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Part a) Overview of the business:

1. History of Next Plc and its business model:

Next Plc is a renowned clothing and footwear retailer in the UK market that operates its business in international countries as well. Over more than 150 years the company has operated its business in the UK and foreign markets with approximately 700 stores. In 1864 the company was established with the name “*J Hepworth & Son, Gentleman’s Tailors*”, the name Next Plc was given in 1981 when Hepworth purchased Kendalls' rainwear (nextplc.co.uk, 2024). The company is best known for its stylish women's wear collection at present and created a strong retail chain in the market by taking advantage of e-commerce. Business model of Next Plc has been developed with the core focus on delivering quality and stylish clothing to its customers in both offline and online platforms. A report highlights the internal infrastructure of the company involves seven segments including digital marketing, warehousing & distribution, customer credit, supply chain and others (nextplc.co.uk, 2024).

2. Marketplace and major competitors of Next Plc:

The renowned clothing brand Next Plc is a UK-based company that operates its business across Europe, the Middle East and Asia with its self-owned stores as well as franchises. Next Plc has expanded its business in the foreign market by acquiring several clothing companies including Joules, a part of Reiss and others (statista.com, 2024). However, the company’s market position has been affected due to the involvement of strong fashion brands as well as new companies in the UK and international markets. *Dunelm Group plc*, *Marks and Spencer*, and *Superdry Plc* are the major competitors for Next Plc, while *Abercrombie & Fitch Co* a US-based company is the international competitor. Hence, Next Plc has been operating its business in the competitive market over the years with its effective and innovative approach (globaldata.com, 2024)..

3. Recent events for last five years:

2019 An appraisal in revenue has been recorded in this year compared to the previous year, although net income was reduced. Next Plc's net profit amounted to £590.4 million in 2019 which was £591.8 in 2018 (nextplc.co.uk, 2024).

2020 :The sustainability strategy within the company focused on sourcing 100% raw materials by 2025 from known and certified routes for reducing manufacturing impacts on the environment (nextplc.co.uk, 2020).

2021 :Reiss Limited's 25% indirect share has been taken by Next Plc by acquiring the share of Reiss's holding company (nextplc.co.uk, 2024).

2022: Next Plc is accused of its incorrect payment to employees after the new payroll system took place, and it resulted in an investigation by "UK's tax authority" (ft.com, 2024).

2023 : Jeremy Stakol, a managing director in Lipsy, an acquired company of Next plc, was appointed a director in the company in 2023 Over the last few years, this director has led several investments for Next Plc. (nextplc.co.uk, 2024).

Part b) Financial Ratio Analysis:

Critical review of the company's financial performances:

Profitability ratios:

Return on Assets					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Net Income	£ 710.70	£ 677.50	£ 286.70	£ 610.20	£ 590.40
(/): Total Assets	£ 3983.80	£ 3981.80	£ 3758	£ 3673.30	£ 2811.30
Return on Assets	17.84%	17.01%	7.63%	16.61%	21%

ROA of Next Plc was 17.84% in 2023, 17.01% in 2022, 7.63% in 2021, 16.61% in 2020 and 21% in 2019. An increasing trend can be identified in the above ratio because of an increasing net income of the business. The increasing ratio shows that ability of Next plc to earn returns over its assets is enhancing year by year which is good for the business. There is an increase in asset balance too, but lower in comparison with net income. (annualreports, 2023)

Return on Equity					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Net Income	£ 710.70	£ 677.50	£ 286.70	£ 610.20	£ 590.40
(/): Shareholders Equity	£ 1165.10	£ 1010	£ 660.90	£ 441.50	£ 553.80
Return on Equity	61%	67.08%	43.38%	138.21%	106.61%

ROE of Next Plc was 61% in 2023, 67.08% in 2022, 43.38% in 2021, 138.21% in 2020 and 106.61% in 2019. This ratio is significantly high as calculated above which shows good profitability performance of the business. Even though the values are high, a decrease can be identified from year 2022 to 2023 which must be given attention to. This decrease has taken place because the increase in net income is lower than the increase in shareholder's equity. However, investors & shareholders are highly satisfied with the company because of its ability to derive higher returns for these stakeholders. (Wantasen, 2021)

Net Profit Ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Net Income	£ 710.70	£ 677.50	£ 286.70	£ 610.20	£ 590.40
(/): Sales	£ 5034	£ 4625.90	£ 3284.10	£ 3997.50	£ 3917.10
Net Profit Ratio	14.12%	14.65%	8.73%	15.26%	15.07%

NPR of Next Plc was 14.12% in 2023, 14.65% in 2022, 8.73% in 2021, 15.26% in 2020 and 15.07% in 2019. The ratio shows an increasing trend after a decrease in 2021. It can be said that profitability ratios were very low in the year 2021 mostly because of Covid-19 pandemic creating a negative impact on the company. Next Plc has been able to improve its performance significantly after the pandemic which is seen from higher ratios. This shows that the business possesses control over its expenses and is also successful in increasing sales.

