Framework for making investment decisions

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Contents

• What is a typical investment decision in Logistics?
• What are the factors that make logistics investments challenging?
• How should we deal with Risk, Uncertainty and Errors?
• A suggested investment decision framework
Typical investment decisions

• Problem led
• Often not cross functional (just affects logistics)
• Expensive
• Payback over multiple years
• Dependent upon plans elsewhere in the business
• Significant risk – business change, go live, white elephants
Factors that make logistics investment decisions challenging – automation example
Risks

Mitigation plans
- How do we eliminate the risk?
- How do we deal with it if it happens?
Uncertainty

- What are your assumptions?
- What if....?
- Scenario development
- Sensitivity analysis
Errors

- You will get things wrong...the real question is how wrong....

<table>
<thead>
<tr>
<th>Error type</th>
<th>How to mitigate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecasting Errors – Accuracy and proximity</td>
<td>How accurate are current forecasts and how far out is the planning horizon?</td>
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<tr>
<td></td>
<td>Use current data</td>
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<td></td>
<td>Then add some contingency</td>
</tr>
</tbody>
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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Modelling errors - Excel</td>
<td>Test the model</td>
</tr>
<tr>
<td></td>
<td>Change inputs – do the outputs you expected to move change?</td>
</tr>
<tr>
<td></td>
<td>Independent review – Four eyes</td>
</tr>
</tbody>
</table>
## Errors

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<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Specification errors – misunderstandings, points of clarification, level of detailed planning</td>
<td>Joint workshops</td>
</tr>
<tr>
<td></td>
<td>Get into the detail</td>
</tr>
<tr>
<td></td>
<td>Accurate requirement specifications</td>
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<tr>
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<td>Wide stakeholder engagement</td>
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Investment decision framework
Setting the objective

- Be clear on the objective (Capacity, efficiency, service, all of the above?)
- Involve a wide stakeholder group to agree it
  - Does it gain their support?
  - Is it worth prioritising over other projects vying for cash?
- Write a Project Initiation Document
  - Sets a baseline
  - Forces you to consider options and wider considerations
Understand the costs – and how they can change

- Do your research
- Engage independent experts – don’t rely on the sales team of one organisation
- Understand the risks and the requirement for contingency budgets
- Start with estimated costs to get informal approval to progress
- Constantly update your cost budget throughout the project and share it with key stakeholders – no-one likes surprises!
Work through potential options and clarify their merits, costs and risks

- What are the options that deliver the objective?
- Don’t take short cuts or make assumptions that narrow the options too early – you’re likely to have to revisit them
- Conduct high level cost and benefit analysis of each option
- Create a model that allow key inputs to be varied to understand the impacts on each option
- Use data from reliable sources – don’t guess
- Capture all assumptions
- Identify where the ‘break points’ are of each option
- Share your findings with key stakeholders
Benefits creation, confirmation and realisation is a journey

• “Costs are certain – Benefits are not” Client FD
• At the start benefits are, to a certain extent, a dream
• As the project develops they become more realistic – they change, adapt and become a plan
• As the project comes to a close they are your new targets – are you comfortable with your new targets?
• How are you phasing the benefit realisation?
• Stay prudent – if the business case relies on exaggerated benefits to get approval, you haven’t got a business case
The first draft business case is now ready for testing.
Investment decision framework

- You are now entering a cycle of refinement
- Present to the board
- Respond to questions
- Adapt the business case
- Re-present it
- Repeat until it passes or fails
- Be prepared for this to take some time
Board presentations

• Keep the presentation simple
• Meet key stakeholders beforehand
• Know your numbers
• If you don’t know, take it away and find out
• Be flexible
• Follow up with individuals afterwards
Board approval

- Approval will often have conditions and always implied or named expectations, typically around budget control and benefits realisation.
- Updates will be required during the project – agree what form they will be.
- Will any board members be specifically responsible for the project? How will you keep them updated and on side.
It’s now back over to you…

• Well controlled project management
• Regular project steering meetings
• Risk, Action, Issue, Decision (RAID) logs
• Clear Go / No go decision points
• Stakeholder management plans
• Communication plans
• How does the project interface with business as usual?
• Go live and benefits tracking
Investment decision framework

Objective

Options
Evaluation

Business Case
Development

Test

Review

Adapt

Approval

Conditions

Expectations

Realisation

Change Mgt.

Close out

Costs

Benefits

Estimated

Confirmed

Implied

Confirmed

Delivered
In summary

- Have a clear unambiguous objective
- Have a high level plan before wasting time on developing a project that has limited chance of going ahead
- Tackle Risks, Uncertainty and Errors with your eyes wide open
- Be clear on the approval process you must follow
- Be prepared for a protracted approval timeline
- Business cases develop over time – prepare stakeholders for this and communicate them
- Have a robust plan for implementation and benefits realisation
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