

Framework for making investment decisions

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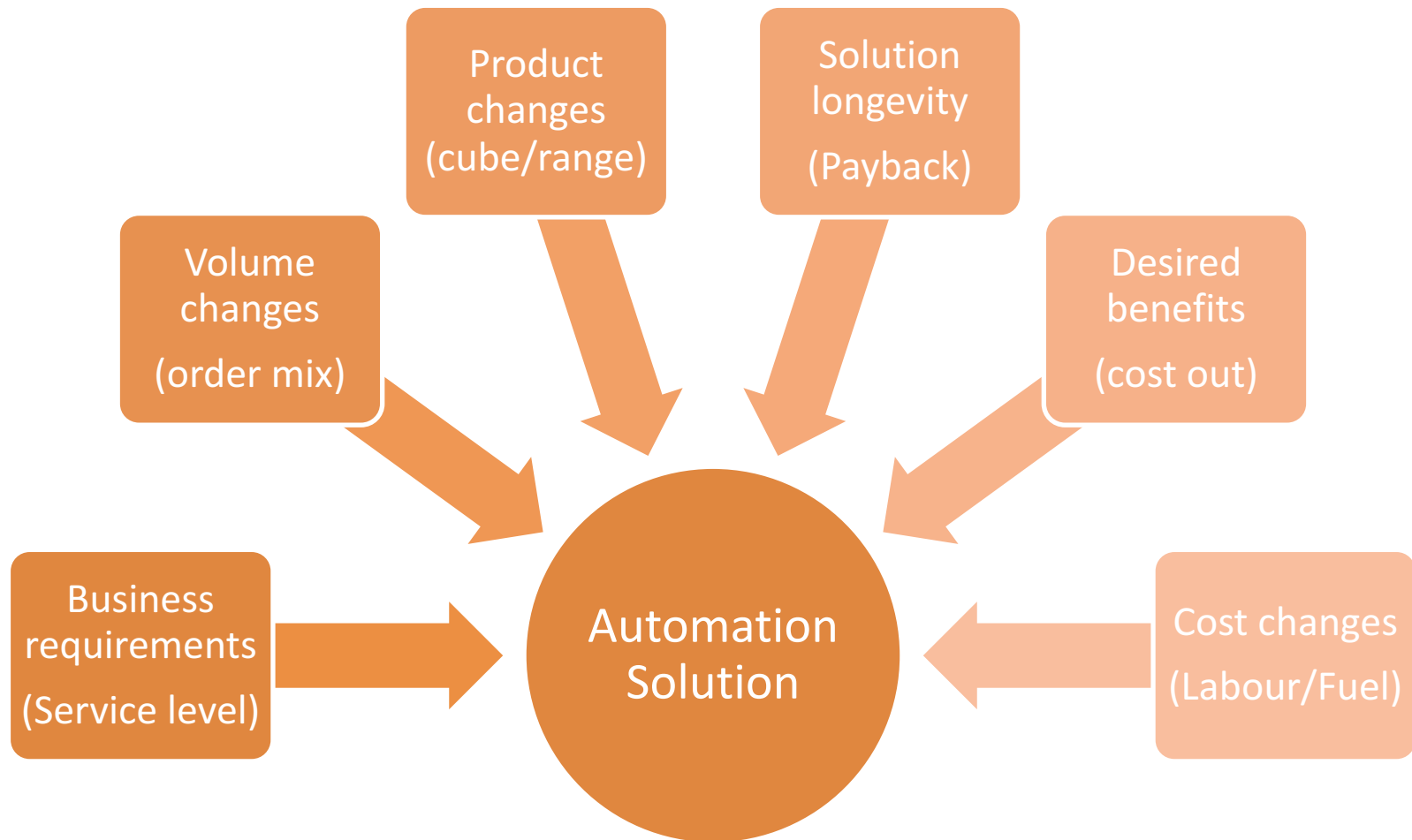
- What is a typical investment decision in Logistics?
- What are the factors that make logistics investments challenging?
- How should we deal with Risk, Uncertainty and Errors?
- A suggested investment decision framework

