

Building the Business Case for New Programs:

Speaking in Dollars and Cents

Presented by:
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We're All in Sales



**“Hey...
anyone want
to buy a new
program?”**

Selling a Business Case is Selling Value

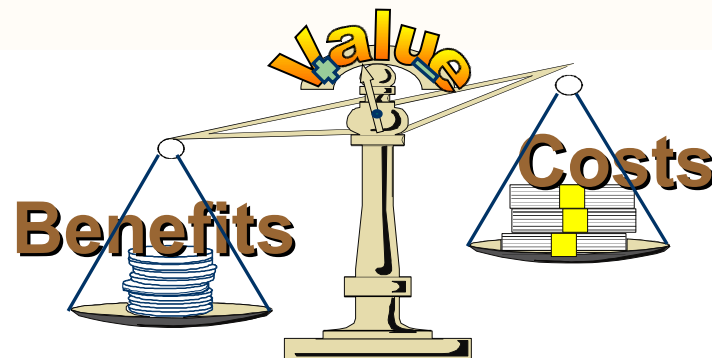
What I do get
Benefits/Gain

What I have to give
Costs/Nuisances/Pain

Perception Of...

Situation, Objectives, Feelings

COMPANY VALUE = [BENEFITS – COSTS]



Business Case Defined

Business Case:

Tool to explain and justify a new program for the purpose of planning and decision-making

Needs to answer these basic questions:

- 1) What is the Opportunity (Value to customers)?**
- 2) Will it be Profitable? (Valuable to us)**
- 3) Can we Execute? (Risk)**
- 4) Should we Pursue it? (Strategic fit)**

Don't forget...

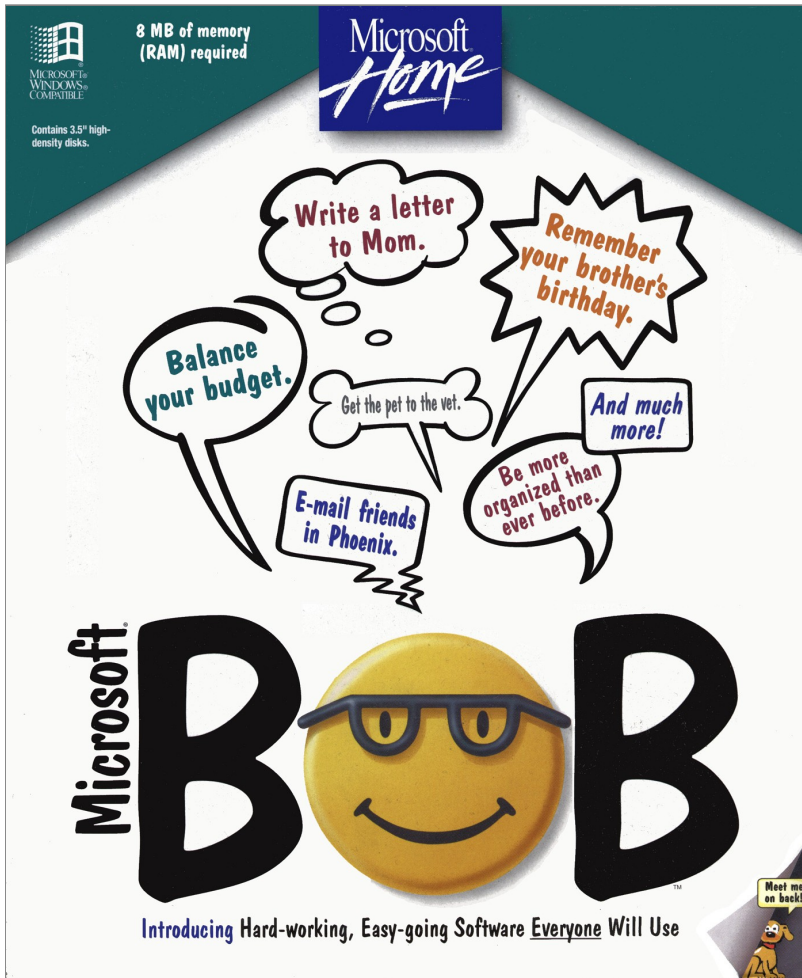
**The success of a Business
Case is not the same as a
successful product or program**

... and that's ok.

