



WWF

GUIDE

2016

Making the business case for sustainable commodities

A guide to good practice



WWF is one of the world's largest and most experienced independent conservation organizations, with over 5 million supporters and a global network active in more than 100 countries.

WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by conserving the world's biological diversity, ensuring that the use of renewable natural resources is sustainable, and promoting the reduction of pollution and wasteful consumption.

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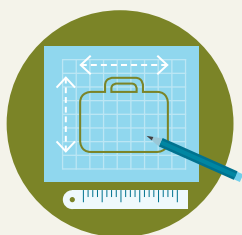
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ABOUT THIS GUIDE



This guide provides a framework and a set of tools to help you develop a powerful, well-reasoned and tailored business case that will resonate with decision-makers.

WWF works with policymakers, businesses and other stakeholders to promote the sustainable production and trade of commodities that affect land use, forests, freshwater, oceans and the global climate. These include: timber, pulp and paper, palm oil, cotton, whitefish, tuna, farmed fish, farmed shrimp, sugarcane, soy and beef.

WWF's vision is a world in which the production of commodities respects our planet's natural limits, safeguards our natural wealth, and contributes to our economic and social well-being.

This guide to good practice will enable practitioners to become part of that vision by helping you to successfully make the business case for sustainable commodities. It outlines a three-stage strategy to follow when developing and presenting a case for adopting sustainability standards, certification, and/or better management practices in the production of agricultural, forestry and fish commodities.

A “business case” can be used in a variety of contexts, and must be carefully adapted to suit the many individual requirements and constraints of each situation; this guide provides a framework and a set of tools to help you develop a powerful, well-reasoned and tailored case that will resonate with decision-makers. It will also be useful when selecting appropriate external contractors to undertake the technical aspects of preparing the business case. Project managers familiar with the concepts and tasks explained in this guide will be better prepared to ask the right questions, employ the right expertise, and communicate the right information, in order to have the best possible chance of their business case becoming a catalyst of change.

How to use this guide

The introduction to the guide explains what a business case is, and how they are increasingly being adopted as tools to promote sustainable business practices. It also provides an overview of the key principles to follow to develop a strong business case. Stage 1 describes how to effectively scope your business case and determine its parameters – a critical first step. Stage 2 gives a comprehensive account of how to gather evidence and select the analytical methods appropriate to your circumstances. The analysis itself is usually performed by experts, under the direction of practitioners. Stage 3 prepares you to effectively communicate your business case in a way that is both compelling and convincing. Finally, there is a checklist to help ensure that you have considered all aspects of this guide when developing your business plan.

We hope that you will find this a valuable guide to help steer you through the complex task of developing and making a business case for sustainable commodities. We recommend reading the whole document before embarking on your project, and keeping the guide close to hand as you progress through the three stages.

FURTHER INFO

For more information about WWF's work with commodities, visit:
panda.org/markets

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GLOSSARY

Better management practices (BMP)

Approaches that protect the environment by helping to reduce the impacts of producing commodities. Can also help producers to make a profit more sustainably.

Buyer

Supply chain businesses that purchase commodities directly or indirectly through their suppliers, e.g. retailers, food and drink manufacturers, ingredient manufacturers, etc.

Discount rate

The interest rate used in financial analysis to determine the present value of future cash flows, taking into account risks, uncertainty, and the “time value of money”; the greater the uncertainty of future cash flows, the higher the discount rate, and the lower the present value of future cash flows. Determining the appropriate discount rate is the key to valuing future cash flows accurately.

Internal rate of return (IRR)

The discount rate at which the net present value of all cash flows (both positive and negative) from a project or investment equals zero. Calculating the IRR answers the question: What rate of return will adoption of certification/BMPs deliver? A new investment/project is likely to be considered attractive if the IRR exceeds a company’s required rate of return. The higher the IRR, the better.

Key performance indicators (KPIs)

A set of quantifiable measures that a company or industry can use to assess how effectively it is achieving its key business objectives, and compare its performance with that of its competitors.

Net present value (NPV)

A formula used to calculate the current value of a future sum of money or cash flow, given a specified rate of return – the “discount rate”. It can answer the question: How much is the adoption of certification/BMPs worth to my business?, by comparing the amount invested today to the present value of future cash receipts arising from the investment.

Payback period

The length of time required to recover the cost of an investment, i.e. for the net cash flow to turn positive. It is a good indicator of overall investment risk, but does not take into account the “time value of money”.

Price premium

The percentage by which a product’s selling price exceeds (or falls short of) standard market price, for example as a result of certification.

Return on investment (ROI)

Total benefits divided by total costs. This is the basic gauge of the profitability of a project relative to other options, and answers the question: How much return will I get relative to the cost of the investment?

Scoping

The process of identifying the key issues of concern at an early stage in a planning process in order to determine the terms of reference, objectives and parameters of a project.

Time value of money

A core principle of finance holding that money is worth more now than in the future due to its earning potential, i.e. capacity to earn interest.

Value Driver Model

A method that utilizes key metrics to determine and illustrate the business value of sustainable practices.

ACRONYMS

ASC	Aquaculture Stewardship Council
BMPs	Better management practices
ESG	Environmental, social and governance
FSC	Forest Stewardship Council
IRR	Internal rate of return
KPI	Key performance indicators
M&E	Monitoring and evaluation
NGO	Non-government organization
NPV	Net present value
ROI	Return on investment
RSPO	Roundtable on Sustainable Palm Oil
RTRS	Roundtable on Responsible Soy

INTRODUCTION



There is no one-size-fits-all blueprint for creating a business case. Every commodity, company and situation will be different, so your case must be carefully tailored to the specific challenges you face.

What is a business case?

In this guide we define a business case as: a compelling evidence-based argument showing that the benefits of adopting new practices will outweigh the costs over a specified time period. However, a “business case” can mean different things to different people in different contexts, and – despite the increasing prevalence of their use – there is no standard definition or format.

A good business case is one that is carefully designed to fit a specific set of circumstances and objectives, and has these three elements at its core:

1. Close links to the particular strategic goals and value drivers of the company(ies) being targeted;
2. Compelling evidence and analysis to convince decision-makers that adopting the proposed changes or practices will deliver net financial or strategic benefits over a specified period of time;
3. Clear explanation of how the net benefits will accrue in one or more of these three domains: improving productivity, growing the business and mitigating risks.

PRO TIP

Your business case must be closely linked to the target organization’s strategic goals and drivers of business value.

For example, you could use a business case to convince a company that investing in a more energy efficient heating system has a net present value (NPV) of US\$500,000 and a payback period of five years. To support your argument, you will need to present evidence and analysis demonstrating the opportunity for increasing productivity through enhanced operational efficiency and reducing energy supply and costs. The Value Driver Model is a simple and direct approach that you can use to assess and communicate the financial impact that a sustainable business strategy has on a company. See an illustration of this approach on page 5.

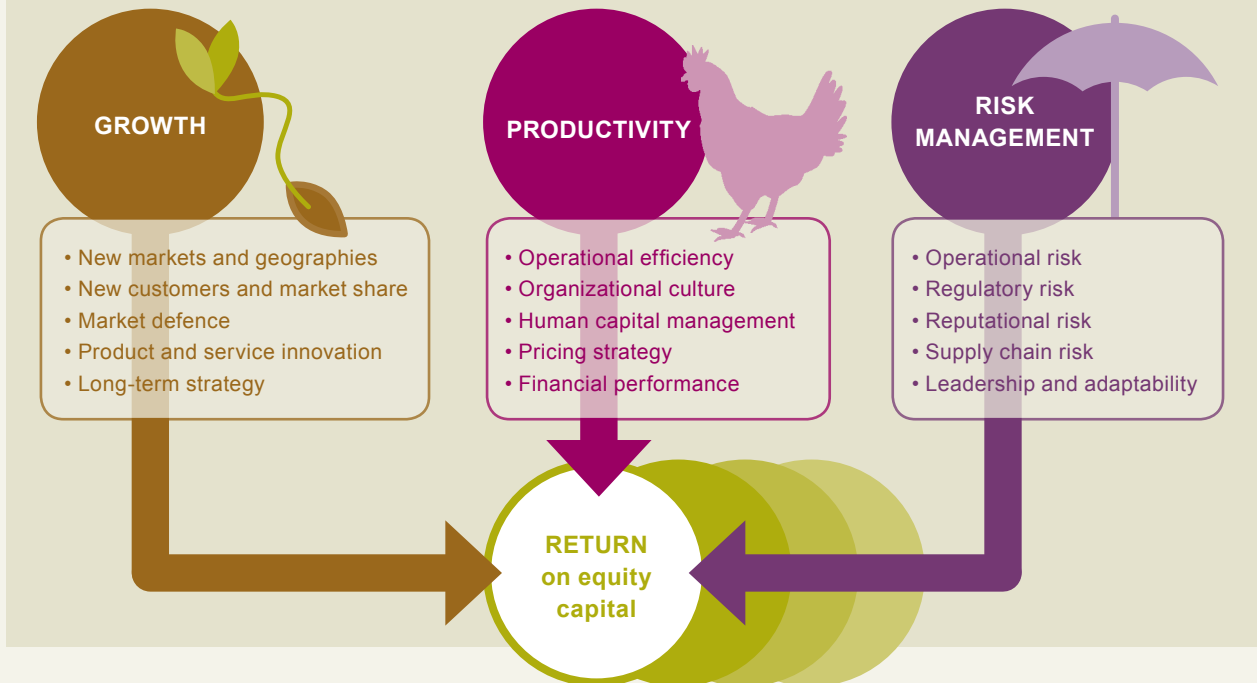
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VALUE
DRIVER
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In a “conventional” corporate setting, business cases are most commonly used to persuade internal decision-makers to make an investment in new equipment, processes, products, etc. Their application in the “sustainable business” world poses additional challenges.

THE VALUE DRIVER MODEL: LINKING SUSTAINABILITY TO FINANCIAL RESULTS¹



What's different about business cases for sustainable commodities?



Policymakers and non-government organizations (NGOs) increasingly see business as a vital partner for delivering change, and recognize the need to speak in a language that business people can relate to. This includes knowing how to present decision-makers with a good business case for sustainable commodities².

While the essential principles for arguing the commercial benefits of sustainable business practices are the same as for any other business case, certain important differences are worth highlighting as they will have implications for how you will construct and communicate your case.

Sustainability benefits are often “intangible”

It can be straightforward and effective to make a business case where the resulting benefits are direct and quantifiable (the so-called “hard” or “tangible” benefits such as reduced energy costs or consumption). The more easily the intervention can be linked to the organization’s “bottom line” (net income) or “top line” (gross sales), the easier it is to make your business case. But business cases are by no means restricted to tangible benefits, even from an entirely commercial perspective. Today more than half the value of the world’s US\$7.6 trillion food, beverage, retail and agriculture sector is locked up in “intangible” assets like brand reputation³. The importance of this type of value has been growing steadily since the 1970s⁴. Your challenge is knowing how to translate the intangible benefits of sustainable commodities into language that resonates with the businesses and policymakers you need to convince.

Sustainability benefits are often longer-term and strategic

Many businesses and policymakers tend to focus on the short-term implications of a decision, such as how it will impact sales in the next financial quarter or alter a country’s annual public expenditure. This presents a clear challenge as, by definition, many

PRO TIP

Businesses are not all about short-term profits, but you need to use business language and appropriate timescales to show the value of intangible sustainability benefits.

