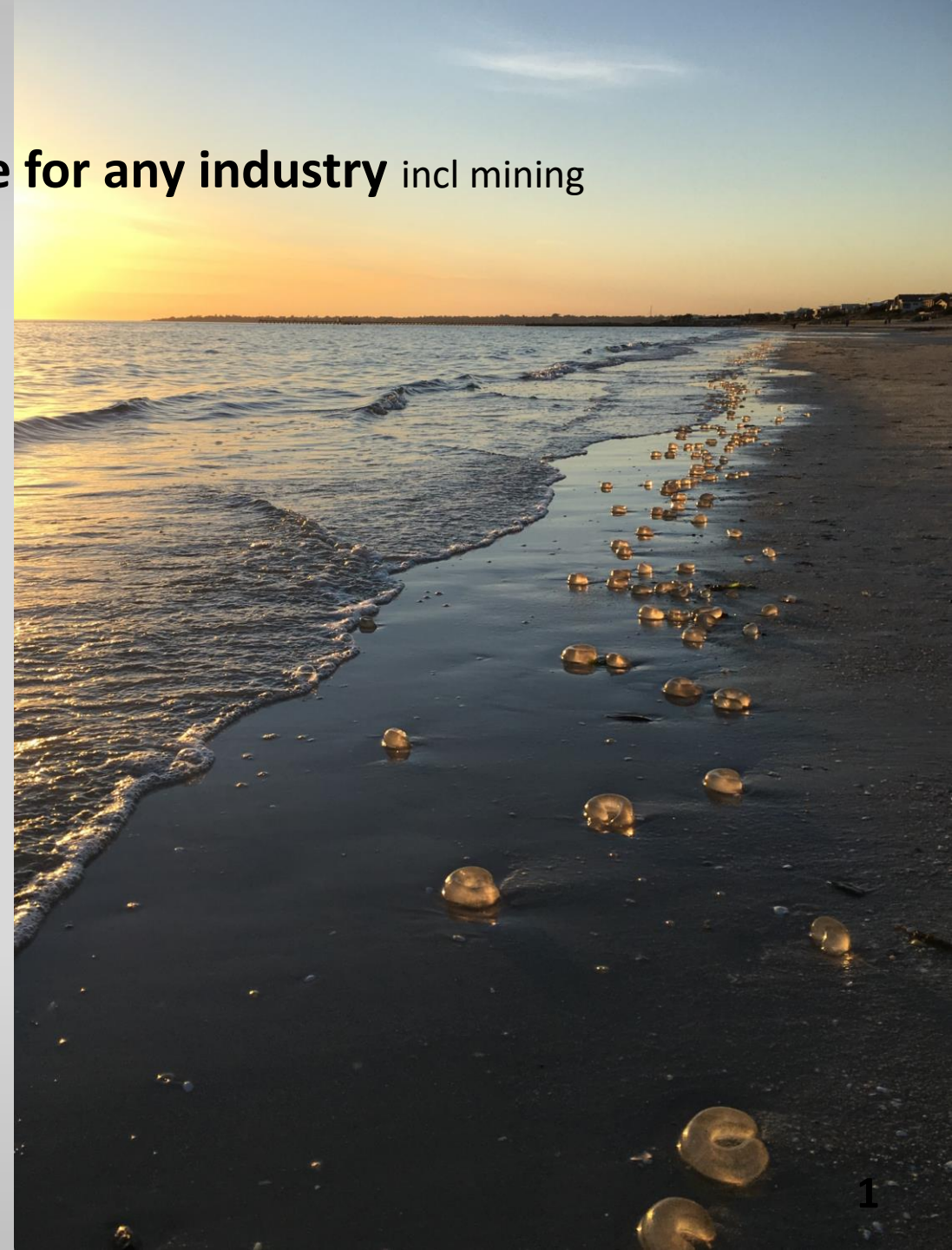


Teach yourself how to build a **Business Case** for any industry incl mining

## 3a Making the Decision



**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



## Building a business case (economic evaluation) has activities on three levels ...

### Level 3: Decision making

Make the decision in full knowledge;  
with 'eyes wide open'

### Level 2: Evaluating the business/project

### Level 1: Hands-on business modelling

To get things into perspective, modelling  
is the lowest level. It is the workhorse of  
the two higher and more important levels.

