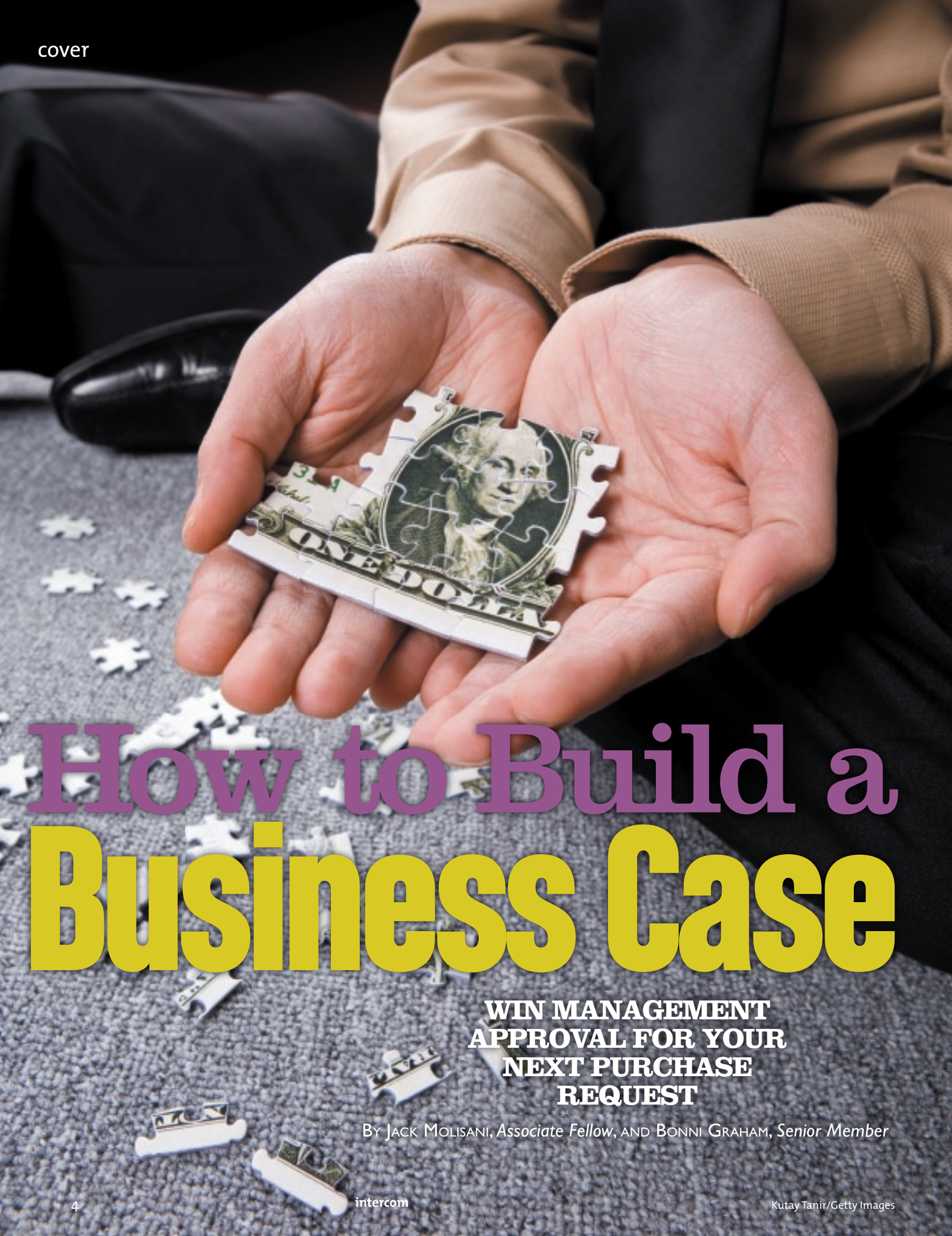

How to Build a Business Case

WIN MANAGEMENT APPROVAL FOR YOUR NEXT PURCHASE REQUEST

By Jack Molisani, *Associate Fellow*, and Bonni Graham, *Senior Member*

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If you've ever had a purchase request denied, it may have lacked one or more key elements that management evaluates when allocating corporate funds. In this article, we will address how to build a business case for spending your company's money, whether you want to buy something big, something small, or to justify a better raise come annual review time.

Corporations and municipalities can spend years building business cases for major construction projects, and universities dedicate whole classes to the subject in their MBA programs. Our intent is not to give an exhaustive treatise on how to build a business case, but to offer information that may increase your chance of getting your next purchase request approved.

The Basics

As owners of technical writing companies, we have observed that many of our employees over the years didn't appreciate how they affected (positively or negatively) the company's cash flow. Later, when we started facilitating workshops on how to build business cases, we discovered the problem also existed with corporate employees—especially those in large organizations where what they did (technical writing) was not closely associated with any particular product the company sold. The problem was even worse with government employees, as none of their organizations offered a product or service that was sold to customers—money just magically appeared in the budget thanks to the kindness and generosity of taxpayers.

