

Investment Decision Analysis: A Case Of NESTLE

Chetin Ibraimi, MSc

University of East London, UK

Abstract: Investing decision It has to do with how a company's funds are to be invested in various assets so that the company can generate the maximum feasible return for the investors. Long-term investment decisions, commonly referred to as capital budgeting when funds are committed on a long-term basis, are possible.

In view of the recent investments being made by the multinational companies to meet up the company expectations of the desired outcomes, this study focuses on the recent investment made by Nestle. They have done this for coping up with the challenges from the pandemic and to save and secure the lives of the people who have been depressed with the lowering quality of their lives. Nestle has taken the initiative of investing about 9 million Pounds for creating new renovated posts for healthy job opportunities with the consideration of having much flexibility in the workplace and hours of work.

Keywords: Investment, Capital, Company, Risk, Factors

I. INTRODUCTION

This study evaluates the importance and the relevance of having this decision made by the company to invest such an amount amid such a pandemic with the help of their company standards. In addition to this, this information has been taken from their company website for getting the most authentic information on the aspects of their recent developments and the investments made. Moreover, it can be said that the major reason for the company to make such a decision of investing in the development of better recruitment strategies and placements will help the people around the world to regain their standards of living better.

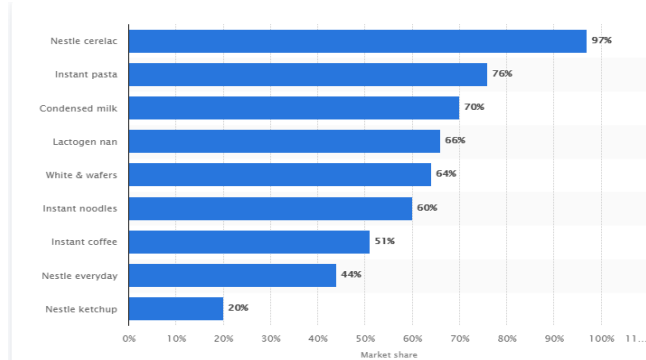
The study typically aims at the evaluation of the significance of having made this decision to measure its potential effectiveness in serving the organization and social goals of the company. In addition to this, the main objectives for the conduction of this study are to find the rationale behind the evaluation of Nestle and its investment into new recruitment after the recent pandemic. The objective that is followed by this is the evaluation of the methods used for the investment, evaluation of the factors about the investment and lastly justifying and studying the decision with the help of an academic theory.

The study will also provide a brief summarization of the entire study and a section for the recommendations for the improvisation of the decision that has been made by the company. Furthermore, the scope of this study lies in the fact that the evaluation of the recent decisions made by Nestle will help in gaining knowledge about the current situation and the needs of the business industry and society as a whole. Further, this information can be utilized by the industrialists and the society to improvise the worsening condition of lives and businesses after the pandemic.

II. COMPANY BACKGROUND

The company selected for the progression of this study is Nestle which is a multinational company originally founded in Switzerland. This company originally is a manufacturer of drinks and food as a conglomerate corporation headquartered specifically in Vevey, Vaud in Switzerland (Statista.com, 2020). The company was founded in the year 1866 by Henri Nestle and has been the largest company for food and drinks since the year 2014. The company has a large number of acquisitions like Maggi, Bar-One, Milky Bar, Kit-Kat and Milo. Moreover, the net sales of the company are 93,127

Million US \$ and made about 12.23 billion Swiss Pounds as profit in the year 2020 (Statista.com, 2020). In addition to this, the market share of the company varies with the categories it sells in the food items like 59.9% for instant noodles, 65.2% for instant pasta and 96.5% for Infant cereals (Nestle. in, 2021).



