



# TIPS FOR BUILDING A BUSINESS CASE

This tool was developed  
with the support  
of PwC

# TOOL INTRODUCTION

For a new business model to be a success and move from pilot to scale, a strong business case is essential. Securing the resources to launch a pilot will most probably already require you to present a pretty solid case. The Tips for Building Business Case slides will help you to get started on building your case so you can assess and optimise the financial viability of your model before pilot launch.

# TOOL USAGE

**Time:** ± 14 hours

**People:** Project manager & financial controller \*

**Suggested to complete first:** Module 3

\*We recommend that the business case be developed by the overall project manager together with someone from the finance department (should they not be in your core project team already, please involve them in this step).

# STEP-BY-STEP GUIDE

- Before you build your case, define what success looks like to you. You have defined high level (financial) success criteria for the business model in Module 1 (1E). Now it's time to make your financial goals more concrete. When you have defined this, you can measure the results/outcomes against this target and see if you are keeping on course.
- Read through steps 1-5 described in this tool. Consult additional resources if needed (see resource section).

# TOOL TIPS & TRICKS

- It can be challenging to define and model the relevant parameters and formulate assumptions that make sense. Rental / resale models are relatively new and limited market data exists. Also, every case will be different. Use the Customer Journey (3A) / Business Model Blueprint (4A) to help you identify the relevant parameters and costs/benefits associated with your model and how they interact. Furthermore, testing your prototype (module 3) is a very good way to get data/feedback to formulate your assumptions (eg. if you collect used garments as part of your prototype you can already get a sense of the quality of garments coming back, the level of processing needed, the resellable rate)
- We recommend that you have regular updates with the project sponsor / senior management as the business case develops.

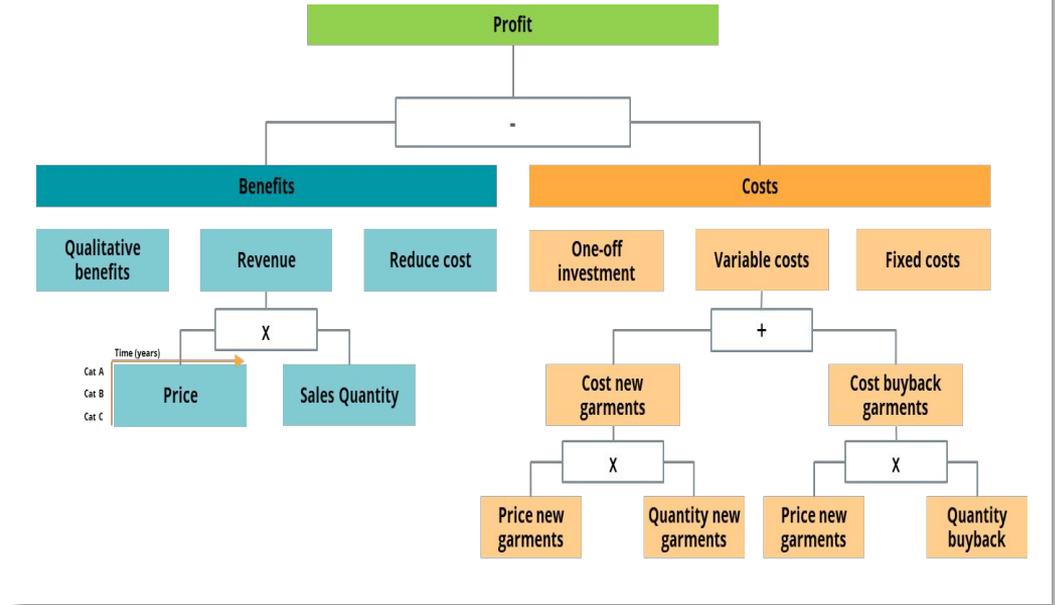
# STEP 1 - DEFINE YOUR GOAL

Understanding your project goal is key for building a business case. The table below helps to define the goal.