The key concepts for building a business case are *direct versus indirect costs* and *profit versus cost centers*. For readers who have little experience with the bottom-line language of business, the sidebars on pages six and seven contain introductions to these concepts.

While many departments are clearly cost centers or profit centers, some gray areas exist. These areas can be cost centers or profit centers, depending on how much revenue they generate or (unfortunately) how management perceives them.

Management is concerned with decreasing costs and increasing revenue, so state the problem in those terms.

For example, some companies charge customers for tech support. If the total revenue generated from these charges covers the costs of the support team and infrastructure, tech support is a profit center. If it doesn't, tech support is a cost center.

Technical documentation is also a gray area. If a company considers documentation an integral part of the development team (and therefore a profit center), the department will be well staffed and well funded. But many companies liken documentation to boxes and bubble wrap—commodities to be acquired at the lowest acceptable quality for the lowest possible price (that is, cost centers).

Profit centers have an easier time getting purchases approved than cost centers. The issue of how management views technical communication and how to change that perception, although beyond the scope of this article, is at the very core of the drive to advance our profession. For suggestions on how to improve management's view of technical communication, see Jack Molisani's articles "Advance Your Career Using Public Relations" (*Intercom*, July/August 1999) and "Expanding Your Sphere of Influence" (*Intercom*, June 2005), or Bonni Graham's presentation "Proving Our Worth" at ***www.manuallabour.com/symposia.htm***.

Types of Expenditures

Technical communicators looking to have a purchase request approved need to understand the reasons why companies spend money. Generally, company expenses are intended either to save money or to make money.

Spending money to save money is also known as *cost avoidance* (CA). Replacing incandescent light bulbs with energy-saving fluorescent bulbs, even though they cost more, should yield enough savings over time through lower energy bills to justify the purchase. Purchasing and implementing a content management system to help reduce future translation costs is another example of CA.

An organization spends money to make money when it invests in some project with the anticipation that the project will generate more money than it costs. An example would be launching a new product line, as Apple Computer did when it launched the iPod MP3 player and again with the iPhone cell phone. Another example would be a printing company purchasing a digital color printer so it can sell color printing in addition to the black-and-white printing it currently sells.

Return on Investment

The amount of money that is anticipated to be generated as the direct result of an expenditure is known as the *return on investment* (ROI). When speaking of the ROI on a CA expenditure, one states how long it will take to recoup the initial expenditure. In the light bulb example, energy-efficient bulbs might cost $7 dollars each. If they use $0.50 less energy a month, the bulbs pay for themselves in fourteen months. When speaking of ROI on a new investment expenditure, one also states how long it will take to recoup the initial investment—and then some.

The time needed to recoup the initial expenditure can be as short as months or long as decades. For example, it may take years for FedEx to recoup the $2.4 billion it paid for Kinko's. At the other

end of the spectrum, a client in California localized its documentation into so many languages that it reported recouping the entire cost of purchasing the Author*it* content management software (through reduced translation costs) in just one product release.

Structure of a Business Case

A business case is a verbal or written proposal that does the following:

- States a problem
- Describes a solution
- States how much it will cost to implement the solution
- States the ROI that could be realized if the solution is implemented

A business case contains several elements. Experts disagree about the order of these elements, but every template we have seen includes at least the following segments:

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

Let's look at each of these in detail.

Executive Summary

The summary functions as an abstract. It entices the reader, usually an executive, to read (or at least skim) the rest of the document. It should include one or two key sentences from each subsequent section.

Although the executive summary is the first section of a business case, it should be the last section created. If you write it first, you may be tempted to include details that belong in subsequent sections.

Current Situation

This section describes the problem and explains why it is problematic. Be clear and succinct. Don't sound whiny, and avoid scare tactics: simply explain exactly what the current costs and issues are. Also discuss the future risks (increased costs, potential lawsuits, etc.) if the situation doesn't change.

Don't assume that management can see the "pain" of this problem as clearly as you can.

Remember, management is concerned with decreasing costs and increasing revenue, so state the problem in those terms. For example, the problem is not "we need a content management system," the problem is "we are spending more than we need to on translation costs." State how the situation is a problem for the company, not just for the technical communication department.

A good tip is to explain how the current situation affects the corporate mission statement. Management already really likes those words, so use them in the business case. Also, don't assume that management can see the "pain" of this problem as clearly as you can. Management is looking at different things, and those things may be obscuring the issues the current situation raises.

Proposal

The proposal section is where you unveil the Grand Idea. The previous section has foreshadowed it and established that the company is experiencing pain. Now is the time to explain how to make that pain go away.

