Analyzing which company among Tesco and Amazon is more profitable for investment

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ABSTRACT

In all companies it is important to examine that maximum profitable investment return attracts the shareholder and investors to invest their hard-earned money. In this research, it is analysis between Tesco and Amazon has been performed to determine which is more profitable for the investment. To understand this, there is a need to compare different ratios and analyze them effectively so that decision related to investment in a particular company can be focused (Baud and Durand, 2021). In this study, data has been collected from financial statements and comparison is calculated which help to make an informed decision. In this report, quantitative research is being conducted in which ratios analysis methods are being used and it is conclusive. The sampling method is random sampling where a large representative sample will be chosen to come closer to the results. In this primary research will be used in which data from the direct sources are chosen and also consider the secondary that will involve articles, reviews, and books in the literature review.

Keyword: -*Company, Profitable, Analysis, Investment, Financial*

Introduction

Amazon and Tesco both are multinational companies andhave a very big market in different countries and are also known for their product and services. To make any investment in any of the big companies this is necessary to examine their overall profitability and sales and what are their returns to their shareholders and investors are also matters a lot. If any company is good in terms of investment and returns then it will be a positive sign for their investors and shareholder and they will be more interested to invest in that company to earn more profits and returns. Every company needs to give and offer the best returns and investment policy so that they will be attracted and connected more with the company. Higher returns will grab the attention of more investors and it will also be very beneficial for the company to get more investments. In this competitive market, better investments and lower risk is the plus point for the shareholder as they want higher profit at lower risk and for that, they examine the fundamental financial performance of the company(Flanding, Grabman and Cox, 2018).

To identify which company is giving higher returns or much safer for the investors then they calculate and understand the ratio analysis of both companies and then compare with each other. To make it more clear the following ratios that will be beneficial to calculate are earning per share, debt-to-equity, return on equity and return on investment are some ratio that helps the investor to take the right decision about their profitability on the investment. Through this research,it will help in analyzing the profitability of the ratios and what were are the important decisions that could be taken to select the company for a better investment. Being in the competitive market, these ratios help in developing unbiased decisions as investors will not choose according to other factors but rather will choose through their financial performance and position last year. Ratios analysis comes under the technical analysis which ensures more accurate and reliable decisions and does not give a false representation of the company. This research study helps the investors and shareholders to examine which company is performing better and will be more profitable in terms of investment so that they will be happy and satisfied. Collecting data and then analyse them make it easy to make informed decisions which big advantage for this study(Erdmann and Ponzoa, 2021).

Literature review

According to Luisa Cheshire, (2021), observed that Amazon will overtake Tesco as the largest retailer inthe UK in the next few years. As the sales of Amazon UK was 36.3 billion pounds and Tesco has almost doubled which is 64 billion pounds. It comments on the rise of online grocery in the UK will help Amazon to give tough competition to Tesco. There is observed that online shopping is being in increasing in the UK in the last few years and there will be bigger scope for e-shopping platforms. Although physical channels will remain in the market and there will be more demand on online selling and purchasing to grab the opportunities in the UK market.

From the point of view Annie Palmer, (2022), Amazon has become a big player in the online platform and has spent almost three decades to be perfect in the market by providing the fastest delivery at the lowest possible price. It could possible through using the best technology and to be no.1 in the market to bring into it. It introduced many services such as Prime Now, Fresh, Go and others to provide different services to the customers. Being innovative and competitive it still comes under niche markets and is not able to scale up into other businesses. Jeff Bezos come up with new strategies and tactics that help Amazon to stand out in the market and boost its sales in recent years. This article, tells about the ups and downs that have been faced by the company to be a giant company at the international level.

According to the Roy Capon, (2021), discusses that there is the possibility that Tesco could beat Amazon through its effective strategies and innovative methods. As Tesco is about to open a check-out-free store at the end of the year and that is showing early signs of success. In this way, Amazon has not been able to give competition with Tesco in this innovative and different way. Tesco is continuing to come up with something innovative in its business and a legacy of ‘bricks and mortar retailer. Also, there are many other ways through which Tesco is a much better option than Amazon such as a better-in-store experience that truly believes in a customer-centric approach.

From the point of view of Isabael Cameron (2021), expressed that e-commerce and big companies like Tesco and Amazon offer a hassle-free, seamless shopping experience that provides many benefits to the customers. There is a difference in the product and services and offering manyvarieties of grocery and household items which are wider and more accessible. There is tough competition between these two giant companies and which leads to confusion that which one is better as both companies are excellent in their field.

