Business Case

Summer 2023
CIS 5860

Contents

Executive Summary

SmartHome Solutions is a leading company specializing in the development and manufacturing of innovative smart home products. With a strong focus on connectivity, convenience, and efficiency, we offer a wide range of cutting-edge solutions that transform ordinary houses into smart, interconnected homes. Our product portfolio includes devices such as smart thermostats, smart lighting systems, smart security cameras, and smart home hubs. With our expertise in product development and commitment to innovation, we continue to shape the future of smart home technology.

Issues

Our company, known for its wide range of smart home products, aims to revolutionize the way people interact with their living spaces. However, we are currently facing a significant challenge in the market due to a lack of innovation in our offerings. While our competitors are continuously introducing new and advanced features, our products have fallen behind in terms of market competence and customer appeal. To address this issue and regain our competitive edge, we need to invest in research and development, foster a culture of innovation, and collaborate with technology partners.

Recommendation

Two alternatives are considered to address this problem: IoT (Internet of Things) innovation and AI (Artificial Intelligence) innovation. IoT innovation focuses on connectivity and enables remote control, automation, and data analysis. AI innovation focuses on making smart home products intelligent, adaptive, and capable of personalized interactions.

Based on a scoring model considering various criteria, the preferred alternative is AI innovation (Alternative B). It scored higher in financial metrics, organizational alignment, project development, technical complexity, integration capability, customer satisfaction, user adoption, and data privacy & security. The result indicates that AI innovation aligns better with strategic objectives, offers a higher likelihood of reaching projected goals, and demonstrates a strong potential for financial return on investment.

Justification

The recommended solution of *AI innovation* in smart home products offers a range of values to enhance the overall smart home experience. With increased connectivity, the solution enables seamless communication and data sharing among devices, creating an interconnected ecosystem. The integration of AI technology brings intelligence to smart home products, allowing them to understand user behavior, respond to voice commands, and provide personalized recommendations. Automation features optimize functions based on user preferences and predictive analytics, making the user experience more convenient and efficient. Furthermore, AI innovation enhances security measures through anomaly detection and proactive protection, ensuring user privacy and data security. By focusing on user experience, efficiency, and future-readiness, the recommended solution positions the company at the forefront of the market, providing customers with advanced, personalized, and future-proof smart home experiences.

Company Objectives

The company goal for SmartHome Solutions is to create and provide the best smart home products that make people's lives easier and more connected. We want to be the go-to brand for customers looking for innovative solutions to enhance their homes. Our aim is to design and manufacture products that seamlessly integrate into everyday life, offering convenience, efficiency, and peace of mind. By staying at the forefront of technology and constantly innovating, we strive to be a leader in the smart home industry, delivering exceptional quality and customer satisfaction. Our goal is to transform houses into smart, interconnected homes that enhance the way people live and interact with their surroundings.

Project Overview

Goals and Objectives

The project goal is to drive innovation in smart home products by integrating advanced technologies and enhancing connectivity. The aim is to develop a comprehensive solution that transforms traditional manufacturing processes into intelligent, interconnected ecosystems. The goal is to provide customers with seamless control and monitoring capabilities, enabling them to manage their smart homes effectively. The project also focuses on optimizing functionality, improving user experience, and ensuring scalability to meet the evolving needs of the market. Ultimately, the goal is to establish the company as a leader in the smart home industry by delivering innovative, feature-rich products that exceed customer expectations.

Proposed Major Milestones

Proposed major milestones of the project include the following:

- Completion of the product design
  - Finish the initial product design within 6 months of start date
- Data Collection and Preparation
  - Complete data collection and preparation within 2 months of the start date
- Model Development
  - Complete model development and training within 4 months of the start date
- Prototype Testing and Feedback

    - Complete prototype testing and gather feedback within 1 month of the prototype's completion
- Integration and System Testing
    - Complete integration and system testing within 3 months of the prototype's completion
- Develop web & mobile applications
    - Finish the '1st draft' of website within 3 months of the prototype's completion
    - Finish the 1st version of mobile applications (android & iOS) within 3 months of the prototype's completion
- Market the new service to the community
    - Build our clientele base
    - Client base should grow by 15% year over year

Anticipated Clientele

The primary clientele for smart home products with AI innovation can vary depending on the specific products and their intended use. However, the following are some potential primary clienteles for AI-powered smart home products:

