

LCMB7002 FINANCIAL MANAGEMENT ASSIGNMENT

by Abel Sandu

Submission date: 17-Jul-2023 11:18PM (UTC+0100)

Submission ID: 210346574

File name:

20226_Abel_Sandu_LCMB7002_FINANCIAL_MANAGEMENT_ASSIGNMENT_504372_734094651.docx (176.07K)

Word count: 6932

Character count: 38025

1

Student Name /ID: Abel Paul Sandu 1911041

Programme: MBA- Masters of Business Administration

Module name/ code: Financial Management LCMB7002

Lecturer Name: Khaza Ahmed / Masud Ibrahim

Assignment Title: Essay

Table of Contents

Introduction	5
Part A	5
Overview, History, and Market Position	5
Business Model and Market Position	5
Major Competitors	6
Major Events in the Past Five Years	6
Leadership Changes	6
Accounting Scandal	6
Profit Warnings and Restructuring	7
Strategic Shifts	7

Impact on Financial Performance	7
Key Financial Ratios	8
Evaluation and Explanations of Financial Ratios	8
Profitability Ratio	8
Gross Profit Margin	8
Net Profit Margin	8
Return on Assets (ROA)	9
Return on Equity (ROE)	9
Liquidity Ratio	9
Gearing Ratio	10
Efficiency Ratio	11
Inventory Turnover	11
Asset Turnover	12
Receivable Turnover	12
Comparison of Tesco PLC with its Competitor and Retail Industry	13
Financial Performance Comparison: Tesco vs Sainsbury	13
Comparison of Financial Performance: Tesco vs UK Retail Sector	15
Recommendations for Improving Financial Ratios and Financial Performance at Tesco	16
Strengthen Cost Management	16
Enhance Working Capital Management	16
Capital Allocation and Investment	17
Strengthen Risk Management	17
Continuous Performance Evaluation	17
Part C	17

Overview Of Investment Appraisal Methods.....	17
Payback Period	18
Accounting Rate of Return (ARR)	18
Net Present Value (NPV)	18
Internal Rate of Return (IRR)	18
Profitability Index (PI)	19
Discounted Payback Period	19
Sensitivity Analysis.....	19
Strengths and Limitations of Investment Appraisal Methods	20
Payback Period	20
Accounting Rate of Return (ARR)	20
Net Present Value (NPV)	21
Internal Rate of Return (IRR)	21
Profitability Index (PI)	22
Discounted Payback Period	22
Conclusion	23
References.....	24

Introduction

This assignment is divided into three parts in which the first part is the discussion of the overview of the selected company that is Tesco PLC. In this overview, the discussion is about the business model, market position, competitors, major events in the history of company and also the brief of ⁴⁴the financial performance of the company. In the second part of the assignment, financial performance of Tesco PLC is evaluated in which the ratio analysis is done so that the company's financial performance can be evaluated. In the last part of the assignment the investment appraisal methods are discussed. Strengths and limitations of these methods are also discussed to address which method is more reliable among all.

Part A

Overview, History, and Market Position

Jack Cohen established Tesco PLC in 1919, and ³⁹since then it has grown to become one of the world's biggest and most lucrative retailers. What was once a small group of grocery stores has expanded into a multifaceted business model offering a wide range of goods and services (Tesco PLC, 2023). Cost-cutting measures, shop closures and the sale of non-core firms were all part of Tesco's recovery strategy, which was directed by CEO Dave Lewis. The company has made efforts to better serve its customers and expand its internet presence. Tesco's efforts paid off, as the company has been on the upswing and increasing its bottom line ever since 2016. Tesco has evolved throughout the years to meet the needs of its customers (Tesco PLC, 2023). The corporation has diversified by entering new areas including financial services and telecoms and increasing its web presence and environmental credentials.

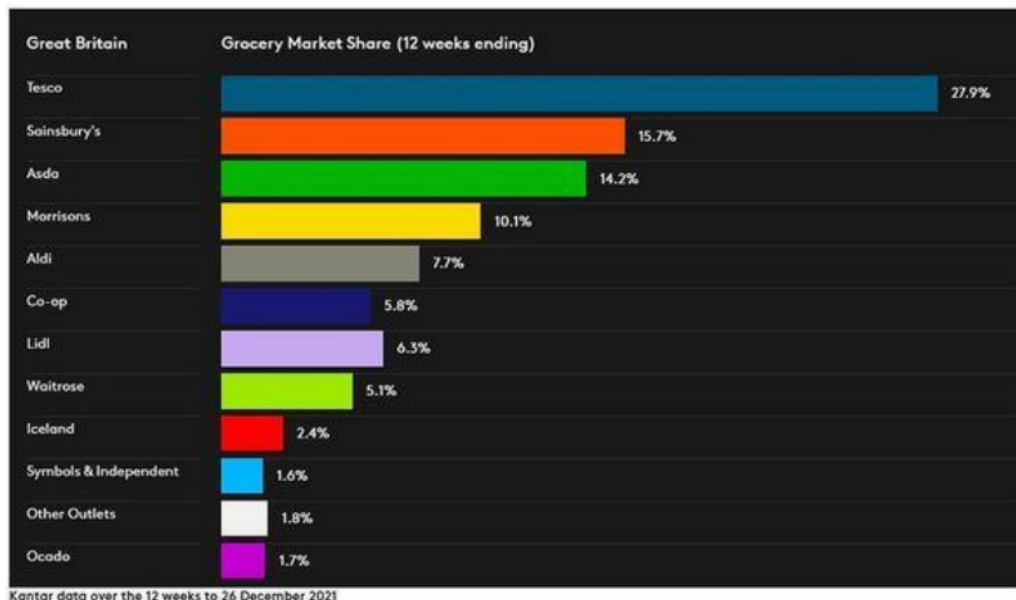
Business Model and Market Position

Tesco now sells not just food and groceries but also apparel, electronics, banking, and phone services. The company's business model is predicated on providing customers with access to a wide range of items at reasonable rates through many distribution channels (such as supermarkets, convenience shops, and online marketplaces). Tesco has become a go-to supermarket for many people because of its dedication to its

customers' time and the satisfaction of their needs (Tesco PLC, 2023). Tesco's own private label brands provide customers with high-quality goods at low rates and provide the corporation with an advantage in the retail industry.

