THE TIMES 100

McCain summary

Introduction
McCain Foods is the worldôs largest frozen chip manufacturer. Around 45% of frozen potatoes sold in the UK are made by McCain, making it the clear market leader. Producing on such a large scale means using a lot of energy so McCain has set up two projects to reduce the amount of gas and electricity it has to buy from energy suppliers. The two projects are a wind turbine system and a wastewater treatment plant. These projects are designed to produce renewable energy, so are more environmentally sound. One reason for these innovations is to reduce costs. McCain has fixed costs (also called overheads) that must be paid whatever the level of production. Variable costs, like labour and raw materials, are directly linked to the amount of goods produced. The other reason is to help demonstrate McCainôs corporate social responsibility.

Investment
Profit is sales revenue minus costs. Taking fixed costs from gross profit gives a figure for net profit. This represents the cash flow to the business. McCainôs two projects cost £15 million to set up. The company therefore needed to evaluate the financial benefits of the projects. The projects have cash flows out (the cost to build and run them). These can be measured against estimated savings (cash flow in) to decide if the projects will give a return on investment.

Investment appraisal
This is a way to find out if an investment is worthwhile. There are several methods:

- Payback ï this is a calculation of the time it takes for the original cost to be paid back through savings. The two projects both paid back investment in around 4 years. This is a simple way to measure investment efficiency.
- Average Rate of Return (ARR) ï this shows the expected average return over the life of the project as a percentage of the original cost. This helps McCain to compare projects against each other.

Discounted cash flow
Discounted cash flow takes into account the effect of time on an investment. For example, £100 invested at 10% yields £110 in a year. Put another way, £110 in a yearôs time is worth £100 today - therefore £100 is worth £90.90. This is the net present value (NPV). It shows the return on the project less costs. It also shows how the rate of return depends on interest rates. Internal Rate of Return (IRR) considers other variables and shows whether the business is better risking money on a project or putting it in the bank.

Investment for sustainability
McCain Foodsôcalculations demonstrate that the projects are worth doing. The wind turbine project will reduce CO2 emissions, produce 60% of its power requirements and reduce the use of other power sources. The wastewater lagoon will provide power through the capture of methane gas. Using renewable energy underlines McCainôs commitment to the environment.

Conclusion
McCain needs to know that it will get a good return on its investments. It can do this by calculating rates of return. However, it has switched energy supply or treated wastewater not just to reduce costs, but also to show its commitment to the environment.

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