

Tom Bronson

measure

ROI

on everything

Why Business Owners
Need to Measure ROI

Every business owner in the world should be able to clearly communicate ROI (Return on Investment) on every penny they invest or spend in their businesses. Why?

ROI is a mindset. As a business owner, you make a thousand decisions weekly, sometimes daily. ROI needs to be a part of your decision-making process because it is the best way to build long-term sustainable growth.



ROI

Return-on-investment,
investment that is inten

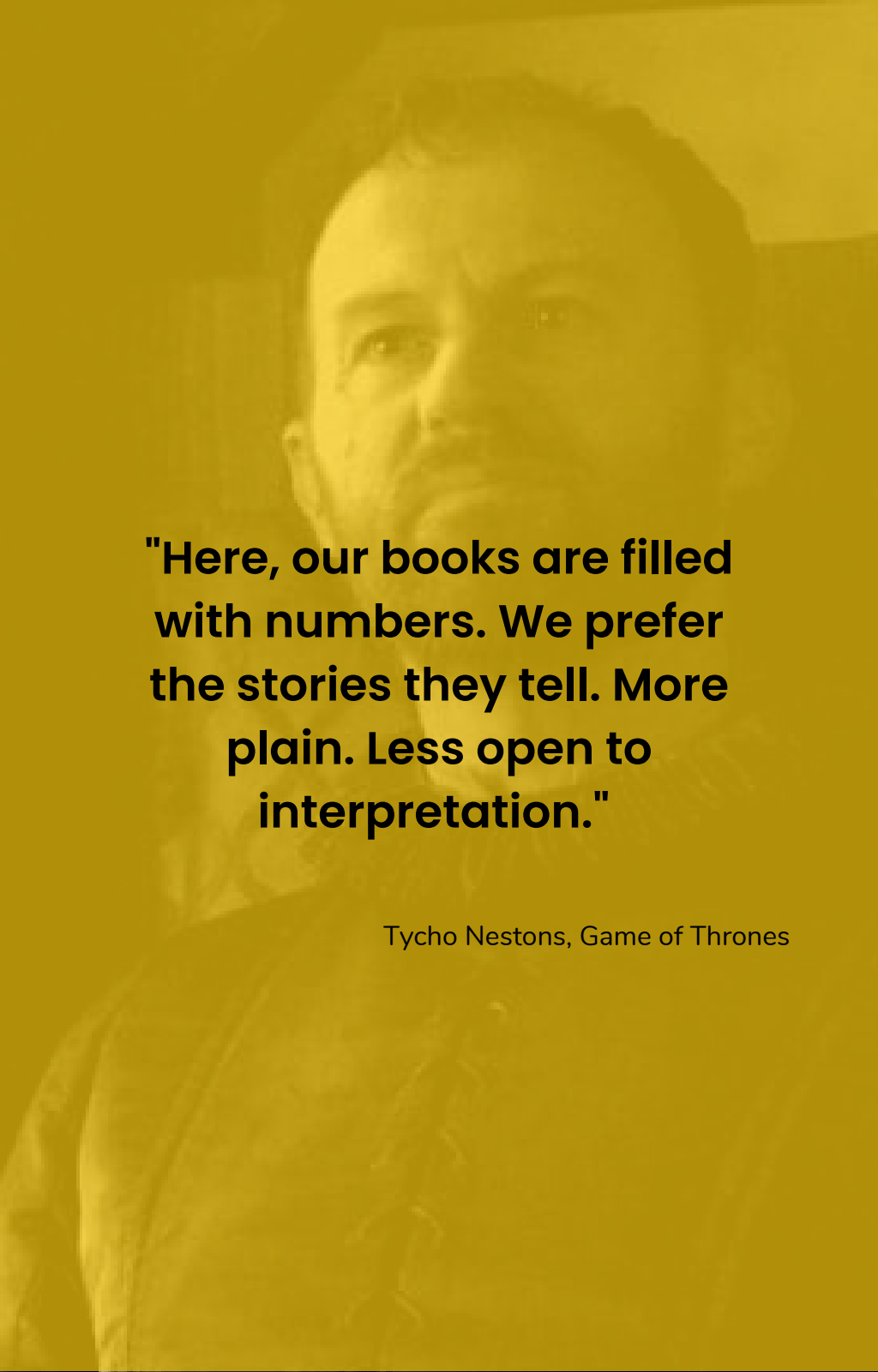
What is ROI?