Typical investment decisions

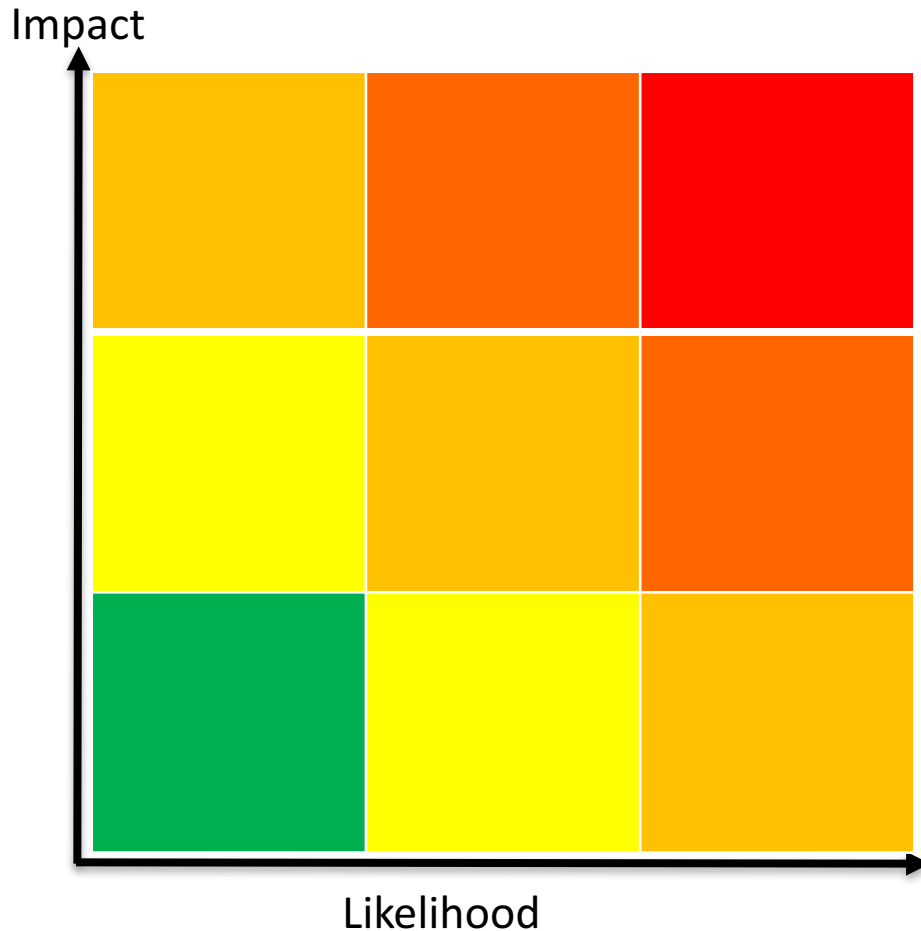
- Problem led
- Often not cross functional (just affects logistics)
- Expensive
- Payback over multiple years
- Dependent upon plans elsewhere in the business
- Significant risk – business change, go live, white elephants



Factors that make logistics investment decisions challenging – automation example