PRO TIP

Aim high when choosing to whom to pitch your business case: the CEO will be better placed to make a strategic decision than a line manager. Get senior support!

WARNING!

Confining your case to dollars and cents risks disconnecting decision-makers from the ethics of proposed changes. Consider making the moral arguments for action a central component of your business case.

SEE CASE
STUDY
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sustainability benefits accrue over the longer term. You should therefore be explicit about the time horizons used in your business case, and apply timescales – and in some cases discount rates – that are appropriate for your target audience. Who to target your business case at is another crucial consideration. Remember that different functions within larger organizations will work to different time horizons – for example, a CEO is more likely to be able to take longer-term strategic decisions than a sourcing manager, who will be judged on short-term key performance indicators (KPIs) such as customer complaints or profit margins. As changes to sustainable sourcing policies are strategic matters, where possible you should aim to get senior support for your business case.

Sustainability benefits can be shown by making the moral case for action

Even if the financial aspects of your business case are very persuasive, don't forget that organizations – and the people within them – can be led by their values, too. In some instances, appealing directly to a decision-maker's values can be a more powerful weapon than a set of complex spreadsheets showing how sustainable practices will improve profitability. Reducing everything to a dollar cost or benefit may also run the risk of disconnecting decision-makers from the ethical implications of ignoring the poor practices currently in their supply chains.

But this is not an “either/or” equation; the most effective approach is usually to link the moral case for change with the strategic benefits by arguing that adopting sustainable business practices will, for example, strengthen operations, respond to consumer demand, or even attract better talent. However, be aware that the relative effectiveness of ethical reasoning is highly context dependent. For some sectors and businesses, the moral case – no matter how strong – will be redundant and only “hard numbers” will work.

The ABC of making a good business case

Before we go into detail about the key stages to follow when constructing your business case, you need to be aware of the three basic rules that apply to all situations.

A. Audience and objectives must be clear before you begin

A good business case is created with a clear aim in mind. Mainstream business cases are generally made internally by someone advocating for change within a company, whereas a business case for the sustainable production and/or trade of a commodity may need to look beyond a single business. Whether arguing in favour of adopting certification or better management practices (BMPs), your case may apply to a cluster of businesses in a given geographical area (e.g. salmon farms in Chile), or may address businesses across a wider range of geographies and contexts. In the latter case, the need to appeal to a broader audience can create problems. The wider the range of contexts being covered, the more variables you will need to encapsulate in your business case, and – inevitably – the more generic will be its conclusions. While presenting a broad perspective can be a useful exercise, you should carefully consider your objectives and whether developing a more specific case, which is able to target a more exclusive audience, would be a better use of your resources – and more likely to achieve your goal. In fact, if you have a specific audience in mind, and are working with them, it is beneficial to ask them to identify the key pieces of information that they need to know in order to make a decision.

B. Be adaptable – every situation is different

There is no one-size-fits-all blueprint for creating a business case. Every company, commodity and situation will be different, so your case must be carefully tailored to the challenges you face. It could derive its evidence and analysis from an in-depth quantitative assessment of the costs and benefits of a certain course of action; or it could be based on a set of interviews with representatives of other businesses that have successfully adopted a certification standard. There are many different ways to

WARNING!

Sometimes trying to be both credible and compelling can pull your business case in opposite directions, e.g. adding a lot of technical detail might make your story less enticing. You need to strike a balance.

present the argument that companies can gain a net benefit by adopting sustainable practices: make sure you choose the best one for your business case.

C. Create a strong narrative. Tell the story!

A business case is not an academic study, and it must be more inspiring than a financial model on a spreadsheet. While the underlying analysis can be sophisticated, the outputs you produce to communicate your case should centre on a clear, credible and compelling narrative that directly addresses the perceptions, expectations and fears of your target audience. Credibility comes from showing that you have used sound evidence and methods, and is signalled through a clear, professional presentation style. It also comes from the good standing of your partners; so when selecting these partners always ask yourself: Will the involvement of this industry body or expert lend my business case more legitimacy in the eyes of the intended audience? Being compelling requires that you communicate in a style that both commands attention and expresses your main messages boldly and simply. If you don't tell the story, you won't sell your business case.

Know your target audience

In this guide we focus on four common audiences:

- buyers
- producers
- policymakers
- financial institutions.

We examine the approaches that are typically appropriate when making a business case to each of these audiences. They all have different roles and interests in

CASE STUDY Business cases for policymakers - a delicate balancing act

Business cases are most frequently discussed in the context of private sector actors. But in some areas of the public sector, civil servants are increasingly called upon to support their spending proposals with a business case. It can therefore be helpful to frame the case for certification and BMPs in this way, though you will often need to begin by making the case for governments to become engaged in the first place.

A business case in a corporate context aims to show that financial benefits outweigh costs for the proposal in question. If they do, then the proposal is likely to be favourably viewed by decision-makers within a company. But, for a government, most spending does not create a direct return on investment, but instead creates social return on investment by generating well-being, employment, economic development, education, health and so on. There are many more outcomes and many more stakeholders to consider when deciding whether or not a proposal is a good idea. This is further complicated by the fact that, ultimately, government officials (in democracies) depend on public support for re-election, which

encourages them to focus on programmes that deliver results in three to five years.

One approach to building a public sector business case is to create a framework for quantitatively evaluating these many and varied public benefits. You may find that a detailed economic analysis is not appropriate for engaging with many policymakers, but economics will still need to be part of your argument, supplemented with other elements such as strong case studies. Your business case should focus on talking to your policymaker audience in their own language and presenting a powerful argument – with as much quantified data as possible – that aligns with their priorities as well as those of their key stakeholders, e.g. domestic producers. This might include both case studies and quantified evidence of the relevance of certification and BMPs to climate change adaptation, smallholder livelihoods, trade/tariff revenue, cost of clearing land, and costs of illegality, etc.

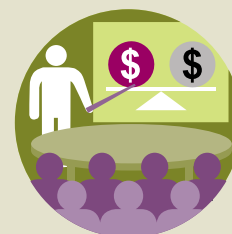



TABLE 1
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sustainable commodity production and trade, so a persuasive business case will be substantially different depending on which audience is being targeted. You also need to keep in mind that there is often great variation within the groups: just imagine the difference between a smallholder producer group in Ghana and a large-scale agribusiness in Brazil. Table 1 defines each of the four audiences and outlines the top-level costs and benefits that are likely to be most relevant to them.

When developing your business case, it is important to remember that these audiences are not entirely separate from one another. Policymakers and financial institutions can be enablers when it comes to companies (both buyers and producers) adopting sustainability standards – for example, by changing regulations or helping companies to access finance, which can be a factor in the business case for companies. At the same time, for both of these audiences, the financial success and profitability of the companies they support or enable is also in itself a key metric: governments are interested in economic growth, and financial institutions are interested in producer and buyer profitability. You may therefore find that you have to dovetail your business case for producers with your case for policymakers and financial institutions.

If you are looking to make broader changes across an entire commodity in a particular region, a strong case to a government could be based on multiplying your producer business case by the size of the market. For added impact, your business case could even be delivered jointly by civil society, businesses and financiers.

TABLE 1: BENEFITS AND COSTS OF INTEREST TO DIFFERENT BUSINESS CASE AUDIENCES

Audience/definition	Business case aim	Benefits	Costs
Producers Businesses engaged in producing the commodity, for example, a smallholder cotton farmer or a logging company. Includes producer groups such as cooperatives.	Adopting certification standards or BMPs	<ul style="list-style-type: none"> • Access to new markets • Better contractual relations or conditions • Access to capital or better lending rates • Better prices • Reduced operating costs through efficiency • Increased yields or output 	<ul style="list-style-type: none"> • Effort and time required to implement better practices or certification • Certification and auditing fees
Buyers Companies that trade and/or process commodities or sell final products to consumers (i.e. retailers and service sector businesses). Includes “branded” manufacturers.	Sourcing of certified commodities and adoption of BMPs	<ul style="list-style-type: none"> • Security of supply of raw materials • Customer value/increased product sales • Product quality • Reputational/brand protection 	<ul style="list-style-type: none"> • Time and expense of implementing certification or producer programme • Price premiums, if relevant • Chain of custody certification and auditing fees
Policymakers Government or intergovernmental bodies engaged in promoting and regulating production and trade in commodities.	Creating an enabling regulatory and policy environment that sets incentives for producer certification or BMPs, and promotes sustainable public procurement and trade	<ul style="list-style-type: none"> • Sustainable development/sustained economic growth • Export markets/trade • Employment • Government income • Public health and well-being • Long-term natural resource stability and security • Food security of urban/rural poor • Natural resource management • Access to international finance and inward investment 	<ul style="list-style-type: none"> • Implementation and enforcement costs • Political capital • Capacity building • Communication costs
Financial institutions Wide range of institutions including: banks, private equity firms, institutional investors, sovereign wealth funds, international development funding donors, etc.	Financial institutions encourage certification or adoption of BMPs among clients and/or use as an investment screening and risk management tool	<ul style="list-style-type: none"> • Higher return on investment e.g. NPV, internal rate of return (IRR); or ability to further diversify investments • Lower environmental, social and governance (ESG) risk • Market valuation (stock price) • Increased net profits and free cash flow • Access to new customers/markets • Proxy for better clients/stronger portfolio 	<ul style="list-style-type: none"> • Potential reduction in dealflow (the rate at which they receive business proposals/investment offers)

The three stages of developing a business case

Now that you are aware of the key principles and audiences to consider when making your business case, it is time to explore each stage of its development in greater detail. As we have seen, there are many ways to argue that the costs of adopting sustainable practices and certification standards are outweighed by the benefits; however, common to all approaches are three strategic activities: scoping, analysis and communication. These are the subjects of the next three chapters of this guide.

Scoping, analysis and communication are all critical elements and require roughly equal amounts of care and value invested in them, according to the so-called “Three Thirds Principle”⁵. Some of the activities will need to be carried out concurrently.



Stage 1: Properly scoping your business case to ensure it has clearly defined aims and target audience(s) is a critical foundation for all subsequent work. Most importantly, understanding the needs of your audience and the specifics of the situation (including the amount of resources available for the work) will help you determine the most appropriate analysis and communications methods to use. This stage also establishes whether a business case is even the right tool to use to influence change in this situation.

Stage 2: Evidence and analysis lie at the core of a business case. This is what will give your case its credibility and make it more than just an assertion. There is a wide variety of types of analysis and sources of evidence that you can draw upon – ranging from qualitative arguments, case studies, interviews and competitor benchmarking through to detailed financial modelling. It is vital that all the data collected from companies and other experts is accurate.

Stage 3: Communication is critical throughout the process of developing a business case: from engaging effectively with collaborators during the scoping and analysis stages, to presenting and disseminating the findings in a way that resonates with key decision-makers in the target audience. It is useful to remember that a business case for sustainability can be indefinite and complex, so when communicating your business case don’t forget to create a strong narrative and always appeal to the values of your audience.