Great Business Cases... Bad Results

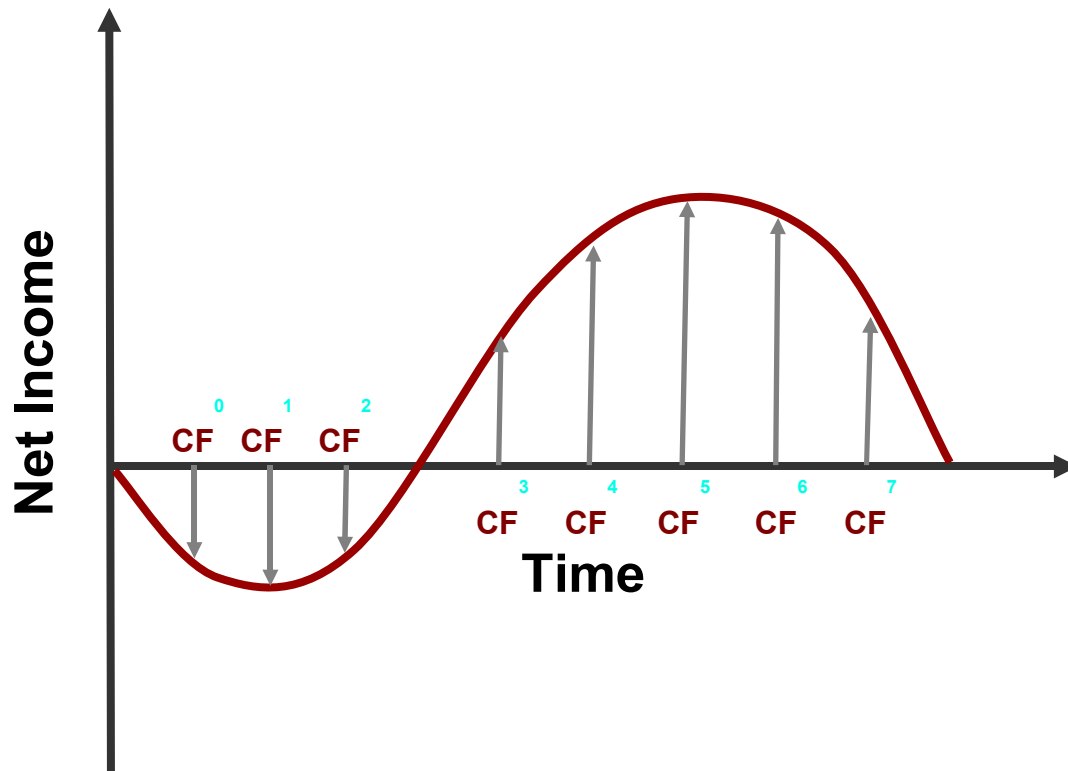


When You have a Lot of Money, Risk Seems... well.. Less Risky...



“Introducing Hard-working, Easy-going Software Everyone Will Use”

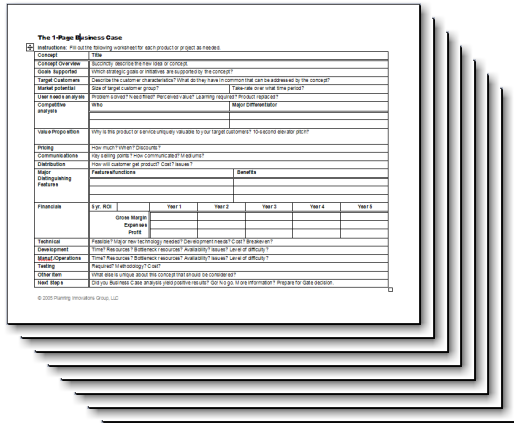
Decision Makers See Differently



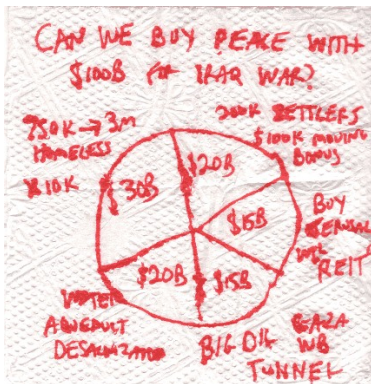
“Lots of investment for little payback. That’s the kiss of death for me. I’ll see 25 pages of expenses and a business model that says we’ll get back \$5M in 5 years if we’re lucky. I really question why they bothered.”

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Which is the Better Business Case?



A) 30 page document with detailed graphs, industry reports, and technical analysis.



B) A napkin with a two word product description, a revenue estimate, and a coffee stain.

What the Heck is “ROI”?

- A concept... Not a standard financial calculation!
- Identify what your ROI requirements are...
 - Internal Rate of Return?
 - NPV?
 - Payback period?
 - Gross Margin?
 - EBITDA?
 - Basic P&L

“I don’t need the weeds of a DCF model with IRR and NPV wrapped around it. Just give me the real data with 3-5 years of operating and cash flow projections.”