Liquidity ratios:

Current ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Current assets	£ 2234.50	£ 2407.20	£ 2288.60	£ 1955.40	£ 2032.20
(/): Current Liabilities	£ 1093.30	£ 1208.10	£ 1196.80	£ 949.80	£ 1112.50
Current ratio	2.04	1.99	1.91	2.06	1.83

Current ratio of Next Plc was 2.04 in 2023, 1.99 in 2022, 1.91 in 2021, 2.06 in 2020 and 1.83 in 2019. Next Plc possesses a strong liquidity position which is quite evident from such high ratios. In 2023, current assets were double compared to current liabilities which is leading to such a good liquidity position. The company holds a significant amount of positive working capital which helps it in paying expenses and obligations of the firm. However, a significant amount of money is kept unused by Next Plc which can also create a negative impact on the returns it is earning every year. (Kurdi, 2020)

Acid test ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Current assets	£ 2234.50	£ 2407.20	£ 2288.60	£ 1955.40	£ 2032.20
(-): Inventories	£ 662.20	£ 633	£ 536.90	£ 527.60	£ 502.80
Difference	£ 1572.30	£ 1774.20	£ 1751.70	£ 1427.80	£ 1529.40
(/): Current Liabilities	£ 1093.30	£ 1208.10	£ 1196.80	£ 949.80	£ 1112.50
Acid test ratio	1.44	1.47	1.46	1.50	1.37

ATR of Next Plc was 1.44 in 2023, 1.47 in 2022, 1.46 in 2021, 1.50 in 2020 and 1.37 in 2019. After removing inventories from current assets, the company is left with a significant amount of liquid assets that can be used in paying obligations of the investors that were due for a period of 1 year. The company has enough liquid assets to meet business obligations because of the decrease in current assets being lower than the decrease in current liabilities. As a result, liquidity of Next Plc is very strong which attracts investors for further investment in the business.

Gearing ratios:

Debt to equity ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Total Debt	£ 2818.70	£ 2971.80	£ 3097.10	£ 3231.80	£ 2257.50
(/): Total Equity	£ 1165.10	£ 1010	£ 660.90	£ 441.50	£ 553.80
Debt to equity ratio	2.42	2.94	4.69	7.32	4.08

DE ratio of Next Plc was 2.42 in 2023, 2.94 in 2022, 4.69 in 2021, 7.32 in 2020 and 4.08 in 2019. There are two important components of the capital structure of an organisation such as debt and equity .The company possesses more debt capital in comparison with equity capital which makes the business highly geared within the clothing retail sector. The company is financing a significant portion of its assets and operations through debt capital because of which risk is very high. Despite low “cost of capital” and high tax deductions, risk is very high which is not easy to deal with. (Boateng *et al.* 2022).

Times Interest Earned Ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
EBIT	£ 941.50	£ 905.40	£ 444.50	£ 853.90	£ 762
(/): Interest Payable	£ 77.90	£ 86.50	£ 102.70	£ 105.60	£ 39.50
Times Interest Earned Ratio	12.09	10.47	4.33	8.09	19.29

TIER of Next Plc was 12.09 in 2023, 10.47 in 2022, 4.33 in 2021, 8.09 in 2020 and 19.29 in 2019. Interest is an important obligation that companies across the globe have to fulfil and pay every year to the investors on the money that they have borrowed. Interest paying ability of the company is increasing because of the increasing EBIT and decreasing interest payable. Interest expenses are decreasing because of the reduction in debt capital of the business. (Ali, BJ, & Anwar, G, 2021)

Efficiency ratios:

Receivables Turnover ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Sales	£ 5034	£ 4625.90	£ 3284.10	£ 3997.50	£ 3917.10
(/): Accounts Receivable	£ 1425.50	£ 1280.90	£ 1108.10	£ 1315.30	£ 1339.80
Receivables Turnover ratio	3.53	3.61	2.96	3.04	2.92