Checklist

Before reading on, make sure that you have grasped the:	Check
Essential meaning and key elements of a business case	<input type="checkbox"/>
Unique characteristics of sustainability benefits	<input type="checkbox"/>
Three rules, or ABC, of making a good business case	<input type="checkbox"/>
Four common audience groups to consider	<input type="checkbox"/>
Three stages in the process of developing a business case	<input type="checkbox"/>

PRO TIP

Pay roughly equal attention to each of the three stages; after all, a poorly scoped and communicated business case is unlikely to influence decision-makers – even if it contains well-reasoned and credible analysis.

“For added impact, your business case could even be delivered jointly by civil society, businesses and financiers”

STAGE 1: Scoping



By developing a clear idea of which actors have the most influence and power to make the changes your business case calls for, you will put yourself in a stronger position to target your resources where they will have the most impact.

Ensuring that your business case has clearly defined aims and target audience(s) is the foundation upon which all your further work to develop your business case will be based. The specific circumstances of your case (including the amount of resources you have available), and the expectations and requirements of your audience, will dictate the types of analysis and communications that you should use. As a critical step, initial scoping will also establish if a “business case” is even the right tool for you to use to influence change in this situation.

At the end of the scoping stage, you should have:

1. Articulated the environmental and social issues being addressed and the change desired, e.g. adoption of certification;
2. Identified decision-makers with the power to adopt/promote this change in the company, region or supply chain that you are addressing;
3. Nominated an expert/champion to act as sounding board/advisor on the content and format of your business case;
4. Checked that a business case is the right tool for driving the identified change;
5. Established the level of resources available, your project team, and your delivery deadlines.

1.1 What is the desired change?

Start by asking yourself: What change is this potential business case ultimately trying to support? This will help you to articulate the objective of your business case. An example might be “promote uptake of better management practices by smallholder palm oil producers in Eastern region of Ghana through adoption of Roundtable on Sustainable Palm Oil (RSPO) certified production”. The more specific your aim, the more tailored and relevant your business case can be, and the more chance it has of directly appealing to influential decision-makers.

It is possible to create a business case with more generic objectives (e.g. “encourage grocery retailers to specify sourcing of RSPO palm oil across their businesses”), however, this risks being less powerful as you will need to accommodate a wide variety of circumstances.

WARNING!

By trying to please everyone you run the risk of satisfying no one. Make your business case as specific as possible.



1.2 Who is your target audience?

You now need to identify who has power to influence key decisions, practices and policies relevant to the change your business case is arguing for. These are the audience(s) at whom your business case must be targeted. In most situations, you will need to address your business case to multiple actors within a value chain or region, so it is also important to determine which institutions have the most power to bring about your objectives.

As you have seen, in this guide we focus on four main audiences that are likely to be most relevant to driving the uptake of certification and BMPs: producers, buyers, policymakers and financial institutions. But within these broad categories of actors there are also many subdivisions that you will need to explore in order to identify your particular audience to a level of detail sufficient for developing a well-targeted business case. You may have to consider, for example: Which government departments need to be influenced? Who are the individual decision-makers within a retailer who need to be targeted? To make matters more complicated, these different people will also work according to different incentive structures and timescales, which you will also need to take into account when making your case.

Value Chain Mapping, as illustrated on page 12 using palm oil as an example, is a method for identifying where power and influence lies within an industry. An excellent way to build your understanding of the power dynamics in a specific value chain or region is by involving sector experts. This can be achieved through an initial literature review and scoping interviews with industry contacts, but the best method of gaining the insight you need is to engage in one-on-one discussions with industry experts who have direct experience of working in your target sectors or countries. By developing a clear idea of which actors have the most influence and power to make the changes you are aiming for, you will put yourself in a stronger position to target your resources where they will have the most impact.

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CHAIN
MAPPING
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PRO TIP

Find out who has the real power to make the change your case is proposing, and be aware of the different incentives and timeframes that will influence their decisions.



1.3 Who would be an effective business case champion?

Recruiting allies from inside the target audience, or among people with direct experience of working with them, can improve your prospects of creating a credible, relevant and influential business case. These business case champions can help advise on a range of critical decisions, such as:

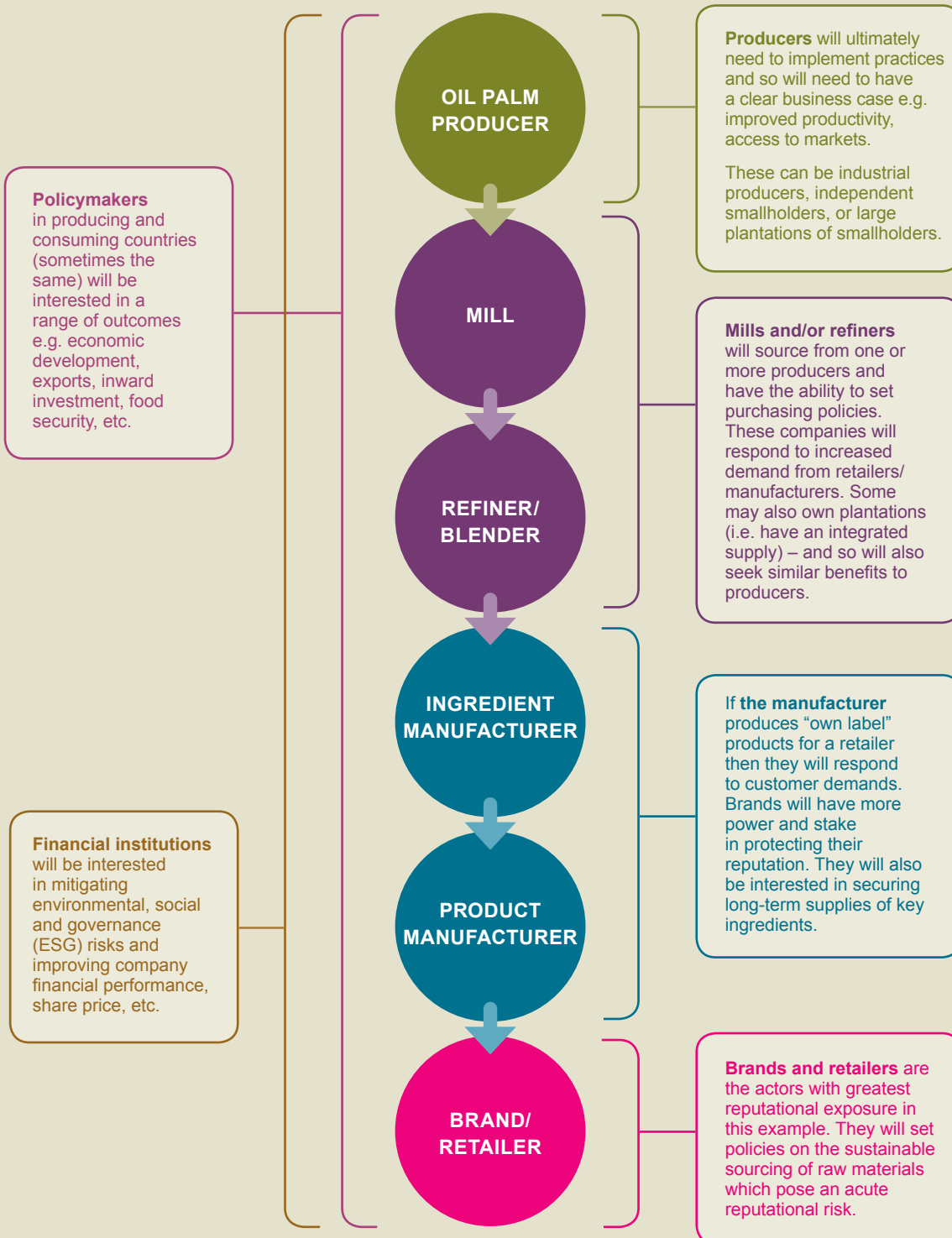
- Who is the key decision-maker to be targeted?
- What “value drivers” and benefits/costs are of most interest?
- What sort of analysis or evidence will work best for this audience?
- What sort of language or words will be most effective when making your case?
- What format should the business case be presented in?

The best-case scenario is that you identify a sponsor at the target organization who is politically effective, and who has both executive access and the authority to assign resources⁶.

1.4 Is a business case the right tool?

Before you go any further, you need to establish whether or not a business case is the right tool for driving your desired change. It is not the only available tool for shifting companies towards more sustainable practices, and it is not always suitable. Your discussions with industry contacts and/or your business case champion will establish if making the business case would be useful for meeting your objectives.

VALUE CHAIN MAPPING OF TARGET AUDIENCES IN A SECTOR, USING PALM OIL AS AN EXAMPLE



PRO TIP

You should compare different options when making your business case – the most common alternative scenario being “business as usual”, i.e. doing nothing!

As a rough guide, a business case is likely to be effective when many of these circumstances are met:

- You have good levels of engagement with key decision-makers or actors in the value chain or region;
- The economic/business case is expected to be strong, based on initial scoping and discussions with contacts;
- It is likely that there will be sufficient access to information and data from relevant stakeholders;
- There is growing awareness among, and commitments from, downstream buyers;
- There are good existing case studies – or you have the resources needed to create your own case studies – that are relevant to the situation at hand, for example that show successes in a similar geographic region or commodity;
- You have sufficient resources and time to be able to deliver the level of analysis needed to convince key decision-makers;
- There is a high level of stakeholder engagement and scrutiny;
- Changes in relevant regulations are anticipated, making the business audience more receptive to mechanisms to improve practice and becoming compliant.

If the circumstances for developing and effectively delivering a strong business case are absent, consider whether alternative strategies for effecting your desired change might be more appropriate, for example a campaign, one-on-one partnership with a company, pilot study, exposé report, or scorecard.


1.5 What resources, project team and timeframe are available?

The amount of budget and/or staff resource available to you, and any time constraints you face, will determine what is actually achievable and therefore should be assessed at the start of the project. It is not possible to decide what sort of analysis or level of detail will be feasible without a clear understanding of the resource and time limitations. For example, you need to know if a significant business or policy decision is due to be taken in one month’s time as this would rule out lengthy approaches.

Choosing who will be involved in developing your business case is also crucial. When selecting an individual, institution or organization to conduct the analysis and/or communication of the case, it is very important to pick those with the appropriate expertise and credibility to ensure reliable findings and successful uptake of the report.

The final step of the scoping phase is to establish your business case project team (including your own organization, any co-authors, reviewers, and/or consultants) and assign clear, time-bound roles and responsibilities.

Checklist

Task	Check 
Articulate the change your business case wants to make	
Identify decision-makers with power to adopt/promote this change	
Identify an expert/champion to act as a sounding board/advisor for your business case	
Check that a business case is the right tool for driving the identified change	
Establish the level of resourcing, the project team, institutional partners, and delivery deadlines	

“Choosing who will be involved in developing your business case is also crucial”

WARNING!

Don’t bite off more than you can chew. Be realistic about the time and resources available to you.

STAGE 2: Analysis



Your business case must clearly identify the immediate and future costs and benefits of making the proposed changes, and explain how they are linked to your target audience’s strategic priorities. By choosing the right types of analysis and evidence to support your argument you will make your business case story more convincing.

Evidence and analysis are at the core of a business case. They are what will give your case its credibility and make your argument more than just an assertion. There is a wide variety of sources of evidence and types of analysis that can be drawn upon to make a well-reasoned business case – ranging from qualitative arguments and case studies, through to detailed financial modelling of potential future net financial benefits. Many of these are explored here.

