

Part 21 of 24

World-Class Investment Case Document

A fully annotated benchmark — every structural decision, every analytical standard, and every presentation choice explained so your investment cases earn approval on analytical merit

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HOW TO USE THIS BENCHMARK

This part is the first of four benchmark showcase parts that close the Capital Allocation Masterclass Series. Where Parts One through Twenty provided analytical frameworks and methodological guidance, Parts Twenty-One through Twenty-Four demonstrate what world-class capital allocation analytical output looks like in practice — giving finance leaders and their teams a concrete benchmark against which to evaluate and improve their own work.

The investment case document is the most frequently produced and most consistently underquality analytical output in most capital allocation processes. Its frequency reflects the volume of investment decisions that require formal documentation; its underquality reflects the absence of a clear standard against which individual cases are evaluated. This part provides that standard in annotated form — not as a template to be copied but as a demonstration of the analytical depth, the structural logic, and the communication quality that distinguishes investment cases that earn approval on their analytical merits from those that are approved on the basis of organizational sponsorship alone.

Read this part with your most recent investment case document in hand, comparing each element against the benchmark as you go.

THE FIVE-COMPONENT STANDARD: WHAT WORLD-CLASS LOOKS LIKE

The world-class investment case meets a specific standard in each of the five components described in Part Four: strategic rationale, financial model, sensitivity analysis, risk assessment, and alternatives analysis. The standard is not a minimum threshold — it is the level of analytical quality that gives the capital allocation committee genuine confidence that the investment has been rigorously evaluated and that the recommendation reflects the best available analytical judgment.

The strategic rationale standard requires four specific elements that most investment cases provide partially or not at all. The strategic problem statement must be specific enough that a reader unfamiliar with the investment could independently verify whether the proposed investment addresses it — not we need to expand our sales capacity but the current sales team of twelve account executives has a maximum sustainable pipeline of forty-eight active opportunities, which limits quarterly new ARR generation to approximately two point four million dollars against a plan requirement of three point two million, creating a structural capacity gap of eight hundred thousand dollars of quarterly new ARR. The connection to the long-range plan must specify the exact long-range objective the investment serves, not merely the general category of strategic priority. The alternatives assessment must present genuinely credible alternatives — not straw men — with honest comparative analysis. And the timing rationale must explain why this investment should be made in the current planning cycle rather than deferred.

The financial model standard requires driver-based construction that makes every revenue and cost assumption explicitly derivable from operational inputs — account executive count and productivity rather

than revenue growth rate, infrastructure consumption per customer and unit cost rather than infrastructure cost percentage of revenue. It requires complete cost inclusion that captures not only the direct costs but the indirect organizational costs — the management time, the supporting function overhead, the opportunity cost of organizational attention. And it requires consistent discounting at the organization's established cost of capital, with the discount rate explicitly stated and applied uniformly across all investment cases reviewed by the capital allocation committee.

ANNOTATED EXEMPLAR: GROWTH INVESTMENT CASE

The following exemplar illustrates a world-class investment case for a sales team expansion decision. Each section is annotated to explain the specific quality principle it demonstrates.

INVESTMENT CASE: Enterprise Sales Team Expansion — Q3 Cohort Submitted by: VP of Sales
Reviewed by: CFO Date: [Current Quarter]

STRATEGIC RATIONALE

The Strategic Problem: Enterprise new ARR generation for the trailing two quarters has averaged two point one million dollars per quarter against a plan assumption of two point eight million dollars, a structural gap of seven hundred thousand dollars per quarter representing twenty-five percent underperformance. Analysis of the gap reveals that ninety percent is attributable to pipeline volume limitations — the current six-enterprise account executive team is generating qualified pipeline at a rate of three point four active opportunities per AE, which produces expected closed ARR of two point one million dollars at current close rates — rather than to close rate or average contract value performance, both of which are within five percent of plan.

[Annotation: The strategic problem statement quantifies the gap precisely, traces it to a specific operational driver — pipeline volume rather than efficiency — and explicitly eliminates alternative explanations. This specificity is what makes the investment thesis testable: if the problem is pipeline volume, adding AEs should solve it; if the problem were close rate or ACV, adding AEs would not.]

Long-Range Plan Connection: The Q4 plan requires enterprise new ARR acceleration to four million dollars per quarter to achieve the annual operating plan target of fourteen million dollars of enterprise new ARR. The current team capacity, at two point one million dollars per quarter, creates a structural deficit of seven point nine million dollars relative to the full-year enterprise plan without additional sales capacity.

[Annotation: The connection to the long-range plan quantifies the financial consequences of not making the investment — not just the strategic narrative but the specific financial impact of inaction.]

FINANCIAL MODEL

Base Case Assumptions: Four enterprise AEs hired in Q3, one in July, two in August, one in September. Ramp timeline: months one through three at twenty percent productivity, months four through six at fifty percent, months seven through twelve at eighty-five percent, full productivity thereafter. Full-ramp enterprise new ARR per AE: two hundred and forty thousand dollars annually, based on the median performance of the current six-person enterprise team over the trailing four quarters, excluding the top and bottom performers.

