

Financial Management

Title: Financial Analysis: Unilever and Procter & Gamble (P&G)



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

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Name: Aditkumar Arvindsingh Rajput

Student ID: 2327679

Course: MBA in International Business

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Lecturer Name: Jia Miao

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1. INTRODUCTION

1.1. Company Overview

The Unilever Company was started by Margarine Unie and Lever Brothers on 2 September 1929. They decided to partner and came up with the name "Unilever." The main vision behind this collaboration is to carry out the best production of soap and margarine, but later on they combined both soap and margarine for effective production. This became one of the most profitable collaborations in European history. After that, on 1 January 1930, Unilever officially formed, and in the same year, P&G also made their way into the UK market, and they became the best competitor for Unilever. Additionally, during the period of World War II, Unilever ended their business deals with German and Japanese-occupied territories, and then they started to focus more on local markets and business **(Unilever 2023)**.

1.2. Product Model

Unilever operates through various business industries, such as beauty and wellbeing, and products in beauty and wellbeing, such as Dove, Sunsilk, and Vaseline. They are also into personal care with products such as Rexona, Dove, Lifebuoy, Lux, and Axe. Unilever is also providing a valuable contribution in home care with some famous brands such as OMO, Domestos, CIF, and Comfort. Moreover, they are also making their strong reputation into nutrition with such brands as Hellmann's, Knorr, and Horlick's **(Unilever 2023a)**.

1.3. Market Expansion

Unilever has a dominant market expansion globally, offering products in approximately 190 countries worldwide. They are in the top 10 market distributors of products in 4.4 million stores in the world. There are 128,000 employees working for Unilever worldwide, and 55% of women are working as managers. Additionally, they have around 77,000 suppliers in 150 countries, with a turnover of **£59.6** billion in 2023. In the world currently, over 3 billion people use Unilever products in their daily lives **(Unilever 2023a)**.

1.4. Competitors

There are many big and major rivals in the market to compete with Unilever, such as GSK, Johnson & Johnson, Nestle, Mars, and P&G. Unilever stands in first place in terms of quality assurance. While they stand at 2nd

position in net promote score compared to their competition. Unilever delivers high-quality and best-priced products and services. With their best service in the market, they have stood out in the UK market for the past 100 years (**comparably 2022**).

2. MAJOR EVENTS

2.1. Change of Directors

In Unilever, there has been immense change seen in terms of directors in the last 5 years. In 2019, Alan Jope was elected as the new CEO of the company after Paul Polman, who was the CEO of this company from 2009. In 2020, Nils Andersen became the new chairman after Marjin Dekkers decided not to continue as chairman. Then, after the retirement of Graeme Pitkethly, from the post of CFO, Fernando Fernandez was selected as the new CFO in 2023. However, Hein Schumacher was appointed as the new CEO in 2023, after Alan Jope (**Unilever Report 2023**).

2.2. Profit Warning and Legal Issue

In 2021, Unilever faces a drastic change in sales cost, and they feel pressure in the second half of the year, and due to this, they got a profit warning because of an increase in product price in the market globally. These situations pushed them to increase the price of a few products. Again in the same year, Ben & Jerry's denied to sell their product in Palestine because they got a warning from the official government, and this led to decreasing the sales of the company. The company also got legal notice for serious claims like labor practices and polluting the environment in several parts of the world.

SECTION B: FINANCIAL ANALYSIS PERFORMANCE

UNILEVER VS Procter & Gamble (P&G)

Abstract: In this report, the main focus will be the financial analysis of one of the biggest and strongest companies, Unilever, which is known for being a good service provider for consumers. The main aim is to compare some financial stats between these two giant companies. In depth, we will discuss Unilever's last five years of financial performance and compare it with P&G's last-year performance, and then see which company is growing and better to invest in market share price. To calculate the performance for both companies regarding their financial management. To get actual and correct data, we will utilize companies' financial statements, annual financial reports, income statements, and balance sheets to find out profitability, liquidity, leverage, and efficiency ratios for both companies. As per the current market situation, it is predicted that Unilever will expand their business more and will make more profit in the future.

