Teach yourself how to build a Business Case for any industry

incl Mining

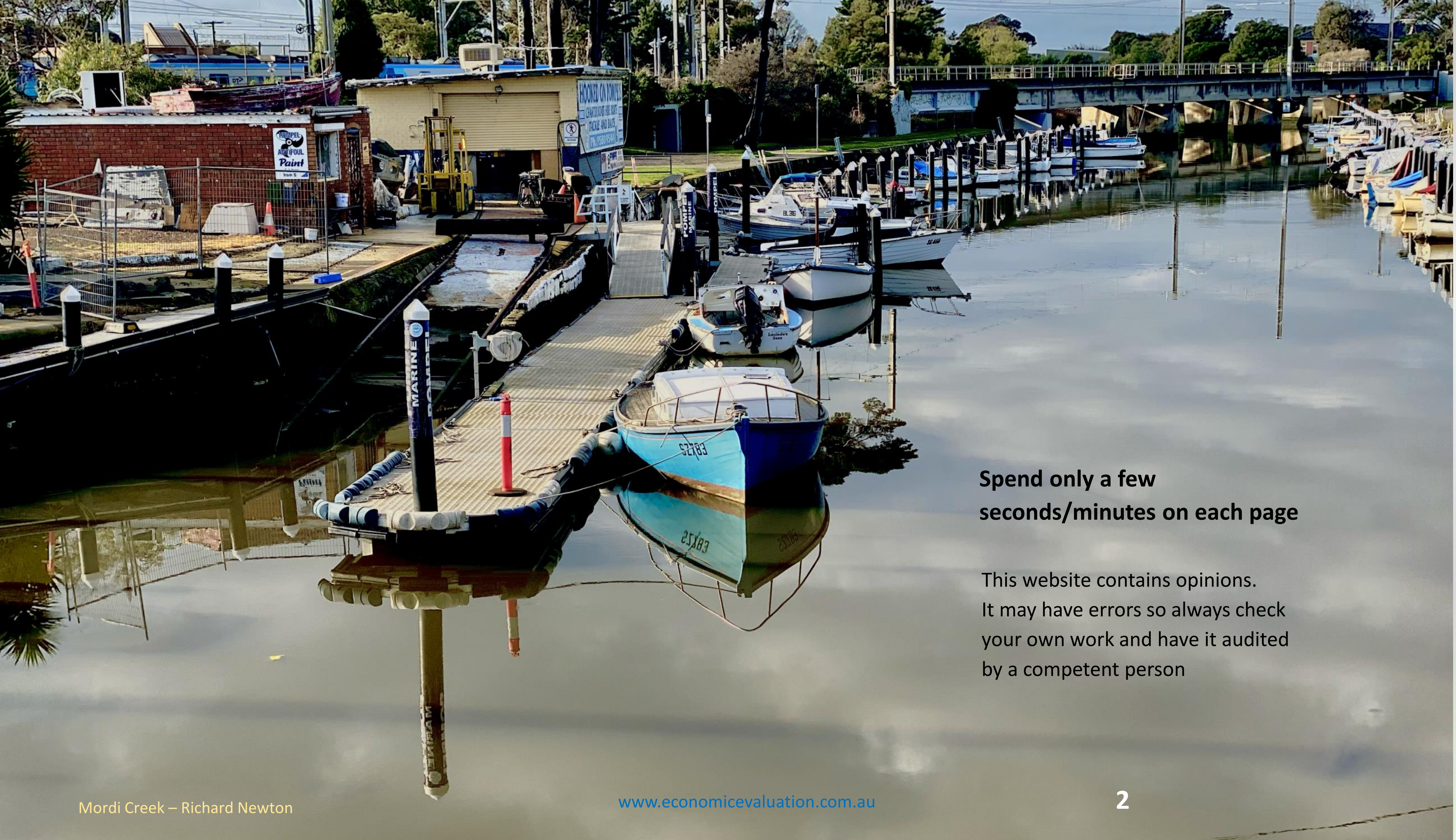
Module 2g:

Step 4: Assess the business/project

Step 5: Position yourself and communicate

Summer night Aspendale

www.economicevaluation.com.au



Spend only a few seconds/minutes on each page

This website contains opinions.
It may have errors so always check your own work and have it audited by a competent person

Inside Level 2 there usually are five steps…

Level 3: Decision making

Level 2: Evaluating the business/project

Level 1: Hands-on business modelling

- Step 1: Decide which business entity is to be evaluated
- 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, dollar trees, uncertainty, risk, optionality
- **Step 4: Assess flexibility, options, alternatives, the business, the industry**
- **Step 5: Position yourself and communicate so the decision makers "have their eyes wide open"**

A brief look at Step 4 →
and **Step 5 →**

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

Assessing an opportunity needs to investigate beyond the narrow computation of a basket of metrics.

Flexibility: How will this business be able to flex and adapt to unexpected changes in customer demands, input materials, supply channels, logistics, community expectations …?