[Annotation: The productivity assumption is explicitly calibrated to current team median performance — not the average of all team members including ramping hires, not the target productivity in the AOP, and not the performance of the top quartile. Using the median current performer as the base case assumption is analytically conservative and credible because it reflects demonstrated organizational performance rather than aspirational targets.]

Full-loaded annual cost per AE: three hundred and eighty thousand dollars, comprising base salary of two hundred twenty thousand, variable at one hundred percent attainment of forty thousand, payroll taxes and benefits of sixty thousand, recruiting fee of forty thousand dollars amortized over twenty-four months, and equipment and tools of twenty thousand. Q3 and Q4 cash cost: six hundred and ten thousand dollars reflecting partial-year employment for all four hires.

[Annotation: The complete cost model includes the recruiting fee amortized rather than excluded, the equipment cost that most investment cases omit, and the quarterly cash cost that connects the investment case to the cash forecast. This completeness prevents the systematic understatement of investment cost that produces overly favorable return calculations.]

NPV Calculation: Using a twenty-five percent discount rate, the present value of the incremental new ARR generated by the four AEs over a thirty-six-month model period, applying a seventy percent gross margin and a one-point-two-times ARR-to-revenue multiplier for the blended subscription period, is two point eight million dollars. The investment cost — including recruiting, compensation, and benefits for thirty-six months — is two point one million dollars. Net present value: seven hundred thousand dollars.

[Annotation: The NPV calculation uses the explicitly established organizational hurdle rate of twenty-five percent and shows the mathematical derivation from ARR to revenue to gross profit to net present value. Every step is traceable, allowing the capital allocation committee to challenge any specific assumption without having to reconstruct the calculation.]

SENSITIVITY ANALYSIS

Break-Even Productivity Assumption: The investment has a positive NPV at any full-ramp AE productivity above one hundred and ninety thousand dollars of annual new ARR, representing twenty-one percent below the base case assumption of two hundred and forty thousand dollars. The current team's twenty-fifth percentile performer generates two hundred and five thousand dollars annually, suggesting

that even the bottom quartile of performers will exceed the break-even threshold.

[Annotation: The break-even analysis is the most operationally useful output of the sensitivity analysis because it provides a specific, observable performance threshold. The comparison of the break-even to the current team's distribution of performance is particularly valuable — it demonstrates that the investment thesis holds even if the new hires are at the lower end of the current team's performance distribution.]

RISK ASSESSMENT

Ramp Timeline Risk: If average ramp time extends from the assumed six months to nine months — which occurred in the Q1 2023 cohort when product complexity was higher — the NPV declines from seven hundred thousand dollars to four hundred and twenty thousand dollars, remaining positive but materially reduced. Mitigation: structured onboarding program with defined milestone check-ins at sixty, ninety, and one-hundred-twenty days.

Capacity Constraint Risk: Controllable. The customer success team currently manages accounts at a ratio of one CSM to thirty-five managed accounts; adding four enterprise AEs generating approximately twelve new enterprise accounts annually increases the required CSM capacity by approximately one FTE per year, which is within the current CS hiring plan.

[Annotation: The risk assessment distinguishes between the ramp timeline risk — partially controllable through onboarding investment — and the capacity constraint risk — fully controllable through the existing CS hiring plan. Each risk is quantified in terms of its NPV impact and addressed with a specific mitigation action or confirmation that the risk is within the current plan.]

ALTERNATIVES ANALYSIS

Alternative One: Accelerate pipeline generation through increased SDR capacity rather than AE expansion. Analysis: SDR-generated pipeline for enterprise accounts has a forty-two day longer average sales cycle and a twelve percent lower close rate than AE-sourced pipeline based on trailing six-quarter data, producing a lower expected ARR per dollar invested than the AE expansion alternative. NPV of equivalent SDR investment: three hundred and twenty thousand dollars versus seven hundred thousand dollars for the AE expansion.

Alternative Two: Increase AE productivity through sales enablement investment rather than headcount expansion. Analysis: The gap analysis confirms that the shortfall is pipeline volume rather than productivity — current AEs are performing within five percent of plan on close rate and ACV. Sales enablement investment would not address the volume constraint.

THE SELF-ASSESSMENT: EVALUATING YOUR INVESTMENT CASES

The following self-assessment framework evaluates your most recent investment case against the world-class standard across all five components. For each component, rate the case on a scale from one — significantly below standard — to five — fully meets the world-class standard — and identify the one specific improvement that would most increase the rating.

Strategic Rationale: Is the strategic problem stated with enough specificity that an independent reader could verify whether the investment addresses it? Is the connection to the long-range plan expressed in financial terms — the specific revenue, cost, or cash flow impact of the investment on the long-range plan — rather than in strategic narrative only? Are the alternatives assessed genuinely credible, and is the comparison honest about the proposed investment's weaknesses relative to the alternatives? Is the timing rationale explicit?

