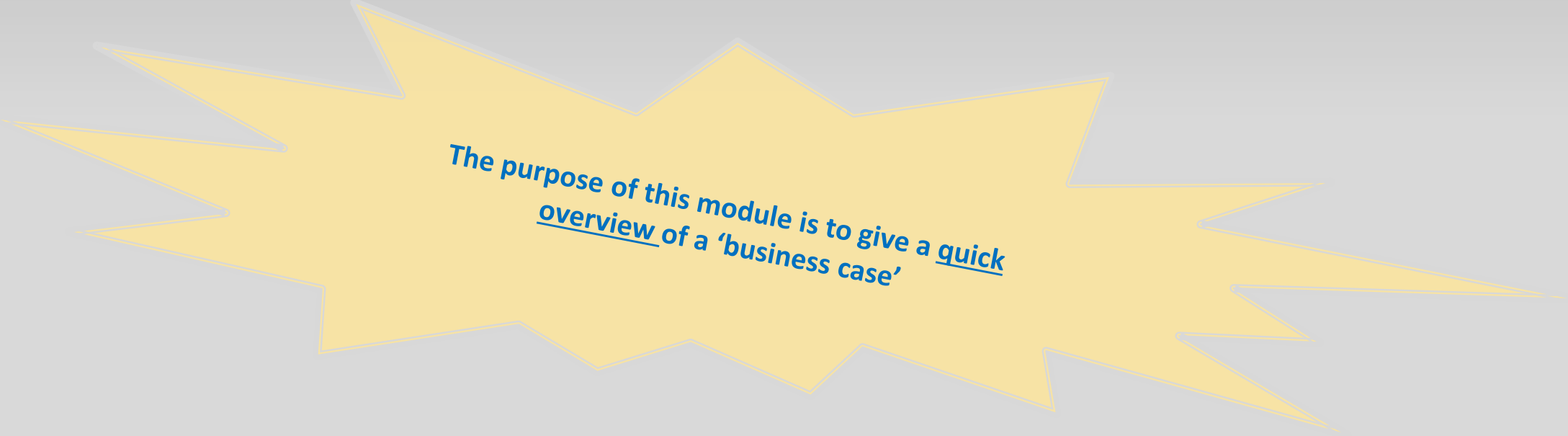


# Teach yourself how to build a Business Case for a Social Enterprise or Community Project

## 1c. What is a business case?

A large, yellow, multi-pointed starburst graphic with a white outline, centered on the page. It contains the following text:

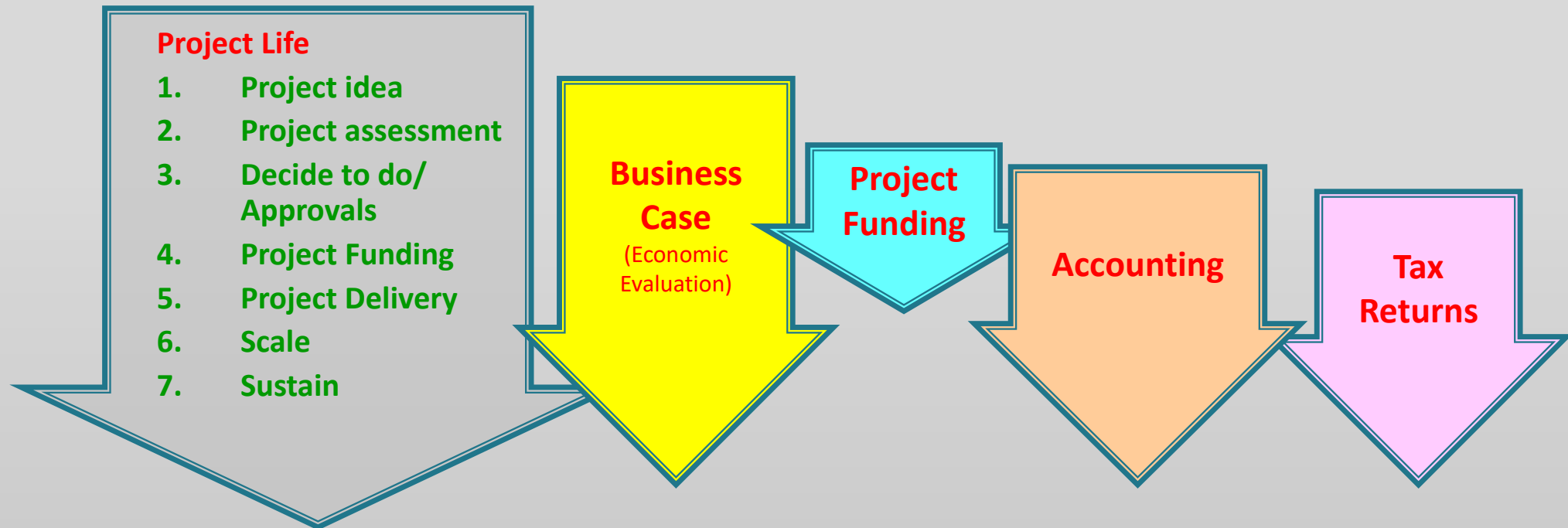
The purpose of this module is to give a quick overview of a 'business case'

**Spend only a few seconds on each page**

**This website may contain errors so always check your own work  
and have it audited by a competent person**

Over the life of a project there are four distinct money activities and the 'business case' should be the first.