Return on investment (ROI) is a financial measure that shows the percentage return on an investment relative to the investment's cost.

How do you calculate ROI?

There are multiple methods for calculating ROI. The most common is net income divided by the total cost of the investment or $ROI = \text{Net income} / \text{Cost of investment} \times 100$.

For example, a business owner invested \$90,000 into new software for his team and spent an additional \$10,000 incorporating it into the culture of the business. The total cost would be \$100,000. That investment generated \$200,000 in revenue and saved over \$100,000 in payroll hours because of the software's efficiencies. The net profits would be \$200,000. Using the formula above, ROI would be \$200,000 divided by \$100,000 equals 2, which, expressed as a percentage, is 200%.



**"Here, our books are filled
with numbers. We prefer
the stories they tell. More
plain. Less open to
interpretation."**

Tycho Neston, Game of Thrones



One of my favorite quotes from Game of Thrones is, "Numbers don't lie. We like the stories they tell." Determining the Return on Investment forces you to do the math. Everything has value. That is why I would travel over eight days across the country to hold Christmas Parties with our remote teams. The investment was significant - time, travel, parties, payroll. We spent about \$100,000 all in. But what was the ROI?



The return on showing my team how valuable they were to the organization and me yielded increased productivity, revenue, employee engagement, and retention. My math gave me a return of \$500,000 conservatively or an ROI of 500%.

Here are some ways business owners can use ROI to measure the performance of various aspects of a business, including:

Marketing

ROI can be used to measure the effectiveness of different marketing strategies and campaigns. For example, a business owner might compare the ROI of advertising on social media versus advertising through a local company to see which strategy offers the highest return.

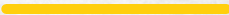
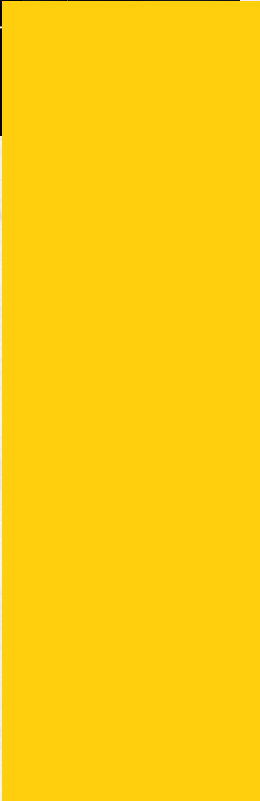
You can think of it like this... a business sells hand-knitted mittens online. They launch a social media marketing campaign to promote their mittens online. They spend \$1000 on the campaign, which includes creating ads on social media platforms, and promoting posts.

In the end, the campaign generates \$4,000 in sales. Therefore, the marketing ROI for this campaign would be calculated as follows: $(4,000 - 1000) / 1000 = 3$. This means that every dollar the business spent on the campaign generated \$3 in return. This excellent marketing ROI indicates that the campaign effectively drove sales for the hand-knitted mittens.



Sales

ROI can be used to measure the effectiveness of different sales strategies and tactics. For example, a business owner might compare the ROI of different sales training programs to see which one provides the highest return on investment.



Operations

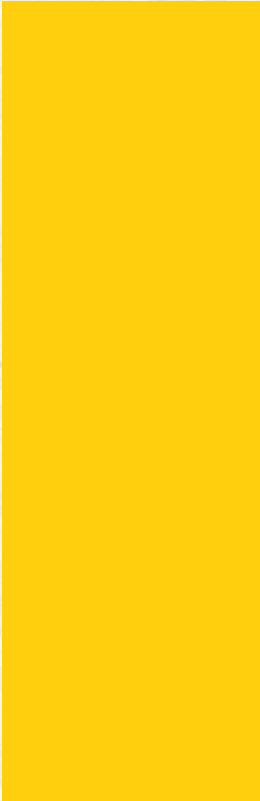
Operations ROI measures the efficiency of different operations within a business. It is calculated by dividing the benefit or return of an operation by the cost of the operation and expressing the result as a percentage.