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Case Study: Cost Reduction Project

Bob is PM for TVs. He is recommending a project to cost reduce the electronics from a two board solution to one board. This will save about \$15/unit. They currently sell 1M units per year. The model should last 3 years in the market. The development will take 1 year and \$5M.



Hurdle Rate	15%			
	Year 1	Year 2	Year 3	Year 4
Vol.	1M	1M	1M	1M
Savings	\$0	\$15	\$14	\$12
Total	\$0	\$15M	\$14M	\$12M
Exp.	\$3M	\$0	\$0	\$0
Contribution	(\$5M)	\$15M	\$14M	\$12M
	IRR	288%		
	NPV	\$23M		

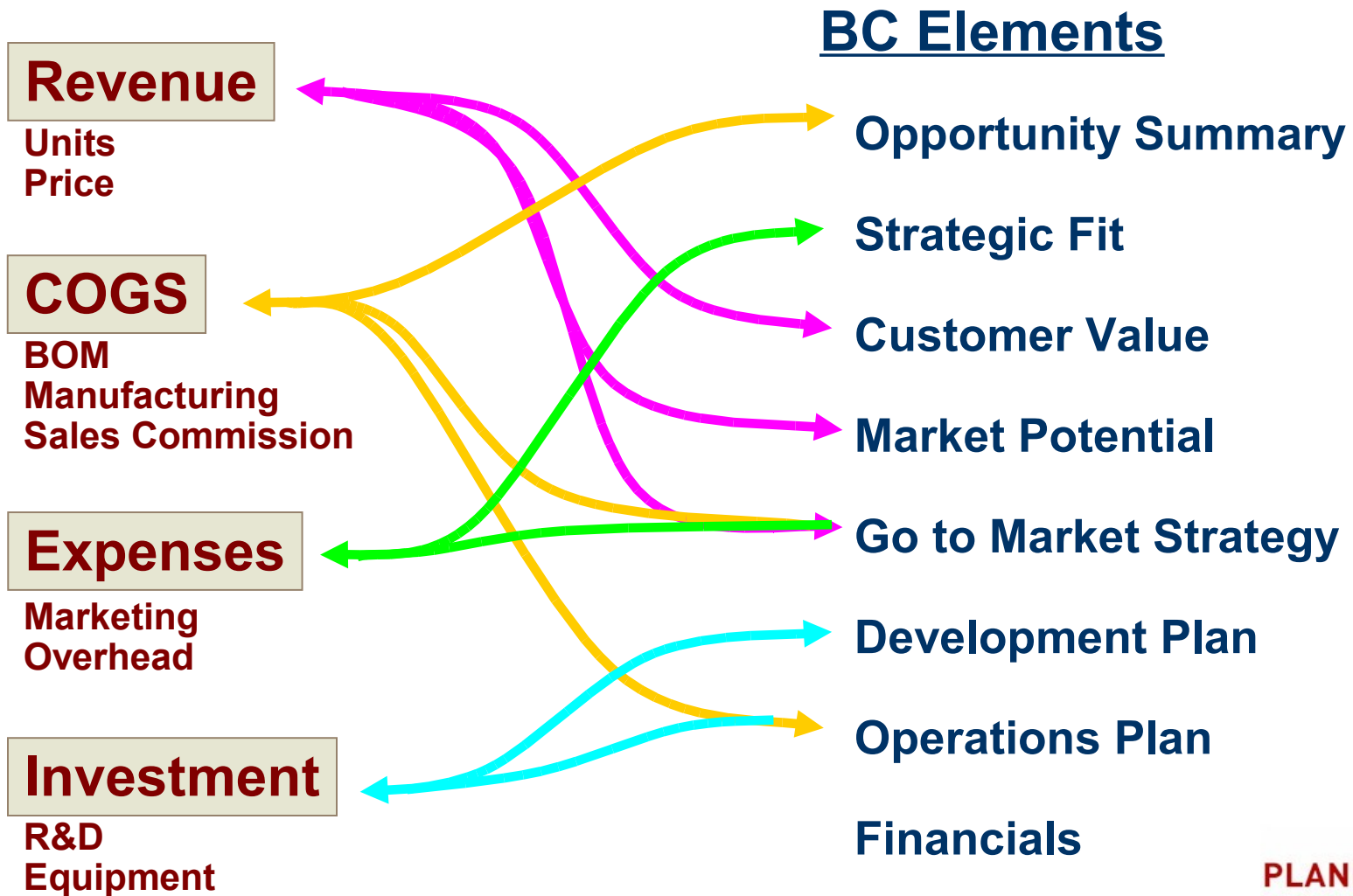
Anatomy of a New Product Business Case

- 1) What is the Opportunity?**
- 2) Will it be Valuable?**
- 3) Can we Execute?**
- 4) Do we want to Pursue it?**