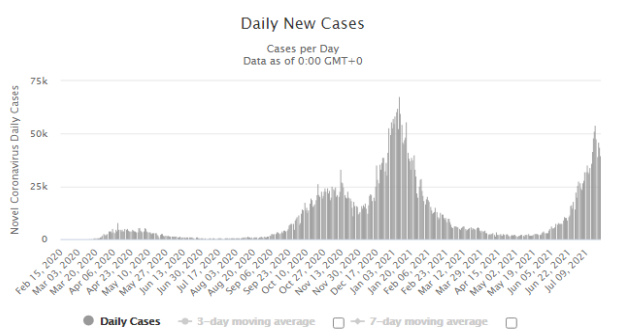
(Sources: Statista.com, 2020)

Figure 1: Market Share of products by category in Nestle

III. IDENTIFIES INVESTMENT MADE

In the context of progressing with the objectives of this study, the company that has been selected is Nestle which has been already discussed. In addition to this, the main aim of the study is the evaluation of therecent decision of investment made by the company. The decision by Nestle which has been decided to be evaluated in this study is the decision to invest about 9 million Pounds for upgrading their workplace with greener environments. This is for the enhancement of the natural inculcation of the minds of the workers to keep them calm and healthy.

Daily New Cases in the United Kingdom



(Source: Worldometers.info, 2021)

Figure 2: Daily cases of Covid 19 in the UK

The pandemic has caused people to realize the need for fresh air and oxygen with a majority of people succumbing to the loss of respiratory issues and shortage of oxygen. Having this into consideration, the authority of the company has decided to refurbish their office at the Nestle House at their York campus to create greener and more flexible working environments. This is also with the consideration that the people who have been attacked by the Covid 19 respiratory disease have the proper space for recovery in the presence of fresh and uncontaminated air.

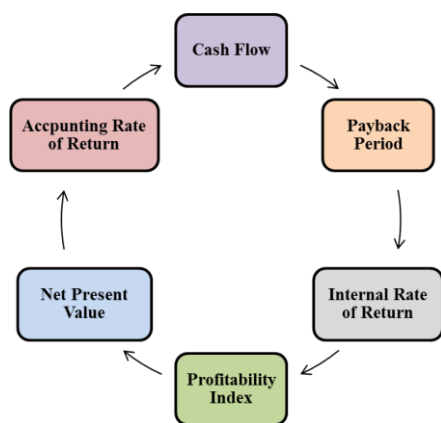
IV. RATIONALE FOR STUDYING THIS ASPECT WITH THE INVESTMENT MADE BY NESTLE

The decision of Nestle to renovate their workplace for having a healthy and green environment for the worker has been chosen for being studied for the issues that the level of air pollution in the UK was estimated to be about 351.5% in the year 2019. In addition to this, the recent pandemic has killed about 5, 602, 321 people within 2020 due to the loss of oxygen. At these times the society faced a huge crisis of natural and industrial oxygen (Worldometers.info, 2021). These issues were caused due to the disciplinary felling of trees and negligence towards the conservation of nature. Therefore, in the present times, the manufacture of high levels of oxygen is not feasible for the manufacturers considering the costs involved and the side effects of inhaling industrial oxygen by the recovering patients for a prolonged period have decided to plant more trees [Refer to Appendix 1].

V. CRITICAL DISCUSSION OF INVESTMENT APPRAISAL

The appraisal for an investment can be defined as the estimated value or profit that can be gained for a particular amount of investment made with the initiative for the improvisation of the organization. In this context, the company Nestle has decided to invest about 9 million Pounds for the improvisational techniques in the York campus for making it eco-friendlier and healthier for the workers there. In the specification, the campus at the Haxby Road site will be expected to be seen with extensive refurbishments with a varied and greener working environment (Nestle.co.uk, 2021). This has been decided to be with the incorporation of the traditional desk arrangement at the workplace with quieter areas for a peaceful working environment.