Financial Model: Is every revenue assumption derived from operational drivers at the unit level rather than from top-line growth rates? Does the cost model include all direct and indirect costs, including recruiting fees, organizational overhead, and the opportunity cost of management attention? Is the discount rate explicitly stated and consistent with the organizational hurdle rate established for all investments? Is the NPV calculation fully traceable from inputs to outputs?

Sensitivity Analysis: Does the sensitivity analysis identify the two or three most consequential assumptions — the assumptions whose variation most significantly affects the NPV — rather than showing sensitivity to all assumptions equally? Is the break-even assumption identified explicitly, and is it compared to the base rate of historical performance in comparable situations? Are the scenario assumptions internally consistent — representing coherent business situations — rather than mechanically varying single inputs?

Risk Assessment: Does the risk assessment distinguish between controllable and external risks? Is each significant risk quantified in terms of its NPV impact? Does each controllable risk have a specific mitigation action with its own cost and feasibility assessment?

Alternatives Analysis: Are the alternatives genuinely credible paths to the same strategic objective — not straw men — with honest comparative analysis? Does the alternatives analysis acknowledge the weaknesses of the proposed investment relative to the alternatives as well as its strengths?

COMMON INVESTMENT CASE FAILURES AND THEIR CORRECTIONS

The following failure modes appear in investment cases across organizations at every stage of growth. Each is paired with a specific correction.

The advocacy model failure: the investment case is built to justify a decision already made rather than to evaluate the decision analytically. The correction is to require the investment case to be completed before the business leader has publicly committed to the investment, and to have the CFO review it before the

sponsor sees the final NPV calculation.

The optimistic base case failure: the base case assumptions use the top-quartile performance of comparable situations rather than the median. The correction is to require that all productivity assumptions be explicitly calibrated to the median historical performance in the organization, with the top-quartile performance presented as the upside case.

The incomplete cost model failure: recruiting fees, equipment, and organizational overhead are excluded from the cost calculation. The correction is to create a standard cost model template that includes all cost categories as required fields, with the full-loaded cost calculation built in so that individual investment cases cannot omit it.

The single-scenario failure: the investment case presents only the base case NPV without sensitivity analysis or break-even calculation. The correction is to add the break-even analysis and two-scenario sensitivity as required sections of the investment case standard, with the CFO review explicitly checking for their presence and quality before approval.

The straw man alternatives failure: the alternatives section presents obviously inferior options that make the proposed investment look strong by comparison rather than genuinely credible alternatives. The correction is to require the alternatives section to include the analysis of at least one alternative that the capital allocation committee considers genuinely competitive, with the CFO identifying and requiring specific alternatives before the case is finalized.

ACTIONS TO APPLY THIS BENCHMARK

The following actions will translate the benchmark standard into immediate improvement in your organization's investment case quality.

The first action is to score your three most recent investment cases against the five-component self-assessment framework and calculate the average score for each component. The component with the lowest average score is the highest-priority target for improvement in the next investment case production cycle.

The second action is to share the annotated exemplar in this part with the three or four people in your organization who most frequently produce investment cases, and ask each of them to compare their most recent case against the exemplar section by section. The comparison exercise will surface the specific gaps in analytical depth that are most systematic across your investment case authors.

The third action is to add the break-even assumption calculation as a required field in your investment case template and enforce it as a non-negotiable requirement at the next capital allocation committee meeting. This single addition will do more to improve investment case analytical quality than any other single change because it forces every investment case author to identify the specific performance

threshold at which their investment creates versus destroys value.

The fourth action is to implement a mandatory CFO review of every investment case above the defined threshold before it is presented to the capital allocation committee. The review should assess each case against the five-component standard and return cases that do not meet the standard for revision before the committee meeting, with specific feedback on the gaps identified.

CLOSING PERSPECTIVE

The investment case is where the capital allocation function's analytical discipline is most directly and most consistently tested. A capital allocation committee that consistently receives investment cases that meet the world-class standard described in this part will make better investment decisions than one that receives cases of inconsistent quality — not because the committee itself is more analytically sophisticated, but because the quality of the analytical foundation on which decisions are made directly determines the quality of the decisions themselves.

Building the investment case standard is the CFO's most direct contribution to improving the organization's capital allocation quality. It is also the most visible contribution — the one that business leaders, board members, and investors will notice and evaluate as evidence of the finance function's analytical rigor and strategic credibility.

COMING NEXT IN THE SERIES

Part 22 — World-Class M&A; Financial Model and Narrative

Part Twenty-Two presents the benchmark M&A; financial model and its accompanying narrative — the complete analytical document that translates an acquisition opportunity into a specific, defensible financial case for the board and the capital allocation committee. Every modeling decision and narrative choice is annotated.

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