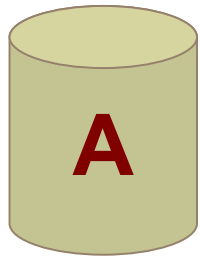


Opportunity Summary
Strategic Fit
Market Potential
Go to Market Strategy
Technology Assessment
Development Plan
Operations Plan
Financials

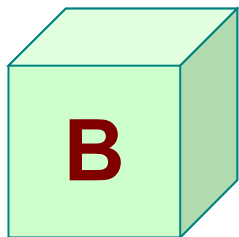
Your "Story"



Financials Are the Conclusion of Your Story



	Year 1	Year 2	Year 3
Revenue	\$20M	\$20M	\$18M
COGS	10M	9M	7M
Gross Margin	10M	11M	11M
Expenses	5M	3M	1M
Profit	\$5M	\$8M	\$10M
Program Investment			\$3M
3 Yr. Internal Rate of Return (IRR)			112%
Net Present Value			\$13.4M
Return On Investment			600%



	Year 1	Year 2	Year 3
Revenue	\$5M	\$30M	\$80M
COGS	3M	20M	50M
Gross Margin	(2M)	10M	30M
Expenses	10M	10M	20M
Profit	(\$12M)	\$0M	\$10M
Initial Investment			\$10M
3 Yr. Internal Rate of Return (IRR)			-
Net Present Value			(\$12.1M)
Return On Investment			-

Most Common Metric: Net Present Value

$$NPV = CF_0 + CF_1 / (1+r) + CF_2 / (1+r)^2 + \dots + CF_n / (1+r)^n$$

CF_0 = Time 0 Cash Flow (Net Income)

CF_1 = Time 1 Cash Flow (Net Income)

CF_n = Time n Cash Flow (Net Income)

r = Company determined discount rate

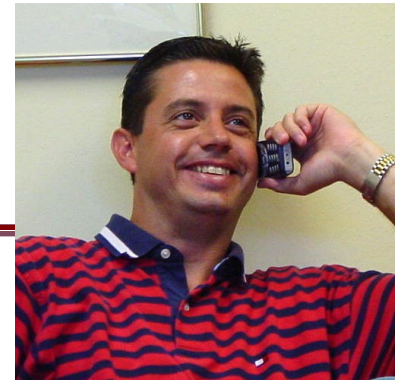
- NPV > 0 Is a financially okay
- NPV = 0 is financial marginally
- NPV < 0 Is financially poor

Problems:

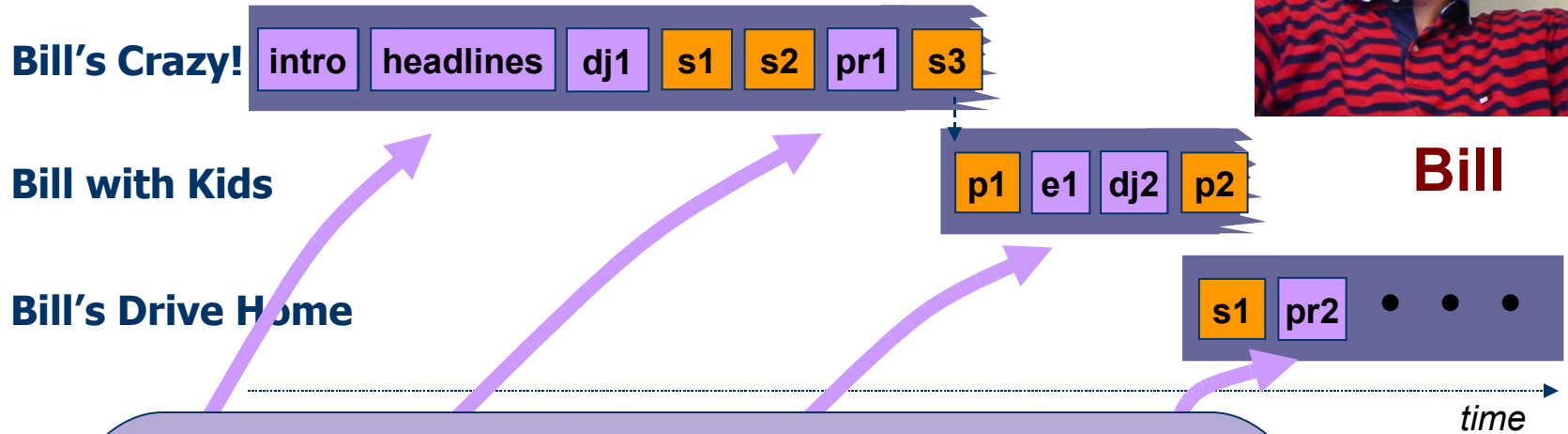
- 1) Doesn't consider strategic importance
- 2) Doesn't give % return