There is no reason to do the other three activities until the business case shows that the project is likely to be viable .



## As outlined in the previous module, **the Business Case**

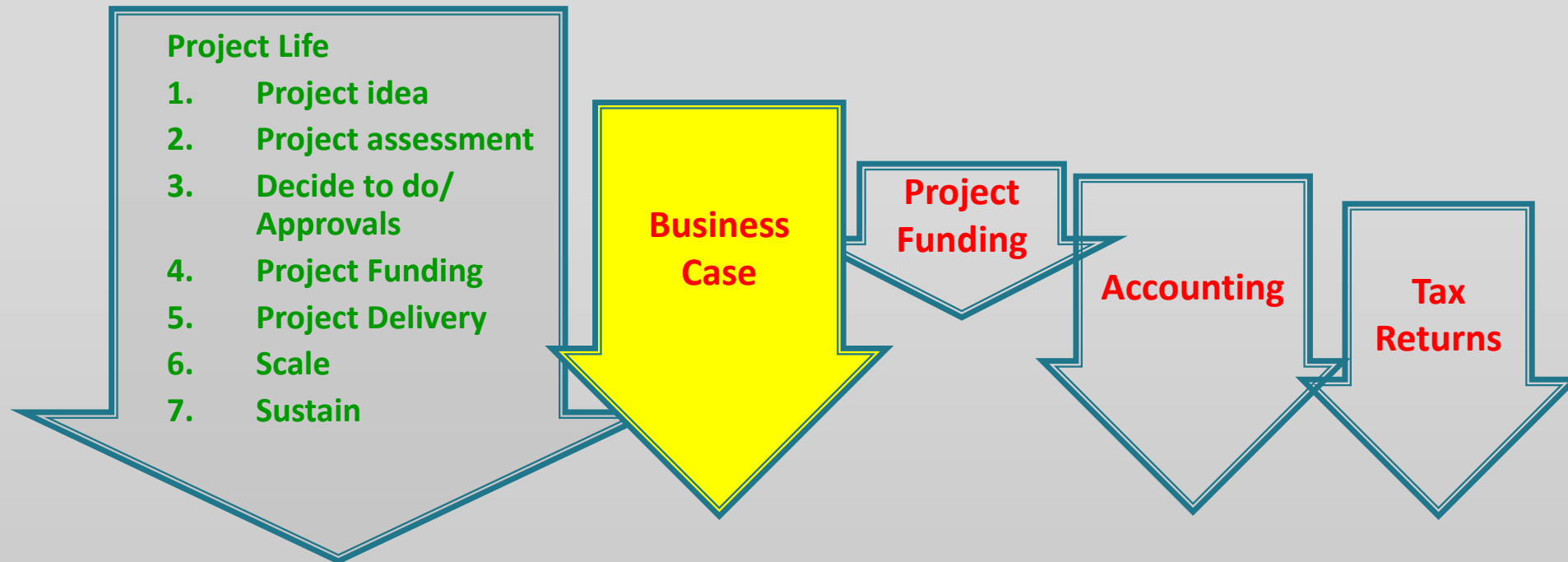
- gives a 'helicopter' view of the project over its life
- It is under the control of the leaders of the social enterprise and can become its 'steering wheel'
- is in everyday language, uses practical concepts and is by far, the easiest to understand

Its main working tool is a business model of the project in Excel which -

- ✓ shows how the project is shaping up and what needs to be done at each stage to succeed.
- ✓ recognises money only as it is spent and any surplus cash only as it is generated – unlike accounting.
- ✓ can have the project funding and accounting added

It should be commenced as soon as the project is conceived -

- because it will give direction, speed and substance to the hard work ahead



A business case has three stages: -

Step 1: Build a business model in Excel



Step 2: Use the model to evaluate the project



Step 3: Make decisions



# A business case has three stages



## Step 1: Build a business model in Excel

The business model is a replication of the project from now until it becomes self supporting.

To build it:

1. Time frame to being self-supporting: Work out a time frame to complete studies, assemble and construct the enterprise, begin operations and ramp-up to full strength.
2. Capital costs: Get estimates of how much cash will be needed to get to full operations
3. Production and revenue: What is the expected sales/delivery plan to reach full strength. What are the prices?
4. Operating costs: Estimate the costs to produce and deliver the goods/services
5. Taxes: Get preliminary advice on what taxes and charges might need to be paid to local communities and governments.
6. Excel workbook: assemble all this into an Excel workbook that is easy for others to follow.