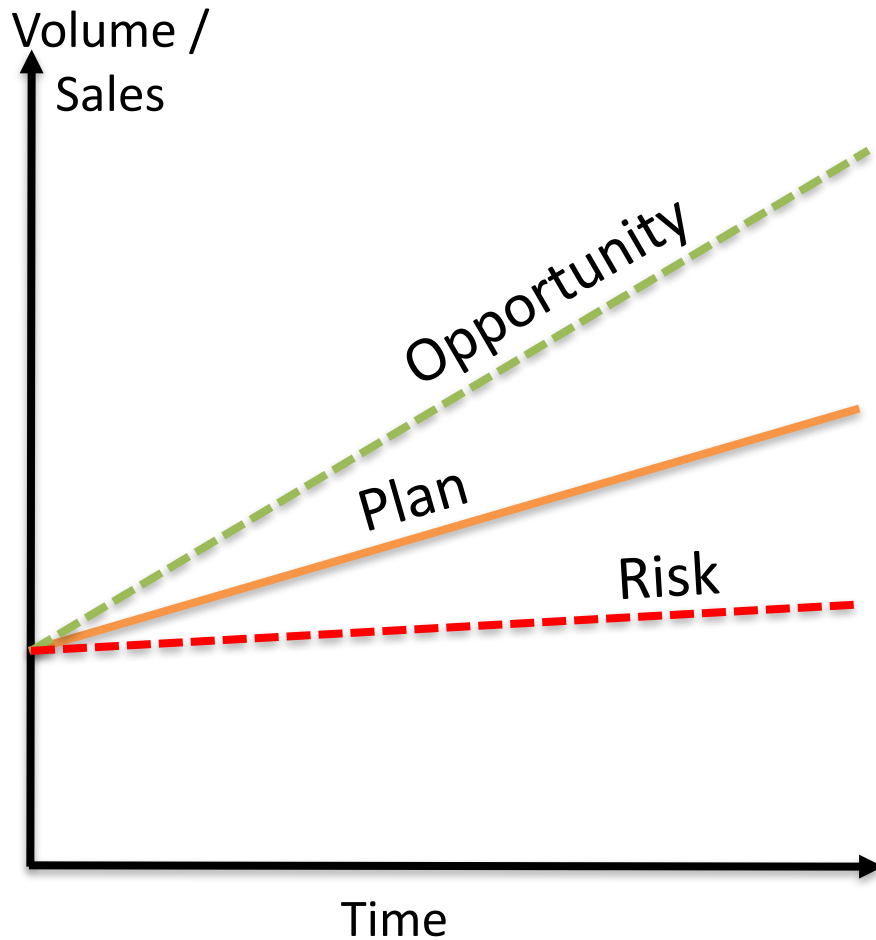
Risks



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....

Error type	How to mitigate
Forecasting Errors – Accuracy and proximity	How accurate are current forecasts and how far out is the planning horizon? Use current data Then add some contingency

Errors

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

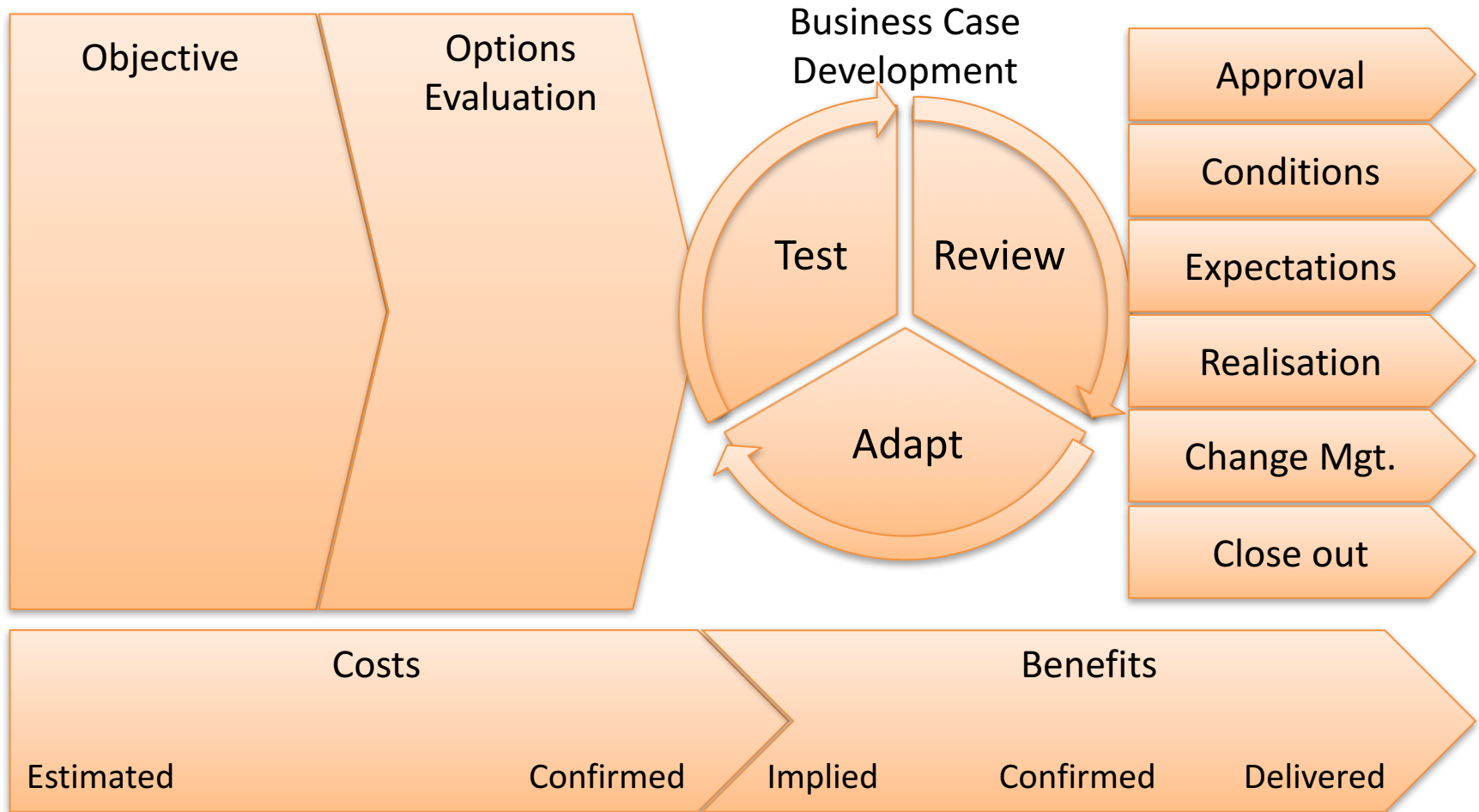
Error type	How to mitigate
Modelling errors - Excel	Test the model Change inputs – do the outputs you expected to move change? Independent review – Four eyes

