Business Case Development / Discovery Phase
Agenda

- What is a business case and why is it needed?
- Approach to creating a business case (including Discovery)
- Lessons learned
What is a business case?

• Provides the rationale to make (or not make) a change to current business practices
• It identifies the costs related to making the change
• Identifies the operational impacts, potential risks in making the change, the likelihood of those risks and how to mitigate
• Captures assumptions related to making those changes
• A business case is not:
  • Only a financial model
  • A best case scenario

Source: Business Case ~ Formulation
Why do you need to do a business case?

- Projects/leaders are under scrutiny
- Need fact based decision making
- Need to manage/align expectations
- Need to measure success
- Need to understand risks
- Need stakeholder buy-in

Executive Management need help in determining the most effective way to allocate resources (people, money)
How do you develop a business case?

**Business Case Approach Steps**

1. **Discovery**
   - “Understanding the business”

2. **Opportunity/Cost/Risk Identification**
   - “Determining the drivers”

3. **Opportunity/Cost Quantification**
   - “Sizing the drivers”

4. **Benefit Validation / Risk Mitigation**
   - “Proving the drivers”

5. **Creation/Endorsement**
   - “Getting buy-in”
1. Discovery (1 of 2) - A proper Discovery is critical to business case development/project success

**Provides Business Understanding**
- Products
- Supply chain network (suppliers to stores)
- Replenishment/POS systems & processes
- Sales channels
- Revenue and costs (volume, price, profitability, inventory)

**Defines What Success Looks Like**
- Provides baseline for comparison
- Captures business goals and requirements
- Determines success criteria
- Aligns expectations

**Mitigates Risk**
- Detects challenges and constraints (early in process)
- Manages expectations (e.g. on technology)
- Establishes accountability
- Focuses proof of concept
1. **Discovery (2 of 2) – A significant amount of data should be captured upfront**

<table>
<thead>
<tr>
<th>Data</th>
<th>Potential Breakouts</th>
<th>Why</th>
</tr>
</thead>
</table>
| **Product**           | • ASP  
                         • COG  
                         • Type (basic vs seasonal)                                                      | • Identify/prioritise products for RFID  
                         • Understand true benefit of sales uplift                                      |
| **Sales (volume/value)** | • Store  
                         • Product  
                         • Channel  
                         • Time                                                     | • Provide baseline for comparison for sales uplift  
                         • Identify recurring cost of RFID                                            |
| **Inventory (volume/value)** | • Same as above +  
                         • Holding levels                                                                 | • Identify inventory management/out of stock issues  
                         • Provide baseline for comparison for inventory reduction                   |
| **Network**           | • Suppliers  
                         • Warehouses  
                         • Stores                                                      | • Identify implementation cost of RFID                                         |
| **Costs**             | • Staffing/Labour (warehouse and store)  
                         • Distribution (normal and expedited)  
                         • Stocktake (internal and 3rd party)  
                         • Shrinkage/loss                                                              | • Provide baseline for comparison for cost reduction (e.g. store labour, stocktake, shrinkage, expediting) |
| **Processes/Systems** | • Warehouse (receipt, pick, pack, dispatch)  
                         • Inventory/Store replenishment  
                         • Store (receipt, front to back management)                      | • Establish current state process  
                         • Identify potential operational risks in implementing RFID                   |

This will need to be reviewed again after step 2 to ensure capturing data related to opportunities
2. Opportunity/Cost/Risk Identification (1 of 3) – Opportunity Identification

### Opportunity Quadrants

<table>
<thead>
<tr>
<th>Quantifiable</th>
<th>Non-Quantifiable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td>• Revenue uplift</td>
</tr>
<tr>
<td></td>
<td>• Cost reduction</td>
</tr>
<tr>
<td></td>
<td>• Cost avoidance</td>
</tr>
<tr>
<td></td>
<td>• Capital reduction</td>
</tr>
<tr>
<td></td>
<td>• Capital avoidance</td>
</tr>
<tr>
<td><strong>Non-Financial</strong></td>
<td>• Customer satisfaction</td>
</tr>
<tr>
<td></td>
<td>• Employee morale / turnover</td>
</tr>
<tr>
<td></td>
<td>• Service quality</td>
</tr>
</tbody>
</table>

### Opportunities Specific to Apparel RFID

1. **Revenue uplift** – increased sales through availability; improved markdown management; speed to find items; improved display compliance
2. **Labour reduction** – reduced stocktake labour; reduced store labour; reduced warehouse labour
3. **Inventory reduction** – reduction in buffers due to accuracy; improved supplier performance
4. **Shrink reduction** – Improved employee accountability through ‘real time’ management
5. **Expediting reduction** – reduction in expediting of stock for orders (improved inventory management)
6. **Soft Benefits** – employee morale; customer satisfaction/retention
### 2. Opportunity/Cost/Risk Identification (2 of 3) – Cost Identification

