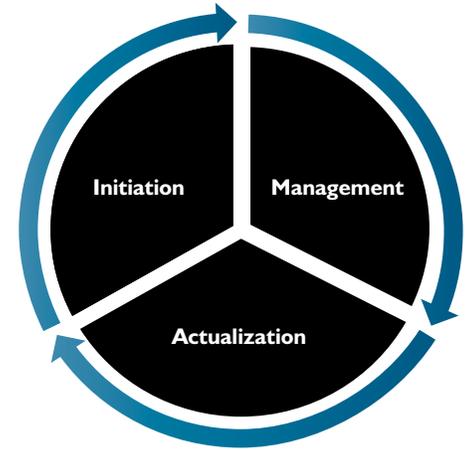


BUSINESS CASE PROCESS.

HOW IT WORKS...

A solid **business case process** is critical for technology projects. Too often when we perform post-mortem evaluations on failed projects we find a missing or incomplete business case process. Many of our successful projects are the result of a business case process with the following phases:



Initiation.

A robust business case aligns IT leadership with a common vision; justifies capital investment; and defines the scope, goals, objectives, and guiding principles for the project or program.

Management.

The goal of management is to keep the guiding principles, goals, objectives, and scope “front-of-mind” for the project team and stakeholders; maintain alignment; and re-assess project justification when business drivers, scopes, or costs change.

Actualization.

This is the most important, yet most commonly overlooked, component of the process. Measuring actual results, incorporating lessons learned, and holding business stakeholders and IT leadership accountable are all actions that demonstrate management is serious about justifying and running projects with value as the primary motivation.

A key component of our business case process is the case itself. We summarize a business case in four components: **proposed solution, benefits, financial model, and risk assessment.**



PROPOSED SOLUTION

- **Project Daylight**
Risk Management Essentials and Consolidated Reporting
 - > **Project 1**
Data Warehouse
 - > **Project 2**
New ETRM System
 - > **Project 3**
Infrastructure Upgrade



BENEFITS

- \$XX million revenue (5 year)
- \$YY million cost savings (5 year)
- Improve 6 industry KPIs from below standard to meets standard
- Improve risk management and decision making



FINANCIAL MODEL

- **Overall benefit:** \$BB million (5 years)
- \$ZZ million capital expense in years 1–3
- \$AA million operating expense in years 3–5
- **ROI:** XXX%



RISK ASSESSMENT

- **People:** Organizational restructuring will require some relocation
- **Process:** Data warehouse and organizational restructuring will require standardization of business processes and reporting
- **Technology:** Additional IT resources will be required to support new ETRM system

NOTE: The above chart is for illustrative purposes only.

1. PROPOSED SOLUTION

The most important component of the business case is the proposed solution which defines the scope of future work; identifies the key business drivers, requirements, and gaps; and provides an overview of the solution.

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GAP ANALYSIS is a critical element to the proposed solution, because it demonstrates the understanding of the project requirements and identifies gaps between current and future situations. It is this analysis that helps stakeholders approach current challenges and begin to understand what will be required to achieve a positive resolution. This present state vs. potential outcome assessment is critical to understanding the potential impacts across the people, processes, and technology dimensions of the organization.
- 
ASSUMPTIONS are another important aspect of the proposed solution. The assumptions effort is vital to our approach because it provides the context of what needs to happen for the project to be successful—and identifies key factors that are critical to investment decisions.
- 
ALTERNATIVE ASSESSMENT is the final step of the proposed solution. This describes considered alternative processes, provides benchmarking on other similar work and projects, and identifies the reason for a certain procedure's exclusion from further consideration.

2. BENEFITS

Identifying strong benefits is essential to successfully completing a business case. If the benefits lack clarity, cannot be monetized, or do not have the support of a stakeholder, then more work needs to be done. There are some cases where benefits cannot be monetized, but these should be the exception and not the rule. Once we have identified the benefits we can group them into projects and analyze the project's overall case using our **Benefits Matrix Heat Map**.



BENEFITS MATRIX HEAT MAP

	FINANCIAL	OPERATIONAL	INDIRECT	STRATEGIC
	Benefits are quantifiable and measurable in P&L and / or cost centers.	Benefits cannot be identified in our P&L and / or cost centers, but are quantifiable and measurable via metrics / KPIs.	Benefits that have a logic chain with some gaps in the logic are bridged by judgment. Not measurable. Not quantifiable.	Difficult to state in project terms, but senior management succeeds or fails in strategic terms based on the benefits of these projects.
OPPORTUNITY Creates revenue for the company.				
COST REDUCTION Decreases expenses for the company.				
RISK AVOIDANCE Decreases or eliminates risk for the company.				
COMPLIANCE Needed for internal, tax, and regulatory issues.				
INVESTMENT JUSTIFICATION				
	Low			High

Utilizing our **Benefits Matrix Heat Map**, we are able to assess the strength of our business case. This forces us to either refine our thinking and improve the case, or add information to our risk assessment.