Errors

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

Error type	How to mitigate
Specification errors – mis-understandings, points of clarification, level of detailed planning	Joint workshops Get into the detail Accurate requirement specifications Wide stakeholder engagement

Investment decision framework



Setting the objective



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

Options Evaluation

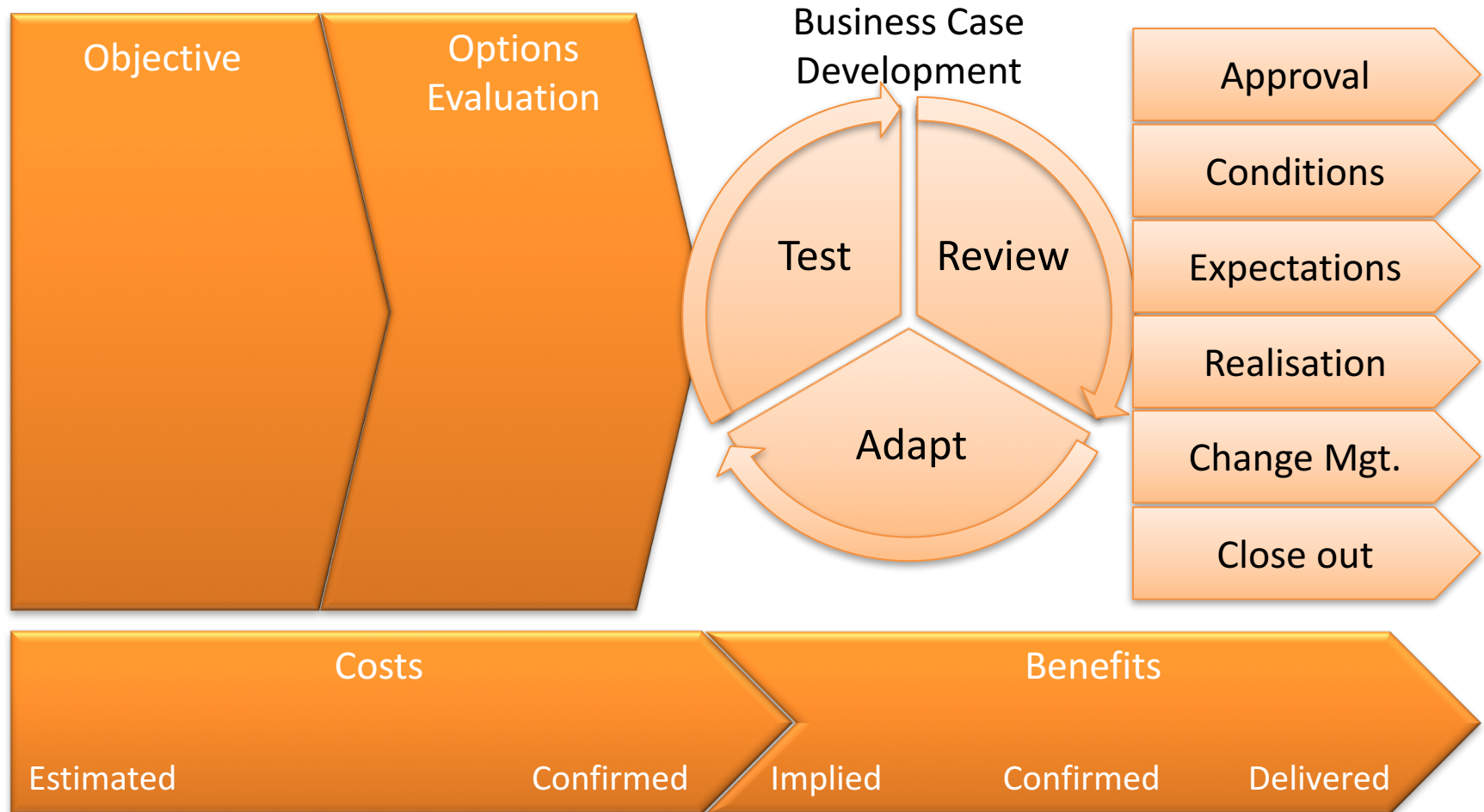
- What are the options that deliver the objective?
- Don't take short cuts or make assumptions that narrow the options too early – you're likely to have to revisit them
- Conduct high level cost and benefit analysis of each option
- Create a model that allow key inputs to be varied to understand the 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

