



TESCO



Every little helps

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Part A – Introduction to Tesco

Tesco PLC (Tesco) is a multinational in-store and online retailer. With a market share of 27.7% Tesco is the largest supermarket chain in the United Kingdom (Kantar World Panel, 2019).

Tesco operates stores that offer grocery items, general merchandise as well as other non-food items such as electrical products, health and beauty products, and apparel and jewellery, among others. The company operates through two business lines: retailing and associated activities, and Tesco Bank which provides retail banking and insurance services. The principal activity of the company is retailing and associated activities in the UK, other European countries, and Asia. Tesco stores are classified into six formats differentiated by size and range of products sold including Superstore, Extra, Metro, Express, Dotcom only and One-Stop (Market Line, 2018). Besides its two business lines, the company operates Dunnhumby which offers consumer insights and its application services for decision-making to its clients (Market Line, 2018).

Business model and Corporate strategy

Tesco's business model is organised around the three pillars of Customers, Product and Channels. The company aims to maximise its sales by retaining and creating value for its customers. This is done by bringing customers the best products through a range of channels from small shops to large shops, and online business. Tesco aims to source the best possible products that meet and anticipate customers' need by building close and mutually-beneficial relationships with its suppliers (Tesco, 2018).

As a part of a corporate strategy, Tesco PLC (Tesco) focuses on growing long-term shareholder value.

Major Competitors and Major recent events

Tesco's key competitors are Sainsbury's, Asda and Marks & Spencer etc.

To increase its market share and weaken its major competitors the company has been focusing on mergers and acquisition. On January 27, 2017, Tesco and Booker shocked the UK grocery market by announcing a \$3.7bn merger deal. The markets reacted favourably and share prices in both companies rose significantly in the hours following the news. It is speculated that the important reason for this move is the phasing out of small, independent businesses - which will serve to further increase Tesco's share in an increasingly saturated market (Hawthorn, 2017).

In 2014 Tesco had one of its biggest crises, after the company run into an accounting scandal. Under pressure to meet demanding financial target, the company's executives began losing sight and started treating suppliers as a source of profits, by demanding money for doing things that were not directly linked to selling more products. The payments from suppliers were being misbooked and business costs were being glossed over. Those changes had misleadingly boosted profits by £250m in the first six months of the year. The scandal was revealed by whistle-blowers and had badly reflected on the company's shares and value, more than £2bn was wiped off the value of the company. It also forced the company to pay £129 million fine to Financial Conduct Authority (FCA) and £85 million compensation to investors affected by the company's actions (The Guardian, 2014). In the wake after the scandal Tesco's new CEO Dave Lewis who was appointed only three weeks prior to the scandal had promised to undertake a comprehensive programme of change in an effort to restore stakeholder's trust in the company and has focused on a better value (The Guardian, 2014).

In July 2018, Tesco and Carrefour, Europe's two largest supermarket groups, announced they will be joining forces to put the squeeze on suppliers to cut costs. The combined buying power of Tesco and Carrefour is estimated at more than GBP80bn (\$103.1bn) annually. Together, the group will hold an estimated 8% of the western European grocery market (Kafel, 2018).

Part B – Tesco's Financial Performances (Ratio Analysis)

This section of the report is a review of Tesco's financial performances in the last five years 2014 - 2018. The profitability of Tesco's business, its financial liquidity and how efficiently the company is utilising its resources will be critically evaluated and compared to one of its major competitors with similar business Marks and Spencer (M&S).

The analysis is based on the Tesco and its competitor Mark and Spencer's annual reports, mainly its income statement and balance sheet. To conclude a recommendation will be given on how Tesco can improve the overall financial management of the company.

Profitability ratios

Profitability ratios provide useful information with regards to the effectiveness of the business in terms of profit generation. A very popular means of assessing a business is to assess the amount of wealth generated for the amount of wealth invested (McLaney, 2009).

The profitability ratios calculated in this part on table 1 includes, Operating profit margin, Gross profit margin, Net profit margin. The source of the analysis are Tesco's annual reports benchmarked against its closest competitor Marks and Spencer. The aim of these calculations is to assess the effectiveness of Tesco's business in terms of profit generation and the amount of wealth generated by the company for the amount of resources invested. This will be benchmarked against its competitor M&S.

