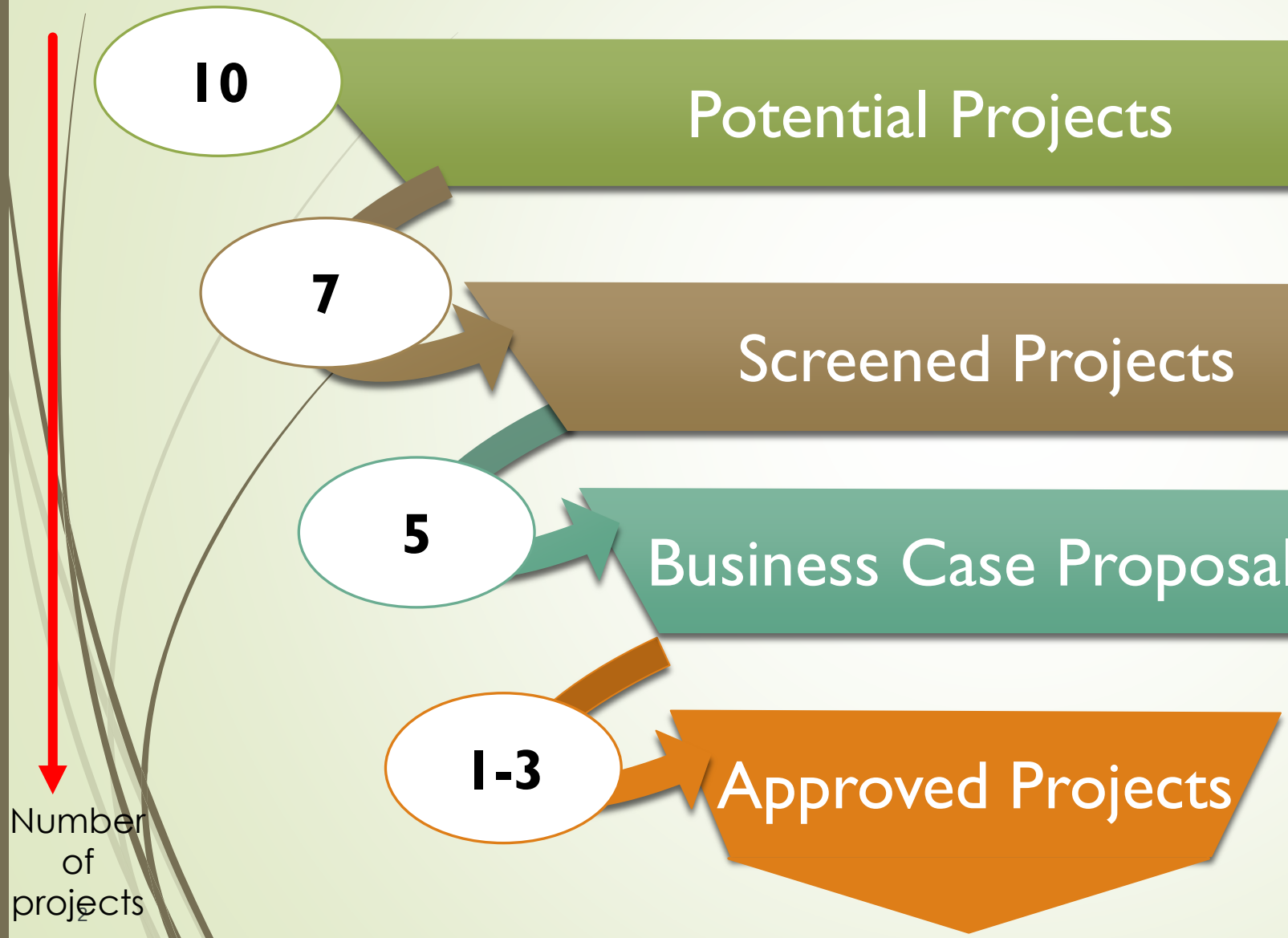
Building a Business Case

Using Forecasting and Financial Analysis

Business Case Investment Funnel Concept



Project register reviewed at a Business unit level for strategic fit, risk, costs and impacts.