Hint: Excel has this function

Case Study: Personal Radio Service



Bill



Library of Music, Talk, News, Comedy

Stingers	st1	st2	st3	st4	st5	•	•	•
DJ	dj1	dj2	dj3	dj4	dj5	•	•	•
Entertainment	e1	e2	e3	e4	e5	•	•	•
Jazz	pr1	pr2	pr3	pr4	pr5	•	•	•
Top 40	a1	a2	a3	a4	a5	•	•	•
Headlines	headlines							

Financials

“Does Sales support these revenue numbers?”

“Do we have specific customers ready to sign up for this?”

“Do we have a credible source that supports the market potential?”

	2003					2007				
	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD
Revenue	1	6	21	48	88	1,032	1,032	1,032	1,032	1,032
COGS										
Content	\$458	\$1,627	\$3,595	\$6,375	\$10,497	\$39,400	\$82,247	\$133,078		
Delivery	\$95	\$361	\$834	\$1,539	\$2,541	\$28,206	\$65,656	\$114,056		
Other (\$)	(\$79)	(\$1,030)	(\$929)	(\$752)	(\$416)	\$9,848	\$30,351	\$58,361		
Gross Margin	(\$808)	(\$1,363)	(\$1,293)	\$142	\$3,007	\$7,836	\$23,267	\$61,400		\$126,580
Employees	23	28	31	32	39	44	56	71		75
Per Subscriber Revenue						\$5.84	\$5.84	\$5.84		
COGS						\$0.80	\$0.80	\$0.80		
Content						\$0.82	\$0.82	\$0.82		
Delivery						\$0.47	\$0.47	\$0.47		
Other (\$)						\$0.50	\$0.50	\$0.50		
Gross Margin						\$0.96	\$0.96	\$0.96		

“Does Marketing support being able to generate this demand with this budget?”

“Does engineering support this development budget and timeframe?”

“Why do we believe our market position is defensible?”