Table 1. Profitability ratios of Tesco Plc (2014 – 2018) and Marks & Spencer (2018)

Tesco	2014	2015	2016	2017	2018	Marks & Spencer 2018
	%	%	%	%	%	%
Operating Profit Margin	4.14	-9.30	1.99	1.82	3.20	1.46
Gross Profit Margin	6.31	-3.39	5.27	5.19	5.83	37.83
Net Profit Margin	1.53	-9.26	0.24	-0.10	2.10	0.27

Source: Calculations are based on Annual reports of Tesco and Marks & Spencer (2014 – 2018)

Operating Profit Margin

According to McLaney operating profit margin reveals the profit made on sales revenue once all the expenses of running the business for the period have been met (McLaney, 2009).

Based on the calculation in table 1, in 2018 an average operating profit of £0.032 was left for Tesco for every £1 of sales revenue after all the expenses of running the business had been paid. On the other hand, with regards to its competitor an average operating profit of £0.014 was left for Marks & Spencer for every £1 of sales revenue after all the expenses of running the business had been paid.

The difference in the operating profit margin between the two companies can be attributed to different reasons such as the pricing strategy. However, Tesco has significantly higher operating margin than its competitor M&S, which indicates that Tesco is managing its resources more efficiently than M&S and that in comparison with its competitor the company has a higher proportion of resources available to them to cover their non-operating costs such as payment of interest and taxes.

The calculations also indicate that Tesco has substantially improved its operating profit margin from the previous accounting year, as they had earned an operating margin of 1.82% in 2017. Although the company had made a negative operating profit margin of -9.30% in 2015, overall it has been making continuous improvements. The continues improvement can also be attributed to the radical changes the company's CEO had promised after the accounting scandal.

Gross Profit Margin

“Gross Profit Margin is the percentage of the sales revenue left after the expense of making the inventories available to the customers (or the direct cost of providing the service) is taken into account (McLaney, 2009)”.

The Gross Profit Margin ratio calculations in table 1, indicates that Tesco's gross profit margin had been stagnant throughout the last three years. Although the company made a loss in 2015, its gross profit margin had been around the same in last three years. In 2018 Tesco's gross profit margin was 5.83%. This margin indicates that tesco had improved its cost of goods sold.

On the other hand, a negative margin of -3.39% in 2015 explains that the company's cost of goods sold were much higher than their total sales, and that its ability to sell its products more than the cost of production were not attainable. This could be due to several reasons such as higher labour cost, poor pricing of the product or perhaps the intense competition from other competitors, which means the company did not make many sales although the cost of sales remained the same.

Marks and Spencer which has been benchmarked against Tesco, had a much better gross profit margin of 37.83% than Tesco in 2018. See table 1. This explains that M&S had a lower cost of goods sold than Tesco and that M&S can cover its operating costs much more efficiently than Tesco.

Net Profit Margin

The net profit margin shows the fraction of each Pound in revenues that is available to equity holders after Tesco pays interest and taxes. In 2018 Tesco's net profit margin was 2.1%. As you could see in table 1. the company's net profit margin was at its highest in the last five years. This means that there was an average net profit income of £0.021 available to equity holders in every pound of sales Tesco made after the company paid interest and taxes. This

means that the company had generated more profit from its sales in 2018 compared to the last five years in which the company either made a loss or generated much lower net profit margin.

While on the other hand a negative net profit margin of -9.26% and -0.10% in 2015 and 2017 respectively, indicate that the company was less efficient in terms of converting sales to profit and that Tesco was not able to control their cost.

Marks and Spencer which was benchmarked against Tesco had a significantly lower net profit margin of 0.27% in 2018 compared to Tesco which had 2.1%. This shows that Tesco is more efficient in terms of converting sales to profit and in terms of controlling cost compared to M&S.

Liquidity ratios

Liquidity ratios provide an indication of whether the firm has a sufficient working capital to meet its short-term payment obligations. Financial analysts use information from the balance sheet to assess the firm's financial solvency or liquidity (DeMarzo, 2017).