To speed all this up, use one of the worked examples available free at this website [www.economicvaluation.com.au](http://www.economicvaluation.com.au) as a starting model and adapt it to your project

# A 'business case' might use a simple 'business model' like this as its main working tool ...

It is relatively fast and easy to create and is explained in the modules on "Hands On Modelling"



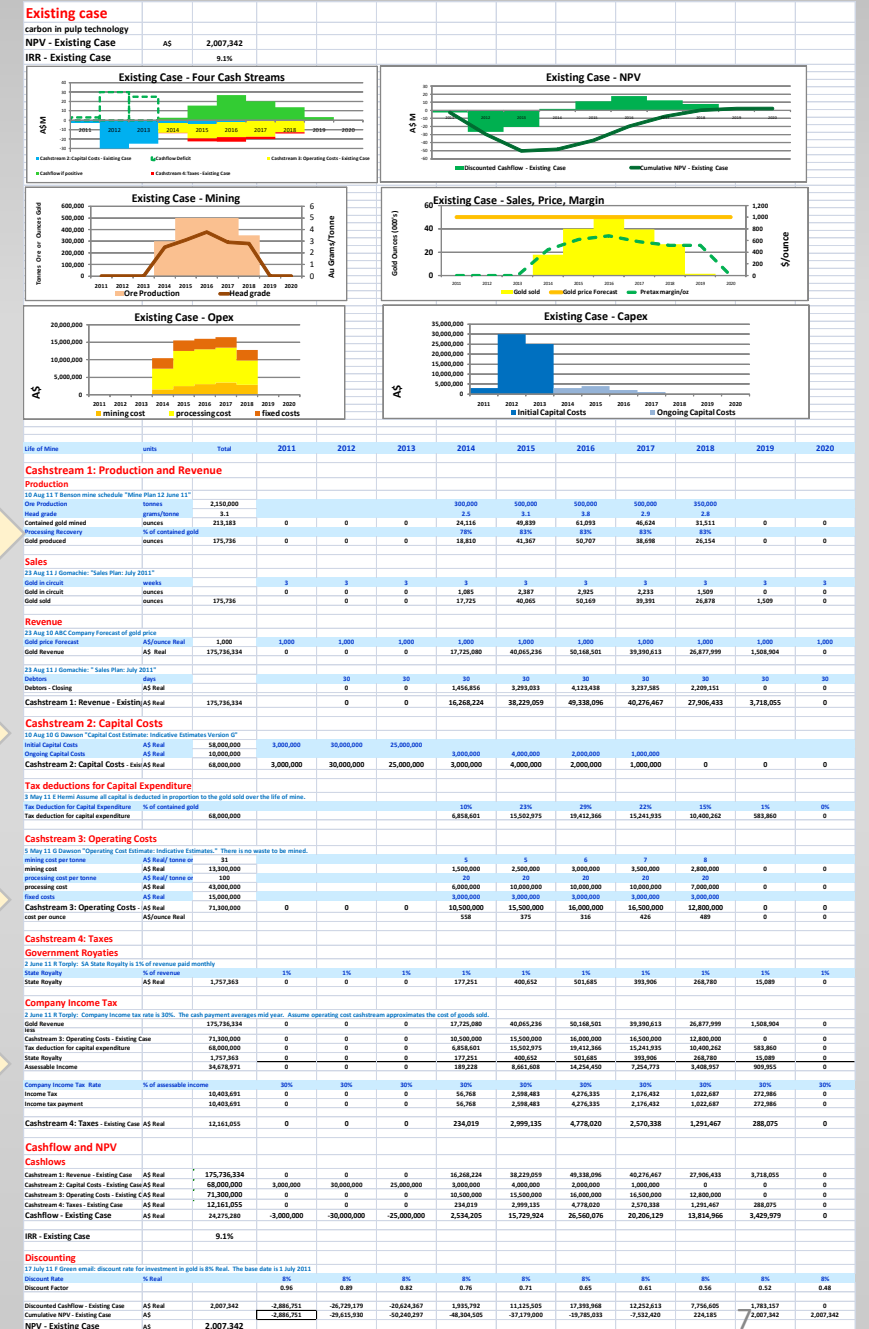
## 1. Activities/Sales/Revenue

## 2. Capital Expenditure (mainly the upfront investment)

## 3. Operating Costs

## 4. Taxes (mainly income tax & VAT)

Net Cashflow, NPV →



## A business case has three stages



### Step 2: Use the model to evaluate the project

One of the key outputs will be the net cash flow each month/year.  
This will show how long before the enterprise will become self-supporting.  
If important, it will show how long before debt can be repaid to lenders.