This will also help in the lesser building up of tensions and stress of working at noisy places leading to better focus and concentration. The appraisals emancipated from the investments made do not only include monetary returns; however, it also includes the factors like sustainability and mainly a process for taking the business forward in future (Muzurura, 2018). However, these plans had been made earlier and before the pandemic and the pandemic has proceeded that this was the perfect need of the hour to build an eco-friendly work environment for the workers of the company. This is in view of the increasing pollution and the health of the people getting degraded as a result of it. It has to be focused on the fact that a business can only survive with the survival of its employees and their well-being.



(Source: Created by Author)

Figure 3: Methods of Investment appraisals

Therefore, the survival and with more specification the wellbeing of the employees needs to be taken care of to gain the maximum amount of productivity for them. The derivation of maximum productivity and its sustainability will lead to future organizational goals of profit gain from the competitive market (Nestle.co.uk, 2021). Moreover, the workplace has been designed to be built in such a way that can be used as a flexible working place for emphasizing collaborative work for home and from the office. The new office with the refurbishment is to be opened by the January of 2022 with about 900 employees (Nestle.co.uk, 2021). This is the first major refurbishment of the Nestle office after 1969 and therefore, it is a major expectation to derive a good response from the employees and the people around. According to the CEO of Nestle, Stefano Agostini in the UK and Ireland has been looking forward to its opening as this office involves the major critical organizational functions and is associated with fundamentalism to the business and heritage of the company (Nestle.co.uk, 2021).

More than the gains of monetary returns they have been looking forward to gaining sustainability and a better reputation in society. Moreover, the alarming rates of air, water and sound pollution is the major concern that has been taken into consideration before the planning of this initiative. Energy-efficient energy sources like wind, hydro and solar energy have been planned to be used. Nestle has the goal of making efforts to reduce the emissions of greenhouse gases like Carbon Dioxide to about Net Zero by 2050 (Nestle.co.uk, 2021). It has also been found by their internal research team that about 60% of the desks were less likely to be used as the workers often move from one conference room to the other. Considering this, the number of desks has also been decided to be reduced. These initiatives will help the company gain a better reputation for having a decent CSR by making them sustainable in the competitive market.

VI. DISCUSSION OF THE METHODS OF APPRAISALS

The methods that are usually used by the financing manager in the process of making investments in the business include the Payback Period Method and Accounting rate of return method. According to Locatelli *et al.* (2017), this also includes the Net Present Value Method, Internal Rate of Return Method, Profitability Index Method and Discounted

Payback Period Method. Among these methods of appraisals from investments, the use of NVP is done with the positive consideration of the Net present value of the projects which is discounted from the cost of capital for the company at a discounted rate and it is acceptable in this case. In addition to this, the IRR is considered that all the projects have the potential to yield internal returns higher than the cost of the capital cost of the firm.

VII. FACTORS OF INVESTMENT DECISION AND FINANCING INVESTMENTS

Several factors are involved in the decision made for investments and financing by an organization. According to Bouzahir (2018), these factors include risk, costs, flotation cost, fixed operating cost, State of Capital Market; Return so Investments and the position of Cash Flow in the company. In this context, the *Cost factor* can be explained by the fact that a good finance manager mostly opts for investing in the cheapest source of financing for the raw materials. *The Risk factor* involves the associated risks that are potentially involved in each step of any kind of investment made like loss of information or monetary loss. Therefore, it has to be seen that the investments made need to have the least number of potentially associated risks.

In the case of *Flotation Costs*, the amount of debt needs to be lower than the source of finance to make it more attractive. *Fixed Operating Costs factors* explained that in a case where the company has a fixed operating burden higher in aspects like salaries, premiums, interest and rents it needs to reconsider its decision for avoiding the financing through debts. Duqi and Al-Tamimi (2019), comments that this is because these rates of premiums and rent in addition to the finances will lead to the overburdening of payments in the future by the company which will lead to a recurring amount to be paid. However, if the case is otherwise it can consider borrowing funds.