1. INTRODUCTION

Unilever and Procter & Gamble (P&G) are two of the giant and successful leading companies in the world right now globally, and both are delivering excellent services and products to consumers worldwide. The backgrounds of both organizations have a wealthy and commendable journey that started from scratch 100 years ago and is now standing as the best leaders in the world, and both have strong brand reputations. P&G was established in 1837 in Cincinnati, Ohio. This happened when William Procter and James Gamble decided to launch products under one name, which was P&G (**Britannica 2024**). In this report, the focus is to see the competitive analysis of the financial performance of Unilever and will compare with P&G to capitalize on both companies' market positions and which company is better to stake their money in the market share.

A report on Unilever and P&G examines the financial performance of both companies in the current situation and what the future demands are. In this study, we will investigate the current valuation of both companies and classify which company is good for investing the money in the market share for future aspects. Additionally, we will calculate some ratios to get exact results with formulas, which will be added further.

In the first section of the report, we will center on profitability, leverage, liquidity, and efficiency ratios. To calculate the ratios and to address the limitations of ratios, we will utilize both company's financial annual reports. Unilever is stronger than P&G in the market because of their commendable hold in the market and their thinking to deliver the best products and services in the same market as P&G. The analysis possesses the data of the last five years from 2019 to 2023 to see the fluctuation in ratios and the reason behind it.

2. FINANCIAL PERFORMANCE AND ANALYSIS OF UNILEVER

This analysis will provide depth information on financial performance of Unilever against their most competitive rivals which is P&G. As mentioned earlier that in the section we will study about the performance ratio of both companies such as profitability, liquidity, efficiency, and leverage and also overlook the future aspects of decision-making for the investors.

Table 1: Total Turnover, growth and Operating profit of Unilever's (2019- 2023) and P&G's (2023)

Unilever's	2019	2020	2021	2022	2023	P&G (2023)
Turnover (£)	52 billion	51 billion	52.4 billion	60.1 billion	59.6 billion	82.0 billion
Sales Growth (%)	2.9%	1.9%	4.5%	9.0%	7.0%	7.0%
Operating profit (£)	8708	8303	8702	10775	9758	18134

The table displays the turnover, growth, and operating profit of the Unilever company and the latest data for 2023 of P&G. The data of turnover shows Unilever's rapid increase over the years, which was 52 billion in 2019 and then every year they generated more. The company only made 51 billion in 2020, which was the least revenue collected by Unilever in the last five years. In 2020, the whole world faced a difficult situation in COVID-19, as Unilever faced a quite difficult phase in terms of growth as, due to the pandemic, the company was not able to give salary hikes to their employees, and they also held the investment in promotions. Moreover, they took some harsh decisions connected with company business. Additionally, the economy dropped down to 5% as compared to 2019 (**Annual Report 2020**).

In terms of sales growth in 2023, both companies made the same increase in sales growth of 7.0%, respectively. In the last 5 years, Unilever made maximum sales growth in 2022, which was about 9.0% by the company. The company delivered the best performance even after high price inflation on their product as compared to other rivals in the industry, and they also invested more in research and development for better overall performance (**Annual Report 2022**).

2. Profitability ratios of Unilever (2019- 2023) and P&G (2023)

From the point of **Munawir (2010)** profitability ratio gives the overall performance and potential of the company to make high profit from its effectiveness. Whereas, (**Kashmir 2010**) stated that, profitability can provide companies performance management and their effectiveness and accuracy to generate revenue and make profit through better products or services.

2.1. Formula for calculating profitability ratios

$$1- \text{Operating profit margin} = \frac{\text{Operating Profit}}{\text{Sales (Revenue)}}$$

$$2- \text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Sales Revenue}}$$

As mentioned above the formula to calculate the profitability ratios of the both company which are Unilever from (2019 – 2023) and P&G (2023). The calculate will be stated below in the table 2.

Table 2: Profitability ratios of Unilever (2019- 2023) and P&G (2023)

Unilever's	2019	2020	2021	2022	2023	P&G (2023)
Operating Profit Margin	16.7%	16.3%	16.5%	17.9%	16.3 %	22.1%
Net Profit Margin	11.5%	11.9%	12.6%	13.7%	11.9%	17.97%

Operating profit is also referred as operating income. It also includes some other expenses such as selling goods and administration costs, also consists of research and development tariff. However, net profit margin indicates the company net turnover or profit is made respective to percentage of company revenue.

