

# THE C-SUITE CAPITAL ALLOCATION TOOLKIT

## CAPITAL ALLOCATION PRINCIPLES AND GUARDRAILS (THE RULES OF THE GAME)

When decisions feel emotional, political, or inconsistent across leaders:

- Define priorities: survival → core ROI → growth bets → returns.
- Set non-negotiables (liquidity buffer, max leverage, min ROIC).
- Define what you don't fund (pet projects, low-margin growth, vanity expansion).
- Write it as a one-page policy leadership can repeat.

## TOWS MATRIX (TURN SWOT INTO STRATEGY CHOICES)

When: cash "disappears" and nobody agrees where it went:

- Map cash in: operating CF, debt, equity, asset sales.
- Map cash out: working capital, capex, debt service, tax, dividends, M&A.
- Separate maintenance vs growth capex.
- Create a monthly view: planned vs actual.

## LIQUIDITY RUNWAY AND MINIMUM CASH BUFFER

When growth is funded with hope instead of liquidity discipline:

- Set minimum cash (e.g., X months of fixed costs + debt service buffer).
- Stress test a revenue dip (10-30%) + delayed collections.
- Define trigger points (what forces a freeze on spend).
- Ringfence liquidity before growth bets.

## WORKING CAPITAL RELEASE PLAN (SELF-FUNDING GROWTH)

When: you're borrowing to grow but cash is trapped in the cycle:

- Break down CCC: DSO, DIO, DPO.
- Identify 3 levers to release cash (terms, inventory, collections).
- Assign owners and weekly metrics.
- Treat working capital improvement as a "project with ROI."

## COST OF CAPITAL: WACC (WEIGHTED AVERAGE COST OF CAPITAL) AND HURDLE RATES

When teams pitch investments without a required return benchmark:

- Set a baseline hurdle (WACC + risk premium).
- Create tiers (core / adjacent / new market) with different hurdles.
- Align hurdle rates to strategy + risk appetite.
- Make it mandatory in every investment memo.

## ROIC (RETURN ON INVESTED CAPITAL) VS WACC - VALUE CREATION TEST

When you're growing but not getting richer (classic trap):

- Calculate ROIC by product line / plant / channel (where possible).
- Compare ROIC to WACC: value is created only if ROIC > WACC.
- Identify value destroyers and fix or exit.
- Make ROIC a leadership KPI, not just finance's obsession.

## INVESTMENT FUNNEL (INTAKE → SCREEN → APPROVE → FUND)

When too many initiatives compete and leadership is overloaded:

- Standardise intake: one template for all requests.
- Use a quick screen: strategic fit, capacity, payback, risk.
- Only promote the best to full business case.
- Limit WIP: too many projects = none delivered.

## CAPITAL BUDGETING: NPV (NET PRESENT VALUE) / IRR (INTERNAL RATE OF RETURN) - THE DECISION MATH

When you need to compare projects fairly across size and timing:

- Build cash flows (not accounting profit).
- Use NPV as the primary decision metric.
- Use IRR as a supporting check (not the main driver).
- Don't approve anything without assumptions clearly shown.

## PAYBACK & BREAKEVEN (SPEED OF RECOVERY)

When uncertainty is high and you need a "how fast do we get our money back?" lens:

- Calculate payback time and cash breakeven.
- Use payback as a risk filter (not the only metric).
- Apply stricter payback rules to riskier bets.
- Combine with NPV so you don't accidentally choose "fast but small."

## SENSITIVITY ANALYSIS (WHAT BREAKS THE INVESTMENT)

When there are too many problems and you need the few that matter most:

- List issues with frequency/cost/time impact.
- Rank and chart the top contributors.
- Attack the top 20% causing 80% of damage.
- Repeat monthly to prevent drift.

## SENSITIVITY ANALYSIS (WHAT BREAKS THE INVESTMENT)

When you're making bets with uncertain demand or cost volatility:

- Create 3 scenarios with different drivers (not arbitrary %).
- Attach probability weights if useful.
- Decide funding approach: full fund vs stage gates.
- Plan the downside response before you approve the spend.

## DECISION TREES AND REAL OPTIONS (STAGE THE BET)

When projects have big uncertainty but huge upside (new market, tech, product):

- Break investment into stages (test → pilot → scale).
- Define criteria to move to next stage.
- Limit downside with small initial capital.
- Buy the option to scale later if the data proves it.

## PORTFOLIO MAP (RISK VS RETURN BUBBLE CHART)

When you have many initiatives and need a balanced capital portfolio:

- Plot projects: expected return vs risk (with size as bubble).
- Balance: core efficiency + growth + optionality.
- Avoid all-in on one category (e.g., only expansion, no resilience).
- Make trade-offs visible for leadership.

## FUNDING MIX AND LEVERAGE GUARDRAILS (DEBT VS EQUITY VS INTERNAL CASH)

When you're funding growth but could be over-leveraging the business:

- Define max leverage and minimum DSCR/covenant headroom.
- Compare funding sources: cost, control, flexibility, risk.
- Tie funding choice to cash flow stability (not optimism).
- Keep refinancing risk visible (maturity wall planning).

## POST-INVESTMENT REVIEW (CLOSE THE LOOP)

When the business keeps investing but never learns:

- Compare actual vs approved assumptions (volume, margin, timing, capex).
- Identify what went right/wrong (process, forecasting, execution).
- Update hurdle rates or screening criteria based on learnings.
- Reward truth-telling, not "always green" reporting.