

## Figures 10-10 and 10-11: The Capital Budgeting Process

How do we go from a project idea to a project that is approved for financing?

1. **Project Identification:** The process begins with identifying potential investment opportunities. This involves scanning the market for projects that align with the company's strategic goals and have a positive NPV. Projects are often identified through internal R&D, market research, or external acquisitions.

2. **Project Evaluation:** Once identified, projects are evaluated based on their expected cash flows and risk. This involves estimating the project's NPV and IRR. Key factors include the project's scale, timing, and the company's cost of capital. Projects are ranked based on their NPV and IRR, and those with the highest NPV and IRR are typically the most attractive.

3. **Project Selection:** The final step is selecting the projects to fund. This involves comparing the NPV and IRR of the projects and choosing those that provide the highest NPV and IRR. Projects are often selected based on their NPV and IRR, and those with the highest NPV and IRR are typically the most attractive.

4. **Project Implementation:** Once selected, projects are implemented. This involves allocating resources, managing the project, and monitoring its progress. The project's NPV and IRR are tracked throughout its life cycle to ensure it remains profitable.