In these profitability ratios, we have used the data from the company's annual report, financial statement, consolidated balance sheet, and income statement to get the proper and accurate data related to operating profit and net profit margin. The data in the table shows the constant growth of Unilever in operating profit margin and net profit margin in the last five years. In 2022, Unilever showed the best performance in operating profit margin and net profit margin because of their brilliant consumer service; they collected huge revenue generated in that year.

In 2023, Unilever's sales revenue was around £59.6 billion. While the operating profit and net profit margins were 16.3% and 11.9%, respectively. Additionally, in the same year, P&G turnover was £82.0 billion, which is way more than Unilever's revenue, and the margin in the operating profit and net profit was also better than Unilever's, which were about 22.1% and 17.97%, respectively. If we compare P&G with Unilever, then P&G has achieved more than Unilever in the same industry with their best services and products.

3. Liquidity ratios of Unilever (2019- 2023) and P&G (2023)

In his journal (Hery 2015) mentioned that liquidity ratios are financial data's utilized to classified the company ability and capability to link up with their short period of financial performance strategies. These ratios evaluate the company's potential to settle up their short term liabilities by utilizing the current assets. It is calculated by company's current assets by company's current liabilities. The best ratio will reflect the company's ability to match up with their plans. It is divided into three different ratios which are current ratio, quick ration and cash ratio.

3.1. Formulas for calculating liquidity ratios

$$\begin{aligned} 1- \text{Current Ratio} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\ 2- \text{Quick ratio} &= \frac{\text{Current asset} - \text{Inventory}}{\text{Current Liabilities}} \\ 3- \text{Cash Ratio} &= \frac{\text{Cash and Cash Equivalent}}{\text{Current Liabilities}} \end{aligned}$$

The formulas is for finding the liquidity ratios for both companies as stated in this report and there are three different types to find out company's higher liquidity ratio.

Table 3 : Liquidity ratios of Unilever (2019 – 2023) and P&G (2023)

Unilever's	2019	2020	2021	2022	2023	P&G (2023)
Current Ratio	0.783	0.784	0.702	0.753	0.761	0.633
Quick Ratio	0.563	0.567	0.513	0.520	0.543	0.435
Cash Ratio	0.199	0.269	0.137	0.170	0.176	0.230

Current Ratio: The current ratio is the ratio in liquidity that identifies the company's expertise to pay short-term commitments. It includes the company's total current assets divided by the total current liabilities to get the current ratio of the company (**Focus 2023**). Unilever has maintained its current ratio continuously in the last five years, and it has not much fluctuated. In 2023, Unilever's current ratio was 0.761 and P&G's ratio was

0.633; that means Unilever has secured and balanced short-period liquidity as compared to P&G. It shows that Unilever has strong current assets and liabilities to pay short-term commitments.

Quick Ratio: The quick ratio shows the company's capability to pay the short-term business commitment by utilizing most of its liquid current assets, such as cash, near-cash, and present assets. The quick ratio is more orthodox than the current ratio because it doesn't include inventories and other current assets. The quick ratio always takes in the assets that can be converted into cash, and the current ratio involves inventories and makes prepared assets more reliable. The high quick ratio, or acid ratio, of Unilever in 2023 illustrates that they have more liabilities to pay the short-term obligation without counting the inventory. In 2023, P&G had a slightly lower quick ratio than Unilever, which indicates that the company is facing challenges in paying its short-term commitments.

Cash Ratio: It indicates the company's potential to pay its short-term liabilities by using most liquid assets, mainly cash and cash equivalent. This ratio is more orthodox than the current ratio and quick ratio because it doesn't involve any current assets and inventory to pay their short-term commitments. If the company has a cash ratio above 1, that means the company is capable of paying by using cash and cash equivalent easily. The table indicates that P&G has a slightly higher cash ratio than its rival Unilever, which was 0.230 (**Institute 2015**). Furthermore, P&G can pay their commitments easily via cash and cash equivalents, while on the other side, it is difficult for Unilever to pay the price for short-term plans with the help of cash and cash equivalent liabilities.

4. Leverage ratio of Unilever (2019 – 2023) and P&G (2023)

The leverage ratio reflects the set of ratios that focus on company's financial leverage and its assets, liabilities and equity. The ratios shows from where the companies capitals comes and how they manage their finance from debt. This indicates how well company's is capable to use this plans to pay their commitment (**Bernazzani 2021**).