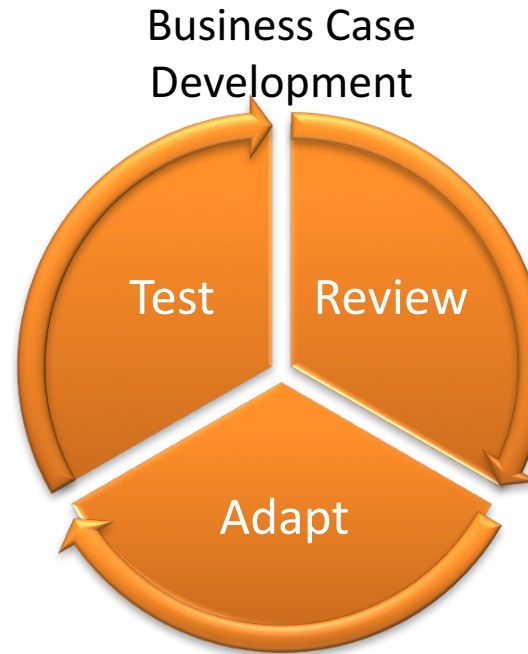


The first draft business case is now ready for testing



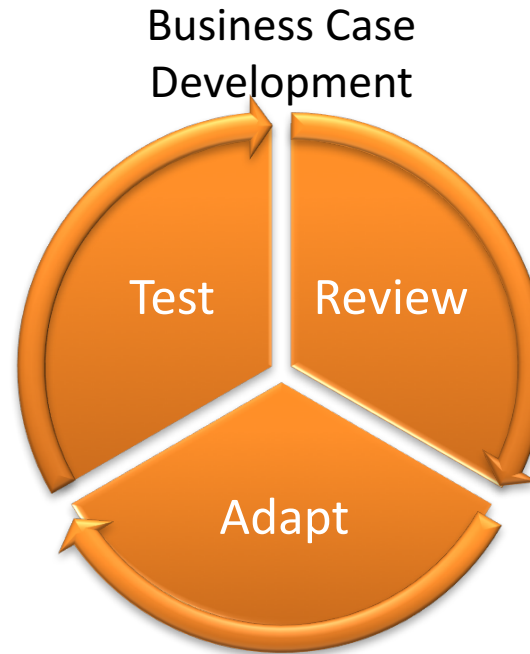
Investment decision framework

- 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

Approval

Conditions

Expectations

It's now back over to you...

