstrate clarity, conciseness, and correctness. Persistent poor spelling and other avoidable errors will be penalized.

End-of-course examination

In-class and closed book exam of 120 minutes, based on the lectures, readings, and cases discussed in the course. Laptop, cell phone, calculator etc. are not required and not allowed.

Classroom participation

This course covers a significant amount of content and much of the learning comes from in-class exercises, discussion, and especially the work on the business case for your coursework. Therefore, you are expected to attend all sessions, complete all assigned readings, and come prepared to actively participate in class. For some sessions, there will be a small case study to prepare or an activity to be completed on the coursework assignment. Attendance will be taken and participation will be evaluated at each class session. Excessive absences will result in a lower grade.

Classroom participation counts for 10% of your grade in this course. It will be graded more on quality than on quantity, so contributions should be relevant, concise and aimed at moving the discussion forward and driving toward insight and understanding. Here are the behaviors that count:

- Asking questions
- Answering questions
- Making comments
- Sharing relevant experiences

Here are the value-added behaviors – the ones that put your contributions over the top:

- Responding to something another student says (including answering a question asked by a student)
- Constructively disagreeing with something in the text or said in class by me or another student

And there are behaviors to avoid:

- Not listening
- Pretending to be listening while texting or cruising online
- Speaking without being recognized
- Guessing an answer
- Making fun or otherwise berating something said by another person.

You are especially required to actively work on your course work while the class sessions progress. Questions on the course work should be brought into the classroom and discussed; having questions and providing help to answer them counts as classroom participation.

4. Disability Accommodation Statement

Any individual who qualifies for reasonable accommodations with respect to disabilities should please contact me immediately.

5. Course Outline

I will be using both the lecture-discussion and the problem introduction-solution methods to teach this course.

Topic Corporate Strategy and Financial Management
Content Corporate strategy and financial goals. What is an investment decision? Why do investment decisions go wrong? Difference business plan and business case.

Readings
 1) (Messner, 2013) – Ch 1.1 to 1.2
 2) Optional: (Brealey, Myers, Allen, & Mohanty, 2007) – Ch 29.2
 3) Optional: (Rumelt, 2011)

Topic Introduction to Business Cases
Content Types of investments. Business case concept and process. Consensus and stakeholder management. Business case filter in R&D management.

Readings
 1) (Messner, 2013) – Ch 1.3 - 1.8 – 1.10
 2) Optional: (Paton, Clegg, Hsuan, & Pilkington, 2011) – Ch 3
 3) Optional: (Aurentz, Kirschbaum, & Thunecke, 2010)

Topic Key Financial Concepts I
Content Time value of money. Net present value (NPV) concept. Calculating NPV with a spreadsheet.

Hands-on exercise to build an NPV spreadsheet.
Readings
 1) (Messner, 2013) – Ch 2.1, 2.2

Topic Key Financial Concepts II
Content Alternatives to the NPV concept, e.g. payback method, return on investment (ROI), internal rate of return (IRR). Advantage of using NPV for business cases. Hands-on exercises examining spreadsheets as available at www.thebusinesscase.info (download)

Readings
 1) (Messner, 2013) – Ch 2.3 to 2.

Topic Costs
Content Cost stages. Estimating costs. RfP process. Economies of Scale. Taxes. Leasing.

Readings
 1) (Messner, 2013) – Ch 3
 2) (Messner, 2013) – Ch 5

Topic Benefits I
Content Benefit taxonomy. Identifying benefits: strategic benefit identification map, value panel, benefit discovery chart. Managing and converting non-monetary benefits. Ensuring benefit completeness.

Readings	1) (Messner, 2013) – Ch 4.1 to 4.5, 4.7 2) Optional: (Kaplan & Norton, 2004)
Topic	Special Topics on the NPV Business Case
Content	Continuous cash flows. Terminal value. Time horizons. Capital rationing. Inflation.
Readings	(Messner, 2013) – Ch 5
Topic	Example: Unified Office Communication
Content	Revision of concepts along case study. Critique of a published business case (readings 2).
Readings	1) (Messner, 2013) – Ch 5.7 2) (Microsoft, 2010) 3) (North, 2010)
Topic	Benefits II
Content	Customer profit contribution. How to use ‘customer value for the company’ as a benefit measure in the business case. Model a cohort-based customer value calculation in a spreadsheet.
Readings	1) (Messner, 2013) – Ch 4.6
Topic	Risk I: Introduction
Content	Definition of risk. Types of risks. Risk preferences of decision makers. Role of assumptions in a business case. Measuring the level of risk built into the value of variables in the business case (standard deviation, distribution curves).
Readings	1) (Messner, 2013) – Ch 6.1- 6.5
Topic	Risk II: Sensitivity and Scenario Analysis
Content	Understand how the business case responds to a change in parameters; conduct a sensitivity analysis with a spreadsheet. Constructing scenarios. Forecasting a factor’s range of values. Calculating the expected net present value (ENPV).
Readings	1) (Messner, 2013) – Ch 6.6- 6.7
Topic	Business Case Presentation
Content	How do executives make decisions in real life? Ideal structure of a business case report. Art of storytelling. Importance of consensus management (revisited).
Readings	1) (Messner, 2013) – Ch 8
Topic	Risk III: Stochastic Models
Content	Difference deterministic vs. stochastic model. Business case simulation using the Monte Carlo approach. Using a spreadsheet for a simple simulation. Generating random numbers in a spreadsheet. Confidence intervals. Binning technology to build histograms.
Readings	1) (Messner, 2013) – Ch 6.8