The final goal of this matrix is to summarize monetary breakdown.

PROJECT #1 ETRM IMPLEMENTATION					
		FINANCIAL	OPERATIONAL	INDIRECT	STRATEGIC
OPPORTUNITY	Improved hedging accuracy (contracts and pricing).	\$5,500,000			
COST REDUCTION	Implement automated EOD process.		\$800,000		
RISK AVOIDANCE	Reduce data management activity, modify data load process.		\$100,000	\$100,000	
COMPLIANCE	Implement Dodd-Frank reporting.	\$1,200,000			
PROPOSED BENEFITS		\$7,700,000			



3. FINANCIAL MODEL

When building a financial model, it is imperative to determine the proper time horizon. Usually for technology projects we utilize somewhere between 3–7 years, depending on the value and life of the technology investment. We must also distinguish between one-time and recurring benefits and costs. Understanding these requirements helps us align benefits and cost data so we can perform the proper analysis and get ROI over a specified time period — and analyze the steady-state environment vs. project environment.

The starting point for our financial model is the benefits case. Once the benefits have been approved by the business owner, we can utilize them in the financial model. One key area is understanding benefit timing, which is often delayed in comparison to the investment. Once we align the benefits over the proper time horizon, we are ready to build our cost model.

At MRE Consulting, we believe in building a holistic cost model that includes everything — software, hardware, implementation, and support. We also want to capture internal vs. external labor costs, which can be difficult when trying to understand the allocation of a part-time project resource that has full-time operational responsibilities. We recommend taking the time to determine how much effort will be required by the business users and what the cost will amount to.

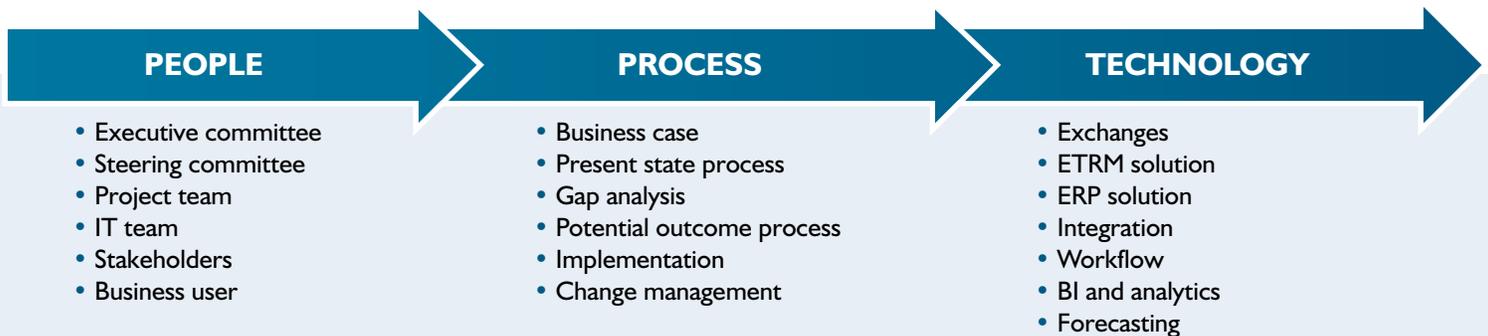
Many times we see organizations that refuse to try and cost-out their internal labor and do not track employee participation. With no mechanism to measure business effort, deliverables slip, business users are overly focused on day-to-day operations, and key technology projects do not get the attention they need. Every company has different requirements, but we strongly recommend building robust plans that are conservative representations of how much business participation is required, and having escalation points if deadlines and/or work quality is slipping.