By the end of this section, you will understand the importance of:

1. Undertaking a literature review;
2. Identifying key costs and benefits of relevance to the target audience;
3. Choosing the most appropriate analytical approach to use in your business case;
4. Collecting data and/or evidence on relevant costs and benefits;
5. Calculating the net financial impact of the change (if appropriate);
6. Validating your results.

WARNING!

To maintain credibility, it is vital that all your data and evidence are gathered from reputable sources.

2.1 What can the existing literature tell you?

A good first step is to undertake a review of the existing literature and publications relevant to your situation. A literature review can be an excellent method for scoping the likely costs and benefits of adopting certification standards or BMPs. It can also be used to underpin quantitative analyses – something that we will return to in section 2.3. A thorough examination of the studies already made on an industry can also reveal serious shortcomings and data gaps, as the case study of a review made as part of a WWF economic analysis of FSC certification demonstrates (see page 17).

CASE
STUDY
Page 17

WARNING!

An outcome that is a benefit for some of your target audience may well be a cost for others; you need to be aware of that in your analysis.

2.2 What are the key costs and benefits?

Costs and benefits are the backbone of your business case. Regardless of the level of quantification in your study, an important step in this phase of work is to clearly identify the key costs and benefits of making the change you are proposing, for example adopting certification standards or BMPs. As explained in the introduction, these costs and benefits should be clearly linked to your target audience's strategic aims and/or key business drivers (i.e. productivity, growth or risk reduction).

Stakeholder consultations (conducted by you and/or your expert collaborators) and the literature review will allow you to compile long lists of direct and indirect costs and benefits; these should be divided into categories, such as capital expenditure, operating expenditure and improved social and environmental outcome. You need to be aware that some of the items on your list will be a benefit for some of your target audience and a cost for others. The price premium that can accompany certification is

TABLE 2: PROJECT INVESTMENT AND OPERATING COSTS, AND THEIR RELEVANCE TO DIFFERENT STAKEHOLDERS

Category	Item	Cost (-) or benefit (+)	Producer	Buyer	Financial institution	Policymaker
Capital expenditures	New equipment and/or vehicles	-	✓		✓	(✓)
	New product handling facilities and storage	-	✓	✓	✓	(✓)
	New transport infrastructure	-	✓		✓	✓
	New safety equipment	-	✓		✓	(✓)
One-time expenditure	Pre-assessments/pre-audits	-	✓		✓	(✓)
	Internal audit	-	✓		✓	(✓)
	Staff cost of developing management plans and inventory	-	✓	✓	✓	(✓)
	Ecological and social impact assessment	-	✓		✓	(✓)
	Corrective actions to achieve certification	-	✓	✓	✓	(✓)
	Staff costs of changing business processes	-	✓	✓	✓	(✓)
	Legal costs e.g. permits/title to land	-	✓			(✓)
Operating expenditure	Annual audit	-	✓	✓	✓	(✓)
	Chain of custody fee and system	-	✓	✓	✓	(✓)
	Certification branding and licence	-	✓	✓	✓	(✓)
	Staff costs of managing certification process and compliance	-	✓		✓	(✓)
	Staff costs of monitoring (environmental, social and legal)	-	✓		✓	(✓)
	Staff costs of updating management plans and inventory	-	✓	✓	✓	(✓)
	Ecological and social impact assessment	-	✓		✓	(✓)
	Environmental and social mitigation activities	-	✓		✓	✓
	Changes in input costs e.g. pesticides	-/+	✓		✓	✓
	Changes in energy costs	-/+	✓	✓	✓	(✓)
	Additional benefits to workers (compared to no certification)	-	✓		✓	✓
	Training of staff and contractors	-	✓	✓	✓	(✓)

Legend: ✓ = relevant to stakeholders ; (✓) = potentially relevant to stakeholders.

TABLE 3: COSTS/BENEFITS OF PROJECT OUTCOMES, AND THEIR RELEVANCE TO DIFFERENT STAKEHOLDERS

Category	Item	Cost (-) or benefit (+)	Producer	Buyer	Financial institution	Policymaker
Changes in business performance (before/after)	Price premium (absolute amount per unit sold and in total)	-/+	✓	✓	✓	✓
	Price premium as percentage of price of goods sold	-/+	✓	✓	✓	✓
	Changes in product sales (volume and value)	-/+	✓	✓	✓	(✓)
	Changes in yield or production efficiency	-/+	✓		✓	✓
	Changes in operational efficiency	-/+	✓	✓	✓	(✓)
	Change in public subsidy level	-/+	✓		✓	✓
	Changes in product quality – complaints, rejections, fines	-/+	✓	✓	✓	(✓)
	Changes in energy costs	-/+	✓	✓	✓	(✓)
Improvement in stakeholder relations	Access to better markets (e.g. longer contracts, better terms)	+	✓		✓	✓
	Access to new markets and acquisition of new clients	+	✓		✓	✓
	Improved access to capital (e.g. lower interest rates)	+	✓		✓	✓
	Reduction in staff turnover rate and recruitment costs	+	✓		✓	(✓)
	Attraction of better staff	+	✓	✓	✓	(✓)
	Reduction in work stoppage due to labour and social incidents (e.g. strikes and community disruptions)	+	✓	✓	✓	
	Increases to brand value	+		✓	✓	(✓)
Improved environmental outcomes	Reduced production due to set aside areas	-	✓		✓	✓
	Reduced allowable catch/cut	-	✓		✓	✓
	Reduction in use of water	+	✓			✓
	Reduction in chemical run-offs	+	✓			✓
	Reduction in greenhouse gas emissions	+	✓	✓	(✓)	✓
	Long-term sustainability of natural resource (e.g. fisheries)	+	✓			✓
	Reduced pollution clear-up costs	+				✓
	Compliance with national and international agreements	+				✓
Improved social outcomes	Reduced conflict with communities (licence to operate)	+	✓	✓	✓	✓
	Improved community health (e.g. reduction in health costs)	+				✓
	Improved food security (e.g. reduced cost of providing food)	+				✓
	Compliance with national and international agreements	+				✓
Sustained and sustainable economic development	Economic growth	+				✓
	Job creation	+	(✓)		(✓)	✓
	Increased investment in regional agri-food supply chains	+	✓		(✓)	✓
	Increased exports and more stable trade relations	+	✓	(✓)	✓	✓

Legend: ✓ = relevant to stakeholders ; (✓) = potentially relevant to stakeholders.

CASE STUDY Literature review – Forest Stewardship Council (FSC)

As part of a report examining the business case for FSC certification, WWF and research partners reviewed 29 relevant academic studies and two publications by consulting firms. Based on these, our researchers created a table of commonly identified costs and benefits of FSC certification and listed qualitative and quantitative findings from the review's sources against each category.

Comparing these findings revealed significant variation in the literature; for example, estimates of the cost of initial investment associated with obtaining certification varied from less than US\$2.5 per ha to US\$25 per ha, without any explanation to account for the difference. We also discovered a paucity of detailed primary data, with many studies

limited to collecting general data from certification body audit reports and donor budgets. A further problem identified in this case was that studies did not make explicit distinctions between the costs of certification itself and costs of legal compliance, meaning that it was hard to attribute costs solely to FSC.

Despite these challenges, the literature review was an important part of the business case process and provided a framework and some initial indications of costs and benefits for the new analysis that followed. It also exposed significant data gaps where more research was clearly required.



a good example of this: it is a benefit to producers but may reflect a cost to buyers that can – in some cases – be passed on to consumers.

TABLE 2
Page 15

TABLE 3
Page 16

Detailed lists of common costs and benefits relevant to the adoption of sustainable business practices are provided in Tables 2 and 3. The likely interest of different actors is also indicated, but you will need to confirm that these apply to your specific case through discussions with experts and business case champions. Pay special attention to the policymaker column: the costs and benefits of most relevance to governments will depend on which audiences have most influence (e.g. investors, producers or buyers). This means that your business case for these stakeholders will need to be the basis for the business case for government. However, in some situations, the business case for governments might derive from aggregated costs and benefits realized across an entire sector – thus a business case that is unattractive to certain individual stakeholders could still present a positive business case for the government, or vice versa.

These tables show examples of costs and benefits of interest to stakeholders; if you decide to undertake a detailed financial analysis (e.g. NPV) you will need to include these, and probably others, in your analysis – or have a good basis for any that you choose to exclude.

See page 19 for an illustration of this in practice, using the example of the primary financial impacts of certification on profit and loss 7.

FIGURE
Page 19

PRO TIP

The type of evidence and analysis that will be best at convincing each audience will depend on the culture, practices and norms of the region and organization(s). Every case is different.

2.3 What kind of evidence and analysis will be most effective?

Once you have identified the key types of cost and benefit relevant to your situation, you need to decide which analytical approaches are most likely to convince your target audience.

All of the options expand on the costs and benefits that you will have identified in the previous step – but they vary in the level of detail required and methods used. Essentially, you will make your selection from among these five main types of evidence and analysis:



- Compelling qualitative arguments
- Case studies – concrete examples
- Key indicators of benefit
- Quantified cost-benefit analysis
- Competitor analysis.

These five approaches, and their typical applicability to the four audiences, are summarized in Table 4, and explained in detail in the following pages. Establishing which approaches work best in your case will require engaging with experts or your business case champion. Most business cases combine different types of approaches, drawing upon a mix of evidence and analysis.