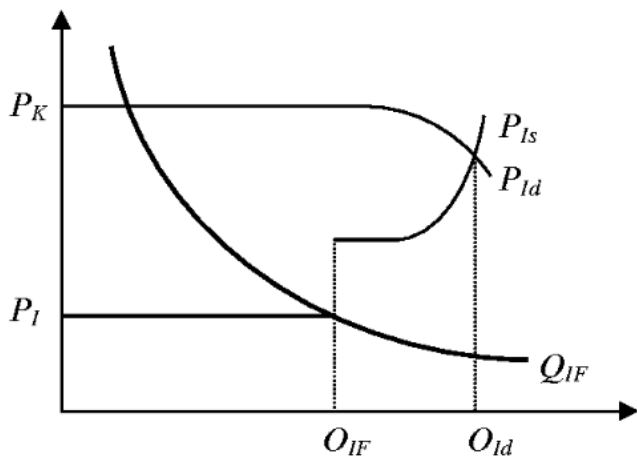


Figure 4: Factors of investment (Source: Created by author)

Moreover, as commented by Agrawal and Hockerts (2021), the *State of Capital Market* explains that if the rates in the stock market are rising it is easier for the companies to sell their services and products especially equity funds. However, if it is otherwise it gets difficult to do so and the company needs to consider opting for debt financing. *RQI or Return on Investment* involves the deciding criteria for the type of finance that is to be sourced by the company for having the maximum amount of profit in the future (Schoenmaker and Schramade, 2018). In this context, it can be said that if the RQI is higher than the cost of Debt the fund that has been borrowed needs to be used. This is because the pain interest might be deductible and it also helps in the increase of returns to the shareholders.

IX. THEORY APPLICATION IN EXPLAINING THE DECISION OF THE COMPANY

In the case of the decision of investment taken by the company for renovating the York campus to make it greener and sustainable, this section of the study has been evaluated critically with the *Financial theory of investment*. According to this theory, Andrei *et al.* (2019), comments that the companies do not have an unlimited supply of funds at any time at the market rate of interest. Rather, this can be explained as the finds being elastic. Therefore, it can be determined that the firms have the flexibility of borrowing any amount of funds from the market at whichever rate is feasible for them[Refer to Appendix 2].

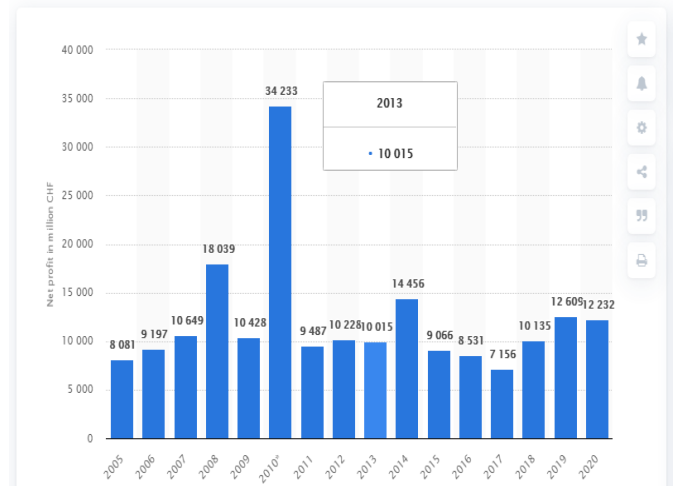


(Source: Andrei *et al.* 2019)

Figure 5: Financial Theory of Investment Graph

Therefore, this theory completely ignores the involvement of the cost of capital. Ogunlusi and Obademi (2019), commented that in the case of the investment made by Nestle, the process of renovation for the office environment to reduce the natural degradation and to improve the mental and physical health of their workers. Therefore, the direct investment appraisals, in this case, cannot be considered to be monetary. However, it does have appraisals involved including increased reputation, better CSR and monetary indirect appraisals for the reduction in cost by using natural sources of energy such as hydropower and wind power (Cnbc.com, 2021). Moreover, in the long run, as the theory suggests the funds in the market are flexible and elastic, the profit that will be gained from the renovation of the workplace by providing flexibility of work from home and at the office can be evaluated later. This is because it will save electricity, the cost of arranging 60% of the desks and the cost of commuting (Nestle.co.uk, 2021).