Major Competitors

In the United Kingdom, Tesco faces out against competitors including Sainsbury's, Asda, and Morrisons. It faces up against retail juggernauts like Walmart, Carrefour, and Aldi on a worldwide scale. In the graph presented below it can be seen that from the market survey of 2021, Tesco PLC is dominating the retail market from the market share of 27.9% in the United Kingdom (Hill, 2022).



Major Events in the Past Five Years

Leadership Changes

After Philip Clarke stepped down as CEO in 2014, Dave Lewis took over. Lewis put into action a thorough strategy to halt declining sales and boost profits (Tesco PLC, 2023). Enhanced customer service, streamlined operations, and price cuts were all high on his list of priorities.

Accounting Scandal

When Tesco inflated its earnings by £263 million in 2014, the business faced an accounting conundrum. Tesco's reputation took a major hit once this news broke, and many agencies began looking into the matter as a result (Tesco PLC, 2023). The corporation faced heavy penalties and legal repercussions as a result.

Profit Warnings and Restructuring

A profit warning was given by Tesco in 2019 because of the difficult market circumstances and rising pricing. In order to boost output and cushion against market pressures, the corporation unveiled a huge reorganisation plan that included shop closures and cuts (Wang, 2023).

Strategic Shifts

Tesco made a strategy adjustment in order to focus its core retail activities, and the move was successful. Dobbies Garden Centers and the Giraffe restaurant brand were among the non-essential businesses it divested. Tesco has increased its online offerings and delivery methods to meet the rising demand for online shopping (WSJ Market, 2023).

Impact on Financial Performance

Tesco reported £63.9 billion in sales for the 2018–19 fiscal year; this number is expected to rise to £64.80 billion in 2019–20 and £66.8 billion in 2020–21. Increase in sales and smart expenditures are just some of the causes of this persistent growth. Tesco's bottom line took a major hit ³⁸ as a result of the Covid-19 pandemic. Tesco saw an increase in demand due to customers' penchant for online shopping and stocking up on necessities. In 2020-2021, the corporation saw a large rise in operating profit, from £1.3 billion to £1.8 billion. Tesco's online sales in the fiscal year ending February 1, 2021, surged by 77% because to the epidemic. Tesco gained earnings throughout this time frame by decreasing overhead (WSJ Income Statement, 2023). The corporation made cutting expenses, boosting productivity, and simplifying processes top priorities. As a consequence of these initiatives, profit margins and financial performance as a whole increased. Thanks to its stringent cost-cutting methods, Tesco has been able to retain a strong financial position and market competitiveness. Tesco's bottom line took a hit as a result of Brexit's unpredictability. Foreign currency rate fluctuations and the possibility of interruptions to the company's supply chain posed problems. Tesco was able to mitigate

these threats and prevent any major financial loss as a result of careful preparation and coordination with its suppliers.

Part B

Key Financial Ratios

Financial Ratios	2022	2021	2020	2019	2018
Profitability Ratio					
Gross Profit Margin	7.65%	6.67%	7.59%	7.05%	5.83%
Net Profit Margin	2.48%	0.91%	1.27%	1.99%	2.10%
Return on Assets	3.08%	1.16%	1.38%	2.24%	2.21%
Return on Equity	9.72%	4.38%	5.51%	9.47%	9.49%
Liquidity Ratio					
Current Ratio	0.76	0.69	0.73	0.60	0.71
Gearing Ratio					
Debt to Equity Ratio	2.15	2.77	2.98	3.24	3.29
Efficiency Ratio					
Inventory Turnover	26.23	27.98	23.88	24.42	23.92
Asset Turnover	1.24	1.27	1.09	1.12	1.28
Receivable Turnover	48.57	45.83	41.61	41.23	38.79

Evaluation and Explanations of Financial Ratios

Profitability Ratio

From the above calculation the profitability ratios are evaluated which is showing how much Tesco PLC is performing in terms of making profit.

Gross Profit Margin

The gross profit margin of Tesco PLC was 5.83% in the year 2018 but it gradually increased each year and in the year 2022 the gross profit margin reaches to 7.55%. This shows that Tesco has boosted its gross profit margin by either controlling costs, negotiating better terms with its suppliers, or adopting more profitable pricing policies. Tesco's capacity to boost sales revenue is reflected in the company's expanding gross profit margin.

3

Net Profit Margin

After deducting operational expenditures and taxes, the net profit margin is the remaining percentage of revenue (WSJ Market, 2023). Over the previous five years, Tesco's net profit margin has seen wide swings. The net profit margin in 2021 was 10.61 per cent,

pointing to a successful year it was due to the sudden pandemic situation as people was buying the commodities more than usual as there was worldwide lockdown (WSJ Market, 2023). However, in 2020 and 2022, the net profit margin was much lower, at 1.50 per cent and 2.41 per cent, respectively, suggesting that it would be challenging to generate net income. Price changes, shifts in pricing strategy, and new outlays of capital are only some of the potential causes of these variations.

Return on Assets (ROA)

Tesco's profitability in making use of its assets is measured by its return on assets (ROA). The situation is improving, notwithstanding the ROA's recent volatility. Tesco's capacity to boost operational profit per asset used is shown by the growth in Return on Assets (ROA) from 2.21% in 2018 to 3.08% in 2022. A rising ROA may be an indication of wise strategic investments, better use of resources, or both. The reason of making such strategies were the sudden burden during COVID-19, because in the year 2021 Tesco faced the unexpected number of customers (WSJ Market, 2023).