The preliminary business case generated by the model will be a 'mirror' → this is what the project is looking like!  
In turn, these are likely to raise key issues that need researching, reworking, revising.  
So the economic model can be tested with different possibilities and  
the preliminary business case can be shaped into a 'Base Case'.

Next the project leaders and team need to create variations of this 'Base Case'

It needs to explore unfavourable scenarios with feasible combinations of delays, sales and costs to see how bad things could possibly get.  
It needs to explore favourable scenarios to understand how soon the enterprise might become self-supporting.  
It needs to explore how this project can be the platform for another social enterprise

Overall the model must be used to understand the 'range' of possibilities!



## A business case has three stages

### Step 3: Make decisions



At each stage of the project, **the leaders of the social enterprise** will need to make decisions about what shape the enterprise should become and what next.

The evaluation work in Step 2 should allow these decisions to be made with full awareness  
→ “with eyes wide open!”

In collaboration with the social enterprise, the potential **investors, donors and lenders** can each get a version of the business case and decide their support.

Having access to a business case that demonstrates that the project is likely to be viable within a certain time should bring confidence.

## Step 3 is the most important

Step 1: Build a business model in Excel



Step 2: Use the model to evaluate the project



**Step 3: Make decisions**



**This is the most important step**

Step 1: Build a business model in Excel

Step 2: Use the model to evaluate the project

### **Step 3: Make decisions**

At each stage of the project's development select the best path

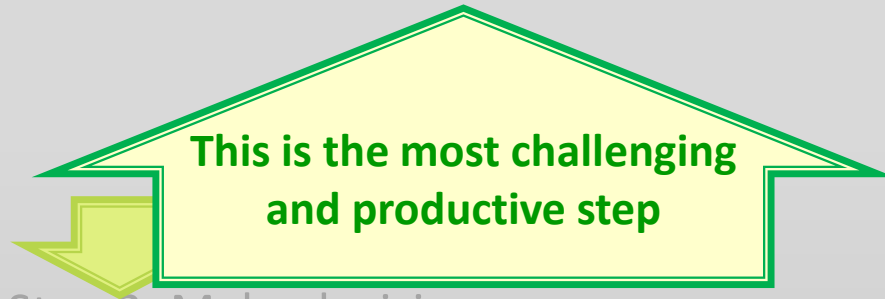
- using the assessments completed above in Step 2
- to decide which arrangement best fits the opportunity in the community

## Step 2 is the most challenging and productive

Step 1: Build a business model in Excel



**Step 2: Use the model to evaluate the project**



Step 3: Make decisions

Step 1: Build a business model in Excel

## Step 2: Use the economic model to evaluate the project

to understand the project at each stage of its development: -

- Continuously assess the most likely case, the unfavourable case, the favourable case, the risks, the key drivers, testing the ranges, upsides, downsides, possibilities, alternatives, options, flexibility, competing projects, ...
- This is easy once the model in Step 1 is ready

Step 3: Making decisions

## Step 1: The business model is the workhorse

### Step 1: Build a business model in Excel



Step 2: Use the model to evaluate the project



Step 3: Make decisions

## Step 1: The business model is the workhorse

### Step 1: Build a business model in Excel

- It must be kept easy-to-follow. (but may not be 'simple')
- It should use the globally accepted modelling practices in this website
- and so be a transparent and robust working tool.
- It should reproduce the project in physical terms, and model its money flows.
- All this should be quite straight forward

Step 2: Use the model to evaluate the project

Step 3: Make decisions

***Worked examples of business models can be downloaded from this website!***

Glossary 1	
<b>Business Case</b> or 'Economic Evaluation'	A forecast of the social enterprise's physical operations, deliveries of benefits, sales, costs, taxes and net cashflow. It usually is over several years and computed in monthly intervals or in years. It gives a 'helicopter view' of the underlying economic health of the enterprise showing how much funding it will require and when it is likely to 'stand on its own legs' to be self-supporting. . (It uses cash rather than accounting concepts.) Fundraising and ownership can be added when the project looks promising
Project Funding	Getting investors, donors and lenders to provide cash to fund the project
Accounting	An internationally regulated way of assessing or forecasting the performance of the project over a specified period – past or future - given its recent results, past inputs and future liabilities. (Uses non-cash concepts so may be difficult for some non-accounting people to quickly understand.)
Tax	Extracting money from the project as entirely defined by government legislation - and like accounting uses non-cash concepts.
Real terms	Before applying inflation – example \$2.50 today and still \$2.50 in 5 years (Usually employed in business case modelling.)
<i>Nominal terms or Dollars of the Day</i>	<i>After applying inflation – example \$2.50 today becomes \$3.97 in 5 years</i> (Used in accounting, tax and funding.)
Business Model	A reproduction of the project in an Excel workbook that uses physical material flows and community benefits as its foundation

end