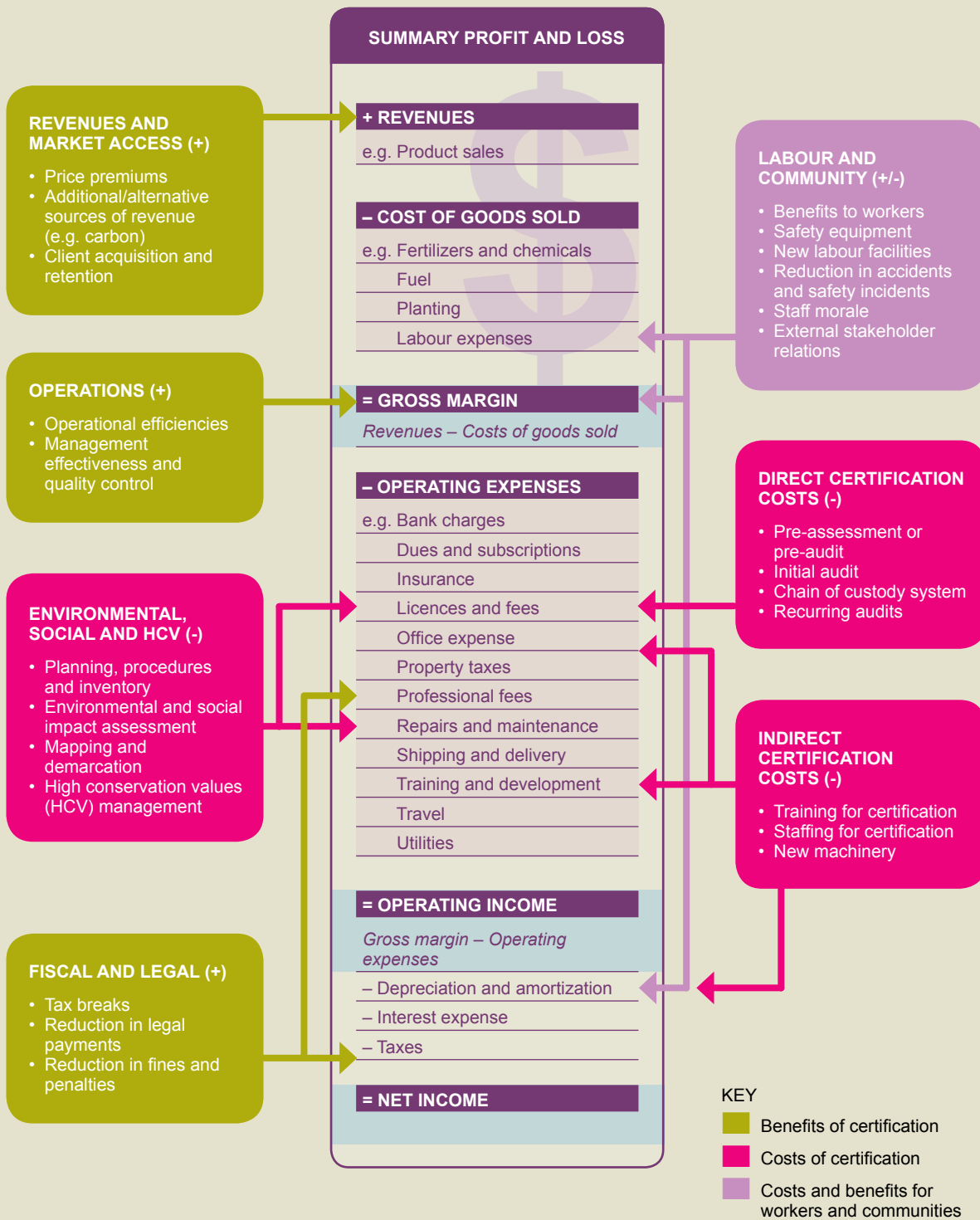
Compelling qualitative arguments

All business cases should be based around a strong narrative, but qualitative arguments are often particularly effective when making the business case to buyers, for whom the decision will depend on harder-to-quantify factors such as brand value, reputation and risk – rather than tangible financial measures. Qualitative arguments

TABLE 4: TYPES OF ANALYTICAL APPROACH OF POTENTIAL USE IN BUSINESS CASES

Analytical approach	Audience relevance	Notes
Qualitative arguments These can address tangible and intangible benefits e.g. reputational risk, security of supply, brand value, etc.	<ul style="list-style-type: none"> • Relevant to all audiences, particularly buyers. 	<ul style="list-style-type: none"> • Generally fast and has low resource needs. Can be based on “boiler plate” material developed in advance. • Easier to address intangible benefits. • KEY CHALLENGE: approach isn’t based on “hard numbers” and so won’t satisfy some audiences.
Case studies These are stories (short or long, qualitative or data heavy), based on the results of your investigations and interviews, that can be used to back up a business case. They are often augmented by the findings of other existing studies or research, but must be tailored to the needs of your audience and the data available.	<ul style="list-style-type: none"> • Relevant to all audiences. 	<ul style="list-style-type: none"> • Dependent on identifying good sources of evidence and expertise on relevant cases. • Relatively fast to do – although will need to be tailored to the needs of the audience and access to data. • Consider what is more credible: case studies based on individual company analysis, or industry/segment averages? • KEY CHALLENGE: information from one specific case may not be relevant enough to other actors and situations to convince decision-makers. Existing research may be too poor or unavailable to augment and generalize findings. If too anecdotal, research methods may not be considered credible enough for results to persuade decision-makers.
Key indicators Some indicators of benefit specific to your target audience could be calculated to help support the business case e.g. market share increase, crop yield, etc.	<ul style="list-style-type: none"> • Relevant to all audiences. 	<ul style="list-style-type: none"> • Only partial evidence of benefit – but relevant to target audience so can be useful persuasive tool. • Requires some evidence/data gathering and modelling to create the indicator.
Quantified cost-benefit analysis <ul style="list-style-type: none"> • Investment cost Critical to understanding upfront costs and timings for implementation. This covers capital and project expenditure. • Return on investment Best calculated using dynamic techniques such as: <ul style="list-style-type: none"> • NPV and IRR • Payback period. 	<ul style="list-style-type: none"> • Most relevant to producers, policymakers and financial institutions • “Investment cost” relevant to producers and buyers. 	<ul style="list-style-type: none"> • Advanced financial methods are more complex, need to be applied correctly and will require access to company financial and operational data. • Presenting just the “investment cost” is easier to do (compared to the more dynamic techniques such as NPV), and in some cases could represent the minimum amount of quantitative analysis needed for your target audience to make a decision. • KEY CHALLENGES: can be more time and resource intensive, including field research; may depend on access to audience-specific data, which can raise confidentiality issues.
Competitor analysis Benchmarking against peers/competitors can be a powerful motivator.	<ul style="list-style-type: none"> • All audiences. 	<ul style="list-style-type: none"> • Can either be based on existing studies or developed specifically for your situation. • Can be presented graphically. • KEY CHALLENGE: need to identify the relevant benchmarks for your audience, and understand where they want to be when compared to peers (i.e. do they want to be leading the pack, or do they want to move with the pack?). Not everyone will want to be the first mover, but it’s likely that nobody will want to be the last.

PRIMARY FINANCIAL IMPACTS OF CERTIFICATION ON PROFIT AND LOSS



WARNING!

Some people always need to see the “bottom line”. In these cases, even the most compelling qualitative analysis won’t be enough – you will need to show hard figures.

can set out the context for change and summarize the key benefits of adopting the sustainable business practices you are proposing. For example, compelling qualitative statements and arguments can:

- Describe the main external trends, threats and drivers that make certification or other BMPs necessary, e.g. reduced investment in agriculture from aid budgets and national governments; long term increases in input prices; increased transparency of food sourcing and agricultural practice; increased demand for sustainably produced products; etc. These can be supplemented with statistics and quotes from respected opinion-makers and other credible sources.
- Describe the main benefits that will result from the adoption of certification or BMPs, e.g. securing a long-term supply of quality ingredients; protecting and enhancing the reputation of brands and companies; access to finance and better contracts, improved productivity, etc.

Case studies

It can be very persuasive to use case studies as evidence in a business case, especially in combination with some of the other analytical approaches listed here. Case studies are stories about companies or other stakeholders, their challenges at hand, and the initiatives they spearheaded to get results. Better production business cases that employ this analytical approach might tell the story of how a particular business or entity achieved certification, including why they did it, how they benefited, and what they learned from the change in practice. Or a case study could simply discuss the benefits achieved by a company that adopted a particular sustainable business practice or certification. These stories can be short or long, qualitative or data heavy – as long as they are tailored to the needs of your audience and the data available. Case studies can be developed through in-depth interviews and/or by drawing from existing sources. They are relatively quick to produce and can provide tangible, real-world examples of the benefits of BMPs or certification for a specific company, but they may not always be generalizable to different companies or audiences operating under different conditions, and thus might not be sufficiently convincing (on their own) to sway decision-makers.

Key indicators

Even if you don’t have access to the information and other resources necessary to produce a full cost-benefit analysis, it might be possible to work up some quantitative indicators of the benefits your target audience is likely to experience. For example, through an analysis of total cropped area and case studies of potential yield improvements you could estimate the additional volume and value of crop that could be secured through adopting BMPs. The choice of indicator will depend on your audience.

Indicator data can be found in a variety of publications, such as: certification impact evaluation or monitoring and evaluation (M&E) reports; academic research; market research reports; and company reports. These should be identified during your literature review and in discussions with expert stakeholders.

TABLE 5: EXAMPLES OF BENEFIT INDICATORS TO USE IN A BUSINESS CASE

Audience	Example benefits of better practices	Example indicators
Producer or policymaker	Increased agricultural productivity	Yield per hectare; water use per tonne crop; crop wastage rate; increased income of farmers; increased contribution to GDP, etc.
	Access to better market	Price improvement for product sold.
Financial institution	Financial outperformance	Typical impact of sustainable practices on stock price, cost of capital or cash flow ⁸ .
Buyer	Improved product quality or safety	Relative pesticide residue levels in certified and non-certified products.
	Increased product sales	Market data showing growth in sustainably sourced products.

TABLE 6: METHODS TO QUANTIFY FINANCIAL IMPACT ⁹			
Method	Answers the question...	Expressed in...	Typically used for...
Investment costs	How much money is required to implement the adoption of certification or BMPs?	Financial value e.g. dollars	Even where benefits are intangible or difficult to quantify, it is still useful to calculate the capital, project and annual costs of adopting certification or BMPs. Costs are easier to quantify but uncertainty over their scale can be a key reason for rejecting an investment.
Return on investment (ROI)	How efficient is the investment? How much return will I get relative to the cost of investment?	%	Basic gauge of an investment's profitability relative to other options. ROI has some well-known downsides, e.g. not taking into account the time over which benefits are accrued.
Payback period	How long does it take for the net cash flow from the rolling out of certification to turn positive? (Provides guide to "risk" – a long payback will be dependent on hitting a number of predictions.)	Months or years	Projects with a heavy upfront investment.
Net present value (NPV)	How much is the adoption of certification worth to the business?	Financial value e.g. dollars	Projects with large expenditures. Captures all financial benefits and losses and accounts for timescale. Requires a discount rate.
Internal rate of return (IRR)	What rate of return will adoption of certification deliver over the time period of interest?	%	Projects that the company reports on externally, especially those that require you to borrow money. Captures all financial benefits and losses and accounts for timescale. Does not require a discount rate and provides for easy internal comparison to competing projects/investments.



Quantified cost-benefit analysis

This is the most labour and resource intensive type of analysis, but for many of your target decision-makers it can also be the most effective. A quantitative analysis involves summing up the financial values of all the material costs and benefits associated with the proposed change in order to produce a measure of business value, investment risk or opportunity (see Tables 2 and 3 on pages 15 and 16).

These quantitative studies tend to be longitudinal rather than latitudinal – meaning that they generally look at a smaller set of companies using “before and after” analysis, rather than a large set of companies at a single moment in time. Because proprietary company data is so hard to procure, there is typically a limited number of participants and it is necessary to take an approach whereby each company's financials are contrasted before and after the certification or BMP is implemented. In order to isolate the financial outcomes that result solely from a company's decision to implement the targeted BMP, you will have to subtract out any conflating factors, such as attaining legal compliance, strategic shifts and acquisitions.

Costs and benefits are likely to occur over a number of years, so it is best to use methods of analysis that properly take account of the “time value of money” (i.e. that the same amount of money is worth more now than in the future due to its earning potential) through an industry or company-specific discount rate; these methods include NPV, IRR and payback period. This is in contrast to a more basic, static method such as return on investment (ROI), which simply divides total benefits by total costs. If you have limited time or resources available, your best option may be to show only the investment costs, an approach that can also be valuable when making your case to development finance institutions or corporate buyers looking to engage within their supply chains to help producers improve practices. Table 6, above, provides a useful synopsis of which type of analysis is typically best in which circumstances. Please note that conducting these analyses can be complex, so – unless that expertise already exists in the team that is driving the work – we recommend engaging a financial analyst whenever possible.