RTR of Next Plc was 3.53 in 2023, 3.61 in 2022, 2.96 in 2021, 3.04 in 2020 and 2.92 in 2019. The ratio is decreasing because of increasing sales being lower than increasing account receivable. The decreasing ratio is an indication that the company is collecting dues from customers less number of times throughout the year which is not good for its efficiency performance. This also shows that credit collection policies of the company are poor and require improvement in order to manage bad debt. (corporate.marksandspencer.com, 2023)

Payables Turnover ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Purchase	£ 2827.70	£ 2625.30	£ 2231.70	£ 2584.20	£ 2640.50
(/): Accounts Payable	£ 791.10	£ 798.40	£ 555.30	£ 592	£ 640.70
Payables Turnover ratio	3.57	3.29	4.02	4.37	4.12

PTR of Next Plc was 3.57 in 2023, 3.29 in 2022, 4.02 in 2021, 4.37 in 2020 and 4.12 in 2019. The ratio is increasing because of increasing purchase and decreasing account payable. The increasing ratio is an indication that the company is paying its dues to suppliers more number of times throughout the year which is good for its efficiency performance.

Comparison to major competitor:

Liquidity ratios:

Current ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Current assets	£ 2155	£ 2182.30	£ 1595.20	£ 1220.80	£ 1460.10
(/): Current Liabilities	£ 2706.40	£ 2370.80	£ 2295.80	£ 1855.20	£ 2349.90
Current ratio	0.80	0.92	0.69	0.66	0.62

Acid test ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Current assets	£ 2155	£ 2182.30	£ 1595.20	£ 1220.80	£ 1460.10
(-): Inventories	£ 764.40	£ 706.10	£ 624.60	£ 564.10	£ 700.40
Difference	£ 1390.60	£ 1476.20	£ 970.60	£ 656.70	£ 759.70
(/): Current Liabilities	£ 2706.40	£ 2370.80	£ 2295.80	£ 1855.20	£ 2349.90
Acid test ratio	0.51	0.62	0.42	0.35	0.32

Liquidity position of M&S Plc is shown in the above figure to highlight its effectiveness in maintaining business liquidity in comparison with Next Plc. According to the viewpoint of Jihadi *et al.* (2021), “current ratio” is the method of examining ability of a company to pay its “short-term debt” within 1 year. However, a good liquidity ratio is considered anything above 1, although in M&S, current and quick ratio is valued at lower than 1 every year. In the case of Next Plc, a high liquidity position has been noticed for the consecutive 5 years. For instance, in 2021 CR for Next Plc was valued at 1.9 while M&S was 0.69. In 2022 CR of M&S amounted to 0.92 which is considerably well compared to the previous year but not as satisfactory as Next Plc’s. If the “acid test ratio” for M&S is taken into account, then the company does not have a stable liquidity position in any case. In 2023, the “acid test ratio” of Next Plc and M&S was valued at 1.44 and 0.51 respectively and it indicates better liquidity position of Next Plc compared to its competitor. (nextplc.co.uk , (2024))

Profitability ratios:

Return on Assets					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Net Income	£ 364.50	£ 309	-£ 201.20	£ 27.40	£ 37.30
(/): Total Assets	£ 9097.80	£ 9443.40	£ 8637.40	£ 10189.70	£ 8876
Return on Assets	4.01%	3.27%	-2.33%	0.27%	0.42%

ROA of M&S Plc was 4.01% in 2023, 3.27% in 2022, -2.33% in 2021, 0.27% in 2020 and 0.42% in 2019. This profitability ratio is greater in case of Next Plc and shows better performance in comparison with the competitor. This means Next Plc has a better ability to earn returns by using assets within the business which provides it with an upper hand within the industry. (globaldata.com, 2024)

Net Profit Ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Net Income	£ 364.50	£ 309	-£ 201.20	£ 27.40	£ 37.30
(/): Sales	£ 11931.30	£ 10885.10	£ 9155.70	£ 10181.90	£ 10377.30
Net Profit Ratio	3.05%	2.84%	-2.20%	0.27%	0.36%

NPR of Next Plc was 3.05% in 2023, 2.84% in 2022, -2.2% in 2021, 0.27% in 2020 and 0.36% in 2019. This ratio is better in case of Next Plc in all the five years showing comparatively better performance. M&S is unable to control its expenses because of which it is earning losses in some financial years. On the other hand, Next Plc is controlling its expenses better because of which the ratios are comparatively higher