The liquidity ratios calculated in table 2. Include Current ratio, Quick ratio and Cash ratio. The source of the analysis are Tesco's annual reports benchmarked against its closest competitor Marks and Spencer. The aim of these calculations is to assess Tesco's whether Tesco has sufficient working capital to meet its short-term payment obligations. It will be benchmarked against its competitor M&S and how the two companies compare will be analysed.

Table 2. Liquidity ratios of Tesco Plc (2014 – 2018) and Marks & Spencer (2018)

Tesco	2014	2015	2016	2017	2018	Marks & Spencer 2018
Current Ratio	0.77	0.60	0.75	0.80	0.71	0.72
Quick Ratio	0.59	0.45	0.63	0.68	0.60	0.29
Cash Ratio	0.12	0.11	0.16	0.20	0.21	0.11

Source: Calculations are based on Annual reports of Tesco and Marks & Spencer (2014 – 2018)

Current ratio

The current ratio compares the 'liquid' assets (that is, cash and those assets held that will soon be turned into cash) with the current liabilities (Atrill, 2014).

The higher the current ratio, the more liquid the business is considered to be. As liquidity is vital to the survival of a business, a higher current ratio might be thought to be preferable to a lower one. If a business has a very high ratio, however, it may indicate that excessive funds are tied up in cash, or other liquid assets, rather than being employed more productively. There seems to be a belief that the 'ideal' current ratio is 2 times for all businesses. However, this is not the case. For Tesco and M&S they had quite similar current ratio of 0.71 and 0.72 respectively which is normal for supermarket chains, as supermarkets will have normally have a relatively low ratio, as they hold only fast-moving inventories of finished goods and their sales will be for cash rather than on credit (Atrill, 2014).

The current ratio of Tesco is quite stable although, the company's current ratio has declined to 0.71 in 2018 compared to their current ratio of 0.80 in 2017. This could be due the fact that Tesco's current assets decreased in 2018 compared to 2017.

Quick ratio

A Quick ratio indicates the company's ability to instantly use its liquid assets (that is, assets that can be converted quickly to cash) to pay down its current liabilities, it is also called as the acid test ratio (DeMarzo, 2017).

Tesco's quick ratio is quite stable and similar in the past five years. Based on the calculations in table 2, the company had a quick ratio of 0.60 in 2018 compared to its competitor M&S which was benchmarked against it, which had a quick ratio of 0.29. This means that Tesco had a £0.60 of liquid asset available to cover each £1 of its current liabilities.

Cash ratio

Cash ratio indicates the percentage of current liabilities that cash and cash equivalents will cover. It only calculates the company's ability to pay its current liabilities using cash and cash equivalents. A ratio of 1:1 is a reasonable evidence of liquidity (Bragg, 2007).

Over the past few years Tesco's cash ratio had been improving continuously. Although the company's cash ratio is below the preferred ratio of 1, it is significantly better than that of its competitor M&S. In 2018 Tesco and M&S had a cash ratio of 0.21 and 0.11 respectively.

Although this means that Tesco has more current liabilities than the cash and cash equivalents available to it, it is not necessarily bad news for the Tesco. This is because of the fact that the company has bargaining power to negotiate with its suppliers to pay its debt over a lengthier period than normal and there is, or no credit given to its customers.

Efficiency ratios

Efficient ratios are used to measure the company's short-term performance and they measure how efficiently a firm uses its assets. The efficiency ratios calculated in this part on table 3 includes, Total asset turnover and Fixed asset turnover. The source of the analysis are Tesco's annual reports benchmarked against its closest competitor Marks and Spencer. The aim of these calculations is to assess Tesco's ability to use its assets to generate income compared to its competitor M&S.

Table 3. Efficiency Ratios of Tesco Plc (2014 – 2018) and Marks & Spencer (2018)

Tesco	2014	2015	2016	2017	2018	Marks & Spencer 2018
Total Asset Turnover	1.27	1.41	1.24	1.22	1.28	1.42
Fixed Asset Turnover	2.60	3.05	3.04	3.09	3.10	2.43

Source: Calculations are based on Annual reports of Tesco and Marks & Spencer (2014 – 2018)

Total Asset Turnover

Total asset turnover measures the Pound amount of sales generated with each Pound of total assets. Generally, the higher the total asset turnover, the more efficiently management is using total assets (Parrino, et al., 2012).