BCR and ROI calculated at Business unit level.

Capital budgets calculated and a business case developed for viable projects.

Proposals reviewed by an investment committee; approved projects budgeted for investment.

Overall Process

1. **Identify the Case for Change** – Potential projects register
2. **Prioritise options** – Initial project screening (BCR & ROI)
3. **Evaluate preferred options** – Capital budgeting analysis
4. **Develop a Business Case** - Favorable projects developed
5. **Pitch to gain approval** – Favorable projects reviewed

Step One: The Case for Change

WHAT IS THE OPPORTUNITY OR PROBLEM ?

WHAT IS THE URGENCY?

WHAT ARE THE POTENTIAL COST AND IMPACTS FOR THE COMPANY?

Projects Register

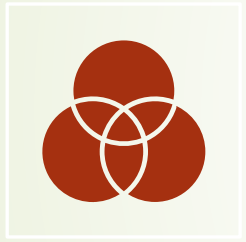
- Identify innovation projects that solve a serious problem or align to your business strategy, e.g., you need more automation in processing.
- Consider the options i.e., Semi automated vs. fully automated carcass splitter.
- Identify the most feasible option for detailed review i.e., Fully automated carcass splitter.

The register should include:

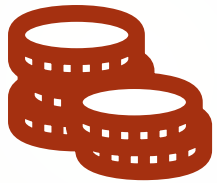
- Project title and description and the case for change,
- An estimation of the impact vs. cost.
- The recommended solution, including indicative costs and benefits over the life of the project.

Project title and description	Case for Change	Impact/ cost	Recommended Solution (Project over 6 years)	Costs ($)	Benefits ($)
1. 3D carcase splitter – Primary processing efficiency improvement	1. Improve yield, speed and accuracy of carcase fabrication	medium Impact / Low-cost	Implement and maintain a fully automated 3D carcase splitter	$1.1M	$1.5M
2. ….					
10.					

Step Two: Prioritise Options



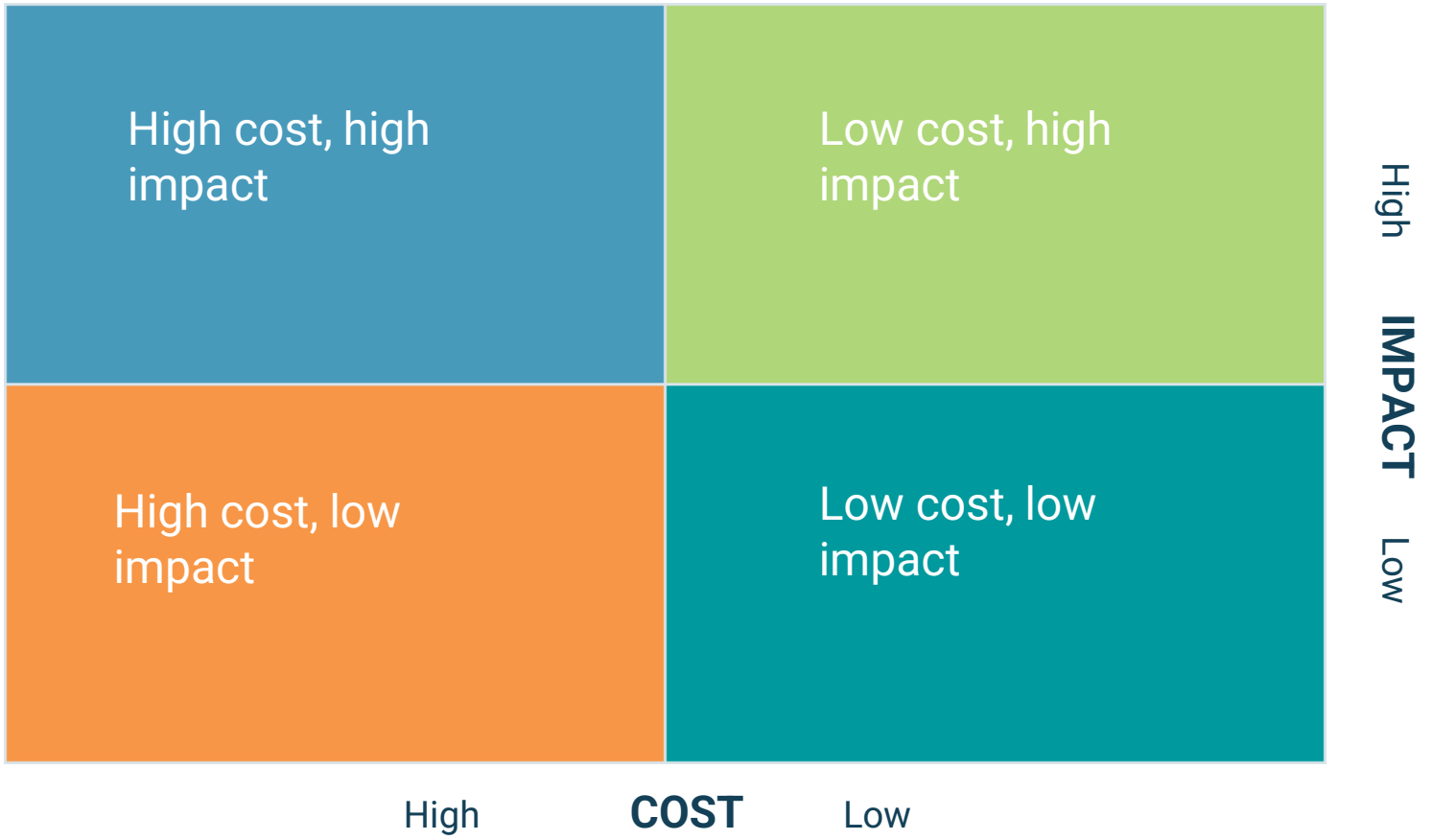
Review the options?