- **Homeowners**: Homeowners looking to enhance their living experience by automating various tasks, improving energy efficiency, increasing security, and enjoying personalized and convenient features.
- **Tech Enthusiasts**: Technology enthusiasts who are early adopters and keen on integrating the latest advancements into their homes. They are often interested in exploring the capabilities of AI and how it can enhance their daily lives.
- **Eco-conscious Individuals**: Individuals who prioritize sustainability and energy efficiency. AI-powered smart home products can help them monitor and optimize energy usage, reduce waste, and lower their carbon footprint.
- **Aging Population:** The elderly or individuals with limited mobility who can benefit from AI-powered accessibility features, remote monitoring capabilities, and automated assistance for independent living.
- **Security-conscious Individuals**: Individuals who prioritize home security and want advanced features like AI-based surveillance systems, facial recognition, and real-time alerts for unauthorized access or suspicious activities.

- **Home Automation Enthusiasts**: Individuals who enjoy the convenience and control offered by home automation. AI-powered smart home products can automate tasks, such as adjusting lighting, managing thermostats, and controlling entertainment systems, to create a seamless and personalized living environment.

Problem Definition

The current state of smart home products manufacturing lacks innovation, resulting in limited functionality, connectivity, and user experience. Traditional manufacturing processes focus primarily on physical production, neglecting the integration of advanced technologies such as IoT and AI. As a result, smart home products fail to offer seamless connectivity, real-time monitoring, and remote-control capabilities. This lack of innovation hampers the ability to provide advanced features, personalized experiences, and a truly interconnected ecosystem. Consequently, customer satisfaction is compromised, leading to a potential loss of market share. The challenge at hand is to address these deficiencies in smart home product manufacturing and bridge the gap by leveraging IoT and AI innovations to enhance functionality, connectivity, and user experience

Alternatives Considered

Alternative A – IoT (Internet of Things) Innovation

- IoT innovation focuses on connecting devices and enabling them to communicate and share data with each other
- Smart home products leveraging IoT innovation can be controlled remotely, allowing users to monitor and manage their homes from anywhere.
- IoT enables automation and integration between different devices, creating a seamless and interconnected smart home ecosystem.
- Smart home products using IoT can collect and analyze data from various sensors, providing insights and optimizing resource usage.

Alternative B – AI (Artificial Intelligence) based Innovation

- AI innovation focuses on making smart home products more intelligent and capable of learning and adapting to user behavior.
- Smart home products utilizing AI can understand and respond to voice commands, providing more natural and intuitive interactions.
- AI algorithms analyze user data and preferences to provide personalized recommendations and customized experiences.

- AI enables predictive analytics, allowing smart home products to anticipate user needs and automate functions accordingly
- AI innovation enhances security by enabling anomaly detection and proactive measures to protect the smart home environment.

Summary of Preferred Alternative

The process of selecting a preferred alternative utilized a scoring model which is based on weighted scores. A list of relevant criteria was compiled by the project SME's and stakeholders and scores were assigned based on their importance and priority. The scoring model can be seen in Table 1 Scoring Model below.

Criterion	Metric	Weight	Alternative A IoT Innovation	Alternative B AI Innovation
Financial	ROI	15%	8	7
	Payback	10%	7	8
	NPV	10%	8	9
Organizational	Alignment with strategic objectives	10%	7	9
	Likelihood of Reaching Projected MOV	10%	8	7
Project	Development	5%	8	9
	Scalability	5%	8	7
	Technical Complexity	5%	7	8
	Integration Capability	5%	8	9
External	Customer Satisfaction	10%	8	9
	User Adoption	5%	8	9
	Data Privacy & Security	10%	7	8
Total Score		**100%**	**7.65**	**8.15**

Table 1 Scoring Model

The result of the scoring reflects that ***Alternative B*** is the preferred alternative. Alternative B was the highest scored alternative satisfying nearly all metrics at a high level.

Recommended Actions

Organizational Impact

	Positive	Negative
Internal	Implementing AI innovation enhances operational efficiency by automating tasks and streamlining processes. AI-driven data insights enable informed decision-making, leading to improved strategies. Organizations can deliver personalized customer experiences, fostering satisfaction and loyalty. Additionally, AI innovation provides cost savings, a competitive edge, and scalability for future growth, ensuring long-term success in a dynamic business environment.	Implementing AI innovation may lead to workforce disruption and job displacement. Ethical considerations arise due to biases and accountability issues. Data privacy and security risks can arise from increased data collection. Technological dependence and system vulnerabilities can create dependencies and risks. Skill gaps and resistance to change may be encountered. Implementation challenges and integration complexities can pose obstacles. Regulatory and legal compliance requirements need to be addressed.
External	It enhances customer satisfaction through personalized experiences and efficient support services, contributing to increased	Regulatory compliance is crucial to navigate legal frameworks. Building public trust and addressing security and data breach risks are