Based on the figures on table 3, Tesco's asset turnover was almost similar in the past five years although the company has slightly improved its asset turnover. In 2018 Tesco had an asset turnover of 1.28. M&S which was benchmarked against Tesco had a higher asset turnover of 1.42, compared to Tesco. This means that for every pound in assets Tesco generated has £1.28 in sales, were as M&s generated £1.42 in sales. It indicates that Tesco's competitor M&S is using its assets more efficiently than Tesco.

Fixed Asset Turnover

Fixed Asset Turnover measures the company's return on their fixed assets i.e. property, plant and equipment. It is the ratio of sales to net fixed assets (Ehrhardt & Brigham, 2011). As you can see in table 3, over the past five years Tesco had been continuously improving its fixed asset turnover. In 2018 Tesco had a fixed asset turnover of 3.10 compared to its competitor M&S which had a fixed asset turnover of 2.43. This indicates that Tesco utilises its fixed assets more efficiently than M&S and that Tesco generates large amount of sales using small amount of assets.

Gearing ratios

Gearing ratios measure the proportion of a company's borrowed funds to its equity. Although debt provides capital, in general creditors prefer low debt ratios because a high debt ratio indicates that the company has high leverage and is using debt to pay for its continuing operations, which means that they might have a problem in repaying their debts (McLaney, 2009).

Gearing ratios calculated in table 4, include Debt-Equity ratio and Debt-to-Capital ratio. The source of the analysis are Tesco's annual reports benchmarked against its closest competitor Marks and Spencer. The aim of these calculations is to assess Tesco's proportion of borrowed funds to its equity. It will be benchmarked against its competitor M&S and how the two companies compare will be analysed.

Table 4. Gearing ratios of Tesco Plc (2014 -2018) and Marks & Spencer (2018)

Tesco	2014	2015	2016	2017	2018	Marks & Spencer 2018
Debt - Equity Ratio	2.33	5.25	4.10	6.12	3.29	1.56
Debt - to - Capital Ratio	0.70	0.84	0.80	0.86	0.77	0.61

Source: Calculations are based on Annual reports of Tesco and Marks & Spencer (2014 – 2018)

Debt – Equity ratio

Debt-Equity ratio is used to assess a firm's leverage. Tesco's debt-equity ratio was not very stable over the past five years. However, as you could see in table 4 in 2018, the company has reduced its debt-equity ratio compared to the previous year of 2017. Tesco had a debt-equity ratio of 3.29 in 2018 compared to its competitor M&S which had a debt-equity ratio of 1.56. Tesco has a higher debt-equity ratio which indicates that Tesco uses more creditor financing than investor financing compared to M&S.

Debt-to-Capital ratio

Debt-to-Capital calculates the fraction of the firm financed by debt. It measures the amount of debt a company uses to finance its operations as compared with its capital (DeMarzo, 2017).

Tesco has reduced its debt-to-capital ratio from the previous year. Both Tesco and its competitor M&S have a low debt-to-capital ratio of less than 1, which is 0.77 and 0.61 respectively. This indicates that Tesco is slightly riskier to shareholders than M&S. however,

this does not necessarily mean the company will not meet its liability obligations, because of the fact that Tesco as a supermarket has a regular customer base and thus their revenues are quite consistent, which will enable them to meet their obligations.

Future recommendations

Compared to its competitor Tesco has low gross profit margin, therefore the company must reduce the cost of its sales in order to improve its financial performance and compete with its competitor and make more profit in the future. It is important that Tesco takes some steps to reduce its cost of sales so that it can remain competitive.