Return on Equity					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Net Income	£ 364.50	£ 309	-£ 201.20	£ 27.40	£ 37.30
(/): Shareholders Equity	£ 2814.90	£ 2917.90	£ 2285.80	£ 3708.50	£ 2469.20
Return on Equity	12.95%	10.59%	-8.80%	0.74%	1.51%

ROE of Next Plc was 12.95% in 2023, 10.59% in 2022, -8.8% in 2021, 0.74% in 2020 and 1.51% in 2019. This ratio is greater in case of Next Plc as well as shows better performance in comparison with the competitor M&S. This means Next Plc has a better ability to earn returns by using equity share capital within the business which provides it with a competitive advantage within the industry. Lower net profit makes it difficult for the business to earn returns. (Alkaraan, F., , 2020)

Gearing ratios:

Debt to equity ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Total Debt	£ 6282.90	£ 6525.50	£ 6351.60	£ 6481.20	£ 6406.80
(/): Total Equity	£ 2814.90	£ 2917.90	£ 2285.80	£ 3708.50	£ 2469.20
Debt to equity ratio	2.23	2.24	2.78	1.75	2.59

Capital structure in M&S indicates its high dependency on debt compared to equity as like Next Plc. In 2023, debt and equity in the company are valued at £6282 million and £2814 million respectively (corporate.marksandspencer.com, 2024). Furthermore, DER in the company was valued at 1.75 in 2020 which was 2.59 in the previous year which represents its high appraisal in equity compared to debt. Although in 2021 the DER increased to 2.78 while a reduction in both debt and equity took place. Debt reduction was minimal in the company compared to equity. DER in Next Plc was valued at 4.69 in 2021 while M&S has a DER of 2.78. Based on the extracted outcomes it can be stated that both companies highly depended on debt, although Next Plc has a small amount of debt compared to M&S throughout the years. (Earnings management, business strategy, and bankruptcy risk: evidence from Indonesia. Heliyon, 6(2)., 2020)

Times Interest Earned Ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
EBIT	£ 515.10	£ 572.20	-£ 30.70	£ 254.80	£ 162.40
(/): Interest Payable	£ 205.50	£ 214.40	£ 236.10	£ 234.50	£ 111.60
Times Interest Earned Ratio	2.51	2.67	-0.13	1.09	1.46

“Times Interest Earned” is the method of highlighting whether EBIT in the company is sufficient enough to meet its interest obligation or not. In other words, the ratio shows how efficient a company is to cover its interest amount by using its earnings for a specific period. In the case of M&S, it has approximately twice the time of its income over its interest obligation throughout the years. In 2021 the company experienced -0.13 TIE and it shows the earnings were not stable. In comparison to Next Plc, the competitor company has poor earnings, as Next Plc maintained 10 to 12 times of TIE in 2022 and 2023 respectively while M&S’s has this ratio of approximately 2. In addition, M&S has the ability to meet its interest obligation, although it was not as strong as Next Plc. With the high earnings, Next Plc has stabilised its financial position in comparison with M&S. (corporate.marksandspencer.com, 2023)

Efficiency ratios:

Receivables Turnover ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Sales	£ 11931.30	£ 10885.10	£ 9155.70	£ 10181.90	£ 10377.30
(/): Accounts Receivable	£ 280.60	£ 217.10	£ 209.60	£ 298	£ 267.20
Receivables Turnover ratio	42.52	50.14	43.68	34.17	38.84

Payables Turnover ratio					
Items	2023 (m)	2022 (m)	2021 (m)	2020 (m)	2019 (m)
Purchase	£ 7786.70	£ 7130.30	£ 6244.10	£ 6746.50	£ 6547.20
(/): Accounts Payable	£ 2048.80	£ 1960.90	£ 1599	£ 1501	£ 1518.20
Payables Turnover ratio	3.80	3.64	3.91	4.49	4.31

The above figure highlights payable and receivable position of M&S for the last five years. The receivable ratio of the company indicates its practice of collecting cash from its debtors as well as paying its creditors. In the case of Next Plc, the receivable ratio in 2021 was valued at 2.96 while in M&S it was 43.68. The high accounts receivable in M&S indicate that the company has collected debt from its debtors properly while in Next Plc, the collection process is not suitable enough. Similarly in 2023, receivable ration in M&S and Next Plc were valued at 42.52 and 3.53 respectively. Hence, in comparison to Next Plc, the competitor company has performed better in converting its debtors into cash. If the payable ratio of both companies is taken into account then, M&S has the better consideration to pay its creditors in a timely manner. Next Plc's payable ratio is valued at 3.57 in 2023 while M&S has 3.80. Therefore it can be said that M&S performed satisfactorily to resolve its credit compared to Next Plc. With the effectiveness of meeting creditors' demands and collect cash for credit sales, M&S has a stable financial position. (Le, S., 2021)