Net profit of the Nestlé Group worldwide from 2005 to 2020
(in million CHF)



(Source: Statista.com, 2020)

Figure 6: Net profit of nestle from 2005 to 2020

As commented by Mark Schneider, the investment made by the company in investing for the aid of climate change and sustainability will help in the attraction of consumers and employees. This is because the CEO has opined that the people in the contemporary world desire better prospects from their corresponding business firms in terms of knowing that they are treating the planet well (Cnbc.com, 2021). It has been found from other sources of the company websites and bibliographical sources that Nestle has taken far more initiatives and investments for the earlier mentioned aim of reducing the emission of greenhouse gases by net-zero by 2050 (Nestle.co.uk, 2021). These initiatives by the company have been successful and they are religiously working towards the achievement of it. These initiatives include the complete use of sustainable energy by the year 2025 for which they have planned to plant about 20 million trees each year (Insidermedia.com, 2021). It has been reported that the company has seen organic growth in recent years by about 7.7% which was double what was expected at 3.3% (Statista.com, 2020). In addition to this, it has also been found from the esteemed daily that the total revenue of the company in comparison to the pre-pandemic time was about 5% higher than \$23 billion in 2019. It rose by about 2.38% with a closing session of around \$119.71(Cnbc.com, 2021).

X. CONCLUSION AND RECOMMENDATIONS

The consideration of objectives that had been followed to be evaluated in the introduction of this study has been accurately met in the entire study. For instance, the first objective of this study was to evaluate the rationale for selecting the company Nestle and the decision of investment in sustainability. This has been met in the study appropriately with the statistical information of the issues for which this aspect of conservation of nature is necessary. This is followed by the next objective which is to evaluate the methods used for the investment; this has been done with the consideration of methods like *IRR* and *NPV*.

These methods are then discussed with the valuation they incur on the investments made by the financing manager in the business organization. The third objective is the evaluation of the factors of the investment which has been discussed with several factors like *RQI or Return on Investment* and *Fixed Operating Costs factors*. Lastly, justifying and studying the decision with the help of an academic theory is the objective that has been done with the consideration of the *Financial theory of investment*. This section is justified with the company information, news for the reputed newspapers for making the study justified and accurate with authentic information.

The study above involves the evaluation of the multinational company Nestle is a multinational company that has taken the initiative of investing 9 billion Pounds for making the workplace greener. This has been done for the employees who have lost quality of health due to the lockdown and being affected by the COVID-19 virus. It has been found from the study above that the company will be able to reduce the emissions of greenhouse gases all over the world by this initiative. It has been found from the above study that the company can help in the moral and environmental appraisal of the company from this investment.

The appraisal that the company is looking forward to from this kind of investment is the building up of a greener, kinder and more sustainable planet and business. They have taken the initiative of using renewable sources of energy like hydro, air and solar power. These are for heating, lighting and cooling required in the building in the process of conserving the natural sources of energy which might exhaust shortly without necessary precautions. In addition to this, there could have been better initiatives made by the company which has been listed below as recommendations:

- ✓ The workers in the institution need to be trained and made aware of the new changes made in the company of offering the combination of work from home and office at an occasional frequency (Estrada Najar, 2021).
- ✓ The portfolio of investment needs to be updated and rebalanced regularly (Wahyudi *et al.* 2020).
- ✓ The long term investment needs to be accurately taken care of for the benefits that it is leveraging (Sun and Feng, 2021).