<b>Big Picture</b>	<b>Background &amp; objectives</b> What does the organisation want to establish and why?
	<b>Decision</b> The decision you want to make based on this business case
	<b>Scenarios</b> Options/scenarios that exist for your organisation (for example: worst-case, best-case, do nothing)
	<b>Base case</b> The most likely scenario for your organisation
	<b>Not in scope</b> Note if there are any elements not in scope
<b>Ideal Output</b>	<b>Decision criteria</b> The output of the business case on which you want to make your decision (for example, NPV, ROI, investment volume, etc.)
	<b>Timeframe (Excel)</b> The timeframe that you will use in your Excel format to calculate the cost and benefits of the business model

# STEP 2 - DEFINE ASSUMPTIONS

1. Make assumptions **explicit and note the source**.
2. Use a **profit tree** to define assumptions per driver (below drivers are more tailored towards a resale business case. For an overview of rental financial
  - Benefits
    - Qualitative benefits
    - Revenue
    - Cost reduction
  - Costs
    - Of off investment
    - Variable costs
    - Fixed costs



3. Use your **customer journey and the impact on your value chain** to check completeness
4. Plot investments on a **roadmap** to determine the timing

# VARIABLES TO CONSIDER WHEN BUILDING YOUR BUSINESS CASE

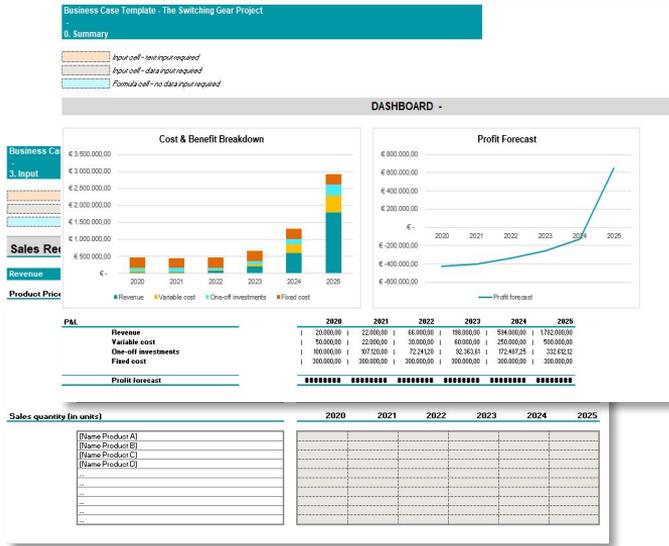
## Rental

- Original price point
- Product lifespan (number of wears/cycles it could handle)
- Marketing costs
- Customer acquisition/retention cost
- Human resources to set up and manage pilot
- Rental/subscription price
- Shipping and packaging cost
- Customer churn
- Rate of exchange
- Processing cost (eg. cleaning, repair)
- Upsell opportunity
- Qualitative benefits (e.g. brand image/brand value)
- Investments: set up time investment, IT systems, website, retail/POS materials

## Resale

- Original price point
- Product lifespan (number of wears/cycles it could handle)
- Marketing costs
- Customer acquisition/retention cost
- Human resources to set up and manage pilot
- Collection volumes
- Cost of inventory acquisition (eg. buy back/voucher)
- Shipping costs
- Quality of collected goods (resellable rate)
- Processing cost (eg. sorting, cleaning, repair)
- Re-merchandising cost
- Resale price
- Upsell potential
- Qualitative benefits (e.g. brand image/brand value)
- Investments: Set up time investment, IT systems, website, retail/POS materials

# STEP 3 - COLLECT DATA & CALCULATE OUTPUT



1. Create an **Excel model** based on the structure of costs/benefits that you created in Step 2.
2. Keep the excel model **simple** and **transparent**
3. **Break formulas** into multiple rows to avoid errors
4. Keep a **natural flow** in the model: **top to bottom, left to right**
5. Separate **inputs, calculations & outputs** on different sheets
6. Use a **similar structure** for every sheet to reduce errors
7. **Input data once** and use links
8. Apply **color, formatting** and **units** in a clear and consistent manner
9. Include **explanations, documentation** and **instructions**
10. **Play around** with your model to understand how different variables **impact** your business case and to create different **scenarios**.

