Teach Yourself:
Economic Evaluation:

Evaluating the Business/Project

2a: Five Steps

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The purpose of this module is to …

Level 3: Decision ma

teach yourself how to use your model to evaluate a project/business

Level 2: Evaluating the business/project

Level 1: Hands-on economic modelling

Spend only a few seconds on most slides.

Generally the evaluation will require you to …

Step 1: Find out what is required

Step 2: Create the hands-on model

Step 3: Compute the basket of powerful economic measures: NPV, IRR, Payback, four cash streams, key drivers, break-evens, uncertainty, risk, optionality

Step 4: Assess alternatives, flexibility, options, risks, the business, the industry

Step 5: Communicate your message

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Many people rush to complete Steps 2 & 3 wrongly thinking that announcing the NPV is their big moment of glory.

Step 4: A… …ions, risks, t…

Step 5: Communicate your message

Generally the evaluation will require you to …

Step 1: Find out what is required

Step 2:

Step 3:

No! Steps 1, 4 and 5 are just as important for <u>you to become influential</u> and for everyone else to appreciate the importance of the business side of the decision.

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Step 4: Assess alternatives, flexibility, options, risks, the business, the industry

Step 5: Communicate your message

Generally the evaluation will require you to

Steps 3 and 4 may overlap – the concept is to assess the main business configuration in Step3 then open your mind in Step 4 to assess the whole industry and hence other ways of achieving results.

Step 1: Fin

Step 2: Create the

Step 3: Compute the basket of powerful economic measures: NPV, IRR, Payback, four cash streams, key drivers, break-evens, uncertainty, risk, optionality

Step 4: Assess alternatives, flexibility, options, risks, the business, the industry

Step 5: Communicate your message

Generally the evaluation will require you to …

Step 1: Find out what is required

Get up and away from your computer

Get up and about amongst your colleagues

Step 2: Create the hands-on model

Find out what others want from the business/project

Step 3: Compute powerful economic measures
NPV, IRR, cash-flows, key drivers, break-evens, uncertainty, risk-rewards

Teach yourself the drivers and intricacies of this business

<u>Share</u> your progress - to get others on-side

Step 4: Assess alternatives, flexibility, options, risks, the business, the industry

Check your evaluation inputs and results with colleagues

Get them to audit their section of your model

Step 5: Communicate your message

Discuss, review and realign your evaluation work

All the time you should be interacting with colleagues so they see you as being as equally important as the geologists, the mining engineers, the metallurgists, the marketing, the engineers, the environment, the lawyers, etc

But more importantly you are recognised as the only person bringing everything together.

You can become a driving force by educating others about the drivers and subtleties of the business and of its industry.

This is a lot more challenging and a lot more useful than pumping out an NPV from your model.

To become influential, and for your role to become more meaningful, you will need to actively interact.
You must communicate constructively and honestly.

It is imperative that you arrange for Stages 2, 3 and 4 to be audited as you go.

Some arrogant specialists may see this as offensive: to have someone look through their algorithms and to explain where data was sourced. Are you inferring I am incompetent? Well, I am saying you are incompetent if you do not have this done!

Our work in economic evaluation requires hundreds of parameters to be incorporated into thousands of algorithms. Then we make refinements, addition and deletions in thousands more. Worst of all is we get interrupted. There almost certainly must be oversights, errors, … etc.

Periodic self audits and checking of graphs will pick up most of your errors, but it is a great feeling to be told by an outside auditor that the model is fine and the results are correct. Audits are an essential and healthy part of economic evaluation.

This means that every piece of work is completed in the knowledge that someone will be auditing it. Your work must be set out so it is readily accessed, understood and checked through by an outside person. Of course the evaluation model will satisfy that requirement if follows this website.

It is your job to make audits of your work both fast and effective. Other people should be happy to audit your work. You should be able to send an electronic copy of all documents in a self contained and self explanatory package.

You can make economic evaluation the best job of all!

End

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