REFERENCES

- [1] Agrawal, A. and Hockerts, K., 2021. Impact investing: review and research agenda. *Journal of Small Business & Entrepreneurship*, 33(2), pp.153-181.
- [2] Andrei, D., Mann, W. and Moyen, N., 2019. Why did the q theory of investment start working?. *Journal of Financial Economics*, 133(2), pp.251-272.
- [3] Bouzahir, B., 2018. Venture Capitalists' Investment Decision Criteria for New Ventures: An Exploratory Study in Morocco. *Is Ahlaki Dergisi*, 11(2), pp.151-163.
- [4] Cnbc.com, 2021, Nestle CEO says business case for sustainability emerges as consumers demand it more than before. Available at: <https://www.cnbc.com/2021/04/22/nestle-ceo-the-business-case-for-sustainable-investing-is-emerging.html> [Accessed on: 21st July, 2021]
- [5] Duqi, A. and Al-Tamimi, H., 2019. Factors affecting investors' decision regarding investment in Islamic Sukuk. *Qualitative Research in Financial Markets*.
- [6] Estrada Najar, V., 2021. Deep reinforcement learning and signal processing applications for investment strategies (Bachelor's thesis, Universitat Politècnica de Catalunya).
- [7] Insidermedia.com, 2021, NESTLÉ REVEALS PLANS FOR £9M REFURBISHMENT OF YORK OFFICES. Available at: <https://www.insidermedia.com/news/yorkshire/nestle-reveals-plans-for-9m-refurbishment-of-york-offices> [Accessed on: 21st July, 2021]
- [8] Locatelli, G., Pecoraro, M., Meroni, G. and Mancini, M., 2017. Appraisal of small modular nuclear reactors with 'real options' valuation. *Proceedings of the Institution of Civil Engineers-Energy*, 170(2), pp.51-66.
- [9] Muzurura, J., 2018. Firm-level investment decisions under uncertainty and irreversibility in Zimbabwe's private firms. *International Journal of Business, Economics and Management*, 5(6), pp.201-218.
- [10] Nestle.co.uk, 2021, Nestlé offices to undergo £9 million upgrade to create new post-pandemic workplace. Available at: <https://www.nestle.co.uk/en-gb/media/pressreleases/allpressreleases/nestle-offices-undergo-9-million-upgrade-create-new-post-pandemic-workplace> [Accessed on: 21st July, 2021]
- [11] Nestle.in, 2021, About us. Available at: <https://www.nestle.com/aboutus> [Accessed on: 21st July, 2021]
- [12] Nestle.in, 2021, Good Food, Good Life. Available at: <https://www.nestle.in/> [Accessed on: 21st July, 2021]
- [13] Ogunlusi, O.E. and Obademi, O., 2019. The impact of behavioural finance on investment decision-making: A study of selected investment banks in Nigeria. *Global Business Review*, p.0972150919851388.
- [14] Schoenmaker, D. and Schramade, W., 2018. Principles of sustainable finance. Oxford University Press.
- [15] Statista.com, 2020, Market share of Nestle in 2020, by product. Available at: <https://www.statista.com/statistics/1190357/nestle-market-share-by-product/> [Accessed on: 21st July, 2021]
- [16] Statista.com, 2020, Net profit of the Nestlé Group worldwide from 2005 to 2020. Available at: <https://www.statista.com/statistics/268889/net-profit-of-the-nestle-group-worldwide/> [Accessed on: 21st July, 2021]
- [17] Sun, T. and Feng, Q., 2021. Evolutionary game of environmental investment under national environmental regulation in China. *Environmental Science and Pollution Research*, pp.1-12.
- [18] Wahyudi, S., Hasanudin, H. and Pangestutia, I., 2020. Asset allocation and strategies on investment portfolio performance: A study on the implementation of employee pension fund in Indonesia. *Accounting*, 6(5), pp.839-850.
- [19] Worldometers.info, 2021, United Kingdom. Available at: <https://www.worldometers.info/coronavirus/country/uk/> [Accessed on: 21st July, 2021]