4.1. Formula for calculating leverage ratio

$$1- \text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

$$2- \text{Debt to Capital Ratio} = \frac{\text{Total Debt}}{\text{Total Equity} + \text{Total Debt}}$$

Table 4 : Leverage ratios of Unilever (2019 – 2023) and P&G (2023).

Unilever's	2019	2020	2021	2022	2023	P&G (2023)
Debt to Equity	2.03	1.54	1.52	1.35	1.42	0.73
Debt to Capital	0.67	0.60	0.60	0.57	0.58	0.42

The table shows the leverage ratio of Unilever and P&G. To calculate the leverage ratio for both companies, we have used the financial data from both companies' financial statements, income, and balance sheets to get accurate data, which both companies have mentioned in the annual report.

It is seen that Unilever has maintained a good record in terms of debt-to-equity ratios, and as compared to P&G, last year Unilever was in a good position in debt-to-equity, which was 1.42 as opposed to P&G, and it was 1.42 for them. This number reflects that Unilever is more dependent on finance from debt for its business. On the other side, P&G is not dependent on debt to run its business and to invest for its operations. An increase in leverage can be an advantage for the company, but it also increases the amount of financial risk, mainly at times of low profit. Unilever prefers to borrow money to produce a big return on investment; it will also increase the value of shareholders, and debt can be an easier and cheaper source to generate capital than any equity (**Bernazzani 2021**).

The leverage of debt to capital refers to the fact that both companies have below average, and it also shows that both companies are not very reliant on taking debt as capital for business. Last year, Unilever was much more dependent on capital debt than P&G. In favor of P&G, they decided to take less capital as debt and also lower the financial risk for them as well as for their business. For Unilever, it is imperative for them to manage all the things related to debt to capital and make a good and stable profit to maintain financial risk. The dependency on borrowing money allows Unilever to push its limit in market strategies to gain a higher profit in its overall turnover, and this will help them to pay its debt or borrowed money.

5. Efficiency ratio of Unilever (2019 – 2023) and P&G (2023)

Efficiency ratios are the ratio which shows the companies strategies behind using its resources masterfully to make high profit and turnover. It also indicates the company potential to manage their resources expertly and collect high profit margin frequently (**Karan 2023**). In the efficiency ratio it is mentioned the calculated efficiency ratio for both companies and which company manage their resources well to get high profit.

5.1. Formula for calculating efficiency ratio

The formulas below are for calculate the efficiency ratio and it used to find out the ratios for both companies.

$$\mathbf{1- Asset Turnover = \frac{Sales (Revenue)}{Total Asset}}$$

$$\mathbf{2- Fixed Asset Turnover = \frac{Sales (Revenue)}{Fixed Asset (PPE)}}$$

Table 5 : Efficiency ratios of Unilever (2019 – 2023) and P&G (2023)

Unilever's	2019	2020	2021	2022	2023	P&G (2023)
Asset Turnover	0.80	0.74	0.69	0.77	0.79	0.67
Fixed Asset Turnover	4.30	4.80	5.06	5.57	5.56	3.74

In 2019, Unilever's asset turnover ratio was 0.80, and it was the best ratio margin. With the period of time, they maintained their ratio brilliantly, except in 2021. In that year, the company ratio was around 0.69 as compared to other years. If we look at the last-year record of both companies in terms of asset turnover, P&G has a slightly lower efficiency ratio than its major rival Unilever. This means that Unilever has utilized its resources smartly and generated a better profit margin and overall turnover than its competitors in similar industries.

Additionally, the fixed asset turnover data shows that in the last five years, growth has been seen in Unilever's financial performance, especially in the efficiency ratio. In the past 5 years, the company's low ratio was 4.30 as compared to other years. In 2023, Unilever has a stable record than P&G, in fixed asset turnover. It replicates the constant performance of the company in terms of operating its resources and assets skillfully and making a good margin ratio for itself and the shareholders. Overall, Unilever has a much better efficiency ratio in both asset turnover and fixed asset turnover. The high ratios refer to the company's ability to think and apply their strategies to make more profit margins by handling the management and their fixed assets like property, plants, and equipment.