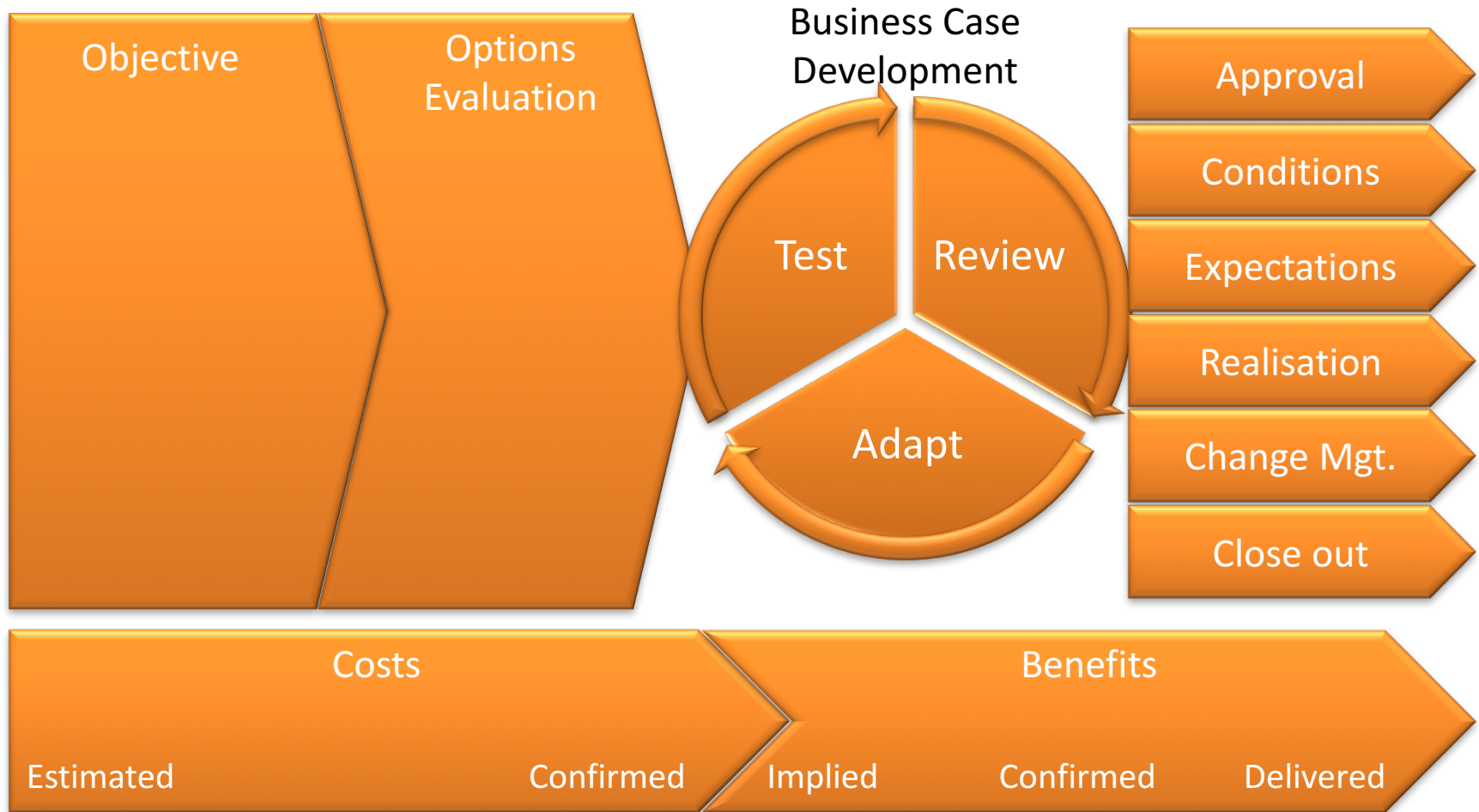
- Well controlled project management
- Regular project steering meetings
- Risk, Action, Issue, Decision (RAID) logs
- Clear Go / No go decision points
- Stakeholder management plans
- Communication plans
- How does the project interface with business as usual?
- Go live and benefits tracking

Realisation

Change Mgt.

Close out

Investment decision framework



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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