

.FAMP

Business Case Development / Discovery Phase



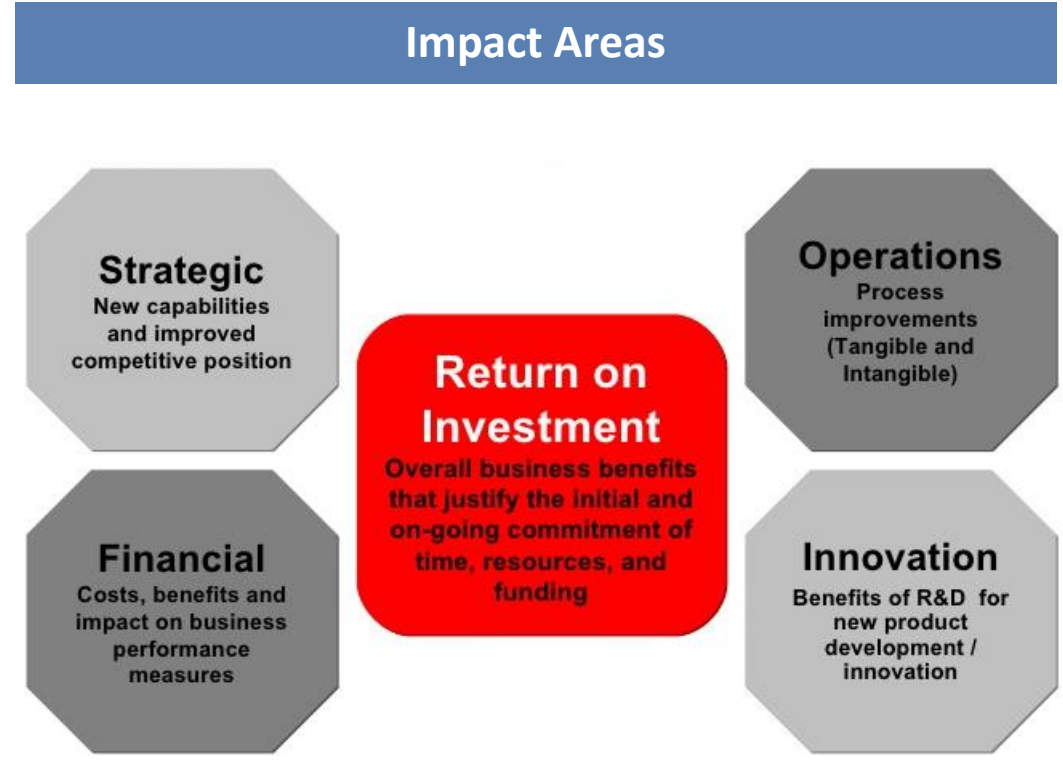
Agenda

- 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

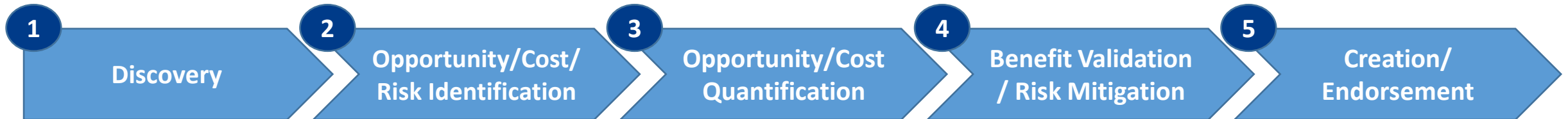
Need to
understand risks

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



“Understanding the business”

“Determining the drivers”

“Sizing the drivers”

“Proving the drivers”

“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

| Data | Potential Breakouts | Why |
|--------------------------|---|--|
| Product | <ul style="list-style-type: none"> • ASP • COG • Type (basic vs seasonal) | <ul style="list-style-type: none"> • Identify/prioritise products for RFID • Understand true benefit of sales uplift |
| Sales (volume/value) | <ul style="list-style-type: none"> • Store • Product • Channel • Time | <ul style="list-style-type: none"> • Provide baseline for comparison for sales uplift • Identify recurring cost of RFID |
| Inventory (volume/value) | <ul style="list-style-type: none"> • Same as above + • Holding levels | <ul style="list-style-type: none"> • Identify inventory management/out of stock issues • Provide baseline for comparison for inventory reduction |
| Network | <ul style="list-style-type: none"> • Suppliers • Warehouses • Stores | <ul style="list-style-type: none"> • Identify implementation cost of RFID |
| Costs | <ul style="list-style-type: none"> • Staffing/Labour (warehouse and store) • Distribution (normal and expedited) • Stocktake (internal and 3rd party) • Shrinkage/loss | <ul style="list-style-type: none"> • Provide baseline for comparison for cost reduction (e.g. store labour, stocktake, shrinkage, expediting) |
| Processes/Systems | <ul style="list-style-type: none"> • Warehouse (receipt, pick, pack, dispatch) • Inventory/Store replenishment • Store (receipt, front to back management) | <ul style="list-style-type: none"> • 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

| | | |
|--------------|---|---|
| Quantifiable | Financial <ul style="list-style-type: none"> • Revenue uplift • Cost reduction • Cost avoidance • Capital reduction • Capital avoidance | Non-Financial <ul style="list-style-type: none"> • Customer satisfaction • Employee morale / turnover • Service quality |
| | Non-Quantifiable | <ul style="list-style-type: none"> • Customer retention • Supplier performance • Display compliance |

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

Costs Specific to Apparel RFID

1. **Hardware & consumables** – readers, printers, tags
2. **Software** – license, customisation, integration
3. **Services** – installation, project management, training
4. **Support & Maintenance** – Hardware/Software support, data hosting
5. **Operational Management** – reporting, system sync

Elements Impacting Cost

- Item Volume (and commitments)
- Tagging location
- Hardware solution architecture (e.g. fixed vs handheld readers)
- Number of integration points with POS
- Number of stores (and warehouses)
- Exchange rate!

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

Main Business Risk Faced By Businesses



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

3. Opportunity/Cost Quantification – Risk Identification

Approaches to Quantify

| | Top Down | Bottom Up |
|------------|--|--|
| Definition | Apply broad assumption to aggregate data | Apply assumption at lowest possible level and build up |
| Pro | <ul style="list-style-type: none"> Speed Benchmarks easily applied | <ul style="list-style-type: none"> More detailed analysis – better when doing validation exercise and establishing success criteria |
| Con | <ul style="list-style-type: none"> Accuracy Buy-in (our business is different) | <ul style="list-style-type: none"> Slow Assumption on assumption |

Sensitivity Analysis Example

| | | Sales Uplift | | | | |
|--------------|--------|--------------|--------|--------|---------|-----|
| | | EBIT Uplift | 1% | 3% | 5% | 10% |
| Annual Costs | \$0.5M | Low | Medium | High | V. High | |
| | \$1M | Low | Low | Medium | High | |
| | \$2M | Loss | Loss | Low | Medium | |

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)