6. Future Recommendation

As mentioned earlier, in this report the topic is about to analyze the financial performance of Unilever and its major rival P&G. Both companies have well-maintained performance in the last 5 years, especially Unilever, which has shown some serious competition against its rivals. The first suggestion for future it for both companies is that it is important for them to maintain the investment management, and it is necessary to think about when and where you want to put extra cost in the industry to gain a competitive edge. Unilever needs to evaluate their product efficiency much more, and P&G needs to utilize its resources well to gain a better profit margin.

One of the most important parameters for both is their company's product portfolio. They need to address the products that are not performing well in the market and need to identify what they can offer to consumers to maintain their rich and premium brand image, and this will also allow the company to make a high turnover. In favor of liquidity, both need to think about the buyer's actual demands, so this will help them think about lowering the goods and sales and other administration expenses such as inventories and liquid assets.

Secondly, they can expand their cash flow more so that they can give more competition to each other in the industry. This is mainly for Unilever, as in cash ratio the company has a lower cash and cash equivalent ratio than P&G. This is the key area where they need to improve and come up with better options for them, and they need to make sure they have a huge amount of liquidity to manage their expenses.

Furthermore, Unilever has a higher leverage ratio than P&G; they need to think about reducing these ratios rather than taking on more debt to manage their operational expenses. It is important to keep the debt ratio as low as they can by paying their debt if possible.

7. CONCLUSION

The financial analysis of Unilever and Procter & Gamble (P&G) of the last five years shows some significant facts regarding both companies overall financial performance at the best level. In this report, some calculations have been done, such as profitability, liquidity, leverage, and efficiency ratios, to find out which company is better to invest the money in market share for future profit. Firstly, with turnover, the numbers indicates that P&G has better turnover ratio and sales growth than Unilever last year. Secondly, because of the high turnover, the overall profit margin of P&G in 2023 was much bigger than that of Unilever. However, the Unilever company has shown some stable growth in the last five years, and they are constant in terms of getting better and better, and from my perspective, I feel investing in Unilever will have more benefits in the future than P&G, as the efficiency and liquidity ratios are way better for Unilever as compared to P&G. Furthermore, Unilever is highly leveraged in debt to equity and capital, which gives them slightly more advantage to gain high profit for the company and for the shareholders. Thus, in the conclusion, Unilever and P&G are both very successful companies, and they are serving people from more than 100, and to invest the money in any company can give them much more assurance and high profit in the future.

Section C: INVESTMENT APPRAISAL

In this section the calculation will be carried out on investment appraisal for two projects which are Project A and Project B. The company's cost of capital is currently at 9.75 per cent and need to measure the Payback period (PBP), Accounting Rate of Return (ARR), and the Net Present Value (NPV) for both projects. From the calculation needs to indicate which project should be adopted.

Years	Project A (£)	Project B (£)
0	-80 million	-75 million
1	25 million	50 million
2	25 million	20 million
3	20 million	20 million
4	55 million	20 million

PROJECT A

1. Payback Period (Project A)

In this period of time company plan to cover the investment cost which they have invested on project. The payback period will help the company to make the good profit in particular period of time. It reflects that how fast you have gained your invested amount and this will also help you to identify the risk involves in this particular project (**ClearTax 2023**).

1.1. Calculation for Payback Period (PBP)

Initial Investment = 80 Million

Total Cash flow year= 4 years

Discounted rate = 9.75%

1.2. Formula for calculating PBP

$$1- \text{Present Value} = \frac{\text{Future value}}{(1+R)^n}$$

$$2- \text{Cumulative Discounted Cash} = \text{Initial Investment} + \text{Discounted Present Value}$$

$$3- \text{Discounted Payback Period} = t + \frac{CD\text{Initial Investment} - CDCF_t}{DCF_t}$$

1.3. Solution of Payback Period

Project A		Discount Rate 9.75%	
year	Initial Investment (£)m	Discounted Present value	Cumulative cash Flow
0	-80	-80	-80
1	25	22.79	-57.21
2	25	20.75	-36.46
3	20	15.13	-21.33
4	55	37.96	16.57

Project A		Regular Payback Period
Year	Initial Invest	Cumulative cash Flow
0	-80	-80
1	25	-55
2	25	-30
3	20	-10
4	55	45

Discounted Payback period = $3 + \frac{21.33}{37.96} = 3.56 \text{ Years}$

Regular Payback Period = $3 + \frac{10}{55} = 3.18 \text{ Years.}$

In this project A, the initial investment is £80 million, and in the first year, the expected return is around £25 million. In the second year, they predicted an approximately £25 return after 2 years. £20 million In the third year and in the fourth year, they will get about £55 million from Project A. Then, after calculating the discounted present value, regular payback period and cumulative cash flow, the payback period is estimated around between 3 and 4 years, and the last calculated for discounted payback period year will be 3.56 years, and while for regular payback period will be 3.18 years.

