

ROI (return on investemnst)

Return on Investment (ROI) is a popular profitability metric used to evaluate how well an investment has performed. ROI is expressed as a percentage and is calculated by dividing an investment's net profit (or loss) by its initial cost or outlay.

The things play a very important role in return on investment:

1. Investment.
2. Gross Margin.
3. Net Margin.
4. Expenses.
5. Rotations.
6. Turnover.

How the ROI (return on investment changes with every change in 6 elements mentioned in previous table

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ROI (return on investemnst)

Example

Net Sales \$	1,00,000
Distributor's Margin %	8
Average stock value	12,000
Advance against stocks	3,000
Average market outstanding	9,000
Pending claims from company	3,500
Due from company:	1,500
Expenses	5,870

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ROI (return on investemnst)

Solution-1

Gross Profit:	8,000
Net Profit:	2,130
Investment	29,000
Rotations	3.45
ROI % (Return on investment)	7.34

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No	Particulars	Normal Situation	Increase in Sales- (Change in Return on investment (ROI))
A	Net Sales Rs	100,000	150,000
B	Distributor's Margin %	8	8
C	Average stock value	12,000	12,000
D	Advance against stocks	3,000	3,000
E	market outstanding	9,000	9,000
F	Pending claims	3,500	3,500
G	Due from company:	1,500	1,500
H	Expenses	5,870	5,870
1	Gross Profit:	8,000	12,000
2	Net Profit:	2,130	6,130
3	Investment	29,000	29,000
4	Rotations	3.45	5.17
	ROI %	7.34	21.14

Analysis.

Normal situation the ROI is 7.34%

When the sale increased from \$ 100,000 to \$ 150,000. The ROI increased from 7.34% to 21.14%

Increase in sales is one of the ways to increase the ROI.

No	Particulars	Normal Situation	Increase in Margin- (Change in Return on investment (ROI))
A	Net Sales Rs	100,000	100,000
B	Distributor's Margin %	8	10
C	Average stock value	12,000	12,000
D	Advance against stocks	3,000	3,000
E	market outstanding	9,000	9,000
F	Pending claims	3,500	3,500
G	Due from company:	1,500	1,500
H	Expenses	5,870	5,870
1	Gross Profit:	8,000	10,000
2	Net Profit:	2,130	4,130
3	Investment	29,000	29,000
4	Rotations	3.45	3.45
	ROI %	7.34	14.24

Analysis

Increase in margin from 8% to 10% will increase the ROI from 7.34% to 14.24%

Increase in margin is one of the ways to increase the ROI.

No	Particulars	Normal Situation	Reduce in Expenses- (Change in Return on investment (ROI))
A	Net Sales Rs	100,000	100,000
B	Distributor's Margin %	8	8
C	Average stock value	12,000	12,000
D	Advance against stocks	3,000	3,000
E	market outstanding	9,000	9,000
F	Pending claims	3,500	3,500
G	Due from company:	1,500	1,500
H	Expenses	5,870	4,000
1	Gross Profit:	8,000	8,000
2	Net Profit:	2,130	4,000
3	Investment	29,000	29,000
4	Rotations	3.45	3.45
	ROI %	7.34	13.79

Analysis

Reduction in expenses from \$ 5870 to \$ 2500 will increase the ROI from 7.34% to 18.97%

Reducing the expenses is one of the ways to increase the ROI.

No	Particulars	Present Situation	Reduce in Investment- (Change in Return on investment (ROI))
A	Net Sales Rs	100,000	100,000
B	Distributor's Margin %	8	8
C	Average stock value	12,000	10,000
D	Advance against stocks	3,000	2,000
E	market outstanding	9,000	7,000
F	Pending claims	3,500	3,500
G	Due from company:	1,500	1,000
H	Expenses	5,870	5,870
1	Gross Profit:	8,000	8,000
2	Net Profit:	2,130	2,130
3	Investment	29,000	23,500
4	Rotations	3.45	4.26
	ROI %	7.34	9.06

Analysis

Reduction in investment from \$ 29,000 to 20,500 will increase the ROI from 7.34% 10.39%.

Reducing the investment is one of the ways to increase the ROI.

No	Particulars	Present Situation	Increase in Sales- (Change in Return on investment (ROI))	Increase in Margin- (Change in Return on investment (ROI))	Reduce in Expenses- (Change in Return on investment (ROI))	Reduce in Investment- (Change in Return on investment (ROI))
A	Net Sales Rs	100,000	150,000	100,000	100,000	100,000
B	Distributor's Margin %	8	8	10	8	8
C	Average stock value	12,000	12,000	12,000	12,000	10,000
D	Advance against stocks	3,000	3,000	3,000	3,000	2,000
E	market outstanding	9,000	9,000	9,000	9,000	7,000
F	Pending claims	3,500	3,500	3,500	3,500	3,500
G	Due from company:	1,500	1,500	1,500	1,500	1,000
H	Expenses	5,870	5,870	5,870	4,000	5,870
1	Gross Profit:	8,000	12,000	10,000	8,000	8,000
2	Net Profit:	2,130	6,130	4,130	4,000	2,130
3	Investment	29,000	29,000	29,000	29,000	23,500
4	Rotations	3.45	5.17	3.45	3.45	4.26
	ROI %	7.34	21.14	14.24	13.79	9.06

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Send me a e mail
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to receive excel sheet with formulas.

Thank you very much
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