PRO TIP

If your target audience is a specific company, use as much of its own financial data as you can; otherwise gather data from multiple companies to account for the wide range in costs/benefits encountered.



Competitor analysis

Finally, undertaking and presenting a competitor analysis can be a helpful way to drive home your argument and build your narrative. Comparing the policies and activities of your target audience with their peers and competitors can be a powerful motivator of action in organizations that are lagging in their performance. Many sectors are highly competitive and no one wants to be seen to be left behind by their peers – especially consumer-facing retail and branded manufacturers.

The competitor analysis strategy works largely because of people’s assumptions that:

- If many competitors are investing in certification or BMPs then there are likely to be strategic or commercial benefits;
- If competitors are increasingly adopting these practices, then it is likely that they will become the “minimum requirement” in the future.

You should clearly articulate these arguments when presenting your analysis, stressing the benefits to your target company of keeping up with their competitors when it comes to introducing sustainable practices.

A competitor analysis is not an essential part of a business case – but is worth considering when deciding which style of argument will be most persuasive in your situation. Your competitor analysis will be most effective if you contrast similar organizations or regions and, wherever possible, base comparisons on objective information. Findings can be presented as rankings or scores to highlight the differences (e.g. red, amber, green – so-called “RAG” scores – red being poor, green being good).

Scorecards and rankings are becoming increasingly popular tools – however, they tend to focus on the major brands and retailers e.g. Oxfam Behind the Brands ¹⁰, WWF Soy Scorecard ¹¹. If no good quality comparisons relevant to your case exist, smaller scale analyses can be developed using desk-based research and interviews. But, no matter which approach you take, you will need to be prepared to defend your methods and evidence as comparison analyses – though effective – can provoke negative reactions in the short term.

WARNING!

Comparing your target audience with their more progressive rivals is likely to ruffle some feathers – make sure you are prepared to defend your analysis and rankings.

2.4 What financial data and evidence needs to be collected?

Before you can quantify the financial costs and benefits of adopting the BMPs or certification in question, you need to define the parameters of your case and collect all the information required to support your argument. There are three steps to follow:

1. Define the unit of analysis;
2. Define the appropriate comparison;
3. Collect data and evidence on all relevant financial costs and benefits.

Define the unit of analysis

If your analysis covers more than one company or organization, it is important to clearly define the characteristics of the group as this will affect the costs and benefits of action. For example, the costs and benefits for a producer of adopting certification might be different from one country to the next. Or the costs and benefits may be different for producers of different sizes within the same country. For example, in a business case for Roundtable on Responsible Soy (RTRS) certification ¹², five producer types were analysed:

- Large producers in Brazil;
- Medium-sized producers in Brazil who are close to certification;
- Medium-sized producers in Brazil who are far from certification;

- Medium-sized producers in Argentina who are close to certification;
- Medium-sized producers in Argentina who are far from certification.

These important distinctions should be established as early as possible in the process of developing your business case, as they directly impact on data collection and which stakeholders need to be involved. The data should be stratified according to these audience sub-groups if there are significant differences between them. Alternatively, a different business case could be developed for each sub-group.

Define an appropriate comparison

It is important to establish the counterfactual, or control scenario – your audience needs to know: What would have happened otherwise? Answering this will also help you to avoid the risk of incorrectly attributing benefits or costs to the initiative that would have occurred anyway due to other factors. For example, in the analysis of RTRS certification mentioned above, the costs and benefits of elements representing legal compliance were not included in the business case calculation.

Collect data and evidence on costs and benefits

Financial values need to be placed on all material costs and benefits. This includes intangible costs and benefits, which should be assigned a credible monetary value or proxy where possible. For example, if stakeholder interviews cite “increased staff satisfaction” as a key benefit, you will need to consider how best to quantify this in terms of savings from reduced sick days, lower staff turnover, or reduced recruitment costs. You can also take advantage of the emerging disciplines around valuing nature, including the development of new markets for carbon or other ecosystem services – but the value of doing this may depend on the audience.

It is important that you accurately allocate costs and benefits across the years in which they actually occur in order to take account of the “time value of money” (i.e. that the same amount of money is worth more now than in the future due to its earning potential). For example, capital expenditure and certification audit costs are frequently highest in years one and two, while the benefits will be increasingly realized in years three and four. You also need to define an appropriate time horizon for evaluating costs and benefits, which ideally should fit in with the investment time horizon of your audience of interest.

Table 7 presents a sample breakdown of the costs and benefits associated with the adoption of FSC certification over a seven-year period and gives an indication of the kind of data that you will need to compile.



TABLE 7
Page 24

To be credible and effective, your business case needs to draw upon as much primary data as possible. This is collected using two main methods: company interviews and self-submission.

Interviewing staff at your target organizations and companies is an excellent way to acquire credible assumptions, or informed estimates, for the wide variety of costs and benefits that you need to quantify when developing your business case. It is a time-intensive approach, and depends on having good relationships and high levels of trust with the organizations involved, but it can be the most effect way to get the inside information you need. Before you start your formal data-collection interviews, make a comprehensive list of required cost and benefit data based on your preliminary literature reviews and scoping discussions. This can be turned into a data collection spreadsheet to ensure that nothing is missed out during interviews, and that the data requested is consistent across companies.

After the first couple of interviews, you should begin an iterative process of highlighting the most essential KPIs, or those that already seem to be emerging as

WARNING!

Take care when assigning monetary values to intangible benefits – if done crudely you risk losing credibility, and your argument.

PRO TIP

Choose a time horizon for your business plan that corresponds to the investment time cycle of your target audience.

TABLE 7: EXAMPLE COSTS AND BENEFITS OF ADOPTING FSC CERTIFICATION								
NPV is based on the net financial benefit across each year under examination. This table presents annual net benefit calculations for FSC certification based on the costs and benefits, using a fictitious example ¹³ .								
PROJECT INVESTMENT								
Capital expenditures (US\$)	2015	2016	2017	2018	2019	2020	2021	Total
New machinery	7,996	–	–	–	–	–	–	7,996
New labour facilities	21,322	–	–	–	–	–	–	21,322
Safety equipment	78,744	–	–	–	–	–	–	78,744
Project expense (US\$) (One-time expense)	2015	2016	2017	2018	2019	2020	2021	Total
Pre-assessments/pre-audits	93,909	–	–	–	–	–	–	93,909
Initial audit	106,999	–	–	–	–	–	–	106,999
Other direct certification costs	26,986	–	–	–	–	–	–	26,986
Planning, procedures and inventory	185,824	–	–	–	–	–	–	185,824
Training for certification	56,658	–	–	–	–	–	–	56,658
Ecological and social impact assessment	94,861	–	–	–	–	–	–	94,861
Total project investment	673,299	–	–	–	–	–	–	673,299
OPERATING COSTS (OPEX) (US\$)	2015	2016	2017	2018	2019	2020	2021	Total
Recurring audits	75,274	75,274	75,274	75,274	75,274	75,274	75,274	526,915
Branding	737	737	737	737	737	737	737	5,160
Certification license	3,756	3,756	3,756	3,756	3,756	3,756	3,756	26,290
Chain of Custody fee	12,745	12,745	12,745	12,745	12,745	12,745	12,745	89,214
Planning, procedures and inventory	46,313	20,000	20,000	20,000	20,000	20,000	20,000	166,313
Monitoring (social, ecological, legal)	27,352	10,000	10,000	10,000	10,000	10,000	10,000	87,352
Training for certification	22,651	10,000	5,000	5,000	5,000	5,000	5,000	57,651
Chain of Custody system	20,985	10,000	1,000	1,000	1,000	1,000	1,000	35,985
Environmental/social impact monitoring and mitigation	100,000	50,000	50,000	50,000	50,000	50,000	50,000	400,000
Ecological and social impact assessment	17,133	17,133	17,133	17,133	17,133	17,133	17,133	119,928
HCV management	26,847	26,847	26,847	26,847	26,847	26,847	26,847	187,928
Additional operations	32,745	32,745	32,745	32,745	32,745	32,745	32,745	229,217
Staffing for certification	48,494	48,494	48,494	48,494	48,494	48,494	48,494	339,461
Benefits to workers	30,000	10,000	10,000	10,000	10,000	10,000	10,000	90,000
Total operating costs	465,032	327,730	313,730	313,730	313,730	313,730	313,730	2,361,413

Continued on page 25

TABLE 7: EXAMPLE COSTS AND BENEFITS OF ADOPTING FSC CERTIFICATION continued								
PROJECT BENEFITS (US\$) (amount and timing)	2015	2016	2017	2018	2019	2020	2021	Total
Reduction in government payments	(30,044)	(30,044)	(30,044)	(30,044)	–	–	–	(120,175)
Improvement in operation efficiency	50,000	300,000	300,000	300,000	300,000	200,000	200,000	1,650,000
Additional/alternative sources of revenues	–	25,000	50,115	50,115	50,115	50,115	50,115	275,575
Tax incentive	–	50,000	50,000	50,115	30,000	30,000	30,000	240,115
Market premiums	200,000	500,000	400,000	300,000	200,000	200,000	200,000	2,000,000
Total benefits	219,956	844,956	770,071	670,186	580,115	480,115	480,115	4,045,514
Annual cost-benefit total	(918,374)	517,226	456,341	356,456	266,385	166,385	166,385	
Discount rate: 10%			NPV: 523,599			IRR: 35%		

PRO TIP

Make sure you keep a detailed account of all data sources and assumptions during your interviews for future reference. Ask your interviewees for permission to record your discussions.

essential drivers, in order to ensure that if time runs short in future interviews, at least you will have addressed these most valuable indicators. You should also collect basic company information, e.g. number of staff, land area, turnover, profitability, etc. This will enable relevant comparisons to be undertaken later on in your research.

How you intend to use the data collected should be discussed in detail prior to interviews, in order to reach a shared understanding and/or agreement on important questions such as data confidentiality and use.

Gathering data from company contacts may not always be a viable approach. The case study, on page 26, explains how data collection challenges were overcome in order to construct a business case for certification in Chilean fish farms.

CASE STUDY
Page 26

2.5 What is the best method of calculating net financial impact?

As we explored at the start of this stage, you have several options to choose from when it comes to expressing the costs and benefits you have quantified: Net present value (NPV); internal rate of return (IRR) and payback period. These are explained in more detail below, using example calculations based on the FSC costs and benefits shown in Table 7 (above). As all three techniques are useful, and are based on similar underlying data, you may decide it is worth calculating all three – especially since you have already gone to the effort and expense of collecting all the cost and benefit data.

It is important to remember that if you are collecting data from a number of companies these analyses must be calculated individually for each company. Averages of different companies' NPV, IRR or payback period results can then also be calculated and presented.

Net present value (NPV)

When you are undertaking a cost benefit analysis it is best practice to discount costs and benefits that occur in the future. First, you will need to select an appropriate “discount rate”, as well as the number of years into the future that the analysis should cover. These assumptions can have a significant impact on the outcome of your calculation so they must be clearly stated, and relevant to the sector or target



TABLE 7
Page 24

organization under examination. For example, WWF used a time horizon of seven years in the cost benefit analysis of soy certification in Argentina and Brazil as that reflected the investment horizon of soy producers in those countries.