Return on Equity (ROE)

Return on equity (ROE) measures how much money Tesco has made back for its investors. Over the previous five years, ROE has ranged from 5.85% in 2021 to 9.74% in 2022, remaining within a narrow band of stability. This illustrates that Tesco has often offered a rewarding return on equity to its shareholders. A stable return on equity shows that the business is constantly profitable in relation to the money that shareholders have put into it.

Liquidity Ratio

The current ratio is a liquidity measure used to evaluate a company's short-term debt service capacity. If the current ratio is larger than one, it means ²⁷the firm has enough liquid assets to cover its short-term commitments, whereas a ²⁷ratio of less than one suggests that the company may have trouble meeting its short-term commitments (Tesco PLC, 2023). Tesco PLC's current ratio changed as follows between 2018 and 2022:

2022: Current Ratio of 0.76

2021: Current Ratio of 0.68

2020: Current Ratio of 0.73

2019: Current Ratio of 0.61

2018: Current Ratio of 0.71

Tesco's current ratio has been continuously low, suggesting the company may have trouble making payroll or paying bills. Tesco may need help to satisfy all of its short-term commitments using its current assets if the current ratio is less than one. Excessive short-term debt, a lack of liquid assets, or poor management of the company's working capital might all contribute to a low current ratio (WSJ Income Statement, 2023). Tesco's low current ratio raises questions about the company's liquidity and management, so understanding why that is crucial. Tesco's business strategy and market factors might be to blame for its lower current ratio. Supermarkets like Tesco often have lower current ratios than other types of businesses since they have so much current inventory and receivables. Additionally, supermarkets often have more steady cash flows owing to continuous customer demand (ZXhang et al., 2023).

While a low current ratio may cause worry about the company's short-term liquidity, there are other considerations that must be taken into account. Tesco's total liquidity is impacted by the company's operational cash flow generation, inventory management effectiveness, and access to extra finance. Tesco's liquidity may be better understood by comparing the company's current ratio to that of similar businesses and the industry as a whole. Tesco's average liquidity state may be determined by looking at the trends and comparing the ratio to similar companies in the sector.

Gearing Ratio

The gearing ratio, or ¹³debt-to-equity ratio, is a measure of how much of a company's assets are financed by debt vs how much is financed by shareholders' equity. Capital structure and financial risk are analysed, and the company's reliance on debt financing is assessed (WSJ Balance Sheet, 2023). The debt-to-equity ratio (gearing ratio) of Tesco PLC varied as follows throughout the five-year period from 2018-2022:

2022: Debt to Equity Ratio of 0.77%

2021: Debt to Equity Ratio of 1.02%

2020: Debt to Equity Ratio of 1.05%

2019: Debt to Equity Ratio of 1.09%

2018: Debt to Equity Ratio of 1.57%

Tesco's dependence on debt funding has declined as the company has matured, as measured by the gearing ratio. This suggests that Tesco has adopted a more conservative capital structure and is working to mitigate its financial risks. A lower gearing ratio increases the likelihood that Tesco will be able to maintain its assets using equity rather than debt. This is a good omen since it foreshadows reduced interest costs and eases financial burdens. The gearing ratio of Tesco might go down for a variety of reasons, including the company's retained profits, equity injections, and debt repayments (Lokanan, 2021). Tesco's ability to fund its operations using locally produced money and equity capital is reflected in a leverage ratio that is lower than its peers. It is proof that the business can handle its debts and maintain a reasonable level of equity. However, each business has a unique appropriate gearing ratio that depends on factors including growth potential, profitability, and cash flow creation. Compare Tesco's gearing ratio to both industry averages and peer firms to get a full picture of the company's capital structure and financial risk.

Efficiency Ratio

The ability to effectively manage resources and create money is directly related to a company's efficiency ratios (Gordon R et al., 2021). In this analysis of Tesco PLC, the asset turnover, inventory turnover, and receivables turnover ratios will be analysed.

13

Inventory Turnover

The effectiveness with which a business handles and transfers its stock is quantified by the inventory turnover ratio. It is calculated by dividing the average inventory for the period by the cost of goods sold (COGS). In business, a higher inventory turnover ratio is indicative of efficient and rapid product movement (Bloomenthal, 2023). Tesco's inventory turnover ratio has shown remarkable consistency during the five-year period from 2018–2022. Tesco's exceptional stock management boosted that figure from 22.84 in 2019 to 26.06 in 2021 (WSJ Balance Sheet, 2023). Tesco's inventory turnover efficiency, which guarantees low holding costs and quick inventory-to-revenue conversion, is shown by the

constant figures in the range of 23 to 26. Efficient stock replenishment processes, precise demand projections, and simplified supply chain operations are all part of what constitutes good inventory management techniques (WSJ Balance Sheet, 2023).

Asset Turnover

The asset turnover ratio analyses how well a business turns its assets into cash flow. It is determined by deducting average total assets from overall revenue (Bloomenthal, 2023). A higher asset turnover ratio is indicative of more profit generation per unit of deployed assets (Ahmad et al., 2022). Tesco PLC's asset turnover ratio has been very consistent over the previous five years. The ratio in 2019 is 1.30, up from 2020 1.23. This is another evidence of Tesco's habitual practice of using its assets to maximise profit (WSJ Income Statement, 2023). The higher the ratio, the more efficiently fixed and working capital, such as buildings, machinery, and stock, are being used to create revenue. Tesco's ability to keep its asset turnover ratio stable is evidence of its superior management of both its resources and its physical property.