The BIG Challenge: Quantifying “Soft” Data

Revenue

Variables

Underlying Drivers

How to Get

Price

x

Units sold

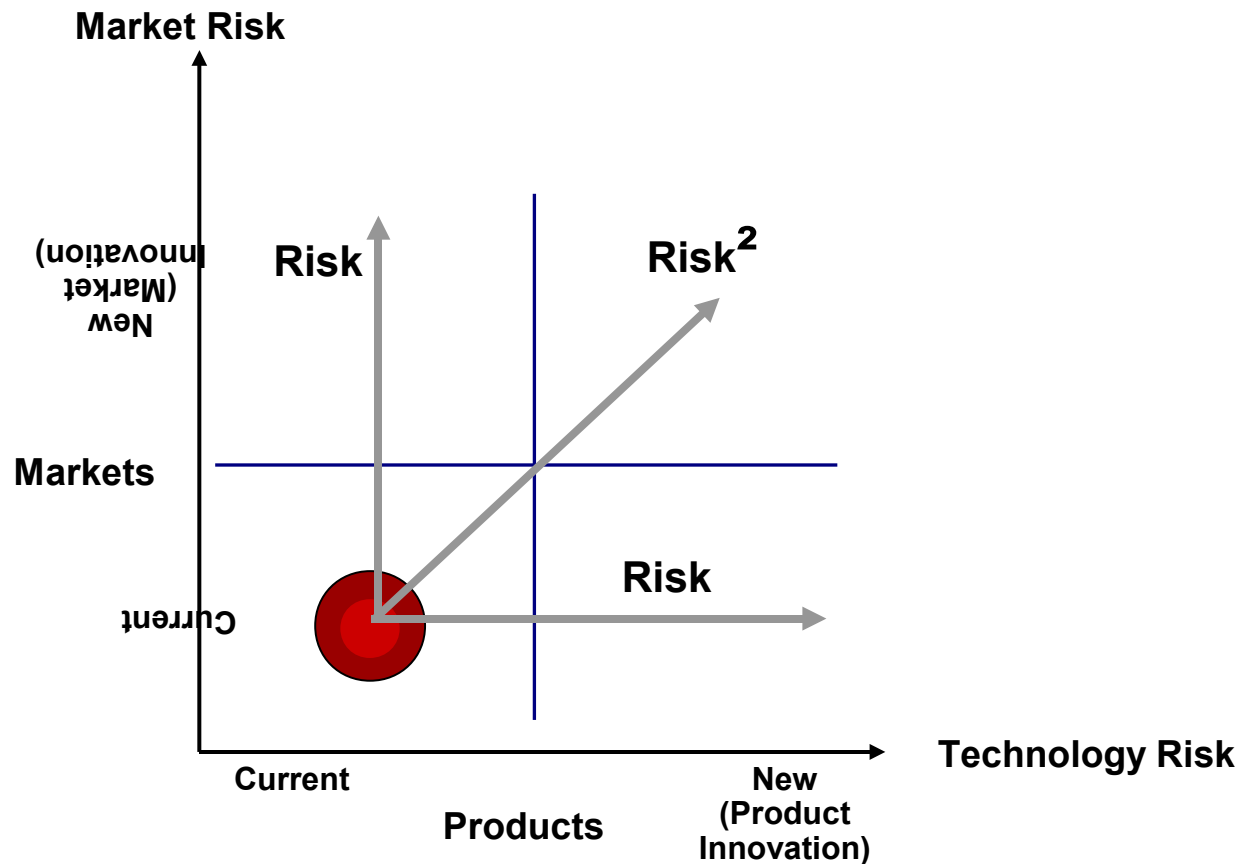
Customer Relative Value
Competition

Voice of the Customer
Competitive Analysis
Work with Sales

Market size, trends,
take rate
Market Spend

Voice of the Customer
Quantitative Studies
Market ROI Analysis

Your Portfolio Goals Determine Risk



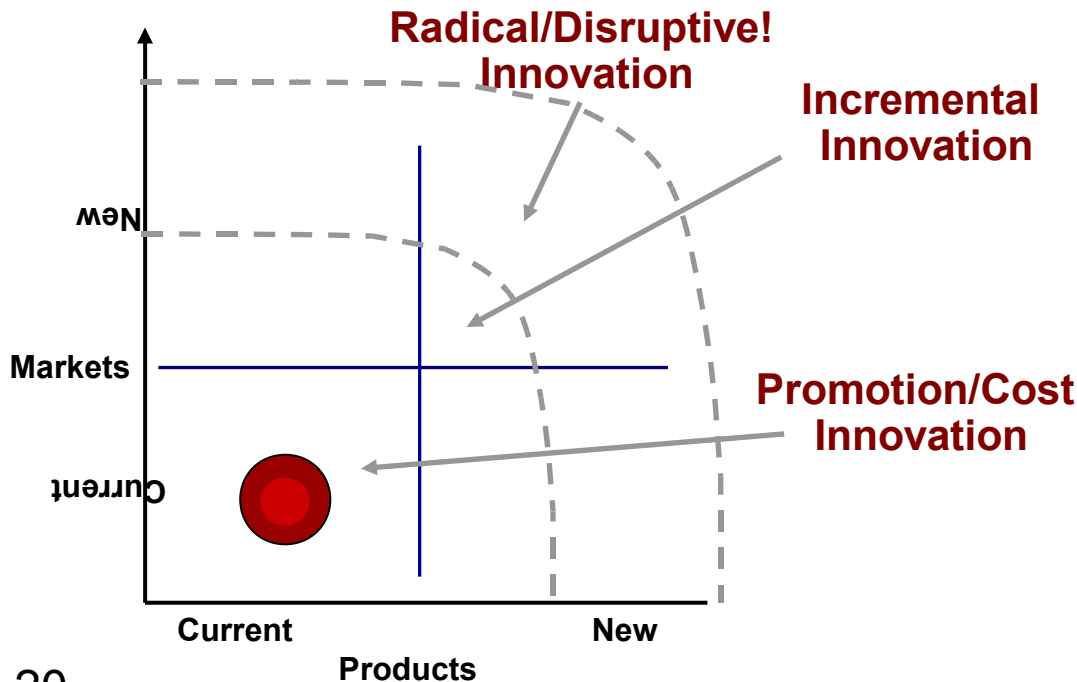
What Is Your *Desired* Portfolio?

Radical Drivers

- New platforms
- New technology
- “Disruptive” elements
- Value changing

Incremental Drivers

- Platform upgrades
- Significant enhancements
- Feature innovation
- Add new technology
- Product line extensions



Growing Share/Margin

- Cost reduction
- Promotion innovation
- Business development
- Distribution innovation
- Business model innovation

The Type of Opportunity Drives Analysis

New Markets



Current

Products

New

“Redeployed resources are a lot easier to say “yes” to than new resources”.

