

Calculating the ROI in IT industry for SMART ASSETS

TABLE OF CONTENTS

- 3. Introduction
- 3. It is relatively simple to calculate return on investment
- 3. Payback period
- 3. asset-efficiency component, and is
- 4. Here's an example of the final results for a ROI analysis
- 5. Simplifying the process

Introduction

This RETURN ON INVESTMENT tells you the percentage return you will make 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 Assets Ratio:

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.

A more complex variation of Return on Investment is a formula known as the Du Pont formula, which allows a company to break down its Return on Investment into a profit-on-sales component and an

asset-efficiency component, and is:

$$(\text{Net profit after taxes} / \text{total assets}) = (\text{net profit after taxes} / \text{sales}) \times \text{sales} / \text{total assets}$$

So if net profit after taxes is Rs.30, total assets Rs.250, and sales Rs.500, then:

$$30 / 250 = 30 / 500 \times 500 / 250 = 6 \times 2 = 12\%$$

This formula was developed by the Du Pont Company in the 1920s, and helps to reveal how a company has deployed its assets and controlled its costs, and how it can achieve the same percentage return in different ways.

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

Project Costs

Software costs for 5 user WAN version	Rs.1,25,000
Tracking of approx.5000assets@25-35/= per asset	Rs.0,25,000
Bar-coding @ Rs.5/= per asset for app.5000 assets	Rs.0,50,000
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	
Benefits for an assets capitalization of Rs.5,00,00,000	
Labour savings due to non-deployment of company staff @2,000 X 8 X 30	Rs.04,80,000
Productivity increases due to identification of missing & under-utilised assets, renewal of Software licences, savings on removal of unused softwares, identification and sale of unwanted hardware etc.,	Rs.10,00,000
Other cost savings like scraped assets sales, assets misappropriation prevention (like Laptops, USB drives, External Hard drives etc.), Claw-back of assets not returned by earlier custodians, etc.,	Rs.10,00,000
Other income generation like negotiations for AMCs of assets, Insurance of Assets, Service & Maintenance of assets etc.,	Rs.0,15,00,000
Total benefits	Rs.39,80,000
Return on investment	995%
Payback period	1 month

Other Intangible Benefits

- ▶ No need for deployment of staff for annual assets tracking & management
- ▶ Complete knowledge of all transfer of assets between, unit between departments, between custodians etc., leading to complete control and ZERO loss of assets
- ▶ Complete history of each asset with the service, repairs, AMC, Insurance and inward-outward movement leading to control on costs and negotiation power with service providers
- ▶ Master & Sub-Assets registers with ability to deploy assets as per needs preventing non or under-utilization and repeat purchases
- ▶ Identification of temporary needs of expensive machinery or equipment and arranging for Lease hire and cost control on leased assets
- ▶ Identification of excess assets and under-utilized assets fit for hiring to units needing them for short periods, bringing in much needed other incomes
- ▶ Asset Image captured register useful for training new recruits

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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