What are the relative costs?

What are the comparative impacts and benefits?

Quick Evaluation Grid



Step Three: Evaluate Favorable Options

How will the option deliver business objectives?

- strategic
- financial
- societal

How much will they cost up front and on a yearly basis?

How much will they generate each year?

What is the life of the project ?

Business Case Dimensions

Business case dimensions	The key question	The impact	The rationale
Strategic case	Is it needed now?	Does it align to our strategy?	What is the impact of not doing it?
Economic case	Does it create value for money?	Are there alternatives with the same impact?	What are the costs vs. benefits?
Commercial case	Is it viable?	Have we got access to a supply chain and / or partners?	What are the risks?
Financial case	Is it affordable?	What is the return on investment?	How will it improve our profitability?
Management case	Is it achievable?	Are we capable of delivering?	What are the impacts on systems and processes?

Capital Budgeting Methods

Benefit/Cost Ratio (BCR)	Return on Investment (ROI)	Payback Period (PbP)	Net present value (NPV)	Internal Rate of Return (IRR)

Co-innovation managers

Finance specialists

Capital Budgeting Steps

1. Review the short list options in you Business Unit and rank in priority based on urgency, risk, and indicative impact and return.

2. Collate cost and benefit data by year for the life of the project.

3. Complete simple BCR and ROI calculations to review short listed projects. Select a subset for capital budgeting based on BCR & ROI.

4. Assist your finance team with data to conduct capital budgeting for selected projects. Review the results and develop a business case for the most promising or critical projects.

Data for Capital Budgeting

Sum the cost of the new project during the period

- **Direct costs**: expenses directly related to the project i.e., labour, capital, materials and inventory.
- **Indirect costs**: Fixed expenses, such as utilities and rent.
- **Intangible costs**: Current and future costs that are difficult to measure and quantify e.g., decreases in productivity while an innovation is rolled out.
- **Opportunity costs**: Lost benefits or opportunities from pursing one strategy over another.

Estimate the benefits for the life of the new project

- Help your finance team predict how much additional cash will come into your business over a set time (i.e., annually) as a result of the investment.
- Take this away from the cash inflows to estimate net or free cash flow.
- Estimated Net Cash Flow = Estimated Income – Estimated Expenses

Book value and salvage value of the assets

- In some instances, there is an asset salvage value at the end of the project. If you can estimate this value, it should be included in capital budgeting.

