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Developing a Business Case

There has been a lot written recently about business cases. Much of the discussion has been driven by a HBR article and a book by Osterwalder and Pigneur. [1] Unfortunately, if unrestrained, those interested in business cases are likely to go off and create yet one more new area of specialization rather than focusing on providing a Business Case analysis approach that BPM practitioners can use.

This idea was underlined recently when I was reading *Run, Grow, Transform: Integrating Business and Lean IT*, which was edited by Steven Bell. In an opening chapter, Bell describes a consulting engagement with PACCAR (a truck manufacturer) that was concerned with how the company could transform its product line and create a value proposition that was powerful enough to convince companies to invest in the next generation of trucks in the midst of a recession. The solution was to incorporate GPS navigation interfaced with Google Maps and software to create a fleet management application that reported important data back to corporate management. In essence, PACCAR introduced "smart trucks" (Steve Jobs would have called them iTrucks.) and sold the value add of superior monitoring and management control.

When I think of a business case, I recall working with a venture capitalist, who would sit down with a team of entrepreneurs and say, in effect: OK, how are you going to make money? As he said this, he would whip out his PC and open up an excel spreadsheet and wait for them to describe their "business case." I always thought of it as a simple combination of a business process and a cash flow model; something like the one in Figure 1.

	Steps to Create Product			
	Step 1	Step 2	Step 3	Step 4
Cost to Produce Product		The Process (Value Chain)		
What Customers will Pay for Product				
Profit We Will Make (ROI)				

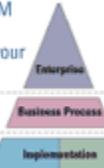
Figure 1. Simple Process/Spreadsheet Model of Business

From my perspective, the essence of a business case was either the specific product or service, or it was the process used to create the product/service. I always assumed that the guys were proposing to take some inputs, use some technology, and produce an output that the customers would pay for. Moreover, it was assumed that the product or service would attract enough customers who were willing to pay enough that there would be a reasonable profit after one subtracted the costs of developing, producing, marketing and selling the product or service. Either the product/service had to be new and unique, or the process by which it was created had to be particularly effective and efficient. For my



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part, I always wanted to have the entrepreneurs describe the customer value proposition—what problem or need would the product or service solve for the customer? And how was the need being solved now—which is to say: Who were the competitors?

The way I used to approach it was to ask the guys to write a sentence or two that would describe how they were going to create a product or service that would be valuable to a specified group of customers. And, I'd want them to tell me what problem the product or service would solve for those customers. For example:

We are going to manufacture trucks that use GPS to identify a truck's location and provide real time updates regarding the truck's location.

This capability would save the trucking companies money by allowing them to more efficiently plan and route their trucks in response to new orders and changing circumstances.

Once I had a clear statement, like the one above, then I wanted to know why another company, with just as much or more money, couldn't do the same thing. In other words, I wanted to know what was unique about the business model, or at least how it could be defended against competitors. Sometimes the only defense was that they had the idea and could do it before the competition would even think of it. So their advantage was that they could bring a new product to market and make money until their competitors caught up. Sometimes that was enough, and sometimes it wasn't. (It was enough if the new company could make a big profit in a short period of time and generate a high ROI. It wasn't enough if the startup costs were high and a high ROI couldn't be realized before the competition could move in and gain significant market share)

So, in a nutshell, when I think of a useful business model I think of a spreadsheet that describes the costs of bringing the product or service to market, the projected income that would accrue from sales, and the likely profits or the return on the investment. And I think of a simple statement of the nature of the product or service, or of what's unique about the way the company will generate the product or service, and what problem or need the product or service will solve for a group of customers.

Things can get a lot more complex. We can start to talk about unique sources of supply, or secret formulas, or individuals with special knowledge or skills. But all these are just refinements. The basic questions are who will want to buy it and how can you make it better than anyone else while also generating a good return on the investment required.

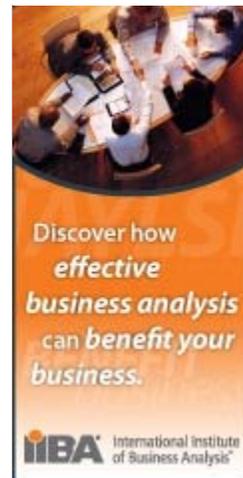
Anyone who is thinking of creating a new process or redesigning an established value chain ought to be able to answer these questions.

Until next time,

Paul Harmon

Notes

[1] Osterwalder, Alexander and Yves Pigneur. *Business Model Generation*. (Wiley, 2010).



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