

Assignment Two: Memo

Due Date: Monday 17th May 2013, at 11:00a.m.

Weighting: 30%

Word Count: Maximum of 2000 (excluding references)

EGCM Ltd, a metal manufacturing company, wants to invest \$20000 in developing their production capability, and there are two proposals that they are considering. They are seeking your advice as an external consultant on which proposal is the better investment. Write a **memo report** to the Director of EGCM Ltd, to present your financial and non-financial analysis. Use the following information:

- *Proposal A* requires an investment of \$20000 and should have a positive net cash flow of \$3200 annually for the first seven years.
- *Proposal B* requires an investment of \$20000 and estimates net cash flows of:
 - Year 1 -\$ 2000
 - Year 2 \$ 2675
 - Year 3 \$ 3200
 - Year 4 \$ 4550
 - Year 5 \$ 6550
 - Year 6 \$ 7000
 - Year 7 \$ 8000

(i) How do the projects compare using the payback method?

(ii) Assume that by investing \$20000 cash in the stock market, EGCM can be certain of a 10% rate of return. Now calculate the NPV of proposal B using 10% as the discount rate. Note: Use the discount table supplied if you wish.

(iii) EGCM have listed the evaluation criteria they consider important, assigned weightings to them and also scored both proposals using a 7 point rating scale. Use the data from the following table to compare the two projects.

Criteria	Weighting	Scores for proposal A	Scores for proposal B
Strategic fit	0.25	4	6
Time to market	0.12	5	5
Profitability	0.20	3	4
Quality	0.15	5	3
Reliability	0.18	5	4
Maintainability	0.10	2	3

(iv) Once you have carried out these assessments, submit your report to the Director of the company discussing what project you would advise them to choose and why. Your analysis should include discussion of the various techniques you used, and provide information on the assumptions, advantages and disadvantages of them. It is important that you also advise EGCM of other financial and non-financial approaches that could be applied and their respective advantages and disadvantages. References from beyond the course material are expected.

What I expect from you: Describing it as a memo means that I expect you to structure it around a number of very clear and self-contained paragraphs/calculations. Unlike most business memos I expect you to support your arguments with reference to research that support them.

Submit your assignment via stream before 11am on Friday 17th May 2013. **Please do not submit a .pdf file** as we are likely to mark online and wish to comment in appropriate places.