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Calculating Risk

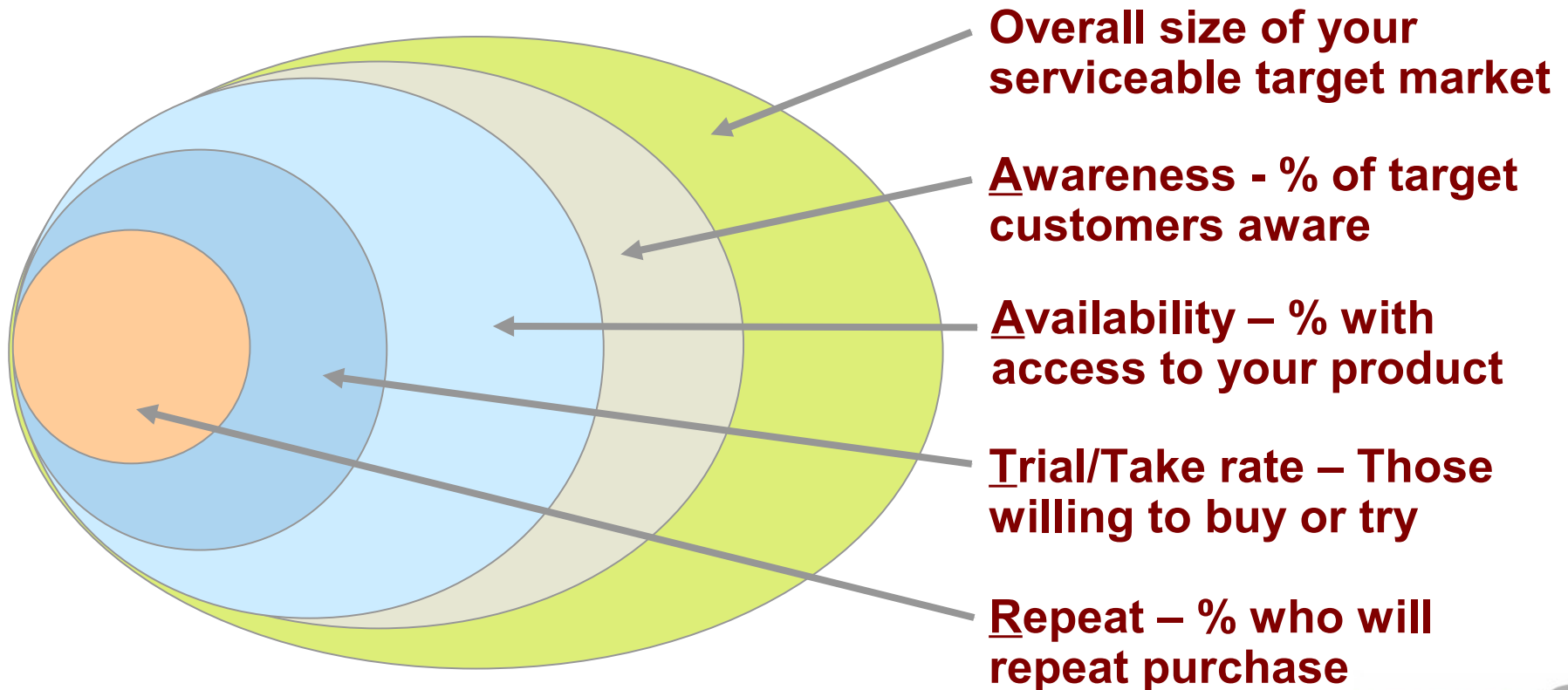
- You can get complicated..
 - Change your “hurdle rate” for IRR = E.g. calculate NPV at 30%
 - Add a “risk” factor for technical or market risk
- Keep it simple or get guidance
 - What are the likely scenarios?
 - What variables are most likely to be wrong? (admit it)

“I want risk understood in two dimensions. These models always overstate revenue and understate expense. Give me second model assuming 50% of the revenue doesn't happen and we overspend by 50%”