2. Accounting Rate of Return (ARR) (Project A)

ARR means Accounting Rate of Return; this allows companies to get the exact profit from the investment in projects over time. ARR is a very important financial method to find out the potential return from the investment, and it will help companies to plan further. The time value of money does not lie in ARR; it only provides the profitability from the invested amount (**Fisher 2024**).

Calculation of ARR

1.1. Total Revenue = 25+ 25+ 20+ 55 = 125

1.2. Annual Profit = $\frac{125 - 80}{4} = 11.25$

1.3. Return = $\frac{11.25}{80} = 0.1406$

1.4. ARR = 0.1406 * 100 = 14.06%

So the Accounting Rate of Return will be **14.06%** for project A.

3. Net Present Value (Project A)

According to **(Fernando 2023)** Net Present value is use to carried out the difference between the present value cash flow and the present value of cash flow for certain period of time. It is also utilize for identify the capital budget and investment plan to measure the profit from project.

3.1. Formula for calculating NPV (Project A)

$$NPV = \sum_t^n \frac{Rt}{(1+R)^t}$$

NPV= Net Present Value

Rt= Net cash flow at time t

I= Discounted rate

t= time of cash flow

NPV= 22.79 + 20.74+ 15.13 + 37.96 – 80

The NPV will be **£16.62** million

PROJECT B

1. Payback Period (Project A)

Solution

Project A		Discount Rate 9.75%	
year	Initial Investment (£)m	Discounted Present value	Cumulative cash Flow
0	-75	-75	-75
1	50	45.55	-29.45
2	20	16.60	-12.85
3	20	15.12	2.29
4	20	13.78	16.06

Project B		Regular Payback Period
Year	Initial Invest	Cumulative cash Flow
0	-75	-75
1	50	-25
2	20	-5
3	20	15
4	20	35

Initial Investment = 75 Million

Total Cash flow year= 4 years

Discounted rate = 9.75%

Discounted Payback period = $2 + \frac{12.85}{15.12} = 2.85 \text{ years}$

Regular Payback Period = $2 + \frac{5}{20} = 2.25 \text{ Years.}$

In this project A, the initial investment is £75 million, and in the first year, the expected return is around £50 million. In the second year, they predicted an approximately £20 return after 2 years. £20 million In the third year and in the fourth year, they will get about £50 million from Project B. Then, after calculating the discounted present value, regular payback period, and cumulative cash flow, the discounted payback period is estimated around between 2 and 3 years, and the last calculated discounted payback period year will be 2.85 years, and the regular payback period will be around 2.25 years.

2. Accounting Rate of Return (ARR) (Project B)

Calculation of ARR

2.1. Total Revnu = $50 + 20 + 20 + 20 = 110$

2.2. Annual Profit = $\frac{110 - 75}{4} = 8.75$

2.3. Return = $\frac{8.75}{75} = 0.1166$

2.4. ARR = $0.1166 * 100 = 11.66\%$

So the Accounting Rate of Return will be **11.66%** for project A

3. Net Present Value (Project B)

NPV= $45.55 + 16.60 + 15.12 + 13.78 - 75 = 16.05$

The NPV will be **£16.05** million

Calculation Overview

PROJECT A

PBP: 3.56 Years

RPBP: 3.18 Years

ARR: 14.06%

NPV: £16.62 million

PROJECT B

PBP: 2.85 Years

RPBP: 2.25 Years

ARR: 11.66%

NPV: £16.05 million

After all the calculations, the numbers show that the payback period time of Project A is 3.56 years and Project B is 2.85 years. It directly indicates that Project B has a short payback time and will recover the invested amount very quickly as compared to Project A. The ARR of both companies refers to Project A, whose ARR is 14.06%, and on the other hand, Project B's ARR is 11.06%, which means if a company invests in Project A, they will gain more annual profit as compared to Project B. This gives slightly advantages in favor of Project A. Meanwhile, if we see the NPV for both companies, so Project A holds £16.62 million and Project B holds

£16.05 million. In this comparison, Project A has more value than Project B. So after all the analysis, if the company has the willingness to wait for the long payback period and has the ability to handle risk management related to their project, then we must say that Project A is better to consider for future investment. Furthermore, if the company is looking to lower down the risk management with their liquidity and assets and they give more attention towards lowering the risk, then Project B is more beneficial for them.

