


Greetings: My name is **Ron Hequet**; Consultant and Speaker; **Contributing Author – American Management Association, 'Leading & Learning Ezine', 'Affluent Magazine', 'The Advisor' and Presenter for ExecSense Webinars.**



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## ROI Basics ©

By

**Ron Hequet**

Determining **Return On Investment** is a very important part of any analysis of past performance or when considering new decisions, whether it is marketing, sales, technology or talent. One of the first ROI basics is; if you can't quantify it, don't invest in it. Intrinsic value is beyond basics and another subject for another day.

A basic Investment Percentage Return (IPR) approach is outlined here to determine a return on investment.

### 1. **Compute All Costs And Expenses Linked To An Investment, Plan, Program, Etc.:**

- ✓ Initial costs?
- ✓ Ongoing costs?
- ✓ Hidden or tax consequences?
- ✓ Due diligence?
- ✓ Time vs. Opportunity?

### 2. **Compute Return Probability:**

Determine what will be returned, i.e. money, time, exposure, productivity, etc. Include the time line as to when the returns are expected, to what extent and an expected end date, unless the benefits are anticipated to always be there.

### 3. **Compute The Timeline:**

In sequential order chart steps 1 and 2. Any plan or calculation of ROI must be

documented, even if you use a simple T account method.

### 4. **Compute the IPY:**

If all or part of any investment return is expected in terms of money, the amount is fairly easy to compute:  $(\text{Return } \$ / \text{Initial } \$) ^{(365 / \# \text{ days})} - 1 \times 100 = \text{IPR}$

If all or part of any investment return is not money but yet quantifiable, i.e. time, productivity, etc. first translate the return to dollars and then the above formulae can be applied. For returns of value that are more complicated, it is still possible to compute, but would be beyond basics.

### **For more information and real world examples, contact...**

Ron Hequet,  
Principal  
800.350.5700

[Ron@ActumConsulting.com](mailto:Ron@ActumConsulting.com)

Web: [www.ActumConsulting.com](http://www.ActumConsulting.com)

Blog: [www.ActumConsulting.com/blog](http://www.ActumConsulting.com/blog)