Receivable Turnover

A company's ability to recover its accounts receivable is quantified by its turnover ratio. To calculate it, take the average accounts receivable and divide it by the total credit sales for the period in question (Bloomenthal, 2023). A higher account receivable to sales ratio is indicative of efficient and timely receivables collection procedures (Newborn, 2022). The percentage of receivables turned over to total revenue has improved at Tesco PLC during the previous five years. In 2022, the ratio will be 48.57, up from 38.79 in 2018. Tesco's capacity to quickly recover receivables has increased, as seen by this rising trend (WSJ Income Statement, 2023). Accounts receivable as a percentage of total assets that is growing is indicative of strong credit management, successful collection activities, and good conditions for paying customers. Tesco's total financial situation, cash flow, and protection against bad debts are all strengthened by the efficiency with which it collects receivables (WSJ Balance Sheet, 2023).

The efficiency ratios for Tesco PLC show that the company makes good use of its resources and produces income. Maintaining a high turnover rate for a stock is a certain way to keep expenses down and boost revenue. Maximum income generation from

assets is shown by a high asset turnover ratio. Tesco's enhanced efficiency in collecting receivables, as seen by a growing trend in the receivable turnover ratio, has resulted in greater cash flow and decreased credit risk. Efficient management of resources is essential for maximising profits and attaining long-term financial success. Tesco has been able to retain growth while cutting down on operations because of careful management of inventories, assets, and accounts receivable (Keiningham et al., 2020). Due to the fact that different industries have different efficiency ratios, it is important to compare Tesco's ratios to industry norms in order to get a complete picture of the company's performance. An efficient and effective examination of Tesco's resource use is improved by including qualitative aspects such as industry dynamics and strategic goals.

Comparison of Tesco PLC with its Competitor and Retail Industry

Financial Performance Comparison: Tesco vs Sainsbury

In this section, the financial performance of Tesco PLC is compared with its two major competitors and Sainsbury. The comparison is done with the help of comparing the financial ratios of the companies.

Financial Ratios	Tesco PLC	Sainsbury
Profitability Ratio		
Gross Profit Margin	7.65%	7.91%
Net Profit Margin	2.48%	2.26%
Return on Assets	3.08%	2.52%
Return on Equity	9.72%	8.04%
Liquidity Ratio		
Current Ratio	0.76	68.40%
Gearing Ratio		
Debt to Equity Ratio	2.15	1.16
Efficiency Ratio		
Inventory Turnover	26.23	15.31
Asset Turnover	1.24	1.1108
Receivable Turnover	48.57	7.773

Revenue

The three largest supermarket chains in the United Kingdom are called Tesco and Sainsbury. It is reasonable to assume that Tesco's profits have grown gradually over the

years thanks to the company's extensive retail footprint and commanding market share (Moura, 2021). Sainsbury's, a key rival, may have seen a modest uptick in sales for a number of reasons, including broadening its product offering and bolstering its customer reward programs.

Profitability

Increasing their gross and net profit margins would have been a top priority for Tesco and Sainsbury. Tesco's extraordinary profitability may be ascribed to well-managed costs, economies of scale, and a well-oiled supply network (Catalão, 2022). Sainsbury may have seen margin pressure while maintaining a good profit margin owing to heavy competition in the retail market.

Operating Efficiency

Effective operations are crucial to the success of any retail business. To save costs and improve inventory management, supermarket giants like Tesco and Sainsbury would have centralised their supply chains. Tesco, with its complex logistical network and state-of-the-art technology at its disposal, should have been able to boost its operating efficiency (Benghezal and Izadi, 2022). Sainsbury's may have established efficient stock management and cost control measures due to its focus on quality and customer happiness.

Liquidity

Liquidity is essential for retail enterprises to meet their short-term commitments and sustain their continuous operations. In principle, Tesco and Sainsbury's would have had sufficient cash on hand. The high cash flows helped Tesco, the biggest retailer in the United Kingdom, retain a steady liquidity position (Fansi and Nkwantchoa, 2020). Sainsbury may have handled its liquidity demands effectively as a result of its well-established client base and careful management of its cash flow.

Capital Structure and Debt

For a business to be financially secure over the long term, it must keep its capital structure in good shape. Tesco and Sainsbury, in an ideal world, would have carefully monitored and controlled their debt levels. Tesco may have established a sustainable capital structure through a careful mix of debt and equity funding (Bhaskar and Flower, 2019). Sainsbury's might have kept its financial options open with better management of its debt.

Comparison of Financial Performance: Tesco vs UK Retail Sector

Tesco's financial performance may be compared to that of the UK retail sector by looking at a number of important financial measures and indicators. Based on the findings of this study, Tesco's performance will be assessed to see whether it is up to par with the rest of the market.

Revenue

Tesco is one of the largest supermarket chains in the United Kingdom. Therefore, the company makes a substantial amount of money relative to the retail sector as a whole. Tesco's revenue is expected to be greater than the average revenue of comparable UK retail enterprises because of the company's large store network, varied product offers, and well-known brand (Argyropoulou et al., 2023).

Profitability

Tesco's profitability may be compared to that of the British retail sector as a whole. Gross profit margins and net profit margins that are continuously higher than the industry average indicate that Tesco is successfully cutting costs, obtaining advantageous supplier conditions, and applying practices that lead to increased profitability.

Operating Efficiency

Efficiency in operations is essential to success in the retail sector. Tesco's operational performance is in line with the retail sector's typical efficiency. If Tesco's inventory turnover, asset turnover, and receivable turnover ratios are higher than the industry average, then it is managing its resources efficiently, optimising its inventory levels, and producing income (Dhyani and Kumar, 2022).

Liquidity

Tesco's liquidity position is indicative of the retail sector as a whole. Tesco should be better able to satisfy its short-term commitments and keep running if its current ratio stays above the average for its sector. This is indicative of a more secure financial footing and an increased resilience to economic uncertainty.

Debt Management

One may compare Tesco's debt management to that of more typical department stores. It is assumed that Tesco has efficiently managed its debt and avoided financial risk if ⁴¹ the company's debt-to-equity ratio is lower than the industry average and the capital structure is more conservative than usual (Nenycz-Thiel and Romaniuk, 2019).

