



**THE TIMES 100**

**BUSINESS CASE STUDIES**

## Teacher guide

### Investment decision making - Enterprise

#### Where does the lesson fit?

This session would fit in a Finance module to explore investment decision making. It would need to be preceded by, or used in conjunction with, more in depth coverage of the investment appraisal techniques.



**Suggested resources & activities** related to investment decision making and Enterprise.

- Full Enterprise case study
- Investment decision making PowerPoint
- Location decisions lesson resources
- Enterprise crossword
- Enterprise word search

#### Suggested timings for the session

10 mins	Starter e.g. Enterprise crossword
10 mins	Use the Investment decision making PowerPoint to discuss the topic
5 mins	Read the case study
10 mins	Answer the questions
15 mins	Task . using investment appraisal techniques
10 mins	What have you learned?

#### Answers to questions

1. What is meant by investment appraisal?  
Investment appraisal is the process of using quantitative methods to analyse possible future investments. Methods include payback, average annual rate of return and net present value.
2. Describe the costs involved in setting up a new Enterprise branch.  
Costs include:
  - set up costs such as obtaining planning permissions and installing fixtures and fittings
  - fixed costs e.g. rent and utilities
  - variable costs such as staff salaries and the costs of maintaining the vehicles



## THE TIMES 100

### BUSINESS CASE STUDIES

3. Explain the benefits that firms like Enterprise hope to experience when making capital investments.  
Firms hope to increase revenues and/or reduce costs when making major investments, thereby increasing profits.
4. Evaluate the use of quantitative investment appraisal methods, such as payback, when Enterprise is making decisions about the location of new branches.
  - Quantitative methods are useful because they make comparisons between potential projects easier.
  - Investment appraisal techniques are scientific methods, which helps to rule out some degree of subjectivity
  - The use of investment appraisal means that decisions are not solely made on hunches of managers and directors.
  - However, quantitative methods are rarely used on their own and decisions should also take into account qualitative factors such as the aims and objectives of the firm, the effect the investment may have on the firm's reputation and the environmental and ethical impacts of decisions.
  - Other strategic factors are likely to affect decisions. For example, Enterprise may open up a new branch to keep competitors out of that market.

### Task

Year	Annual net cash flow £	Cumulative cash flow £	Discount factor (10%)	Net present value£
0	(150,000)	(150,000)	1.00	(150,000)
1	60,000	(90,000)	0.91	54,600
2	60,000	(30,000)	0.83	49,800
3	60,000	30,000	0.75	45,000
4	50,000	80,000	0.68	34,000
5	50,000	130,000	0.62	31,000
<b>Total NPV</b>				<b>64,400</b>

**Payback = 2 years 6 months**

### Average annual rate of return

Ave return =  $130,000/5 = £26,000$

**AARR** =  $26,000/150,000 \times 100 = 17.3\%$