Benefit Cost Ratio (BCR)

It involves:	Benefits:	Drawbacks:
• Comparing the projected or estimated costs with the benefits (or opportunities) associated with a project over a given timeframe to determine if it makes good business sense.	• A data-driven approach. • Can be a useful screen for potential investment decisions. • Helps uncover hidden costs and benefits.	• Difficult to predict all variables • Incorrect data can skew results. • Suited to short and mid-length projects (doesn't take into consideration the time value of money or enterprise hurdle rate).

Process for Calculating BCR

Add up costs

Direct : expenses directly related to the project i.e., Labour, capital, materials and inventory.

Indirect: fixed expenses, such as utilities and rent.

Intangible: Current and future costs that are difficult to measure and quantify e.g., decreases in productivity levels while a new business process is rolled out.

Opportunity: lost benefits from pursuing one strategy over another.

Add up benefits

Direct: Increased revenue and sales generated from the innovation.

Indirect: Increased competitive position for your business.

Intangible: Improved efficiency or savings.

Competitive: Being a first or early mover within industry.

Calculate based on current value and costs

The formula is;

Benefit-Cost Ratio = Sum of Expected Benefits / Sum of Expected Costs

Return on Investment (ROI)

It means:

- How much profit should be generated from an investment in a given timeframe expressed as a percentage.

Benefits:

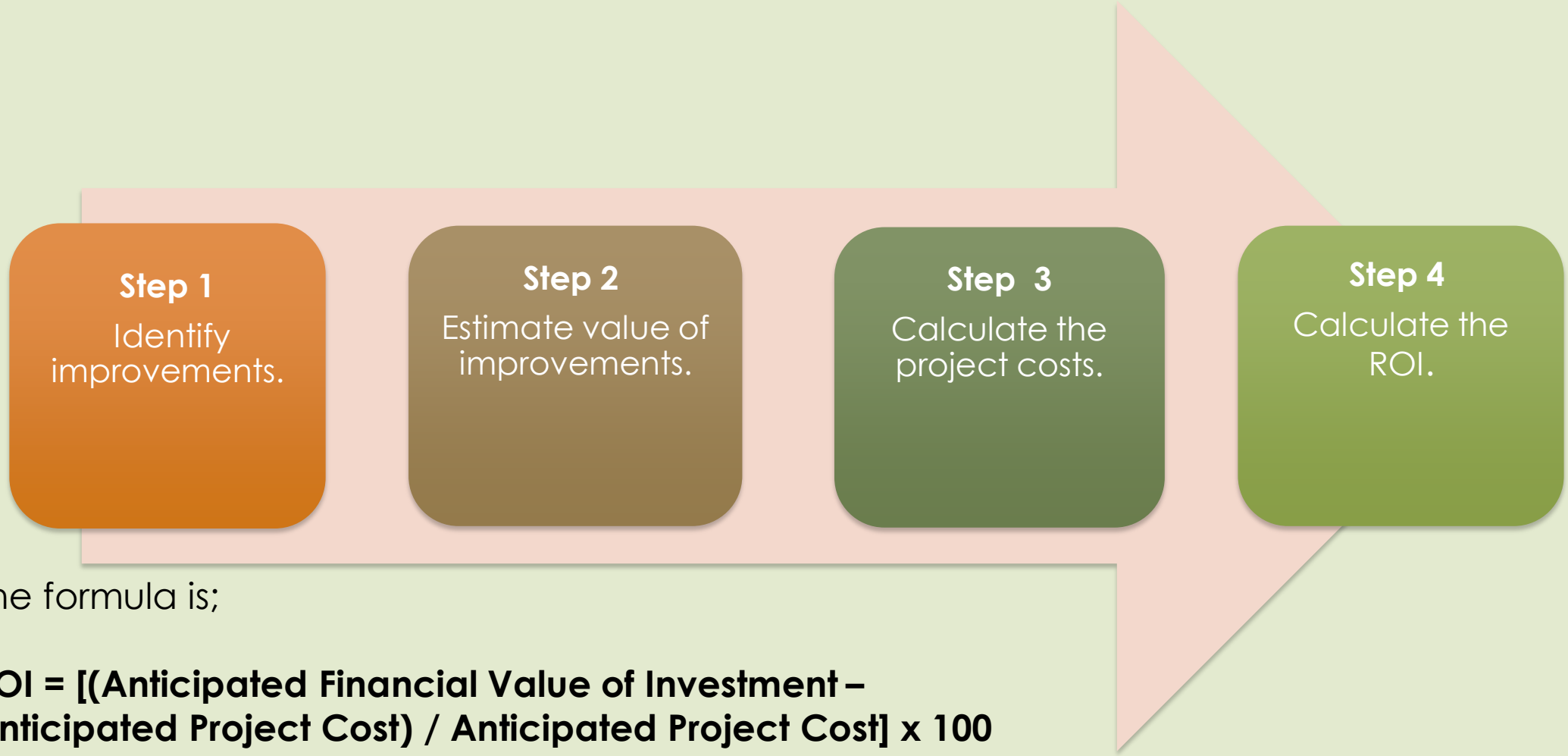
- Easy estimate of a project's profitability.
- Useful to compare different investment options.