NPV is based on the net financial benefit across each year under examination. Table 7 (page 24) presents annual net benefit calculations for FSC certification based on the costs and benefits. Luckily, the corresponding NPV can be easily calculated using the NPV function in Microsoft Excel. Using a discount rate of 10 per cent and a time horizon of seven years, the NPV of FSC certification in this case comes to US\$576,000. A positive NPV means that a project is profitable and worth pursuing – provided that there are no rival projects with even higher NPVs competing for internal funding.

Internal rate of return (IRR)

In the simplest terms, the IRR is the rate of return a project is expected to generate. The higher the IRR, the more attractive your proposition is likely to be. One benefit of using IRR is that it does not require you to ascertain the company's discount rate: the IRR is the discount rate – for that specific project. Another way of thinking of IRR is that it is the discount rate required for the NPV of a project to equal zero. If the IRR of a project exceeds the typical company discount rate (i.e. the combined IRRs of the company's typical projects), then the decision-makers are likely to find

CASE STUDY Business case for Aquaculture Stewardship Council use in Chile

This study aimed to assess the business case for salmon producing companies in Chile which were adopting Aquaculture Stewardship Council (ASC) certification. However, when WWF researchers came to construct the business case for certification in Chilean fish farms, they discovered a lack of suitable data, and initially only very limited information was received from companies. This was for several reasons, including that ASC was only two years old, but also because financial managers were either not yet capturing the appropriate data or unwilling to share it for reasons of commercial sensitivity.

To help solve this problem, the ASC Cost-Benefit Calculator was created: an Excel-based tool allowing the input of key variables into a model that outputs

NPV and other metrics. This new tool makes it possible for partner aquaculture businesses to input their data anonymously. The Cost-Benefit Calculator is designed to assist decision-making around ASC implementation and help build trust with financial managers.

Based on WWF research, staff and consultants' industry knowledge and publically available data, a simulation of a typical salmon farming company was created, with the following profile:

- 10 sites
- US\$90 million in annual revenue
- Company, prices and input costs growing at current market rates
- Gradual ramp-up of ASC, beginning with 5 per cent of sites and additional 5 per cent of sites each year for 10 years.

Based on these inputs, ASC adoption is predicted to accrue a total NPV over ten years of US\$93m. While these numbers are hypothetical, they are in the process of being validated by inputting anonymous data from multiple companies who see the value of having such a tool. An interesting aspect of this tool is that it allows hypothetical scenarios to be explored by altering key variables in order to conduct sensitivity analysis to determine how NPV changes with different company situations, ASC price premiums, etc.



WARNING!

The appropriate discount rate will vary depending on the company's industry and location, and other factors. It won't always be 10 per cent!



“Once you are confident about your results, you are ready for stage 3”

that it is worth doing. As with NPV, IRR can be calculated using an in-built Excel function that analyses the net financial benefit over the years you are assessing. In the example in Table 7, the IRR is 35 per cent – a good investment.

Payback period

The payback period is the length of time required to recover the cost of an investment. This will happen in the year when the net cash flow from the investment turns positive (e.g. once the start-up and operational costs have been covered by new product sales). This approach ignores the “time value of money” but is a good indicator of overall investment risk. According to the figures in Table 7, the payback period is 2.9 years.

Other financial metrics

In addition to the measures described above, key stakeholders may identify other financial indicators that would resonate more strongly with your target audience – for example, changes in annual net cash flow or profit margins.

Using scenarios to explore project risks

You may find that the extensive high quality data needed to make credible NPV, IRR or payback period calculations are not available in your situation, in which case assumptions and uncertainties in your data can be tested using scenarios. By testing key assumptions, a series of scenarios can present certain best and worst-case outcomes. For example, what if price premiums turn out to be half what was expected and decline each year – or if operational efficiencies achieved are 30 per cent better than expected? Testing these scenarios is commonly referred to as a “sensitivity analysis”.

When choosing which variables to test using scenarios, ask yourself:

- Which assumptions are you least confident in?
- Which assumptions are most likely to suffer from “optimism bias” (the tendency of people to believe there is less risk of a negative event occurring in their case than there is for others)?
- Which variables tend to be of particular concern to your target audience?
- Which assumptions have the biggest influence on overall investment value?

2.6 Can you validate your results?

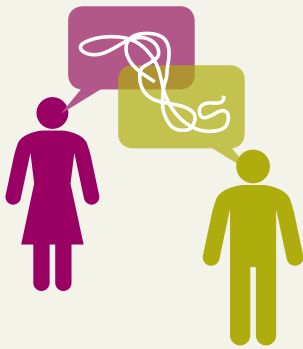
It is good practice to validate or test the initial findings of your business case analysis among sector experts and/or those who have contributed data.

Once you are confident about your results, you are ready for stage 3: effectively communicating your business case to its target audience.

Checklist

Task	Check
Undertake a literature review	<input type="checkbox"/>
Identify key costs and benefits relevant to your target audience	<input type="checkbox"/>
Choose the most appropriate analytical approach(es) to use	<input type="checkbox"/>
Collect primary data and/or evidence on costs and benefits	<input type="checkbox"/>
Analyse the financial impact of the desired change	<input type="checkbox"/>
Validate/test your results	<input type="checkbox"/>

STAGE 3: Communication



Now it is time to tell your story. The document you create should concisely and convincingly set out the need for change and the solution you are proposing in a compelling, well-structured narrative that gets right to the point.

It is vital that you select the most effective way to communicate your business case. As stressed in the introduction to this guide, a poorly expressed business case is worth very little, even if it contains insightful analysis. You should work closely with your business case champion and other experienced experts to identify the priorities and preferences of your target audience.

This guide to the communications stage will prepare you to:

1. Consult relevant experts on the best format to use;
2. Examine successful business cases to see what worked;
3. Identify your key headline messages and data points;
4. Select the best communication format(s) for your message and audience;
5. Create visually appealing graphics and other images;
6. Produce and present a case document that uses a compelling, clearly structured, well-supported narrative to tell your story;
7. Think about the supporting documents.

3.1 What are the basic principles to consider?

Select an appropriate format

To increase the chances of your business case translating into action, you need to work with your business case champion and other experts with knowledge of your target audience to determine which communication format will be most effective – e.g. detailed report or verbal presentation. Every institution will have different expectations and norms when it comes to examining business cases; there may even be an established template that you can adopt or adapt. It is advisable to solicit feedback from a cross-section of stakeholders, and carefully refine and improve your business case before it is put in front of the key decision-makers you need to convince.

Keep it simple

Make your case clearly and succinctly by selecting a small number of compelling lead messages to focus on. You should be able to present the headline figures and arguments from your analysis in a one or two-page executive summary –

PRO TIP

Learn from past successes. Find out about previous business cases that have been well-received and ask to see them.

whether on PowerPoint slides or in a PDF report. Use graphs and infographics to convey information simply in a visually appealing way. Finally, make sure that you demonstrate the extensive investigation that you have carried out – and lend credibility to your case – by using annexes and other supporting documents to show key financial impact calculations, assumptions, scenarios, etc., to be examined once the headline messages have been delivered.

Create a strong, well-structured narrative

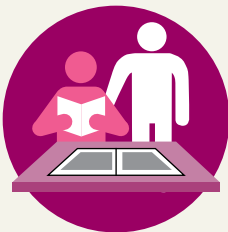
The document you create should concisely and convincingly set out the need for change and the solution you propose. To achieve this, your business case needs to follow a well-structured, strong narrative that tells the story in a clear way. When preparing your business case presentation, consider:



- Whether the document flows smoothly and follows clear logic (this can be achieved by using methods such as The Pyramid Principle¹⁴, which states that you should “cut to the chase” by starting with your main recommendation – your “big idea” – and following-up with other proposals and supporting facts once the attention is focused on what you want to achieve);
- Making your document accessible to someone with no background in the topic, and letting it “speak for itself” (as you won’t be around to provide a commentary once it is distributed);
- Identifying precisely how the solutions and impacts are linked to the core financial and strategic goals of your audience;
- Personalising the account with relevant case studies, quotes and stories from inside the organization, supply chain, or region;
- Showing how competitors are ahead of the game, if applicable;
- Anticipating questions that are likely to be raised by stakeholders, e.g. Why must the company act now? Who was consulted in developing the case? How was information collected? What alternatives were considered?;
- Being visual – present data in graphical and tabular formats so that the message can be digested easily and comparisons made. Include striking images to make the document visually appealing, e.g. when outlining the need for change. Graphs such as the one on page 30 that shows the rising value of FSC-certified wood, can truly be worth a thousand words.



3.2 What should a business case document include?



Before deciding on the contents of your business case document, you should work with key stakeholders and consult previously successful cases. Though every situation is different, the following is a basic guide to what you could include in your business case.

Executive summary

This is a very important page and should be constantly revisited and improved. It must grab the reader’s attention and include a summary of the principal elements of the business case, namely: the business need or problem; the potential solution(s) and the value and benefit of adopting them; and the main recommendations.

Contents

A top-level overview of the contents of the document.

Business need

Simply state the key reasons for action linked to the audience’s strategic goals. This can relate to external and/or internal drivers, such as increased competition for customers, changing consumer preferences, exposure to resource risks, lack

of adequate traceability in supply chains, NGO pressure, etc. When presenting the business need, you should create a sense of urgency and use data points and quotes from experts and stakeholders to add credibility to your argument.

Options for change

Describe the proposed intervention and the chief benefits. How will adopting certification/BMPs have a positive impact upon the business? This is a good place to include non-financial indicators and descriptions of intangible benefits. By way of comparison, you should outline which alternative solutions were considered in your analysis; this can include the business-as-usual option of doing nothing (the “counterfactuals”).

Method and participants

Briefly outline the sources and types of evidence drawn upon and how the case was built e.g. using interviews, data collection, workshops, etc. This can include a list of who was consulted in the preparation of the business case, which ideally will consist of a cross-section of credible and influential internal and external stakeholders. Don't overwhelm your reader – just provide enough material to give the audience confidence that your analysis is comprehensive and robust. For example, state your key assumptions here, but provide more detail in an annex.