Recommendations for Improving Financial Ratios and Financial Performance at Tesco

Tesco PLC is a major player in the retail business that might benefit from bolstering its financial management systems to ensure its continued success and growth (Hill, 2022). Some ways in which the organisation's finances may be better managed are outlined below.

Strengthen Cost Management

Tesco has to maintain its focus on effective cost management if it wants to keep costs down. Cost-cutting measures, such as regular audits, identifying sources of waste, and eliminating them, may help achieve this goal (Merrill and Merrill, 2019). Opportunities for supply chain optimisation, process automation, and improved supplier agreements may be investigated by Tesco. Tesco can improve profits and keep its competitive edge by constantly evaluating and cutting costs.

Enhance Working Capital Management

Working capital management is crucial to the smooth running of daily business. Tesco should improve cash flow estimates, handle accounts receivable and payable more efficiently, and streamline its inventory processes to maximise working capital. Tesco's

stockouts, carrying costs, and working capital might all be improved with the use of inventory management and demand forecasting IT solutions (al Habibi, 2019).

Capital Allocation and Investment

Tesco's allocation and deployment of money should be based on thorough analysis and strategic fit. There has to be a thorough analysis of any and all possible investments, whether they be for growth, innovation, or penetration of a new market (Gosling, 2023). In order to maximise profits for its shareholders and promote long-term development, Tesco may choose to invest in assets that provide enticing rates of return on investment (ROI) and consider long-term profitability.

Strengthen Risk Management

In order to protect the company's resources and keep operations running smoothly, effective risk management is required. Tesco has to improve its risk management and assessment procedures to deal with challenges, including supply chain interruptions, regulatory changes, and market pressures (Leite, 2020). Through regular risk monitoring, scenario analysis, and the execution of a contingency plan, Tesco will be able to manage risks and preserve business continuity.

Continuous Performance Evaluation

Key performance indicators (KPIs) are measurements that Tesco may use to track how well the business is doing financially. This will make it easier to pinpoint issues, track development, and change fiscal policy sensibly (Franck and Prapha, 2021). If Tesco regularly assesses its financial performance, it will be able to adjust to changing market circumstances and ensure that its financial management procedures are in line with its overall goals.

Part C

Overview Of Investment Appraisal Methods

Investing cash wisely requires a thorough investigation of investment assessment strategies. These methods assist firms in gauging the potential, success rate, and risk associated with potential investment projects.

Payback Period

The time it takes to make a profit after spending money is represented by the payback period. It is a simple strategy that places emphasis on ⁴⁷the length of time needed to earn back the original ³⁷outlay of capital (Vaidya, 2022). The sooner an investment produces a profit, the better. ³⁷Time value of money and cash flows that occur after the payback period are ignored by the payback period. Tesco PLC can use this method if it is going to start any project then this method can be used by Tesco PLC in assessing that how many days will it take for Tesco PLC to recover its invested amount in that project.

Accounting Rate of Return (ARR)

Average yearly profit is calculated as a proportion of the original investment using the accounting rate of return. ⁵Accounting profit, rather than cash flows, is used ⁴⁹to calculate the average ⁵return on investment throughout the life of the project (Vaidya, 2022). ARR, on the other hand, is influenced by accounting rules and ignores the value of money over time. Tesco PLC can use this method if it is going to start any project then this method can be used by Tesco PLC in assessing that how much Tesco PLC is getting the return from that project ⁵in the future.

Net Present Value (NPV)

¹¹The net present value of an investment is calculated by subtracting the original investment from the discounted value of the cash flows expected from the investment in the future. It takes into consideration both the present value of money and inflation when determining the worth of a project. ⁵⁰If the NPV is negative, the investment likely will not provide a sufficient rate of return, whereas if it is positive, the venture is possible (Vaidya, 2022). Tesco PLC can use this method if it is going to start any project then this method can be used by Tesco PLC in assessing that is that project is profitable for the Tesco PLC or not.

Internal Rate of Return (IRR)

⁷The discount rate that brings the net present value of an investment to zero is known as the internal rate of return. ⁵It is a metric for calculating the return on investment (ROI) of a project (Chen, 2022). The investment is profitable if the IRR is higher than the ROI target.

IRR might need to be clarified or provide several answers if the flow of cash changes direction.

Profitability Index (PI)

To calculate profitability, one must compare cash inflows with cash outflows. ⁵Return on investment (ROI) is the amount ³⁰obtained by dividing the original investment by the present value of the expected cash flows. ⁵³An investment with a profitability index value over one is expected to provide a positive rate of return, whereas one with a value below one may not do so (Kar et al., 2021).

Discounted Payback Period

The discounted repayment time is a measure of ³¹how long it will take to reimburse the original investment, much like the ¹⁹payback duration. However, it accounts for the time value of money by discounting future cash flows. The discounted payback period uses discounted cash flows to offer a more accurate evaluation of a project's profitability (Szydlowska, 2020).

Sensitivity Analysis

Changes to critical factors are examined for their effect on the project's bottom line in the sensitivity analysis. By changing factors like sales volume, cost, and discount rate, businesses may assess how vulnerable a project is to variation. This research pinpoints the most important elements that might have a major effect on the project's success (Caraher and Furey, 2022).

It is crucial to understand the pros and cons of each of these investment appraisal strategies. Businesses need to look into the specifics of each strategy before settling on the best approach or set of approaches. Project type, financial goals, risk tolerance, and organisational preferences are all important considerations when deciding on a methodology. Methodologies for assessing investments let firms weigh the pros and cons of certain capital expenditures. Risk, cash flow, profits, and discounting the future are all factors in these approaches (WSJ Balance Sheet, 2023). Businesses may assess the practicality and financial sustainability of investment projects and make choices that advance their strategic goals with the help of suitable investment assessment tools.