	loyalty and positive brand reputation. AI innovation also helps gain a competitive edge, expand market share, and differentiate in the industry. It enables the company to connect with their communities through AI-driven social initiatives and personalized outreach, fostering stronger relationships. Additionally, AI automation improves productivity, supports sustainable practices, attracts strategic partnerships, and establishes industry leadership, positioning the company for long-term success and growth.	essential. Economic disruptions and job losses, biases and discrimination, and the potential lack of human interaction are additional concerns that need attention. Addressing these concerns requires proactive measures, such as ethical guidelines, robust security protocols, transparent communication, and responsible AI development practices.

Table 2 Organizational Impact

Risks

- **Data Privacy and Security Risks**: When using AI, there is a concern about keeping data safe and preventing unauthorized access or breaches. It's important to protect sensitive information and have strong security measures in place.
- **Bias and Discrimination:** AI algorithms can unintentionally be influenced by biases in the data they're trained on, which can lead to unfair outcomes.
- **Reliance on Data Quality and Availability**: AI systems need good quality and relevant data to make accurate predictions and decisions. If the data is inadequate or biased, it can lead to

mistakes or flawed outcomes. Ensuring data is of high quality and available when needed is crucial for reliable AI results.

- **Legal and Regulatory Compliance**: Organizations must follow laws and regulations related to AI, such as those regarding data protection, privacy, and preventing discrimination. It's important to stay up to date with the evolving regulations and make sure AI systems comply with them.
- **Technical Limitations and Failures**: AI systems can have limitations or failures, leading to incorrect predictions, errors, or unexpected behavior. Regular testing, monitoring, and having backup plans in place are necessary to deal with these risks.
- **Dependency on AI Systems**: Organizations that heavily rely on AI systems may face challenges if those systems have disruptions or malfunctions. It's important to have backup plans and human oversight to reduce the risks associated with depending too much on AI.

Technology and infrastructure Plan

- **Define Data Strategy**: Develop a comprehensive data strategy that outlines data collection, storage, governance, and security practices. Define data quality standards, data access controls, and data privacy measures to ensure compliance with regulations.
- **Identify Hardware and Software Requirements**: Determine the hardware and software resources required to support AI workloads. Evaluate options such as on-premises infrastructure, cloud computing platforms, high-performance computing systems, and specialized AI hardware.
- **Set Up Data Infrastructure**: Establish a robust data infrastructure that includes scalable storage solutions, data processing capabilities, and efficient data retrieval mechanisms. Implement tools and technologies for data ingestion, integration, and management.
- **Select AI Development Tools and Frameworks**: Choose industry-standard AI development tools and frameworks that align with your organization's needs.
- **Build Model Development and Deployment Pipelines:** Create an efficient workflow for AI model development, training, and deployment. Set up version control systems, experiment tracking tools, and automated deployment pipelines to streamline the development process.

- **Ensure Data Security and Privacy**: Implement robust security measures to protect AI infrastructure, data, and models. Apply encryption, access controls, and regular security audits to safeguard sensitive data and prevent unauthorized access.
- **Enable Scalability and Performance**: Design the infrastructure to scale with increasing AI workloads. Leverage cloud computing services for flexible and scalable resources and consider high-performance computing systems for computationally intensive tasks.
- **Continuous Improvement and Evaluation**: Regularly evaluate the effectiveness of your technology and infrastructure plan. Stay updated with the latest advancements in AI technology and continuously optimize your infrastructure to adapt to evolving needs.

Cost Benefit Analysis

Total Benefits of Ownership Overview

AI-powered smart home products offer multiple benefits to the business, including increased revenue from sales and cost savings through improved efficiency. They also provide a competitive advantage by offering innovative and advanced products, leading to enhanced market positioning. Additionally, AI technology improves customer satisfaction through enhanced functionality and personalized experiences, positively impacting brand image and reputation as a technology-driven company.

Impact on Revenues & Financial Methods of Analysis

The team anticipates that the project would initially generate $1,200,000 in revenue in the first year following completion (Year 1). During Year 2 and Year 3 revenue would increase by 25% and 20% respectively. Projections of revenue impacts during Year 1 - Year 5 are shown in Figure 1.