Research Methodology

In this research, a qualitative methodology has been collected in which data from the financial statements such as income statements, balance sheets, and cash flow statements. This will help in measuring the results of the study in a very reliable manner as it is confirmatory and to test the relationship between the two variables or to test the set of hypotheses. The data collection method used in this company is through the records and documents of the selected companies that will help income to the conclusion and could analyse the result of the study.

Research objectives

1. To find out the best suitable company that provides the more profitable investment.
2. To examine which company is performing better than others in terms of sales and revenue so that they could provide better options to the shareholder and investors.

Research aim

To analyzing which company among Tesco and Amazon is more profitable for investment.

Research design

Research design is the framework of the research methods and techniques that are chosen by the researcher. Design helps in selecting suitable methods for the subject matter. In this study, a Descriptive research design has been chosen that is interested in describing the case under the study research study. It is conducted through collecting the data from the financial statements of both companies and then comparing with each other that gives a clear view about the situation and then conclude. This helps the researcher to provide an understanding that requires in the research and helps in developing the knowledge in the researcher. As in this research gathering, analyzing, and presenting the collected data assist to access the aim of the study(Gamage, 2020).

Sampling method

In this research simple random sampling method has been chosen that refers to the entirely by chance and each member of the population has an equal chance or probability for being selected. This method helps in analyzing the sampling error and reduces the biases in the selection as this is the most straightforward method of probability sampling. This will help the researcher to complete the selection frame and also easy to select the sample as it gives to a chance to everyone(Gu, Madio and Reggiani, 2019).

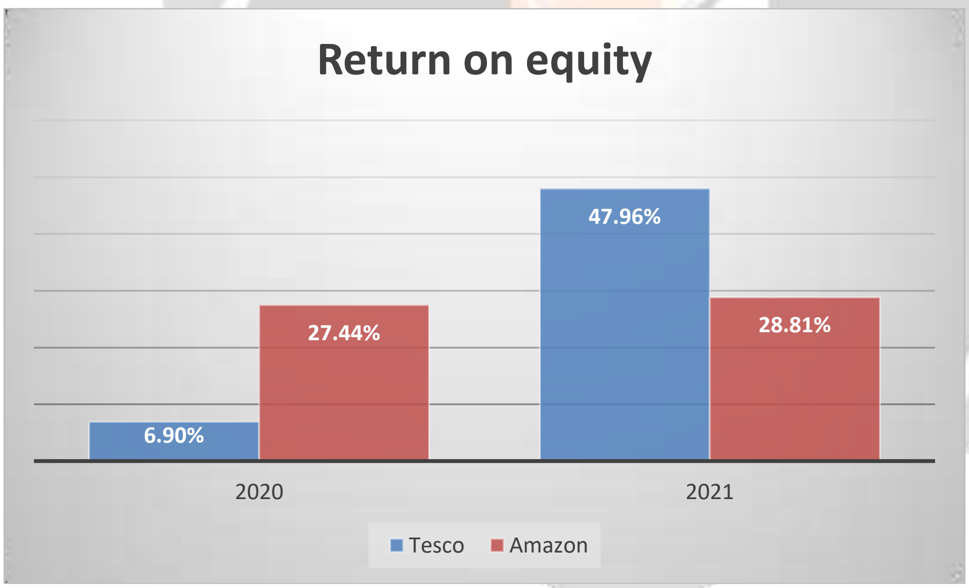
Data analysis

To analyze the profitability for investment ratio analysis is being chosen to examine their efficiency and overall performance. The following ratios are as follows-

