**BUSINESS DECISION MAKING**

**INDIVIDUAL ASSIGNMENT**

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# Introduction

An organisation is required to critically evaluate financial and non-financial aspects that are present in business proposals before the initiation. In this report, the discussion revolves around analysis of payback period and net present value of two projects that are initiated by PD plc. The proposed first project is about to invest in normal smoothies. Along with, the management could propose investment in smoothies with multivitamins and minerals. According to Taouab and Issor (2019), a strategic management is required to set some goals and objectives in order to make the organisation more competitive. In this analysis the strategic management of PD plc could take decisions regarding the proposed 2 projects with the help of this evaluation.

# Calculation of payback period

| **Project A: Payback period** | | |
| --- | --- | --- |
| **Years** | **Cash flow (£)** | **Cumulative cash flow (£)** |
| 0 | -98000 | -98000 |
| 1 | 32000 | -66000 |
| 2 | 41000 | -25000 |
| 3 | 63000 | 38000 |
| 4 | 96000 | 134000 |
| 5 | 110000 | 244000 |
| **Payback period** | | **2 Years 5 months** |

| **Project B: Payback period** | | |
| --- | --- | --- |
| **Years** | **Cash flow (£)** | **Cumulative cash flow (£)** |
| 0 | -102000 | -102000 |
| 1 | 30000 | -72000 |
| 2 | 41000 | -31000 |
| 3 | 64000 | 33000 |
| 4 | 107000 | 140000 |
| 5 | 112000 | 252000 |
| **Payback period** | | **2 years 6 months** |

# Calculation of NPV

| **Project A: Net present value** | | | |
| --- | --- | --- | --- |
| **Years** | **Cash flow (£)** | **Discounted rate (7%)** | **Present value (£)** |
| 0 | -98000 | 1 | -98000 |
| 1 | 32000 | 0.935 | 29906.54 |
| 2 | 41000 | 0.873 | 35810.99 |
| 3 | 63000 | 0.816 | 51426.77 |
| 4 | 96000 | 0.763 | 73237.94 |
| 5 | 110000 | 0.713 | 78428.48 |
| **Net present value** | | | **170810.72** |

| **Project B: Net present value** | | | |
| --- | --- | --- | --- |
| **Years** | **Cash flow (£)** | **Discounted rate (7%)** | **Present value (£)** |
| 0 | -102000 | 1 | -102000 |
| 1 | 30000 | 0.935 | 28037.38 |
| 2 | 41000 | 0.873 | 35810.99 |
| 3 | 64000 | 0.816 | 52243.06 |
| 4 | 107000 | 0.763 | 81629.79 |
| 5 | 112000 | 0.713 | 79854.45 |
| **Net present value** | | | **175575.67** |

# Analysis and discussion

***Critical analysis of financial techniques***

PD plc has proposed 2 types of business proposals to enhance their business. One of them is about introducing only normal smoothies. Along with that they are about to introduce smoothies with multivitamins and minerals. According to viewpoint of Wahjono *et al*. (2021), before initiating a business proposal, the financial aspects shall be analysed in an efficient manner. It is important to assess the scope of returns accordingly for scaling an efficient basis of decision making between alternative projects for investment. Project A that contains only normal smoothies is proposed with initial investment of 98,000 pounds. Besides project A that contains smoothies with multivitamins and minerals is proposed with initial investment of 1,02,000 pounds. In the estimation of the payback period it could be ascertained that project A has the potential of paying back its initial investment in 2 years and 5 months. On the other hand, project B has the potential of paying back its initial investment in 2 years and 6 months. It could be determined that the payback period of these 2 projects are almost the same.

PD plc is projecting a discount rate of 7% for the calculation of net present value. During the estimation of net present value it could be determined that the NPV of project A for 5 years is 170810 pounds. On the contrary, the net present value of project B for 5 years is 175575 pounds. It could be ascertained that in case of net present value project B that is containing smoothies with multivitamins and minerals is better than project A. It could be easily ascertained that the project that is proposing smoothies with multivitamins and minerals is better than the project that is proposing only smoothies. The strategic management may make a strategy of investment regarding these 2 business proposals with the help of the above financial techniques.

***Assessment of key non-financial aspects***

This section will revolve around the non-financial aspects that management shall consider while taking key decisions regarding investment in new projects. As mentioned by Louche *et al.* (2019), in spite of the financial aspects for making an investment is a vital part of decision making, non-financial aspects could be crucial. According to Jackson *et al*. (2020), some key non- financial aspects that strategic management shall consider could be relating to capabilities of business and future threats. Development of staff morale and enhancement of relationship with customers could also be considered.

***Capabilities of business***

The strategic management could consider that in the past, such productions have been outsourced due to lack of resources. According to Taguimdje *et al.* (2020), the management could consider past capabilities of the organisation in selection of the proposed business projects. According to Baiano (2020), the management could introduce important resources regarding production of smoothies with multivitamin and minerals. They could enhance the manufacturing process by recruiting more skilled employees and updating the machineries required for the production.

***Enhancement of relationship with customers***

The maintenance of good relationships with customers could be a key non-financial aspect while opting a project. According to Guine *et al.* (2020), the management is required to understand the taste of customers by enhancing the relationship between them. They could conduct a survey and understand which type of smoothie is more favourable by customers. This could assist management to enhance a better pricing model of the selected products.

***Future threats***

At some point of time the organisation could experience a lack of multivitamins and minerals and this shall affect the production of smoothies with multivitamins and minerals. According to Hilorme *et al*. (2019), strategic management could consider future threats that may arise in production or sales of these projects. The cost of producing smoothies may increase and due to this the profitability might get affected. The interest of customers on smoothies might get reduced and due to this it may hamper the sales of smoothies in future.

# Conclusion

It could be concluded that strategic management shall require financial and non-financial aspects to consider while opting for business proposals. Some key financial techniques like payback period of investment and net present value of cash flows could be determined while choosing for investment in new projects. Along with that some key non- financial aspects like past capabilities of business, customer acquisition and probable future threats could be considered by management.

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