Strengths and Limitations of Investment Appraisal Methods

When considering several options for spending money, investment appraisal techniques are crucial. They provide a structure for weighing the potential danger, gain, and success of potential investments. In this comprehensive review, the pros and cons of a variety of investment assessment techniques will be discussed and assess how they do under different conditions.

5 ***Payback Period***

The time it takes to get money back is often **5** expressed as a percentage of the total payback term. It is popular because it is easy to understand and use. One of its main benefits is the speed with which it can determine whether or not an investment is liquid (Rusanen, 2023). By focusing on the time needed to recover the original investment, decision-makers may assess the risk of the project and its potential for early cash flow creation. However, the payback time could be longer. The project's long-term sustainability may be misjudged since it does not account for cash flows beyond the payback period. Furthermore, the technique does not **1** take into account the time value of money, treating all cash flows the same. As a result, projects with longer payback periods may be favoured over more immediately lucrative ones. To guarantee that investment projects are adequately examined, it is crucial to combine the payback period with additional assessment techniques (Tesco PLC, 2023).

Accounting Rate of Return (ARR)

Average yearly profit is calculated as a proportion of the original investment using the accounting rate of return. Accounting profit is more important than cash flow for this purpose. A primary benefit of ARR is its ease of use and dependence on common accounting metrics. It is easy to evaluate against averages in the market or a company's target rate of return. There are major drawbacks to the ARR, however. Since it disregards the passage of time, it cannot be used to assess long-term investments. The method's reliance on accounting profitability may be affected by things like non-cash items and changes in accounting rules. It could be a better measure of financial success since it

ignores cash flow (Tesco PLC, 2023). Caution is warranted, and the ARR should be used in combination with other assessment methods to offer a more thorough analysis of investment projects.

Net Present Value (NPV)

The net present value of an investment is calculated by subtracting the original investment from the discounted value of the cash flows expected from the investment in the future. The net present value (NPV) method gives a thorough assessment of an investment venture while accounting for the passage of time. Since NPV factors in cash flows at every stage of an endeavour, it provides a more reliable measure of profitability. One of NPV's main benefits is that it is suitable for assessing long-term investments since it takes into account the time value of money. It also allows for a more precise appraisal of a project's profitability by comparing it to others using different cash flow models. If the net present value is positive, then the project is a good investment since it is expected to bring in more money in the long run than it costs to get it started. However, there are restrictions to the NPV approach (Dhyani and Kumar, 2022). It is highly dependent on accurate cash flow forecasts, which may be challenging to foretell. Poor investment choices may be prompted by faulty NPV estimates based on inaccurate forecasts. In addition, the approach presupposes the use of a fixed discount rate, which might shift dependent on the level of risk associated with the undertaking. Additionally, it is not viable to compare projects of various proportions using the NPV since it needs to account for the size or scope of the investment. Despite its flaws, the net present value (NPV) technique remains one of the most credible ways of assessing asset value.

Internal Rate of Return (IRR)

The discount rate that brings the net present value of an investment to zero is known as the internal rate of return. The ROI analysis will determine whether or not the project is worth pursuing. The IRR method is very helpful when evaluating different projects to determine which represents the best investment opportunity. The internal rate of return (IRR) is useful because it allows investors to compare projects using a single rate of return that accounts for the value of money over time. The IRR gives insight into the total

profitability of investment beyond only the amount and timing of money flows. However, there are certain drawbacks to using the IRR method. When the flow of money shifts, it might open up new possibilities or drive up the rate of return. Because of this, the findings may be obscure. Because it needs to provide details about the value of the investment or the amount of the cash flows, the IRR is thus less helpful when comparing projects of various sizes. Investment return on investment calculations using the IRR method should be done so with prudence and in combination with other investment appraisal methods.

Profitability Index (PI)

To calculate profitability, one must compare cash inflows with cash outflows. It is useful for comparing the potential returns of various investment options. Size and financing may be compared between projects by looking at the PI. The profitability index's capacity to account for the passage of time is a major benefit. Profitability indexes measure how profitable one venture is compared to another by comparing the present value of predicted cash inflows and cash outflows. If the difference between the venture's net inflows and net outflows is more than one, then it is lucrative and should be pursued. However, the PI has restrictions. It gives no indication of the project's potential earnings (ZXhang et al., 2023). Furthermore, the model assumes all cash flows will be reinvested at the rate of return for the project, which is unreasonable and impracticable. That is why it is important to utilise the PI in tandem with other cost-cutting measures to get the whole picture.

Discounted Payback Period

If cash flows are discounted and figure out how long it will take to get money back, the amount received is discounted payback period. By factoring in the time worth of money, it improves upon the standard payback schedule. The benefits and drawbacks of the discounted payback period and the repayment term approach are similar. Its key benefit is the speed with which it evaluates liquidity, taking into account the time value of money. By taking into account the time value of money, it yields a more precise assessment of the project's potential profit (Guo and Wang, 2019). However, cash flows beyond the payback period still need to be addressed by the discounted repayment period, which

may hamper an in-depth assessment of long-term performance. More importantly, it needs to provide a clearer picture of potential earnings. Therefore, it should be utilised along with other methods to ensure that investment efforts are thoroughly assessed.

Conclusion

Tesco PLC has shown time and time again that it can successfully adjust to changes in the retail business by posting strong financial performance. The corporation expects its revenue to soar to £66.8 billion by 2020. Tesco's sustained expansion is proof that the company has a winning business model based on listening to and satisfying its customers. After prioritising actions to reduce costs and improve operational efficiency, Tesco anticipates earning £1.8 billion in operating profit in 2020. These results illustrate the firm's commitment to maximising productivity and revenue. Tesco has shown to be resilient in the face of retail's challenges and uncertainty. The firm has grown by proactive measures, such as investments in internet enterprises, taken in response to shifting customer preferences. The company's market dominance may also be attributed to Tesco's extensive retail network and well-known brand. The company's ability to keep customers happy and adjust to shifting market circumstances has been crucial to its success. The success Tesco has had financially is proof that the corporation places a premium on satisfying its consumers and cutting costs wherever possible. By keeping costs low and seizing growth possibilities, ³³ Tesco has been able to thrive in the dynamic retail industry. ³³ Tesco is in a strong position to sustain its market leadership because to its stable financial footing and unwavering commitment to customer satisfaction.