Part C – Investment Appraisal techniques

Question 1

Year	Project Cash flows (£m)	
	Project A	Project B
0	-85	-90
1	10	25
2	20	30
3	40	35
4	55	40

- Cost of Capital 10.5 Percent
- Scrap value is Zero

Payback Period (PBP) Calculation and Evaluation

Payback period is the length of time required to recover a project's initial cost. It is calculated as following:

$$\text{Payback period} = \text{Years before cost recovery} + \frac{\text{Remaining cost to recover}}{\text{Cash flow during the year}}$$

$$\text{Project A – Payback Period} = 3 + (85 - 70) / 55 = 3.3 \text{ years}$$

$$\text{Project B – Payback Period} = 2 + (90 - 55) / 35 = 3 \text{ years}$$

The payback period of project A is 3.3 years. Whereas, on the other hand the payback period of project B is 3 years. This means that if Tesco opted for investing in project A, the company recover its money in 3.3 years. On the other hand, if Tesco opts to invest in project B, the company recover its money in 3 years.

If Tesco was to choose one project only, and the company was making its decision based on payback period, then Tesco should invest in Project B, as it is the project with the shortest payback period.

Accounting Rate of Return (ARR) Calculation and Evaluation

Accounting rate of return (ARR) method takes the average accounting operating profit that the investment will generate and expresses it as a percentage of the average investment made over the life of the project (Atrill, 2014).

$$\text{ARR} = \frac{\text{Average annual accounting profit} \times 100}{\text{average investment}}$$

Project A – Accounting Rate of return

$$\text{ARR} = [(10 + 20 + 40 + 55 - 85) / 4] / (85/2) = 23.53\%$$

Project B – Accounting Rate of Return

$$\text{ARR} = [(25 + 30 + 35 + 40 - 90) / 4] / (90/2) = 22.2\%$$

The above calculations shows that Tesco will have an accounting rate of return of 23.53% in Project A, and an accounting rate of return of 22.2% on Project B. Considering the fact that, the company wants the project with the highest return, based on ARR Tesco should invest in Project A, as it yields a higher return of 23.53% than project B.

Net Present Value (NPV) Calculation and Evaluation

Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time (Atrill, 2014).

		Project A		Project B	
Year	Discount Factor	Net Cash Flow	Present Value	Net Cash Flow	Present Value
	10.5%	£M	£M	£M	£M
0	1.0000	-85	-85	-90	-90
1	0.9050	10	9.05	25	22.62
2	0.8190	20	16.38	30	24.57
3	0.7412	40	29.65	35	25.94
4	0.6707	55	36.89	40	26.83
		NPV	6.97	NPV	9.96

Both NPV are positive, which means that both will give a return > 10.5%. Project A has NPV of 6.97, and Project b has NPV 9.96. Therefore, Tesco should choose Project B as it offers a higher return than Project A i.e. (10.5% + 9.96 compared to 10.5% + 6.97).

Internal Rate of Return (IRR) Calculation and Evaluation

Internal Rate Return (IRR) the discount rate at which the present value of a project's expected cash inflows equals the present value of the project's outflows; it is the discount rate at which the project's NPV equals zero (Parrino, et al., 2012).

Project A – Internal rate of return

		Project A at 13%			Project A at 14%	
Year	DF at	Net Cash Flow	Present Value	DF at	Net Cash Flow	Present Value
	13.0%	£M	£M	14.0%	£M	£M
0	1.0000	-85	-85	1.0000	-85	-85
1	0.8850	10	8.85	0.8772	10	8.7719
2	0.7831	20	15.66	0.7695	20	15.3894
3	0.6931	40	27.72	0.6750	40	26.9989
4	0.6133	55	33.73	0.5921	55	32.5644
		NPV	0.97		NPV	-1.28

$$IRR = R_1 + \frac{NPV_1 \times (R_2 - R_1)}{(NPV_1 - NPV_2)}$$

$$IRR = 13 + \frac{0.97 \times (14 - 13)}{0.97 - (-1.28)} = 13.43\%$$

Project B – Internal rate of return

		Project B at 15%			Project B at 16%	
Year	DF at	Net Cash Flow	Present Value	DF at	Net Cash Flow	Present Value
	15.0%	£M	£M	16.0%	£M	£M
0	1.0000	-90	-90	1.0000	-90	-90
1	0.8696	25	21.74	0.8621	25	21.55
2	0.7561	30	22.68	0.7432	30	22.29
3	0.6575	35	23.01	0.6407	35	22.42
4	0.5718	40	22.87	0.5523	40	22.09
		NPV	0.31		NPV	-1.64

