

**Calculating the return on investment
For SMART ASSETS™ with
Physical Tracking and Bar-coding services.**

TABLE OF CONTENTS

3. Introduction

4. Here's an example of the final results for a ROI analysis:

5. Simplifying the process

Introduction

RETURN ON INVESTMENT tells you the percentage return you have made over a specified period as a result of investing in a Fixed Assets Management project.

On the assumption that benefits will continue to accrue some time after the Fixed Assets Management Tool & training, then the period that you specify is critical to the ROI figure you will obtain. You may like to specify a period that fits in well with your organisation's planning cycle – perhaps a year or two years.

On the other hand, you may wish to calculate the period to correspond to the lifetime of the benefit, in which case you will need to know how long the average staff stays in a position in which they can continue to apply the knowledge and skills being taught to manage the enterprise wide Fixed Assets Management.

It is relatively simple to calculate return on investment:

$$\% \text{ ROI} = (\text{benefits} / \text{costs}) \times 100$$

Fixed asset turnover is the ratio of sales (on the Profit and loss account) to the value of fixed assets (on the balance sheet). It indicates how well the business is using its fixed assets to generate sales.

$$\text{Fixed Asset Turnover} = \frac{\text{Sales}}{\text{Average net fixed assets}}$$

Generally speaking, the higher the ratio, the better, because a high ratio indicates the business has less money tied up in fixed assets for each dollar of sales revenue. A declining ratio may indicate that the business is over-invested in plant, equipment, or other fixed assets.

Payback period

Another way at looking at ROI, is to calculate how many months it will take before the benefits of the Software & the tracking services match the costs and the software pays for itself. This is called the

payback period:

$$\text{Payback period} = \text{costs} / \text{monthly benefits}$$

Payback period is a powerful measure. If the figure is relatively low – perhaps only a few months – then management will be that much more encouraged to make the investment. As a measure, it also has the advantage of not requiring an arbitrary benefit period to be specified.

Here's an example of the final results for a ROI analysis:

Duration of Project including the training	25-30 days
Estimated numbers of man hour days	720
Period over which benefits are calculated	12 months

Costs

Software costs for 5 user WAN version	Rs.1,25,000
Tracking of approx.5000assets@25-35/= per asset	Rs.1,65,000
Bar-coding @ Rs.5/= per asset for app.5000 assets	Rs.0,25,000
Cost of Data Compiling, Data Matching, Data cleaning & Porting for app.5000 assets	Rs.0,60,000
Implementation and support for 6 months	Rs.0,00,000
Annual Software Maintenance	Rs.0,25,000
Training	Rs.0,00,000
Evaluation of project	Rs.0,00,000
Total cost	Rs.4,00,000

Benefits for an assets capitalization of Rs.5,00,00,000

Labour savings due to non-deployment of company staff @5,000 X 8 X 30	Rs.12,00,000
Productivity increases due to identification of missing & under-utilised assets	Rs.10,00,000
Other cost savings like assets scraped sales, assets misappropriation save etc.	Rs.10,00,000
Other income generation like negotiations for AMCs of assets, Insurance of Assets, Service & Maintenance of assets etc.,	Rs.05,00,000
Total benefits	Rs.37,00,000
Return on investment	925%
Payback period	12 months

Simplifying the process

If you've been following through all of these steps, then you'll have realised just how many calculations are involved in conducting a thorough analysis.

Some may start to look at areas such as opportunity costs and productivity benefits, which are beyond the scope of this project.

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