3 References

- Ahmad, N., Haque, S., Islam, M.A., 2022. COVID-19 and global clothing retailers' responsibility to vulnerable workers: NGO counter-rhetoric. *Accounting, Auditing & Accountability Journal* 35, 216–228.
- 8 al Habibi, B., 2019. HR practices of Marks & Spencer, Selfridges, Primark, and Sainsbury's (PhD Thesis). University of Science & Technology.
- Argyropoulou, M., Zissis, D., Korfiatis, N., Zampou, E., 2023. Horizontal collaboration in the last mile distribution: gauging managerial response to disruption and abnormal demand. *Benchmarking: An International Journal* 30, 460–474.
- 3 Benghezal, D., Izadi, J., 2022. Exploring the impact of CSR strategy in food retail sector firms.
- Bhaskar, K., Flower, J., 2019. Financial failures and scandals: From Enron to Carillion. Routledge.
- 22 Bloomenthal, A., 2023. *Financial Ratio Analysis: Definition, Types, Examples, and How to Use*. [online] Investopedia. Available at: <https://www.investopedia.com/terms/r/ratioanalysis.asp> [Accessed 17 Jul. 2023].
- 21 Caraher, M., Furey, S., 2022. The corporate influence on food charity and aid: The "Hunger Industrial Complex" and the death of welfare. *Frontiers in public health* 10, 950955.
- 15 Catalão, I. do P., 2022. Equity research-Tesco PLC (PhD Thesis). Instituto Superior de Economia e Gestão.
- Chen, J.J., 2022. Tesco Plc, in: *International Cases of Corporate Governance*. Springer, pp. 27–44.
- 1 Dhyani, B., Kumar, A., 2022. How can Sainsbury's use management information systems to develop a competitive advantage in its reward card offering? *Central European Management Journal* 30, 368–372.
- Fansi, Y., Nkwantchoa, C.A., 2020. Failed corporate mergers—an analysis of buy and hold cumulative returns around merger announcements. *Journal of Academic Reviews* 6, 9–14.
- 25 Franck, A., Prapha, A., 2021. Not in This Together: How supermarkets became pandemic winners while women workers are losing out.

- ²³ Gordon R, F., Jorge M, O.-C., Rafael B, P., 2021. Consumer behaviour analysis and the marketing firm: measures of performance. *Journal of Organizational Behavior Management* 41, 97–123.
- ²⁶ Gosling, T., 2023. Lessons for ESG activists: The case of Sainsbury's and the living wage. *Journal of Applied Corporate Finance*.
- ¹⁶ Guo, L., Wang, Z., 2019. Ratio analysis of J Sainsbury plc's financial performance between 2015 and 2018 in comparison with Tesco and Morrisons. *American Journal of Industrial and Business Management* 9, ¹²325–341.
- Hill, T., 2022. *Tesco wins battle for market share as shopping bills rise by £15*. [online] Express.co.uk. Available at: <https://www.express.co.uk/finance/city/1545224/tesco-market-share-cost-of-living-crisis-shopping-bills> [Accessed 17 Jul. 2023].
- ⁴ Kar, S.K., Bansal, R., Mishra, S., 2021. Tesco: Entry and Expansion Strategy in India. *Emerging Economies Cases Journal* 3, 65–76.
- Keiningham, T., Aksoy, L., Bruce, H.L., Cadet, F., Clennell, N., Hodgkinson, I.R., Kearney, T., 2020. Customer experience-driven business model innovation. *Journal of Business Research* 116, 431–440.
- ²⁸ Leite, B.T.D.S., 2020. Marks & Spencer out of fashion the case of an outdated brick and mortar (PhD Thesis).
- ² Lokanan, M., 2021. Applying four quantitative prediction techniques to detect fraud in financial statements. *Journal of Forensic and Investigative Accounting* 13, 362–383.
- Merrill, G.J., Merrill, G.J., 2019. How Sinful Is Your Shopping Basket? The Reporting of Tesco in 2006, 2007 and 2008. The Political Content of British Economic, Business and Financial Journalism: A Deficit of Perspectives ²143–181.
- Mohapatra, P., MV, N.K., 2021. Accounting Scandal at Tesco. *IUP Journal of Accounting Research & Audit Practices* 20.
- ⁹ Moura, M.B.L. de, 2021. Equity Research in Food & Retail Industry-TESCO PLC (PhD Thesis). Instituto Superior de Economia e Gestão.

Nenycz-Thiel, M., Romaniuk, J., 2019. How far is too far? Investigating purchasing across packaged goods and services categories for retailer-branded products. *European Journal of Marketing* 53, 108–120.

Newborn, P., 2022. Crossed wires: public regulation and private action for water stewardship and sustainable farming. *Water International* 47, 1169–1186.

Busanen, O., 2023. The importance of resources.

Szydłowska, K., 2020. The Company "Sainsbury's". A Financial Ratio Analysis. GRIN Verlag.

Tesco PLC (2023). *Home*. [online] Tesco plc.com. Available at: <https://www.tescopl.com/> [Accessed 17 Jul. 2023].

Tesco PLC., 2023. *Our history*. [online] Tesco plc.com. Available at: <https://www.tescopl.com/about/our-history/> [Accessed 17 Jul. 2023].

Tesco PLC., 2023. *Reporting hub*. [online] Tesco plc.com. Available at: <https://www.tescopl.com/reporting-hub?activeTab=reports#reports> [Accessed 17 Jul. 2023].