Topic	Risk IV: Probability and decision trees
Content	Laying out events in a systematic way. Assigning probabilities. Calculating the expected net present value (ENPV) in a probability tree. Taking dynamic decisions and their mapping in decision trees. Empirical validation to test business case assumptions.
Readings	1) (Messner, 2013) – Ch 6.10 – 6.11 2) Optional: (Magee, 1964) 3) Optional: (Collins & Hansen, 2011) – Ch 4
Topic	Risk V: Haircut Approach
Content	Certainty equivalents and haircut approach to risk. Risk of international business and contracts. Volatility of currency exchange rates. Estimating country risk and building it into the business case.
Readings	1) (Messner, 2013) – Ch 6.12 – 6.13
Topic	Strategic Flexibility
Content	Strategic real-options analysis. Black-Scholes formula and calculation in a spreadsheet. Importance of industry volatility for valuing strategic flexibility. Real option management.
Readings	1) (Messner, 2013) – Ch 7 2) Optional: (Coy, 1999)
Topic	Bottom-up Business Case & Value Oriented Selling
Content	Using the business case as a project management and controlling framework (bottom-up approach) to check the course of the implementation. Turning selling around by providing business cases in a sales pitch.
Readings	1) (Messner, 2013) – Ch 9 – 10

6. Readings

This course requires you to work continually throughout its duration and it also entails a fair amount of background reading. A course pack will be supplied to complement the main text book.

Main text book

Messner, W. (2013). *Making the Compelling Business Case. Decision-Making Techniques for Successful Business Growth*. Houndmills: Palgrave Macmillan.

Book companion website: www.thebusinesscase.info

Please note that the course follows the main text book and you are encouraged to go through the book diligently, both as preparation for your end-of-course exam as well as for the course paper. The content of all slides used can be found in this main text book and hence slides will not be distributed.

Readings (included in course pack)

Microsoft. (2010, Nov 11). *A.T. Kearney: Consulting Firm Upgrades Communication Solution to Further Boost Productivity*. Retrieved Jun 8, 2012, from Microsoft Case Studies:

<http://www.microsoft.com/casestudies/Microsoft-Lync-Server-2010/A.T.-Kearney/Consulting-Firm-Upgrades-Communications-Solution-to-Further-Boost-Productivity/4000008683>

North, J. (2010, Nov). *The Total Economic Impact of Microsoft Lync Server 2010*. (Forrester Consulting)

Retrieved Jun 29, 2011, from Microsoft Lync Benefits - Forrester Total Economic Impact

Whitepaper: <http://go.microsoft.com/?linkid=9751775>

Optional readings and references

Aurentz, V., Kirschbaum, B., & Thunecke, M. (2010). Revitalizing Portfolio Decision-Making at Merck Serono S.A. - Geneva. *Journal of Commercial Biotechnology*, 17(1), 24-36.

Brealey, R. A., Myers, S. C., Allen, F., & Mohanty, P. (2007). *Principles of Corporate Finance* (8th ed.). New Delhi: Tata McGraw-Hill.

Collins, J., & Hansen, M. T. (2011). *Great by Choice*. New York: Harper Business.

Coy, P. (1999). Exploiting Uncertainty. The "Real-Options" Revolution in Decision-Making . Retrieved Mar 25, 2011, from *Bloomberg Businessweek*:

http://www.businessweek.com/1999/99_23/b3632141.htm

Kaplan, R. S., & Norton, D. P. (2004, Feb). Measuring the Strategic Readiness of Intangible Assets. *Harvard Business Review*, 52-63.

Magee, J. F. (1964, Jul-Aug). Decision Trees for Decision Making. *Harvard Business Review*, 126-137.

Paton, S., Clegg, B., Hsuan, J., & Pilkington, A. (2011). *Operations Management*. Maidenhead: McGraw-Hill Higher Education.

Rumelt, R. (2011). *Good Strategy. Bad Strategy. The Difference and why it Matters*. London: Profile Books.