This section includes clear, specific details about the following:

- What is being proposed?
- How does it solve the problem?
- How much, if anything, does it cost? Include the "hidden" costs of labor here—this will show management that you are looking after the big picture.
- What new income can be predicted from this initiative, and when will it pay off the costs? Alternatively, what costs can be reduced or eliminated as a result of this initiative?

Cost Center vs. Profit Center

Management is concerned with two things: increasing revenues and decreasing costs (both direct and indirect), which should result in more profit. Furthermore, management tends to view the world in black and white. In this context, technical communicators are considered either a profit center or a cost center.

A *profit center* is part of a company that generates more revenue than it takes to operate. For example, a sales team that generates $1 million a year in sales but only costs the company $100,000 a year is clearly a profit center. If it costs $5 per unit to manufacture a birdhouse (taking into consideration all the direct and indirect costs) and the company sells those birdhouses for $10 each, the manufacturing and sales teams would also be a profit center. Another example would be a consulting division that charges its customers $250 per hour for its services when they cost the company an average of $108 per hour per consultant. In all three examples, the areas cited are directly involved in creating more income *for* the company than they require *from* the company.

A *cost center* is part of a company that generates less revenue (if any) than it takes to operate. The janitorial staff would be considered a cost center. To return to our birdhouse example, the receptionist at the corporate office would be a cost center since that person is not part of a profit-generating team. One could argue that the receptionist is an indirect cost for both the manufacturing and sales teams and therefore should be considered part of those profit centers, but the point is that cost centers cost more money than they generate because they are not *directly* involved in revenue generation.

Address both the opportunities and the risks of this solution. If necessary, perform a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis before writing this section. SWOT analysis is a common business analysis tool; for more information, search the Internet.

Anticipate any objections management (or anyone else) might have to the plan and preempt them. Either counter them with information about how they won't be a factor, or explain how the benefits outweigh the objections.

Financial Proof

Using charts and graphs, explain the following:

- How the ROI is calculated or the factors included and compared in the CA
- The sources for those numbers (did they come from historic company data, an external source, or someplace else?)

Use the company's historical data if possible. Make friends with the finance group in order to access the data. If no data are available, use industry standard numbers. These are almost always available through any associations for your industry; for example, the Consumer Electronics Association has a lot of data about the consumer electronics industry (DVD players, iPods, toasters, and the like). If there are no associations, the Bureau of Labor Statistics, the Securities and Exchange Commission, or similar government agencies usually have at least some industry data.

Keep it simple: use charts and graphs rather than the raw spreadsheet data. Provide full details in the supporting materials.

Conclusion

This section summarizes the problem and the solution, referring back to points made in the body of the document. The conclusion states that spending $X will generate $Y in cost savings or new revenue. It reinforces that this is an urgent (or at least important) problem and that you know the answer. It ends with a call to action: adopt your proposal.

Direct Costs vs. Indirect Costs

The first thing to keep in mind when building a business case is that it costs money to make a product or deliver a service. For the purposes of this article, we divide costs into two classifications:

- Direct costs (materials, labor, etc.), also known as *variable costs* or *cost of goods sold* (COGS)
- Indirect costs (facilities, insurance, etc.), also known as *fixed costs*, *overhead*, or *general and administrative* (G&A)

The direct costs for a company that manufactures birdhouses include the cost of the wood and nails from which the birdhouses are built and the hourly wage for someone to build them. These costs are directly measurable for each unit produced—that is, the company knows how much wood and worker's time is needed to build each birdhouse. The total amount spent on direct costs depends on how many birdhouses are made.

Indirect costs are those a company incurs that are *not* tied to each unit produced—liability insurance, rent on the office space, electricity, phones, etc. The company must pay these bills every month to stay in business, so it must sell enough units to cover both direct and indirect costs. The number of units sold affects perception of costs. For example, a $1,000 heating bill might seem reasonable for a company that produces 4,000 birdhouses a week, but prohibitively expensive for one that produces only four.

Obviously, companies want to generate more money in sales than it costs to produce their product or service. Increasing the per-unit sales price to cover these costs is one option, but at some point the price will become greater than the market will bear. The complex subjects of cost control and product pricing are far outside the scope of this article, but for now simply realize that the more effectively you manage direct and indirect costs in relation to income, the more money you will have left over as profit.

Supporting Materials

This section functions as an appendix. List supporting details such as references and sources, raw data (if necessary), and more detailed financials.

A Last Thought

Writing a business case may seem daunting at first, but it gets easier with practice. After all, business cases are just documents, like any other document a technical communicator creates.

Technical communicators who demonstrate that they understand and share management's concerns (how to decrease costs and increase revenue) prove that they are company-focused, forward-thinking, and, ultimately, less expendable in tough times. And, of course, they stand a better chance of getting their purchase request approved.

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