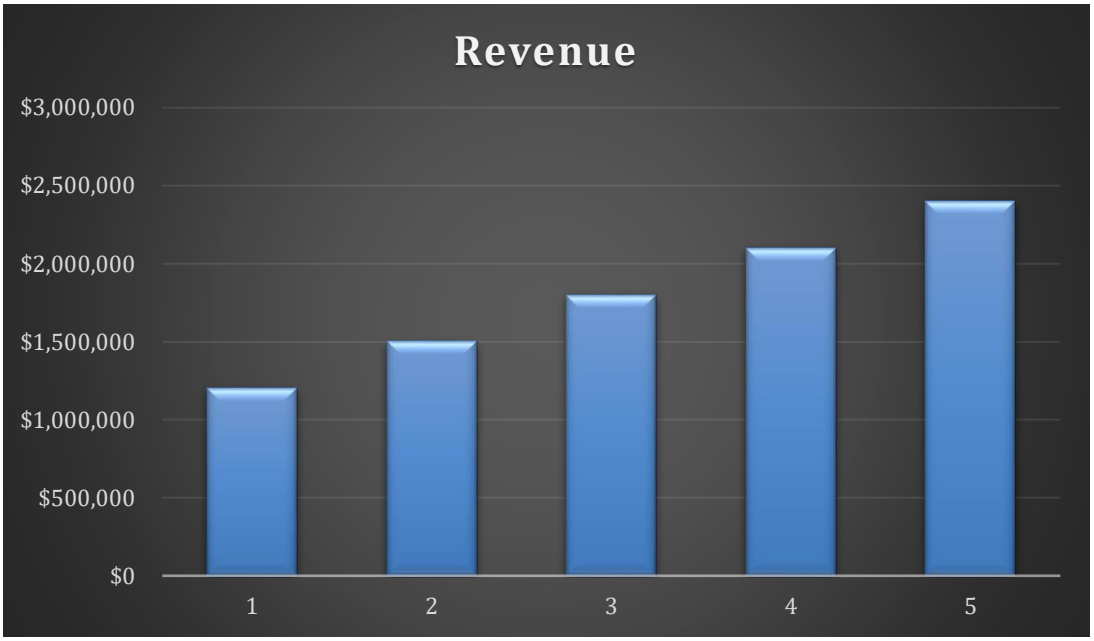

Figure 1 Revenue Projections

The cash flow and ROI statement reveals the financial impact of the AI-driven platform over a multi-year period. The benefit drivers include increased margins from higher production capacity, improved logistics such as reduced AR receivable time and improved inventory tracking, and various quality benefits resulting in fewer defects, returns, and customer complaints.

- These benefit drivers contribute to a total annual benefit of $1,265,000 in Year 1, which grows to $2,873,000 in Year 3.
- After considering an implementation filter, the total benefits realized amount to $1,075,250 in Year 1 and increase to $2,729,350 in Year 3.
- On the cost side, the initial investment and ongoing costs are accounted for, resulting in a total cost of $2,790,000. The discounted benefit flow, considering the time value of money, shows a positive cumulative value of $1,284,684.
- The return on investment (**ROI**) measures are calculated as 32% in Year 1, 85% in Year 2, and 142% in Year 3.
- The **payback period** for the project is estimated to be **1.92 years**, indicating the time it takes for the University to recover its initial investment.

See Appendix. 1 for details.

Total Costs of Ownership Overview

The project involves direct up-front costs, ongoing costs, and indirect costs. Below, our team has addressed all three types of costs to outline the total cost of ownership.

Direct Up-Front Costs

1. Research and Development: Costs associated with conducting research, developing AI algorithms, and creating prototypes for smart home products.
2. Hardware and Software Investment: Costs of acquiring necessary hardware, such as AI processors or servers, and software licenses for AI development and implementation.
3. Training and Skill Development: Costs of training employees or hiring specialized talent to develop and deploy AI technologies within the organization.
4. Data Acquisition and Integration: Costs involved in acquiring relevant data sets, ensuring data quality, and integrating data from different sources for AI training and analysis.

5. Infrastructure Upgrade: Costs of upgrading existing infrastructure, such as networking systems or cloud computing capabilities, to support AI implementation.

Ongoing Costs

1. Maintenance and Upgrades: Costs associated with regular maintenance, software updates, and hardware upgrades to ensure the continued performance and functionality of AI systems.
2. Data Management: Costs of data storage, processing, and management required to support AI applications and ensure data availability and accessibility.
3. Monitoring and Support: Costs of monitoring AI systems, addressing technical issues, and providing ongoing support to ensure their optimal functioning.
4. Training and Skill Development: Ongoing costs of training employees to use and adapt to AI technologies, keeping them up to date with the latest advancements.
5. Security and Compliance: Costs of implementing robust security measures, data privacy safeguards, and ensuring compliance with relevant regulations and standards.