# Improve your model and generate scenarios

- **Split input:** to find out where in the business case there is room to lower cost and better understand where changes in the variables have impact, it might help to split some of the input. For example:
  - Eg. Split the 'collected garments' into 'garments that can be resold' and 'garments that cannot be resold'
  - Eg. Split the 'collected garments that can be resold' into 'light cleaning/repair' and 'heavy cleaning/repair'
  - Eg. Split the 'logistical cost' into 'logistics from consumer to brand', 'between brand' and 'from brand to consumer'.
- **Seasonality/regional:** consider the impact of seasonality or regional on the business case.
- **Leverage existing value chain:** consider leveraging components of your existing value chain to lower the (fixed) cost.
- **Sensitivity analysis:** for each of the variables in the business case that are still quite uncertain, try to define the worst case number and what is the best case number (and if possible a base case number: the outcome that is most likely) and play around with those numbers to see the impact of each variable on the final outcome. Based on this you can generate worst case, base case and best case scenarios.
- **Partner vs. in-house:** When doubting whether to do an activity in-house or to outsource it, try to determine the point (in terms of volume/scale) where a partner (for cleaning and repair, for example) would be more cost efficient and with what volume it would be more efficient to do it yourself.

# STEP 4 - COMMUNICATE RESULTS.

## 1. What are the results?

- Transfer the output of the excel model into a (PowerPoint) **presentation**.
- Use **visualisations, action titles and brief explanations** to make it easy to read and understand.

## 2. What if?

- Present the results of your **scenarios** to cover the 'what if ...?' question.

## 3. How did you come up with this?

- Provide a **summary of the assumptions** used to model the business case
- Copy visuals of the **profit tree, customer journey,** and/or **prototype results** in the presentation and excel to support your presentation of the business case.

## STEP 5 - MONITOR & UPDATE.

Given the new concept of rental and resale models, there is relatively limited information available regarding items like expected collection rate, resellable rate, sales rate, resale value, repair rate and volume of items bought/returned, but these metrics have a large impact on the results of the business case.

Making **continuous updates** of the business case is key. As the project progresses, certainty about the costs and benefits will increase. Make adjustments as new information comes in and assess whether this means you should continue running your model as planned, make changes or stop.

# Our main highlights and lessons learned include:



Balancing act between 'revenue' vs 'brand image'

So far, we have seen that it can be challenging to create a positive business case for a resale model. It is important to consider both the 'why' of resale initiatives, how revenue generation (for example, through reselling, upselling and recycling of returned garments) and image come together and how it is communicated to the internal and outside worlds.



Small startups vs large organisations

Small startups can move faster than large organisations, as they don't have the challenge of changing a whole system like large organisations do.



Key resale metrics and continuous monitoring

Given the new concept, there is relatively limited information available regarding items like expected collection rate, resalable rate, sales rate, resale value, repair rate and items bought/returned, while these metrics have a large impact on the results of the business case. Doing a sensitivity analysis and continuous updates of the business case are therefore key, also to decide to continue or stop.



Becoming circular requires a whole system change

Individuals in the organisation may want to become more circular, but becoming (fully) circular needs a whole system to change and therefore often requires a business transformation. The business case of a resale model should also include the investments needed for the transition, such as process redesign, training of workforce, hiring new people etc.



Selling 'resale' products in a siloed way

Most organisations that pursue resale choose a separate channel/entity to (re)sell their products next to their normal selling channel(s). This is to reduce the risk of ongoing revenue reduction, which is exacerbated even more under the covid-19 pandemic.



Digitalisation can be used as a catalyst to become more circular

Digitalisation (e.g. AI/VR, data/analytics, IoT, Robotics, additive manufacturing/3D printing, blockchain, drones) enables the potential to eliminate waste altogether, provides new insights due to data generated and could play a game-changing role in enabling circularity within organisations.