Options: Although already mathematically included in Step 3, options need to assessed at a higher level. What opportunities might this business create for a major step out?

Alternatives: Rather than proceeding with the business/project, how else can this thinking be broadened to generate completely different alternatives? A new pathway?

The Business: How well does this business/project fit and enhance the existing business and its long term strategy? Be especially aware of senior executives with pet ideas or chasing selfish bonuses.

The Industry: If others are not already assessing the future of the industry, you made need to get involved. Demonstrate that you are industrious, capable and a deep thinker.

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

As with optionality, beware of the tiny industry that claims to unlock ‘hidden value’ when looking at these aspects of a business/project. This is fine if the business/project is healthy anyway and this recognises extra ways of reaping value over its life.

But if your business/project needs ‘hidden value’ to get over the line, then warning bells should start ringing.

Despite this I would keep an open mind, look for its positive opportunities and give any results a weighting.

Mordi Creek – Richard Newton

Step 5: Position yourself and communicate so the decision makers "have their eyes wide open"

As has been stressed through these modules, you can either

1. become a 'backroom modeller' that churns out numbers to fill out documents or
2. you can earn yourself the role of being one of the key thinkers and influencers.

Becoming one of the key influencers/decision makers requires:

- Clear objectives for the business,
- Sharing your easy-to-follow evaluations with colleagues & managers,
- Lots of hard work.
- Getting away from your work station and out amongst the business action to learn the whole business from the bottom-up and thereby earning the respect of colleagues and senior managers.
- Steering the evaluation through the wide basket of metrics plus the higher level thinking.
- Being open, honest, forthright but respectful and strategic.

- Lots of solid, properly founded evaluation work.

Step 5: Communication - Company Documentation

Big companies usually have an electronic manual or a checklist that clearly defines what is required by the business evaluation. There could be one document for minor capital expenditure, another for major capital expenditure, others for concept studies, prefeasibility studies, final feasibility studies, M&A transactions, and execution of a project. Each is tailored to purpose with increasing activities and accuracy as the assessment matures. They usually are easy to follow and are a clear foundation for the audit team. **Many smaller companies** have copies of these or have written their own derived version. Then there are some companies that have **no documentation** and muddle through.

The evaluation work required should increase as the project moves toward execution but always be fit-for-purpose.

Having all the requirements comprehensively documented, including the role of the peer review/ audit team, is very good discipline and very healthy.

- It should mean that a proper evaluation is completed and one that is fit for purpose (with its detail tailored to the decision to be made.)
- The peer review should make everyone do an appropriate level of work to support conclusions and keep orderly records.
- *It should help stop biased managers from bulldozing their pet projects through the approval process.* These comprehensive documents are good to control self-interested managers and project managers who are off on an ego-trip or are chasing a monetary bonus. Sadly there seem to be too many M&A's where the motive was self-interest.
- It should bring efficiency and effectiveness to the evaluation work by giving you a clear set of requirements and therefore specifying to your colleagues exactly what is needed from them for you to complete your role.
- I have seen a few sets of documents written by experienced project engineers. They know the words but really do not properly understand business evaluation. Being engineers they focus on NPV and other metrics to write in boxes; not understanding these are just a start, and that evaluation is far, far more comprehensive and challenging.

You should take the initiative and be in control. You should think the decision through as your work evolves and seek permission to adapt/change your evaluation output to better match the particular business/project. I always think of what I would want done if I owned the business/project.

Surely this will help you establish yourself as a key player in the decision making!

.

Step 5: Company Documentation - continued

Correct terminology:

Inside most company's formal documentation will be a section dealing with the business decision. It may be called "Business Evaluation", "Investment Evaluation", "Economic Evaluation" or similar. Hopefully it is not called "Financial Analysis" or "Financial Modelling" because those headings apply to either funding with debt/equity or analysing the Accounts. Worse still are those who call it "Cost Modelling"; because that is about synthesising the capital and operating costs. Something done by specialist estimators and operators.

The company document should follow the five steps of Level 2 in this series:

This would be comprehensive, productive and encourage a more mature understanding of the business.

You may need to extend the basic evaluation so everyone understands the business decision in an industry perspective - much more than evaluation metrics.

Presentation of your written work:

Readers of the business evaluation need the conclusions and recommendations up front so they can either take them at face value, or choose to keep reading through the supporting detail below.

Avoid the boring sequence of "introduction", "method" "results" ← that is typical of engineers who write the documentation.

<u>In general, the most important evaluation information should be presented first</u>

<u>Use graphs to quickly illustrate the key points.</u>

Take the lead and present your conclusions and results as you would want if you owned the business

You should take the initiative:

You should think the decision through as your work evolves and seek permission to adapt/change your evaluation output to better match the particular business/project. I always think of what I would want done if I owned the business/project.

You can make economic evaluation the best job of all!!!

End of Module

xx

Summer night Aspendale