Indirect Costs

1. Opportunity Cost: The value of potential opportunities or projects that are foregone or delayed due to the allocation of resources and investments in AI innovation.
2. Change Management: Costs associated with managing organizational changes, including employee training, cultural shifts, and adapting business processes to leverage AI technology.
3. Integration Challenges: Costs incurred in integrating AI systems with existing infrastructure, legacy systems, and ensuring compatibility and seamless operation.
4. Legal and Ethical Considerations: Costs associated with legal consultations, compliance assessments, and ethical frameworks to address potential legal and ethical implications of AI implementation.

Conclusion

In conclusion, the business case for AI innovation presents a compelling opportunity for our organization. Through the implementation of AI technologies, we can leverage advanced algorithms and data analytics to drive significant benefits across various aspects of our operations. The analysis indicates that AI-powered smart home products have the potential to generate increased revenue, reduce costs, and enhance our competitive advantage. With the ability to deliver personalized experiences, improved efficiency, and optimized resource utilization, AI innovation can significantly impact our bottom line.

Furthermore, AI technology offers the potential for improved customer satisfaction, as it enables us to provide enhanced functionality, convenience, and quality in our smart home products. This, in turn, can strengthen our brand image and reputation as a technology-driven and forward-thinking company. By staying at the forefront of AI innovation, we can differentiate ourselves in the market and attract a loyal customer base.

While the business case outlines the numerous benefits of AI innovation, it also acknowledges the risks and challenges involved. It emphasizes the need for careful planning, robust data privacy and security measures, and ongoing monitoring to mitigate these risks effectively. Additionally, the financial analysis demonstrates the expected return on investment (ROI) and presents a clear picture of the financial viability of the proposed AI initiative.

Appendix 1

Cash flow and ROI statement				
BENEFIT DRIVERS	**YEAR**			
	0	**1**	**2**	**3**
Greater margin driven by higher production capacity		**$300,000**	**$1,000,000**	**$1,550,000**
Improved logistics:				
Reduced AR receivable time		**115,000**	**145,000**	**165,000**
Improved Inventory Tracking		**400,000**	**550,000**	**520,000**
Fewer accidents, resulting in less workers' compensation		**100,000**	**140,000**	**130,000**
Improved quality benefits:				
Fewer defects, resulting in fewer warranty cost		**250,000**	**350,000**	**350,000**
Fewer customer returns, resulting in less reprocessing costs		**50,000**	**79,000**	**79,000**
Reduced time spent handling customer complaints		**50,000**	**79,000**	**79,000**
Total annual benefits		*$1,265,000*	*$2,343,000*	*$2,873,000*
Implementation filter		**85%**	**90%**	**95%**
Total benefits realized		*$1,075,250*	*$2,108,700*	*$2,729,350*

Costs	Year 0	Year 1	Year 2	Year 3
Total	*$2,790,000*	*$135,000*	*$105,000*	*$80,000*

Benefits	Year 0	Year 1	Year 2	Year 3
Annual benefit flow	*($2,790,000)*	*$940,250*	*$2,003,700*	*$2,649,350*
Cumulative benefit flow	*(2,790,000)*	*(1,849,750)*	*153,950*	*2,803,300*

Discounted benefit flow	Year 0	Year 1	Year 2	Year 3
Discounted costs	*$2,790,000*	*$117,391*	*$79,395*	*$52,601*
Discounted benefits	*0*	*935,000*	*1,594,480*	*1,794,592*
Total discounted benefit flow	*(2,790,000)*	*817,609*	*1,515,085*	*1,741,991*
Total cumulative discounted benefit flow	*(2,790,000)*	*(1,972,391)*	*(457,306)*	*1,284,684*

Initial investment	Year 0	Year 1	Year 2	Year 3
Initial investment	**$1,900,000**	**$0**	**$0**	**$0**
Implementation costs	**800,000**	**0**	**0**	**0**
Ongoing support costs	**0**	**100,000**	**80,000**	**65,000**
Training costs	**90,000**	**35,000**	**25,000**	**15,000**
Other costs	**0**	**0**	**0**	**0**
Total costs	*$2,790,000*	*$135,000*	*$105,000*	*$80,000*

ROI measures				
Cost of capital	**15%**			
Net present value	*$1,284,684*			
Return on investment		*32%*	*85%*	*142%*
Payback (in years)	*1.92*			