EVERYTHING in your business should be evaluated on the return on investment. I did this in all my businesses, even down to toilet paper. There is a definite ROI on providing toilet paper and even coffee for your employees.

By measuring the ROI of different operations at an intense level, business owners can more easily identify areas where they can invest in improving efficiency and increasing profits. For example, a business owner might compare the ROI of different production methods or supply chain strategies to see which provides the highest investment return.

There are a few key ways that business owners can use operations ROI to maximize efficiency and maximize value for their business:

- Identify process inefficiencies: By analyzing the ROI of different department operations, business owners can identify areas where they are not getting the best return on their investment. This can help them identify process inefficiencies and opportunities for improvement. One of the biggest process inefficiencies I have experienced is waiting.





What do I mean by waiting? If employees are waiting for resources or approvals before completing their work, it can lead to significant delays and process inefficiencies.

- Compare the ROI of different operations: By comparing the ROI of different operations, business owners can choose the ones that offer the highest return relative to their cost. This can help them allocate resources more effectively and focus on the operations that are most valuable to the business.
- Monitor and track operations ROI over time: By regularly monitoring and tracking the ROI of different operations, business owners can adjust their strategies as needed to ensure they are maximizing their return on investment.
- Invest in technology and automation: By investing in technology and automation, business owners can potentially improve the efficiency of their operations and increase their operations ROI.

Overall, operations ROI can be a useful measure for evaluating the efficiency of different operations within a business and making informed decisions about where to allocate resources.



Investments

ROI can be used to measure the performance of different investments, such as investments in new equipment or real estate. By comparing the ROI of different investments, business owners can choose the ones that offer the highest return relative to their cost.



Don't put all your eggs in one basket. Much like individual investments, a business must also measure its ROI on investments. Does the investment in leasing out real estate or investing in new machinery yield a greater return for your business? These are essential factors to consider.



Projects

ROI can be used to measure the performance of different projects within a business. For example, a business owner might compare the ROI of different research and development projects to see which offers the highest investment return.

What can a business owner do to maximize your ROI on projects?



- Set clear goals and objectives: By setting clear goals and objectives for each project, business owners can better measure the ROI of each project and determine whether it is meeting its objectives. This can help them identify opportunities for improvement and adjust their strategies as needed.
- Monitor and track project ROI over time: By regularly monitoring and tracking the ROI of different projects, business owners can adjust their strategies as needed to ensure they are maximizing their return on investment. This can help them identify areas where they are not getting the best return on their investment and make changes to improve the ROI of the project.
- Seek expert advice: Business owners may want to seek expert advice, such as from a project management professional, to help them make informed decisions about projects with a high ROI. This can help them identify best practices and avoid common pitfalls that can impact the ROI of a project.

- **Identify and eliminate waste:** By identifying and eliminating waste in the project process, business owners can potentially improve the ROI of their projects. This might involve streamlining processes, eliminating unnecessary steps, or finding more efficient ways of completing tasks.
- **Allocate resources wisely:** By prioritizing projects with a higher ROI, business owners can allocate their resources more effectively and create value for their business over time.

By following these steps, business owners can potentially maximize the ROI of their projects and create value for their businesses.

Overall, ROI can be a valuable measure for evaluating the performance and effectiveness of different aspects of a business and making informed decisions about where to allocate resources.

TOM BRONSON

Tom Bronson is a serial entrepreneur and business owner. He is currently the founder and President of Mastery Partners, Mastery Mergers & Acquisitions, and the Business Transition Summit. All three companies empower business owners to maximize business value and serve business owners in different capacities to help them achieve their dream exit.

As a business owner, Tom has been in your situation a hundred times and knows what it takes to craft the right strategy. Bronson is passionate about helping business owners and has the experience to do it.

Bronson also helps business owners personally by serving with Business Navigators as the Navigating for Business Success Chairperson. This servant leadership organization helps businesses through outreach, education, and community service. He is the voice of the Southlake Dragon Marching Band and a sought-after speaker who frequents many venues sharing his vast knowledge on various topics. Tom has just published his second book, "Maximize Business Value Playbook," (2023). The follow-up to his first book, "Maximize Business Value, Begin with the EXIT in Mind." Both are available on Amazon.

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