$$IRR = R_1 + \frac{NPV_1 \times (R_2 - R_1)}{(NPV_1 - NPV_2)}$$

$$IRR = 15 + \frac{0.31 \times (16 - 15)}{0.31 - (-1.64)} = 15.16\%$$

From the calculations we can see that Projects A and B have an IRR of 13.43% and 15.16% respectively. Therefore, if Projects A and B are independent projects then both projects should be accepted since their IRRs are greater than the cost of capital which is 10.5%. Moreover, if Projects A and B are mutually exclusive projects then Project B should be chosen as it has the highest IRR of 15.16%.

Recommendation

The payback period ignores any benefits that occur after certain number of years and thus ignores time value of money. Whereas, Internal rate of Return (IRR) ignores the scale of investment which could lead to the wrong decision being made. On the other hand, Net Present Value (NPV) takes time value of money into account and furthermore, is the only form of appraisal in which the output of the analysis has a direct bearing on the wealth of the owners of the business or the shareholders. Positive NPVs enhance wealth; negative ones reduce it. Therefore, we can argue that NPV is superior to other methods of investment appraisal as businesses seek to increase owners' wealth (Atrill, 2014). Therefore, Tesco should choose Net Present Value method as its superior to all other methods.

Question 2

Critical discussion of Advantages and Shortcomings

Payback Period (PBP)

Payback period is the length of time required to recover a project's initial cost. It is calculated as following:

$$\text{Payback period} = \text{Years before cost recovery} + \frac{\text{Remaining cost to recover}}{\text{Cash flow during the year}}$$

Advantages of Payback period

The advantage of payback period includes:

Simplicity: Parrino (2012) states that the greatest advantage of payback period is its simplicity; it is easy to calculate and easy to understand.

Risk focus: It provides an intuitive and simple measure of projects' liquidity risk, which makes sense because projects that pay for themselves quickly are less risky than projects whose paybacks occur farther in the future, as there is a strong feeling in business that “getting your money back quickly” is an important standard when making capital investments (Parrino, et al., 2012).

Cannot be manipulated: According to Watson and Head (2010), another advantage of payback period is that it is calculated using cash flows, not accounting profits, and so should not be open to manipulation by managerial preferences for particular accounting policies (Watson & Head, 2010).

Helps smaller firms: payback method is helpful to smaller firms that need to recover their money early, so that they can invest in other projects and avoid unforeseen economical risks.

Shortcomings of Payback Period

There are several shortcomings in using payback period method, which includes:

Time Value of Money: The major disadvantage of payback method is that it ignores time value of money.

Timing and risk: Parrino et al, argue that the standard payback calculation does not adjust or account for the timing or risk associated with future cash flows. Payback method ignores all cash flows outside the payback period and so does not consider the project as a whole (Watson & Head, 2010).

Little economic justification: There is little economic justification for the choice of the payback cut off criteria other than a liquidity motive (Parrino, et al., 2012).

Company Value indication: Watson & Head (2010) argue that although payback method is well documented and popular, it should be seen only as a means to assess and determine whether a company should accept a particular investment project based on its liquidity position. However, it is not an investment appraisal method as it does not give any real indication of whether an investment project increases the value of a company (Watson & Head, 2010).

Internal Rate of Return (IRR)

Internal Rate Return (IRR) the discount rate at which the present value of a project's expected cash inflows equals the present value of the project's outflows; it is the discount rate at which the project's NPV equals zero (Parrino, et al., 2012).

Advantages of Internal Rate Return

Parrino (2010) states that one of the advantages of IRR is that its Intuitive and easy to understand (Parrino, et al., 2012). Moreover, it is based on discounted cash flow technique (Parrino, et al., 2012).

IRR has certain attributes in common with NPV. All cash flows are taken into account, and their timing is logically handled (Atrill, 2014).

Shortcomings of Internal Rate Return

Ignores scale of investment: The main disadvantage of IRR is the fact that it does not directly address the question of wealth generation. It could therefore lead to the wrong decision being made. Although accepting the project with the higher percentage return will often generate more wealth, this may not always be the case. This is because IRR completely ignores the scale of investment (Atrill, 2014).