## The final decision should be based on:

- a. The basket of economic measures
- b. Its ability to flex and adapt to a wide range of business and operating conditions
- c. Its uncertainties, risks, rewards, optionality
- d. Its strengths and weaknesses
- e. Its fit inside your company
- f. Its direct, indirect and coming competitors

*and most importantly*

- g. the future for that industry

**→ using experience, wisdom and judgement!**

## All the evaluation work done at Level 2 needs to be brought together so the decision makers have 'eyes wide open'.

They need to understand the total picture of

1. their industry,
2. their business inside that industry and
3. their project inside their business.

You need to present them with a comprehensive but succinct 'helicopter view' with the most important items first

1. the conclusions & recommendations probably should be first
2. followed by the key results (positive and negative)
3. the most important issues
4. the lesser issues
5. and give them links to the detail in any area they may wish to more fully understand.

- avoid the mind-deadening format of technical reports that are back-to-front with 'Introduction, Method, Discussion, Results, Conclusions, Recommendations'

## The data might include:

1. NPV, IRR, Payback
2. The full range of possible outcomes with risk weightings
3. The economic health of the underlying business, regardless of ownership
4. The outcomes/risks for each entity in a joint venture
5. The outcomes/risks for other stakeholders, such as government, community, minorities
6. Key parameters/assumptions and their impacts/risks
7. The flexibility of the project to be able to adapt to severe improvements and severe deteriorations in business conditions and to the resource,
8. Minimum prices to avoid bleeding cash compared with history and forecasts
9. Optionality if the project proceeds and does not proceed – probability weighted
10. Position on the industry cost curves
11. Competitive advantages and competitive weakness of the project/business
12. Status of the industry – maturity, relative strengths of sellers/buyers

## Experience, wisdom, judgement

A comprehensive but succinct view of the project, business and industry will provide a sound basis for a decision.

But final decision makers need more – they need “judgement”.

Too many bad decisions have been made by high-powered senior management and well-positioned Boards of major global companies. They have seen all the economic metrics but not delved deeply enough to educate themselves on the critical assumptions. They have wanted to go along with the decision because the ‘experts’ have shown it is good!

Decision makers need to have ‘experience & wisdom’. ***They should have sound experience in the industry, maturity in the business, detached critical thinking, independent advice and their own objective evaluation.***

The decision makers need to fully understand all the evaluation results, the critical underlying assumptions, the limits of the assessments, the strengths and weaknesses of the evaluation.

Should they be investing in that industry? In that business? In that project?

Is there a better way of fruitfully exploiting this opportunity?

## Too many bad decisions

***There have been countless bad decisions that have been motivated by people wanting to satisfy their own ego's or key performance indicators (kpi's) to earn a bonus.***

Occasionally the Management and Board of a company will make a deliberate, huge, poor investment solely to make themselves less attractive for take-over and so preserve their own jobs.

Many of us can confess to becoming emotionally involved in a project or business from its beginnings and where we want it to proceed to become a personal achievement

Too many Boards have been misled by the company's management to make a decision that satisfies the ego of the CEO. Lots of CEO's have had 'high conviction' about a pet project and hammered the Board into a poor investment that has been dressed up to look good.

Some senior managers have employed an independent peer review to re-assure the Board, but picked experts who were compliant and then controlled the review activities.

Sometimes a very successful decision is ...

to decide against a recommended investment or project!



## “Eyes wide open”

**For anyone to find and develop a project or business that can be shaped and grown into a successful investment is a major accomplishment!**

It is much easier to kill a project/business than to toil and innovate to make it work.  
Making a decision on a borderline investment is hard!  
We must admire people who work through adversity and overcome popular opinion and then go on to make a project/business succeed.

*Your role is to make sure the decision makers know everything important so they can make their decision in full knowledge – with ‘eyes wide open’*

*Aim to be amongst the decision makers*

# End of Module