ETRM COST MODEL									
Software Costs	License Type	Number of Licenses	Seat Licenses	Total Costs	One Time	Maintenance: 20%			Monthly
					Year 1	Year 2	Year 3	Total	
Base TRM Software									
	Full Seat Licenses	100	\$20,000	\$2,000,000	\$2,400,000	\$400,000	\$400,000	\$3,200,000	\$33,333
	Read Only	15	\$7,000	\$105,000	\$126,000	\$21,000	\$21,000	\$168,000	\$1,750
	IT License	3	\$7,000	\$21,000	\$25,200	\$4,200	\$4,200	\$33,600	\$350
									\$0
Additional TRM Modules									
Gas	Scheduling	1	\$50,000	\$50,000	\$60,000	\$10,000	\$10,000	\$80,000	\$833
Accounting	Sub Ledger	1	\$50,000	\$50,000	\$60,000	\$10,000	\$10,000	\$80,000	\$833
Netback		1	\$75,000	\$75,000	\$90,000	\$15,000	\$15,000	\$120,000	\$1,250
				\$0	\$0	\$0	\$0	\$0	\$0
Interfaces	Development	1	\$0	\$0	\$0	\$0	\$0	\$0	\$0
									\$0
Vendor Software									
TBD	Enterprise	1	\$225,000	\$225,000	\$270,000	\$45,000	\$45,000	\$360,000	\$3,750
		1	\$0	\$0	\$0	\$0	\$0	\$0	\$0
		1	\$0	\$0	\$0	\$0	\$0	\$0	\$0
		1	\$0	\$0	\$0	\$0	\$0	\$0	\$0
									\$0
				\$2,526,000	\$3,031,200	\$505,200	\$505,200	\$4,041,600	\$42,100
Implementation									
	% Year Change				100%	0%	0%		
Project Stages	Project Setup / Management	8.00	2,000	2,000	\$328,000	\$0	\$0	\$328,000	\$0
	Analysis & Design Strategy	8.00	2,000	2,736	\$448,704	\$0	\$0	\$448,704	\$0
	Design	10.00	2,000	3,442	\$557,586	\$0	\$0	\$557,586	\$0
	Build and Deployment Planning	13.00	2,000	4,576	\$713,856	\$0	\$0	\$713,856	\$0
	Deployment & Project Close	10.00	2,000	3,040	\$489,440	\$0	\$0	\$489,440	\$0
	Total MRE Implementation		2,000	15,794	\$2,537,587	\$0	\$0	\$2,537,586	\$0
Vendor Participation	Vendor Resources	7.00	2,000	8,946	\$2,218,608	\$0	\$0	\$2,218,608	\$0
	Total Vendor Implementation	7.00	2,000	8,946	\$2,218,608	\$0	\$0	\$2,218,608	\$0
									\$0
	Total Implementation			24,740	\$4,756,195	\$0	\$0	\$4,756,194	\$0
Support									
	% Year Change				100%	100%	100%		
Burn-In Services	BAU Post-Production Support	5.00	2,000	1,354	\$227,472	\$0	\$0	\$227,472	\$0
Functional Support Options	Tier 1 Support	10.00	2,000	20,000	\$0	\$2,500,000	\$0	\$2,500,000	\$208,333
	Tier 2 Support	20.00	2,000	40,000	\$0	\$4,400,000	\$0	\$4,400,000	\$366,667
	Tier 3 Support	15.00	2,000	30,000	\$0	\$3,000,000	\$0	\$3,000,000	\$250,000
									\$0
Client Hosting - Option									
	% Year Change				100%	100%	100%		
Required Hardware	Server Hardware				\$103,500	\$0	\$0	\$103,500	\$0
	Storage				\$0	\$0	\$0	\$0	\$0
	Maintenance				\$40,250	\$0	\$0	\$40,250	\$0
	VMware				\$17,820	\$0	\$0	\$17,820	\$0
	Citrix				\$38,000	\$0	\$0	\$38,000	\$0
	Microsoft Lic O/S				\$16,000	\$0	\$0	\$16,000	\$0
	SQL Server Lic				\$20,400	\$0	\$0	\$20,400	\$0
									\$0
	Total Set-Up Costs				\$235,970	\$0	\$0	\$132,470	\$0

NOTE: These numbers are for illustrative purposes only.

4. RISK ASSESSMENT

The final component of the business case is risk assessment. We measure risk across three dimensions: people, processes, and technology. It is crucial to identify the owner of the risk, quantify the potential impact, and categorize it appropriately. While some risks will fall across several categories, we find this problem can be broken down into smaller parts. We identify and attempt to understand the root cause of any possible risks and determine the best course of action to eliminate, neutralize, and manage the issue.



Maintaining a Risks, Actions, Issues, and Decisions (RAID) register throughout the life of the project will help the team stay abreast of many common business case process issues. The building blocks for the risk assessment component of the business case should be the first document addressed when any project starts.