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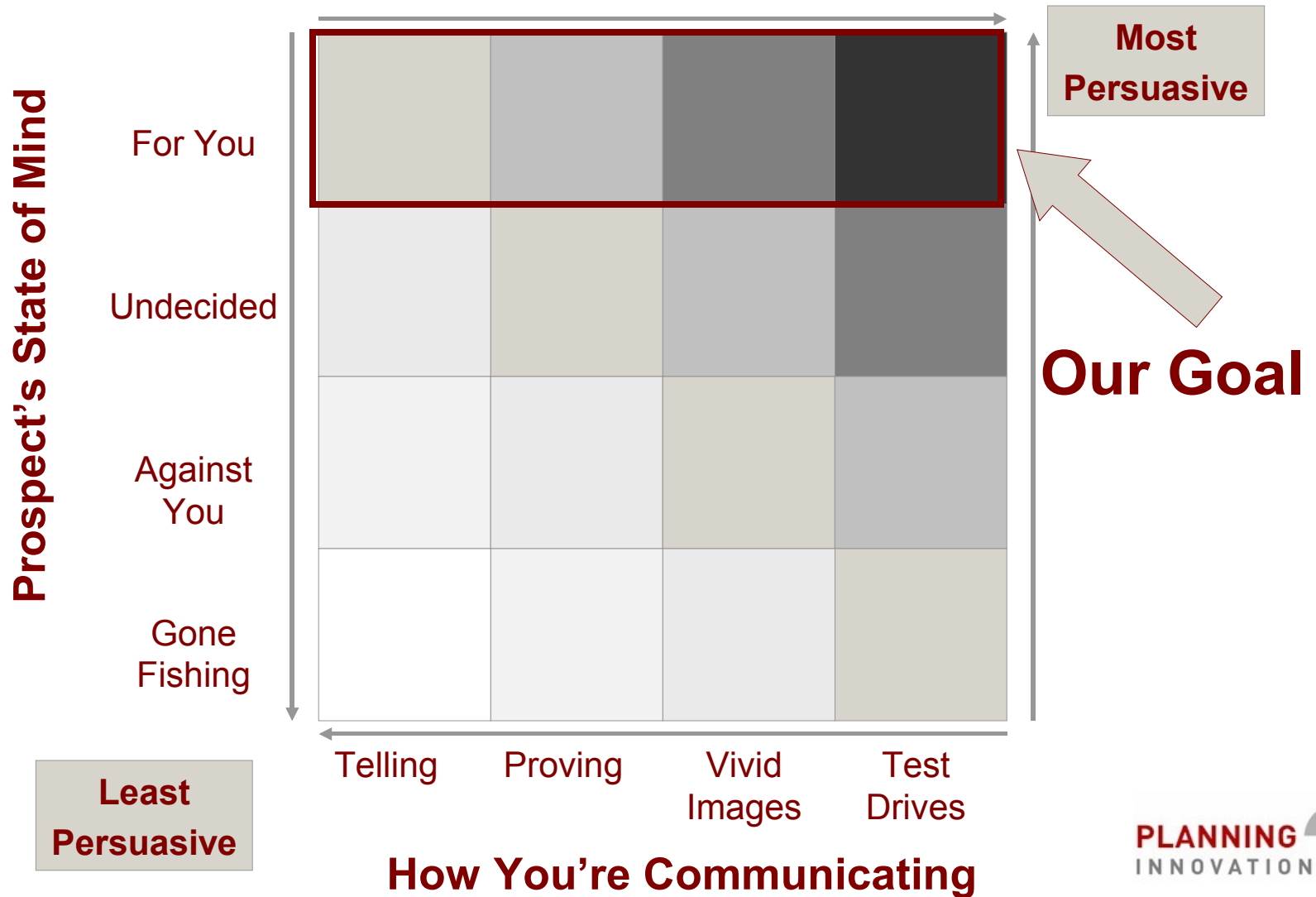
Analysis is needed to get to ROI

Connecting Activity and Sales is Critical



Selling Your Next Business Case

How Are You Communicating?



What Results Are You Seeking?

- **Go!** – fully fund a business case
 - Approve the program, product, or project
- **Kill/abandon** – Remove from consideration
 - Maybe revisit someday, but unlikely
- **Delay Decision** – wait for information or other factors
 - Most common result, wait to get more information
 - Maybe good or bad depending on company goals/culture
- **Partially fund** – keep moving to prototype, test, etc.
 - More companies going this route to keep “Options” open
 - Good option to learn more

Top 5 Business Case Pitfalls

1. You have a market, but no customers! (or vice versa)
2. It just doesn't fit where the company is going
3. No internal support or understanding the impact on others in the org
4. A weak, inconsistent, or incomplete story
5. No conviction.

“I want someone's butt on the line if the initiative fails. Someone that will stand up, deliver, and be held accountable.”

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The 30-Second Business Case

1. What is it (in customer terms)?
1. What's the value?
1. Can you do it?
1. Should you do it?

I just explored _____
that will do _____ for
our (future) customers and
will provide
_____ for us.
We can do this by
_____.
We should do this because
_____.

A Good Resource

Business Case Primer (it's free)

www.impactonthenet.com/bcprimer.html

Thank You!