<table>
<thead>
<tr>
<th>Costs Specific to Apparel RFID</th>
<th>Elements Impacting Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Hardware &amp; consumables</strong> – readers, printers, tags</td>
<td>• Item Volume (and commitments)</td>
</tr>
<tr>
<td><strong>2. Software</strong> – license, customisation, integration</td>
<td>• Tagging location</td>
</tr>
<tr>
<td><strong>3. Services</strong> – installation, project management, training</td>
<td>• Hardware solution architecture (e.g. fixed vs handheld readers)</td>
</tr>
<tr>
<td><strong>4. Support &amp; Maintenance</strong> – Hardware/Software support, data hosting</td>
<td>• Number of integration points with POS</td>
</tr>
<tr>
<td><strong>5. Operational Management</strong> – reporting, system sync</td>
<td>• Number of stores (and warehouses)</td>
</tr>
<tr>
<td></td>
<td>• Exchange rate!</td>
</tr>
</tbody>
</table>

Source: PWC
2. Opportunity/Cost/Risk Identification (3 of 3) – Risk Identification

Main Business Risk Faced By Businesses

- Strategic
- Operational
- Hazard
- Financial

Risks Specific to Apparel RFID

1. **Cost Overrun** – integration to POS systems; FX management; under-budgeted operational management

2. **Supply chain issues** – exception handling ill-defined (mis-reads); challenges in managing upstream processes

3. **Employee Issues** – not properly trained; not educated on change rationale

Source: PWC
## 3. Opportunity/Cost Quantification – Risk Identification

### Approaches to Quantify

<table>
<thead>
<tr>
<th></th>
<th>Top Down</th>
<th>Bottom Up</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Apply broad assumption to aggregate data</td>
<td>Apply assumption at lowest possible level and build up</td>
</tr>
<tr>
<td><strong>Pro</strong></td>
<td>• Speed</td>
<td>• More detailed analysis – better when doing validation exercise and establishing success criteria</td>
</tr>
<tr>
<td></td>
<td>• Benchmarks easily applied</td>
<td></td>
</tr>
<tr>
<td><strong>Con</strong></td>
<td>• Accuracy</td>
<td>• Slow</td>
</tr>
<tr>
<td></td>
<td>• Buy-in (our business is different)</td>
<td>• Assumption on assumption</td>
</tr>
</tbody>
</table>

### Sensitivity Analysis Example

<table>
<thead>
<tr>
<th>Sales Uplift</th>
<th>EBIT Uplift</th>
<th>1%</th>
<th>3%</th>
<th>5%</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.5M</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td>V. High</td>
<td></td>
</tr>
<tr>
<td>$1M</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>$2M</td>
<td>Loss</td>
<td>Loss</td>
<td>Low</td>
<td>Medium</td>
<td></td>
</tr>
</tbody>
</table>

Note: L/M/H would be replaced by actual values

It is critical to document assumptions and source benchmarks
4. Benefit Validation/Risk Mitigation

Methods to Validate Benefits/Identify Risks

1. **Proof of Concept** – run a limited trial over a period of time across a set of stores

2. **Comprehensive benchmarking** – speak to similar organisations who have implemented RFID or review industry research

3. **Data Analysis** – deep dive into sales, inventory and cost data to substantiate benefits

4. **Count comparisons** – determine inventory accuracy via manual counts (receipt, in store)

5. **Colleague feedback** – triangulate perspective from several key stakeholders (respected by decision makers)
# 5. Business Case Creation and Endorsement

## Key Elements of the Business Case

1. **Executive Summary** – write it last
2. **Objectives** – why has this come about
3. **Options Considered** – possibly variations of RFID solution including pros and cons of each
4. **Recommended Option** – Complete with multiple scenarios of benefits, costs, risks, assumptions
5. **Implementation plan** – high level who, what, when, where
6. **Appendices** – calculations, analysis, research

## Presenting the Business Case

- Get buy-in to numbers and recommendation prior to presenting (find a champion)
- Ensure proper templates/formats are followed
- Issue with enough time for people to digest
- Be clear on recommendation
- Anticipate likely questions and be ready with answers

Financial recommendations are often expressed in ROI, NPV or Payback period
Lessons Learned

- Ensure requirements and expectations are captured and aligned early on (keep coming back to these)
- Tie case back to key elements of overall business strategy
- Find a champion (executive sponsor) to help drive
- Analysis is good, but do not get lost in it
- Provide scenarios (best, worst, most-likely) and alternatives (big-bang vs staged)
- Document everything (e.g. assumptions, risks, research)
- Don’t forget about soft benefits
- Determine key metrics and targets to be able to track success
- Know your audience (answer first vs last, hot buttons, level of detail)