Drawbacks:

- Ignores the time value of money.
- Only estimates the financial return of a project, it doesn't account for the non-financial benefits of an investment.

Process for Calculating ROI

ROI compares expected monetary benefits to the costs of the project.



The formula is;

ROI = [(Anticipated Financial Value of Investment – Anticipated Project Cost) / Anticipated Project Cost] x 100

Payback Period (PbP)

It means:	Benefits:	Drawbacks:
• Time required for cashflows generated to repay investment. • A 3 years maximum is generally accepted in our industry.	• Simple. • Highlights size and number of cash flows generated. • Good for uncomplicated projects with short payback periods.	• Doesn't take into account the time/value of money. • Doesn't account for risk. • Does not consider cash flow payments beyond payback period.

Net Present Value (NPV)

It means:

- The dollar amount by which the present value of the cash inflows exceeds the present value of the cash outflows over the life of the project.
- Discount future cash flows back to present value for the life of the investment.
- A positive NPV indicates an investment is likely to generate a positive return.

Benefits:

- Accounts for time/value of money.
- Accounts for the cost of capital (borrowing money) to finance the project or the rate of return the company can receive from an alternative investment and / or a hurdle rate – the return required by the company to make the investment.

Drawbacks:

- Difficult to do, this is a finance function.
- Choosing the proper discount rate.
- Limited value for comparing investments of different sizes over different timeframes.

Internal Rate of Return (IRR)

It means:

- Provides a present value return from the investment as a percentage not a dollar value.
- The IRR is the annual % return or growth rate that makes the NPV equal to zero.

Benefits:

- IRR is uniform measure for investments of varying types allowing you to compare different projects.

Drawbacks:

- If the trailing cash flows fluctuate between positive and negative it will provide misleading results.
- Assumes that cash flows during the analysis period will be reinvested at the Internal Rate of Return.

Step Four: Develop a Business Case

- Link to strategy
- The problem
  The solution
  The approach
- Management and capability
- Measures of success
- Risks and dependencies
- Milestones and timeframes

Business Case on a Page Template

People	Customers and Communities	Livestock	Environment	Markets	Systems	Capability building

Sponsor	Lead	Key contributors

Case for Change	
Objectives	
Approach	
Resources Required	

#	Key Milestones	Start Date	End Date
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

#	Measures of Success	Target Date
1		
2		
3		

#	Key Dependencies or Risks	Type
1		Dependency
2		Risk
3		Risk

Budget	Capital Budgeting Summary	% of BU Budget

Step Five: Pitch to Gain Approval

How does it align to our strategy?

What are the risks and benefits?