Recommendations for improving the financial management of the company:

Next Plc efficiently improved its profit and revenue over the years which indicates financial management within the company is stable. However, the major dependency on debt capital is also recorded for Next Plc, which can raise issues to enhance profitability due to fixed interest charges. The article written by Agustia *et al.* (2020), has mentioned that debt is associated with payment obligations for businesses and results in a bankruptcy situation in future. Recommendations for Next Plc can be drawn by taking **debt management** into account. In other words, the company is required to reduce its debt amount as well as restructure its capital generation practice to improve its financial position. Efficient debt management within the company can also help it enhance its profitability by minimising interest payments. Based on this it can be recommended that keeping a proper balance of financing needs to be considered by Next Plc for profitability growth in future. (Wantasen, 2021)

In the context of the acquisition of other companies, Next Plc has expanded its business in the foreign market by applying this strategy. However, a report represents a reduction in net income from the acquisition in 2024, which amounted to £6.8 million from £13.5 million in 2023 (nextplc.co.uk, 2024). Reduction in profit highlights ineffectiveness of Next Plc to identify or investigate profitability from the projects in the upcoming period. Hence, it can be recommended to the company that it is required to focus on its **investment strategies** and modify them for selecting better investment options. The company can take the help of financial professionals in the case of accepting or rejecting offers for acquisition in the upcoming period. (Alkaraan, F., , 2020)

Part c) Investment Appraisal Techniques:

1. Calculation & evaluation of Payback Period, ARR and NPV of the project:

Investment appraisal methods are the core of evaluating financial benefits for a project as well as comparing them with others in order to select the best one. The article written by Alkaraan (2020), has highlighted the effectiveness of investment appraisal methods in making strategic decisions. In the case of Next plc's investment opportunities and selecting the profitable option, NPV, ARR and PBP are calculated for two options and suggested to the company.

Project A evaluation for Next Plc's investment:

Project A				
Year	Cash Flow	Discounting factor	Present value	Cumulative Cash flow
0	-100	1	-100.0	-100
1	100	0.993	99.3	0
2	100	0.985	98.5	100
3	100	0.978	97.8	200
4	-200	0.971	-194.1	0
	NPV	1.4		
	ARR	25%		
	Payback period	2		

Table 1: Project A

(Source: Self-created)

Investment appraisal for the company has been applied by taking discount and non-discounting methods into account. The above table shows several investment appraisal methods which have been performed for Project A by taking its invested amount and cash flow for the selected period. According to the viewpoint of Wang (2021), NPV is the most used capital budgeting method which is considered by companies in their business decision-making. However, NPV for the project highlights the present value of its estimated cash flow in order to predict whether it is feasible or not. On the contrary, PBP is the method of measurement that indicates the required time to get back the invested amount and earn profit. In the case of project A, NPV is valued at £1.4 million while ARR and PBP amounted to 25% and 2 years respectively.

Project B representation:

Project B				
Year	Cash Flow	Discounting factor	Present value	Cumulative Cash flow
0	-100	1	-100.0	-100
1	1000	0.993	992.6	900
2	-500	0.985	-492.6	400
3	-100	0.978	-97.8	300
4	-310	0.971	-300.9	-10
	NPV	1.3		
	ARR	23%		
	Payback period	1		

Table 2: Project B

(Source: Self-created)

The three investment appraisals method is also used for Project B. As per the opinion of Le (2021), “*accounting rate of return*” or *ARR* is the technique of estimating a project’s return based on its cash flow and initial investment. However, NPV for this project is valued at £1.3 million while its ARR is 23%. PBP of project B is valued at 1 year which shows after this Next Plc can earn profit from the project.

Comment on the most suitable investment option for Next Plc and the reason:

Consideration of NPV for investment option selection is most effective as it takes “time value into account” while other two methods fall under the non-discounted technique. According to the viewpoint of Dai *et al.* (2022), NPV is the majorly accepted method due to its effectiveness in representing risk and cost associated with investment. NPV for Project A is higher than B, hence, it can be said that acceptance of A would be profitable for Next Plc.