Vaidya, D. (2022). *Investment Appraisal*. [online] WallStreetMojo. Available at: <https://www.wallstreetmojo.com/investment-appraisal-2/> [Accessed 17 Jul. 2023].

Voss, H., Davis, M., Sumner, M., Waite, L., Ras, I.A., Singhal, D., Jog, D., 2019. International supply chains: compliance and engagement with the Modern Slavery Act. *Journal of the British Academy* 7, 61–76.

Wall Street Journal, 2019. *TSCO / Tesco PLC Stock Price & News - WSJ*. [online] WSJ. Available at: <https://www.wsj.com/market-data/quotes/uk/xlon/TSCO> [Accessed 17 Jul. 2023].

Wang, Y., 2023. A Model Predicting CRM Resource Effect on Business Performance through CRM Capabilities. *Wireless Communications and Mobile Computing* 2023.

WSJ Balance, Sheet 2023. *TSCO.UK / Tesco PLC Annual Balance Sheet - WSJ*. [online] Wsj.com. Available at: <https://www.wsj.com/market-data/quotes/UK/XLON/TSCO/financials/annual/balance-sheet> [Accessed 17 Jul. 2023].

WSJ Income Statement, 2023.¹⁷ *TSCO.UK | Tesco PLC Annual Income Statement - WSJ.* [online] Wsj.com. Available at: <https://www.wsj.com/market-data/quotes/UK/XLON/TSCO/financials/annual/income-statement> [Accessed 17 Jul. 2023].

WSJ Market., 2023.⁶ *TSCO.UK | Tesco PLC Company Profile & Executives - WSJ.* [online] Wsj.com. Available at: <https://www.wsj.com/market-data/quotes/UK/XLON/TSCO/company-people> [Accessed 17 Jul. 2023].

ZXhang, Y.X., Haxo, Y.M., Mat, Y.X., 2023. Analysing Tesco PLC Stock: A Comprehensive Evaluation of Growth Potential and Investment Opportunities. *AC Investment Research Journal* 220.

LCMB7002 FINANCIAL MANAGEMENT ASSIGNMENT

ORIGINALITY REPORT

20%

SIMILARITY INDEX

15%

INTERNET SOURCES

6%

PUBLICATIONS

17%

STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to University of Wales, Lampeter Student Paper	2%
2	Submitted to London Metropolitan University Student Paper	1%
3	Submitted to Global Banking Training Student Paper	1%
4	Submitted to CITY College, Affiliated Institute of the University of Sheffield Student Paper	1%
5	Seal, Will, Rohde, Carsten, Garrison, Ray. "EBOOK: Management Accounting, 6e", EBOOK: Management Accounting, 6e, 2018 Publication	1%
6	Submitted to Regent Independent School and Sixth Form College Student Paper	1%
7	Submitted to Aston University Student Paper	1%
8	Submitted to University of West London Student Paper	1%

9	Submitted to Bath Spa University College Student Paper	1 %
10	Submitted to Roehampton University Student Paper	1 %
11	visfu.com Internet Source	1 %
12	Submitted to University of Sunderland Student Paper	1 %
13	Submitted to Aspen University Student Paper	<1 %
14	Submitted to University of Glamorgan Student Paper	<1 %
15	Submitted to University of Lincoln Student Paper	<1 %
16	Submitted to University of Dundee Student Paper	<1 %
17	Submitted to Taylor's Education Group Student Paper	<1 %
18	Submitted to University of Teesside Student Paper	<1 %
19	www.coursehero.com Internet Source	<1 %
20	Submitted to BPP College of Professional Studies Limited	<1 %

21	openaccess.city.ac.uk Internet Source	<1 %
22	Submitted to Abingdon and Witney College Student Paper	<1 %
23	Submitted to Galileo Global Education Student Paper	<1 %
24	Submitted to University of Bedfordshire Student Paper	<1 %
25	Submitted to RDI Distance Learning Student Paper	<1 %
26	lbsresearch.london.edu Internet Source	<1 %
27	Submitted to Colorado Technical University Student Paper	<1 %
28	www.nativeassignmenthelp.co.uk Internet Source	<1 %
29	Submitted to University of Northampton Student Paper	<1 %
30	docplayer.net Internet Source	<1 %
31	Epstein, Lita; Schneider, Arnold. "Accounting for Healthcare Professionals, 2e", Zovio Inc, 2022 Publication	<1 %

32	Submitted to Harper Adams University College Student Paper	<1 %
----	---	------

33	Submitted to University of Wales Swansea Student Paper	<1 %
----	---	------

34	docs.google.com Internet Source	<1 %
----	------------------------------------	------

35	IFoA Publication	<1 %
----	---------------------	------

36	Submitted to University of Central Lancashire Student Paper	<1 %
----	--	------

37	library.unisel.edu.my Internet Source	<1 %
----	--	------

38	Submitted to Leeds Trinity and All Saints Student Paper	<1 %
----	--	------

39	Submitted to University of East London Student Paper	<1 %
----	---	------

40	Submitted to University of Greenwich Student Paper	<1 %
----	---	------

41	text.123docz.net Internet Source	<1 %
----	-------------------------------------	------

42	Submitted to University of Essex Student Paper	<1 %
----	---	------

43	Submitted to Submitted on 1686644361259	
----	---	--

<1 %

44

www.mdpi.com

Internet Source

<1 %

45

idoc.pub

Internet Source

<1 %

46

m.scirp.org

Internet Source

<1 %

47

vertrouw-dort.com

Internet Source

<1 %

48

www2.computerworld.com.au

Internet Source

<1 %

49

core.ac.uk

Internet Source

<1 %

50

digital.library.unt.edu

Internet Source

<1 %

51

equityhealthj.biomedcentral.com

Internet Source

<1 %

52

ir.csuc.edu.gh:8080

Internet Source

<1 %

53

www.netsuite.com.hk

Internet Source

<1 %

Exclude quotes Off

Exclude matches Off

Exclude bibliography Off