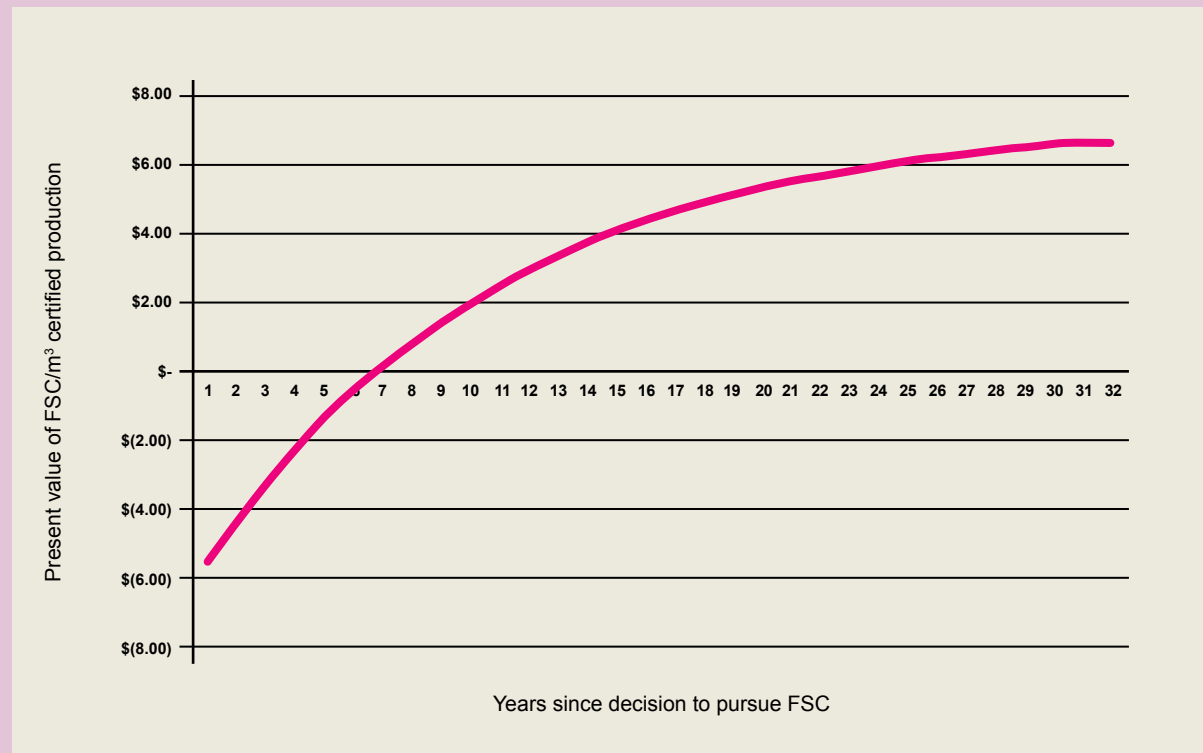
Financials

Summarise the costs and values of different options, including your chosen financial metrics e.g. IRR, NPV, payback period.



CUMULATIVE COST-BENEFITS PER CUBIC METRE OF FSC-CERTIFIED WOOD¹⁵

This chart shows how the cost-benefit changes over time as more benefits accrue following implementation of certification.





Risks

It is good practice to present key risks and implications. An honest assessment of inevitable challenges will add credibility and show you have thoroughly considered what could go wrong. However, think carefully about this as – depending on the specifics of your situation – this section may or may not be appropriate.

Resource requirements and timelines

Immediate resource needs and timelines are an important consideration when deciding whether to proceed with a new project; having this section will pre-empt questions and could put your reader's mind at ease.


Conclusion and recommendations

Restate the business need, the solution, financial case and recommendations.

Next steps

In this section you can outline what action needs to be taken immediately to progress towards the solution you have proposed. This provides some tangible things to agree upon and do.

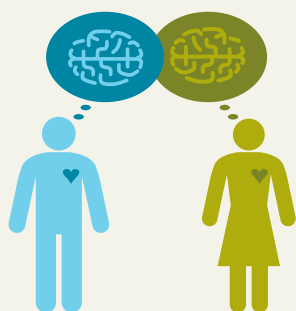
Checklist

Task	Check 
Consult experts and stakeholders about the best document format to use for your audience	
Study previously successful business cases relevant to your situation	
Identify your key headline messages and data points	
Select the most appropriate document/presentation format	
Use tables and visually appealing graphics and other images	
Prepare your case document following a strong, well-structured, compelling narrative, and include all the required content	
Organize the necessary supporting documents	

“Be visual – present data in graphical and tabular formats so that the message can be digested easily and comparisons made. Include striking images to make the document visually appealing”

REVIEW OF THE GUIDANCE

A strong business case has the power to catalyse change within an organization – and across entire industries – by directly influencing leading decision-makers.



This guide shows that creating and communicating a business case combines elements of the “science” of analysis and the “art” of framing and communicating compelling arguments. You will often have to appeal to people’s hearts as well as to their heads when making your case for change.

Following the three stages described in this guide will provide you with a framework for navigating the many complexities of creating a business case for sustainable commodities. A business case that is not properly scoped, analysed, and communicated is unlikely to be successful and represents a missed opportunity for expanding sustainable business practices. This guide to good practice will help you to focus your resources and create a business case with the potential to inspire action.

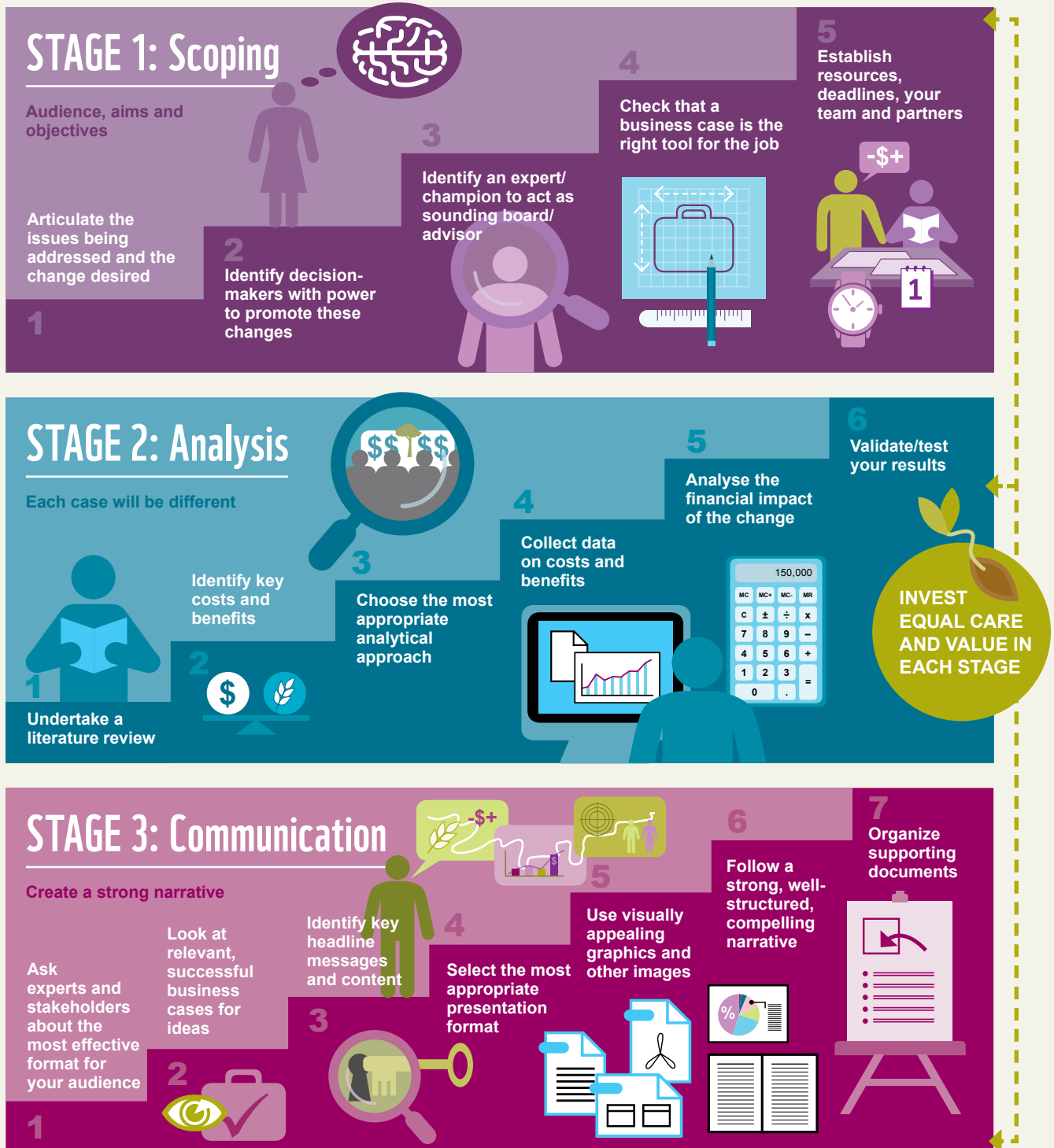


Checklist

	TASK	Check
STAGE 1: SCOPING	Articulate the environmental and social issues being addressed and your desired change	
	Identify decision-makers with power to adopt/promote certification or BMPs in the region or supply chain you are interested in	
	Identify an expert/champion to act as sounding board/advisor for your business case contents and format	
	Check that a business case is the right tool for driving the identified change	
	Establish the level of resourcing, project team, institutional partners and delivery deadlines	
STAGE 2: ANALYSIS	Undertake a literature review	
	Identify key costs and benefits of relevance to your target audience	
	Choose the most appropriate analytical approach to use in your business case	
	Collect data and/or evidence on relevant costs and benefits	
	Analyse the financial impact of the change	
STAGE 3: COMMUNICATIONS	Validate/test your results	
	Consult experts and stakeholders about the best document format to use for your audience	
	Study previously successful business cases relevant to your situation	
	Identify your key headline messages and data points	
	Select the most appropriate document/presentation format	
	Use tables and visually appealing graphics and other images	
	Prepare your case document following a strong, well-structured, compelling narrative, and include all the required content	
Organize the necessary supporting documents		

ARE YOU READY?

Are you ready to make your sustainable commodities business case? Follow this framework to produce a powerful, well-reasoned, tailored business case that resonates with decision-makers.



Illustrations, tables and case studies

Illustrations

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References

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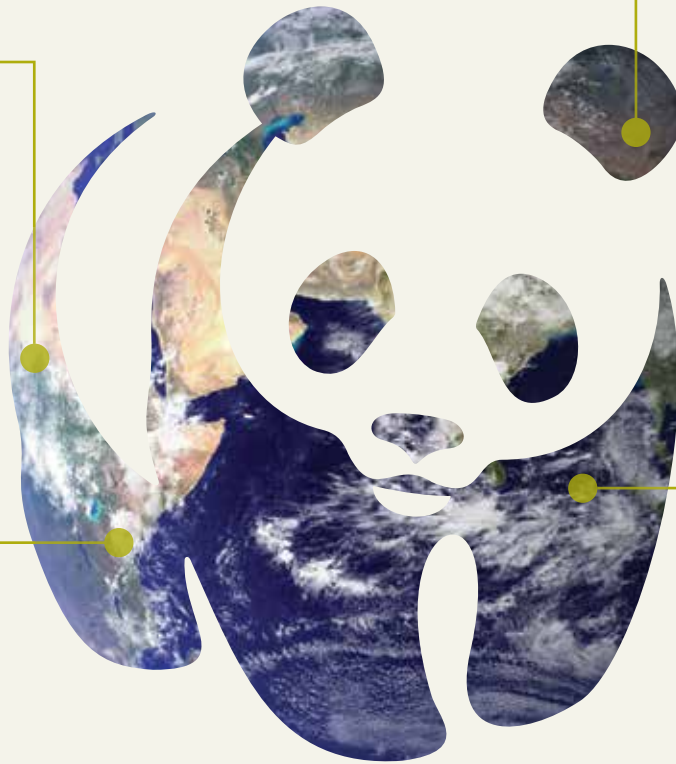
FACTS AND FIGURES

+100

WWF is in over 100 countries, on 6 continents

+5M

WWF has over 5 million supporters



1961

WWF was founded in 1961

+25M

WWF has over 25 million followers on social media and messaging app



Why we are here

To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

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