2. Recalculating NPV and commenting on it

Recalculation				
Project A				
Year	Cash Flow	Discounting factor	Present value	Cumulative Cash flow
0	-103	1	-103.0	-103
1	90	0.993	89.3	-13
2	90	0.985	88.7	77
3	90	0.978	88.0	167
4	-180	0.971	-174.7	-13
	NPV	-11.7		
	ARR	22%		
	Payback period	2		

Table 3: recalculation of NPV, ARR, and PBP of Project A

(Source: Self-created)

At the time of the revaluation of project A, the initial investment increased by 3, and the cash flow increased by 10%. Therefore, the “NPV is -11.7%, ARR is 22% and PBP is 2 years,” that has been re-evaluated. A good NPV should be “more than 0”, but in the case of this project, the value is negative. “Negative NPV” is not good for the financial health of the project, this implies that the “project is not profitable”. However, it can be recommended that the investors should not invest in this project. A good “ARR rate is more than 50%”, however, if the ARR is less than that, then it may so happen that the project may be rejected. In the case of this project, with the updated investment and cash flow, the ARR, estimation can lead the “project to be rejected”. “An ideal PBP is 1”, however in the case of this project it is 2, therefore it is not a good sign for investment in this project. However, “the initial investment” in the project can take more time to “pay back” the investment amount.

Recalculation				
Project B				
Year	Cash Flow	Discounting factor	Present value	Cumulative Cash flow
0	-103	1	-103.0	-103
1	900	0.993	893.3	797
2	-450	0.985	-443.3	347
3	-90	0.978	-88.0	257
4	-279	0.971	-270.8	-22
	NPV	-11.8		
	ARR	20%		
	Payback period	1		

Table 4: recalculation of NPV, ARR, and PBP of Project B

(Source: Self-created)

At the time of the revaluation of project B, the initial investment increased by 3, and the cash flow increased by 10%. Therefore, the “NPV is -11.8%, ARR is 20% and PBP is 1 year” that has been re-evaluated. As discussed above, “negative NPV” can badly affect the financial help of the project. The “present value” of the project and “future cash inflow and outflow” are suspected to be in a good position. Additionally, the “ARR is also not more than 50%”, this implies that the “investment of the project” is not attractive. On the other hand, seeing these estimated calculations the potential investors can take a setback and change their investment decision. However, the PBP in the case of this project, is at the optimal level, hence, seeing this value it can be claimed that the “initial investment” of the project can return in 1 year.

3. Advantages & Shortcomings of PBP, ARR, and NPV techniques

Advantages & Shortcomings of PBP

PBP is an effective planning tool that is widely used by business organizations to evaluate their investment decisions. “Payback Period” is the time measurement tool used by project managers to measure the “initial cost investment covering time” (Dai et al. 2022). PBP evaluates the “required time” that can be implemented to “recover the cumulative NPV” (Barman, et al. 2022). However, it is a flexible technique that has been adopted by organizations to evaluate their risk management strategies. Evaluation of the payback period includes several disadvantages in that it ignores the real-time money value and profitability management post “payback period”.

Advantages & Shortcomings of ARR

ARR is a highly efficient “project measurement tool” used to measure the effectiveness of the project, hence it is a flexible tool used to analyze the accounting figures of the project. The major shortcoming of this method is that it only takes into account the profits and ignores the cash flow of the project.(source : self-created)

Advantages & Shortcomings of NPV

NPV is an easy mathematical method that can be effectively used by project development managers to evaluate the “net present value of the project” (Arjunan, 2022). NPV is extensively used as a “project management tool” to evaluate the “real-time value of money” hence, helping the project in “better decision making”. The major disadvantage of analyzing NPV is that it is a complex process as it is basically based on the “future cash”. If NPV is “greater than 0” then the organization is in a profitable state, else “less than 0” the organization is in a non-profitable state (source : self-created)

4. Non-financial factors that management needs to consider

Financial management in an organization is a significant tool, but it is significant for the business organization to effectively consider the non-financial factors. It is a holistic approach of a business organization to enhance its brand reputation in the competitive business environment. (source : self-created)

Customer satisfaction

Customer satisfaction is one of the eminent non-financial functions of the business organization, as it is the reason behind their existence. Business organizations give solutions to the customer's problems, therefore higher customer satisfaction results in a high-profit gain for the business organization. Customer satisfaction is directly related to the employee's “attitudes and behavior” (Kurdi, et al. 2020). However, the sales employees of the organization are the “frontline service providers”, their good attitudes and behavior can influence the customers to make buying decisions.

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