



TenStep Supplemental Paper

6 February 2004

Use a Business Case to Select and Prioritize Projects

The managers in your company have a lot of work they would like to get done over the next year. This work is typically surfaced during the annual budgeting process. Usually, however, there are many more projects proposed than your company has the ability to fund. Even if your company has the money, they won't have the people to do all of the work.

So, every company also has some kind of process that they use to select and prioritize the project work for the coming year. The work that is prioritized the highest is usually funded until there is no more money left. The projects that are rated lower in priority are cancelled or postponed.

This process of selection, prioritization and authorization can be part of a portfolio management process, or it could be just a part of your overall company yearly planning cycle. If your company managers are lucky, the process is stable and changes little from year to year. However, some companies like to reinvent the planning and budgeting process every year just so that it drags out twice as long as it needs to.

Larger companies need more structure in the project approval process

The planning process for small companies and small organizations is usually looser and more informal. However, as companies get larger and larger, it is vital that more structure and rigor be brought into the process. When it comes time to identify projects, for instance, a small company might just list the proposed work on a whiteboard in a meeting with all other company managers. However, that is not going to work for a large organization with thousands of people and hundreds of projects. Those companies will want a common template for defining the purpose and value of a project. Each project is going to need a Business Case.

The term "Business Case" is used to refer to the document that defines each project and lays out the high-level objectives, deliverables, estimated cost and effort, scope, etc. (Your organization may have a different term for a similar document.) This is not the same as a Project Definition. The Business Case is completed during the planning process. The Project Definition is much more detailed and is completed before a project is ready to begin.

Look at what a Business Case contains

It is important that all of the company managers understand how to complete the Business Case for each project so that the business value of the project is understood by the reader and the project can be accurately compared with others. Each Business Case contains the following information.

Name and description of the project. A brief description of what is being proposed. Keep this to a couple paragraphs maximum, but also make sure that it provides enough information so that others can understand the work.



TenStep Supplemental Paper

Category scheme. You may need to categorize the work into buckets that are of interest to your company. For instance, you might specify whether the project is internally focused or externally focused, whether it is high-risk or low-risk, or whether the project supports the current business or helps grow new business. All of these categories are specific to your company.

Assumptions. List the circumstances or events that must occur for the project to be successful.

Risks. List the external circumstances or events that would be a major impediment to the success of the project. Risks have a probability of occurring, but they are not guaranteed to occur. You need to list the major risks of the project, as well as some high-level thoughts about how you would respond to these risks. .

Estimated business benefit. The business benefits of the work must be defined fairly precisely. You must try to determine tangible and intangible benefits in terms of process improvements, new products or markets, increased revenue, cost reduction, increased customer satisfaction, etc. If the work involves infrastructure or increased internal capability, the business benefit may be indirect. In all cases, try to quantify as much of the business benefit as possible.

Estimated cost. Provide a more detailed and accurate estimate of the cost. Your organization may set a standard for the level of accuracy required. It is not reasonable, for instance, to always be able to create an estimate that will be within +/- 10%. You don't have all the details you need, and the project start date (if authorized) may be many months away. However, you should try to be as accurate as possible within a range of perhaps -10% to +35%.

Financial model. Your company should use one or more standard financial model that can be used to compare projects (ROI, EVA, etc.). This common financial model can be applied to all projects so that they can be compared. You may have more than one financial model, but they should be consistent on all Business Cases.

Alignment. Validate the alignment by specifying how this work contributes and aligns to your organization goals, objectives and strategy. Alignment is very important, so be as descriptive as possible in describing how this work aligns. Your organization may want to come up with some type of common rating scheme for alignment to help compare projects.

Is the work required? Specify whether you feel this work is required. For instance, work may be required for legal or regulatory reasons, even if it is not aligned and does not have business benefit.

Urgency / consequence of not performing this year. Describe what the consequences are of not performing the work. On many projects, this is just as important to know as the business benefit and alignment. Some work is very valuable to the organization, but it is not urgent. Based on priorities and available funding, some very beneficial and aligned work may need to be postponed to a future year if the urgency is not there now.



TenStep Supplemental Paper

You can see that a Business Case takes some time and effort to prepare. So, you would not want to create one for a project that is only 100 hours of effort. However, assuming your company sets a reasonable threshold of effort, the Business Case should be prepared for all projects over that level.

Summary

Every company has some process to identify projects that are candidates for funding. They also must have a way to compare projects on an apples-to-apples basis so that they can determine which ones are more valuable than others. A Business Case document provides this level of information. It is much easier and quicker than having to do a formal Project Definition, yet it contains enough information so that your management team can make intelligent decisions. Management readers should think about how you compare projects today and whether you are getting the right information you need to make the right decisions. If you are not, try utilizing a Business Case as described above to get you the information you need to make the right funding decisions for your company.