Return on equity

ROE = Net income / Shareholder's equity

Particulars	**2020**	**2021**
Tesco	6.90%	47.96%
Amazon	27.44%	28.81%

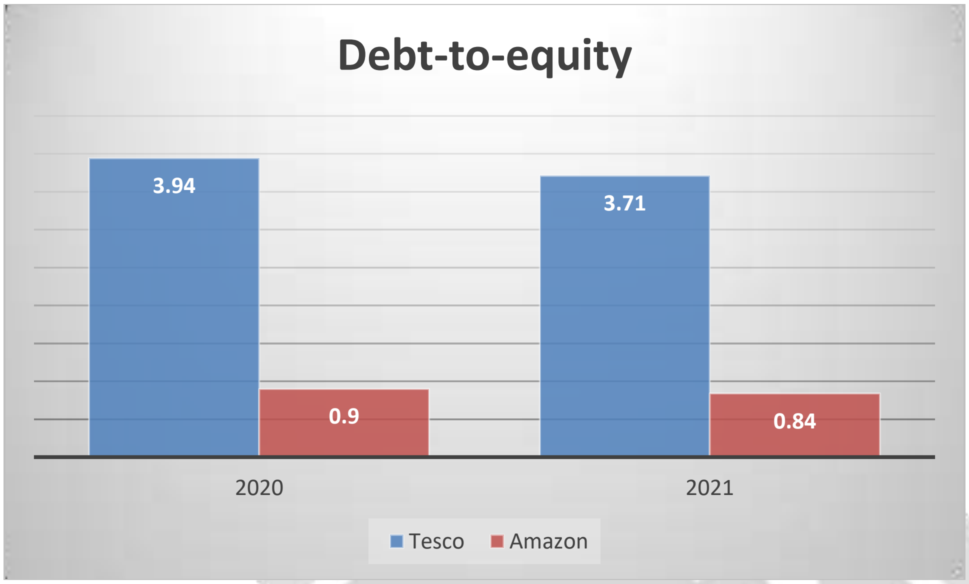


From the above chart, it is observed that in 2020 Tesco ratio was very low as compared to Amazon and in 2021 it has increased which is more than the Amazon ratio. This shows that Tesco has performed well as compared to Amazon as it helps the investors to understand how efficiently company has used its capital to make a profit(Yue, 2021).

Debt-to-equity

D/E = Total Liabilities / Total equity

Particulars	**2020**	**2021**
Tesco	3.94	3.71
Amazon	0.9	0.84

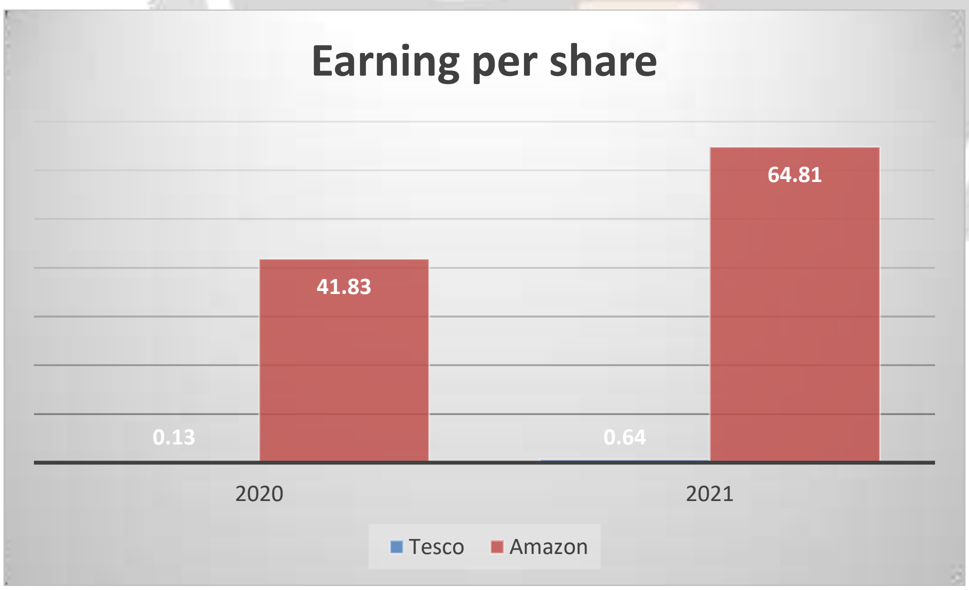


From the above table's chart, it is observed that Tesco has a higher ratio in both years and Amazon has a lower debt to equity ratio in both years which is a positive sign as it indicates that company has lower debt. From the perspective of investment, an investor will consider Amazon over Tesco because it has a lower ratio which is good for the shareholders and investors. A company, should have a minimum ratio that helps in attracting investments(Lukic and Lalic, 2019).