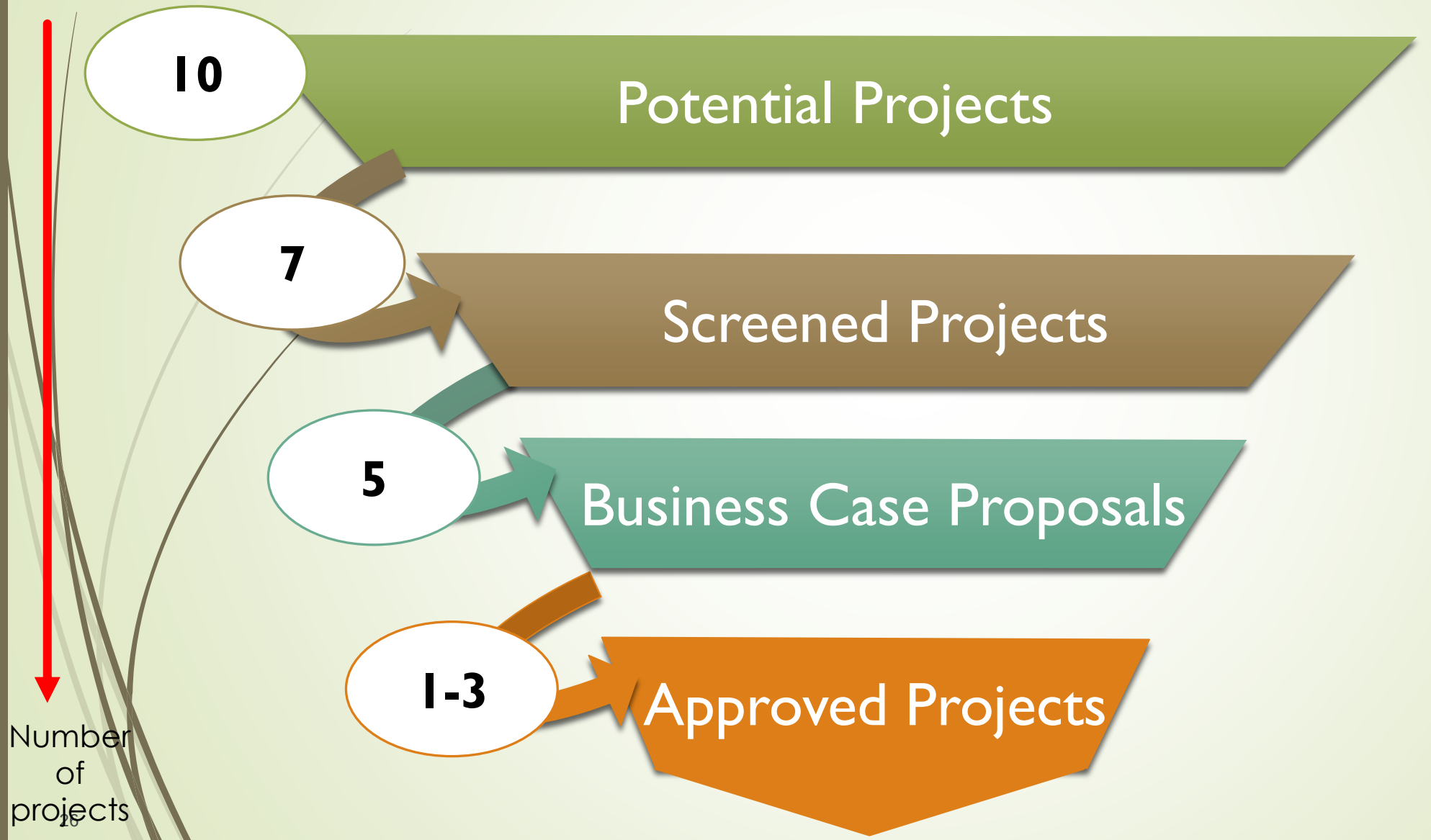
What is the cost of doing nothing?

What are the impacts for business?

- Financial
- Societal
- Environmental
- Operational

How will we manage it?

Business Case Investment Funnel Concept



Project register reviewed at a Business unit level for strategic fit, risk, costs and impacts.

BCR and ROI calculated at Business unit level.

Capital budgets calculated and a business case developed for viable projects

Proposals reviewed by an investment committee; approved projects budgeted for investment.