Difficult with handling some projects: A further problem with the IRR method is that it has difficulty handling projects with unconventional cash flows, and it can yield no usable answer or multiple answers (Atrill, 2014).

Net Present Value (NPV) techniques

Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time (Atrill, 2014).

Advantages of Net Present Value (NPV)

Advantages of Net Present Value include:

Time value of money: NPV takes in to account time value of money. NPV includes all of the relevant cash flows irrespective of when they are expected to occur. It treats them differently according to their date of occurrence, but they are all taken into account in the NPV, and they all have an influence on the decision (Atrill, 2014).

The objectives of the business: NPV is the only method of appraisal in which the output of the analysis has a direct bearing on the wealth of the owners of the business or the shareholders. Positive NPVs enhance wealth; negative ones reduce it. Therefore, we can argue that NPV is superior to other methods of investment appraisal as businesses seek to increase owners' wealth (Atrill, 2014).

Shortcomings of Net Present Value (NPV)

Cost of Capital: Watson & Head (2010) state that when calculating the NPV of an investment project, we tend to assume not only that the company's cost of capital is known, but also that it remains constant over the life of the project. In practice, the cost of capital of a company may be difficult to estimate as it is likely to change over the life of the project, since it is influenced by the dynamic economic environment within which companies operate (Watson & Head, 2010).

Non-financial factors that need to be considered

The following are some of the non-financial factors that could have impact of Tesco's performance as a company.

Government Regulations

The following are some of the government regulations that could have impact on tesco's performance:

Food labelling and packaging laws

An example of government regulation that has direct impact on how Tesco is food labelling and packaging regulation. The traffic light food labelling system will prevent supermarkets like Tesco to market some products as healthy, which could have impact on their sales.

Taxes and Tariffs:

The government might increase taxes such as VAT or impose new tariffs on certain products which will have impact on the products and services the company provides. An increased tax will lead to increased price which will of course limit the company in many ways such as not being able to market some of its products as a low-price product.

Economical

This is both the situation of the economy in the United Kingdom and the British consumers. A decrease in the economy will impact the purchasing power and spending pattern of consumers which will lead to a decrease in the company's revenue, as people will buy only necessities such as food.

Sociocultural

Social factors are related to membership groups and other forces that affect society's basic values, perceptions, preferences, and behaviours. Tesco tries to appeal to all the UK customers, who have different backgrounds, tastes, and cultures. A good example of how social factors impacts Tesco can be seen from its analysis of the club card. Tesco is able to analyse the different tastes of its different customers, their buying behaviour, the way they spend money in the store and the products they buy daily or certain periods like Christmas etc. As a result, it markets to each customer to products that they are more likely to buy, which enables them to reduce their inventory level and increase their sales.

Technological

The internet revolution has indeed created a new market opportunity for Tesco, as it has enabled the company to sell its products online and deliver them to customers at their desired location, sometimes within few hours. As technology advances increasingly, people are shopping online for almost everything from groceries to toys etc. This has certainly affected the company's sales and helps Tesco to generate more sales and to reach more customers.

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Appendix

Tab. 1 Profitability ratios of Tesco (2014 – 20118) and Marks & Spencer (2018)

Operating Profit Margin = Operating Profit / Sales

Gross Profit Margin = Gross Profit / Sales

Net Profit = Net income / Sales

Table 2 Liquidity ratios of Tesco (2014 – 20118) and Marks & Spencer (2018)

Current Ratio = Current Assets / Current Liabilities

Quick Ratio = (Current Assets – Inventories) / Current Liabilities

Cash Ratio = Cash / Current Liabilities

Table 3 Efficiency Ratios of Tesco (2014 – 2018) and Marks & Spencer (2018)

Asset Turnover = Sales / Total Assets

Fixed Asset Turnover = Sales / Fixed Assets

Table 4. Gearing ratios of Tesco (2014 -2018) and Marks & Spencer (2018)

Debt – Equity Ratio = Total Debt / Total Equity

Debt-to-Capital Ratio = Total Debt / Total Equity + Total Debt