Earnings per share

EPS = Total earnings / Outstanding shares

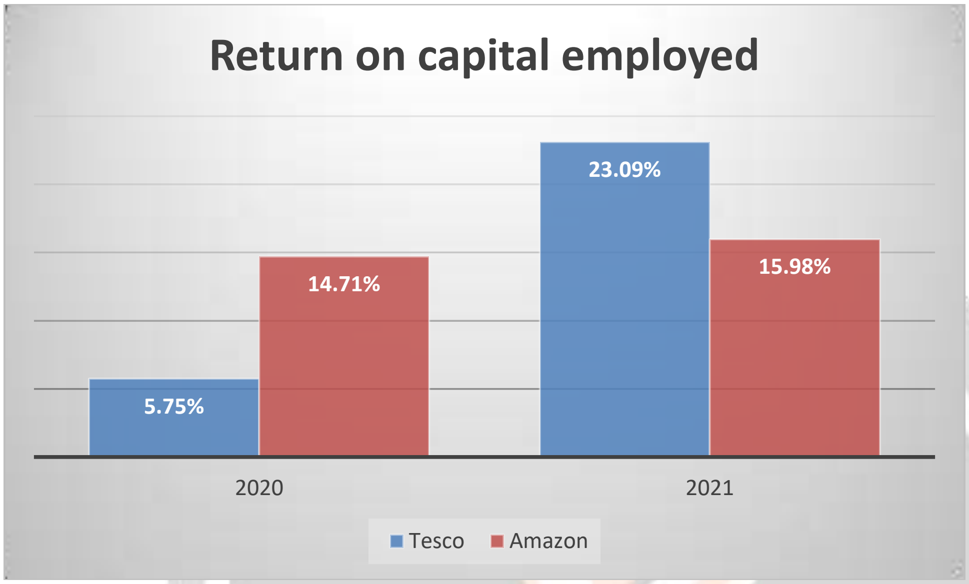
Particulars	**2020**	**2021**
Tesco	0.13	0.64
Amazon	41.83	64.81



From the above charts and tables, it is observed that Amazon has achieved higher earnings per share in both years and Tesco has achieved lower ratios which are not good from the perspective of investors and shareholders. It indicates that the company is more profitable and has able to profits to distribute to the investors. This is the first thing that everyone uses to consider these ratios as it tells the profitability and efficiency. So, from these ratios, it was observed that Amazon has better conditions than Tesco(Monte, 2021).

Return on capital employed
ROCE = EBIT / Capital Employed

Particulars	2020	2021
Tesco	5.75%	23.09%
Amazon	14.71%	15.98%



From the above table and charts, it is observed that Tesco has increased the ratio from 2020 to 2021 and Amazon has also improved in these years. The major improvement is shown in Tesco which is a positive sign for the investors. A higher ROCE tells that a larger part of the profit can be invested back to the company for the benefit of the shareholders and investors. So, this shows that Tesco has emerged as a successful growth company(Putra and Muzakir, 2020).

Discussion and Conclusion

From the above research report, it is discussed which company among Amazon and Tesco is more profitable for the investment for the shareholders and investors. To understand it, the ratio analysis method has been used in which some ratios have been calculated such as Return on Capital employed, Debt-to-equity, Earning per share, and Return on equity. Through these ratios,the researcher can conclude which company is more profitable and efficient for the investment purpose. These become very important for investors and shareholders to examine the profitability and effectiveness of every company in which they are investing their money so that they could give them efficient profit and high return in a short period.

After analyzing relevant ratios it is concluded that Amazon is a much more profitable company than Tesco because in most of the ratios Amazon has performed much better than Tesco. Through analyzing some ratios it could be seen that Amazon is much more suitable and it should be the best option for the investors and shareholders to consider the investment proposal. In Return on equity, Amazon has attained higher ratio which indicates to the investors how efficiently a company is making a profit and through this, it could be said that Amazon is the right option in this way. Also, in the debt-to-equity ratio, Amazon has achieved a lower ratio which is a good sign for the investors as it shows that the company has lower debt and is less risky for the shareholders. These ratios will be very helpful for the perspective for the investment purpose as it helps in taking the right decision and also tells about the overall efficiency of the companies. It is like an indicator for the external factors like competitors, customers, suppliers, investors, shareholders, and government to analyze the performance of the company effectively through different ratios. In this research study also, the conclusion has been drawn after calculating the ratios of last two years of both companies and it also facilitates to compare with each other. From the above data analysis, it becomes clear that ratios give the understanding to choose the best option from among the companies. So, Amazon has been able to build that confidence among the investors and shareholders that it is a suitable choice for the investment and will going to give better returns with less risk which is an advantage for the investors.

Limitation and Future scope

Limitation of study

In this study, limited resources are available as there is a lack of data which is a significant obstacle in the research. Apart from the financial statements, there is no other reliable data is available. Also, another method could be used to analyse the profitability of the investment. Theuse of single method wills not accurate and reliable results to the research of the study.

Future scope of the study

This researchwill be more focused on the other findings through statistical methods and other models and techniques that will help in examining more clearly in this study. Also, more types of ratios will be calculated that give an idea about other proficiency of the company. Some methods related to the statistical tools will also help in understanding the concept of this study(Naveed, Watanabe and Neittaanmäki, 2018).

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