Advantages and Shortcomings

1. Payback Period

1.1. Advantages: From the point of view of Srivastav (2019) the first is simplicity. In the payback period, the method is very simple, and it is a very easy way to find out the depth of the project with the formula. This advantage is that it is simple and straightforward to calculate and check the positive or negative side of the investment. The payback period also helps to get an exact project evaluation very accurately and quickly. The next con is that the payback period is quite helpful for investors in finding out how to lower the risk and losses related to projects. Payback periods do focus more on liquidity than anything else.

1.2. Shortcomings: The main drawback of the payback period is that it completely sidelines the time value of money and also fails to get an in-depth picture of projects in detail and also other factors. Another pros is that it does not give importance to the present value rather than focusing more on future outcomes. The next disadvantage is that the payback period does not focus on cash flow after the payback period time, and that's the negative sign for the payback period.

2- ARR (Accounting Rate of Return)

2.1. Advantages: According to Fisher 2024, the first advantage is that the formula for calculating the ARR is very convenient for everyone, such as shareholders, managers, and investors, to understand the profitability of the project. There is the easiest way to measure the ARR by basic accounts, which involves initial investment and predicted year. Another benefit of ARR is that it focuses on profit rather than the cash flow period, and they also use the existing financial data to measure the investment decision. ARR is a long-term perspective plan and also provides competitive analysis across all investments.

2.2. Shortcomings: The first is that ARR ignores the time value and just focuses on profit. Because of this, sometimes the scenario is not clear regarding the investment and also the irregular cash flow, making it difficult to get proper investment plans. Calculating the ARR is easy for everyone but is not considered the exact calculation of the profit of the project because it does not give more preference to risk, inflation, and cash flow period. The ARR is unsuitable with Discounted Cash Flow (DCF) metrics such as NPV and IRR, which involve the time value of money. ARR only focuses on short-term investment accuracy over long-term investment plans.

3. NPV (Net Present value)

3.1. Advantages: The first advantage is NPV include the time value of money and that make NPV as different from ARR. Net present value id the easiest way to find out the project value accurately. It is the only metrics which consider company's cost of capital and by giving more discounts, NPV accounts for basic unpredictability for future.

3.2. Shortcomings: The main disadvantage is, NPV accuracy lies on quality of inputs. It is not able to understand for wide range of project and determine the profit rather it only focus on big projects which make high turnover and profit. NPV might not include opportunity cost and company's cost. NPV is fully quantitative in nature and not count qualitative factors (Swenson 2023).

4. Non-Financial Factors

After seeing the financial factors like PBP, ARR, and NPV, it's time to focus on some non-financial factors that organizations give much attention to when evaluating project costs. From the journal of **Lopes & Flavell (1998)**, they have mentioned some important non-financial factors.

1. Strategic Pattern: In this every company wants projects to be connected with their long-term vision. A project that involves some important business factors, such as expanding the market and enhancing technological factors, even if the NPV is less than the other choices.

2. Environment impact: In the current world of business, each and every company pays much attention to the environmental and social aspects and carries out some strong rules according to their project. Nowadays, organizations want to create an impact on sustainability and want to gain positive attention toward their project even after the project is not much beneficial in terms of financial return.

Regulatory Impact: The majority of the companies give more importance to the legal paperwork related to their project and want all the requirements aligned. If the project is returning the profit very well, but this non-financial factor can cause problems for companies, and they might have to pay the fines because of not following the regulatory compliance.

Operational and risk management: One of the most imperative things related to a project is workforce and operational management. It is necessary to have well-planned workforce management; if it is not managed well, then the project might face some serious challenges. The next factor is risk management; there are some risks related to the project, such as market segment risk, technological risk, and performance risk. A project with elevated NPV and high risk can have less recommendation as compared to a project with low NPV and less risk.

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