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How to Calculate ROI (Return on Investment)

By Stone Evans, The Home Biz Guy

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ROI (Return on Investment) is probably the most important calculation one needs to make to ensure the long-term viability of their business. It is not enough to build in a profit margin on the product or service being offered. One must track with proficiency the amount of dollars being invested into attracting sales and how much ROI those dollars put back into the business. If the investment meets too little return, a product line is doomed to fail in the long-term.

THE BASIC ROI PERCENTAGE CALCULATION

Many experts seem to agree, "calculating an accurate return on investment (ROI) is not an easy thing to do."

I do not intend to give you a thorough analysis of the ROI calculation process. Calculating an accurate ROI is hard to do, but explaining the full scope of ROI calculations in less than 1000 words is far more difficult.

As such, this article is only intended to introduce you to the basic concepts behind ROI calculations. Here is a very basic equation for calculating the ROI:

$$\text{ROI} = [(\text{Payback} - \text{Investment}) / \text{Investment}] * 100$$

Your payback is actually the total amount of money earned from your investment in your company. Investment relates to the amount of resources put into generating the given payback.

How to Calculate ROI (Return on Investment)

You should run ROI calculations on both monthly and yearly timelines.

IMPROPER CALCULATIONS BY MANY SMALL BUSINESS OWNERS

The actual amount of investment into a business is often misunderstood by the business owner. As a result, true ROI calculations for most small businesses are skewed.

Most small business owners make their mistake in this most necessary calculation, because they do not properly value their own time. Please note that when I previously defined

"investment", I stated that it relates to the "amount of resources put into generating the payback."

Indeed, "resources" includes cash money. But, it also includes "human resources" or "time".

If most small business owners would value their hours at the minimum wage, and calculate their time into the investment equation, they would soon realize that their small business is running in the red!

Some small business owners will finally run ROI calculations including the human resources, and suddenly realize that they could make more money working a job. If the small business owner has been running their business for a really long time, struggling to make ends meet, they might see this calculation and close their doors once and for all.

PLEASE DON'T LET ME DISCOURAGE YOU

I do not share this revelation with you so that you will close your business down. Quite to the contrary. I share this with you so that you can see the big picture and start running your business in a way that will actually generate a real profit for you and your business.

If you are within the first two years or five years of the start of your business, then running in the red should not be thought of as a bad thing. However, if you are ten years into your business and earning less than minimum wage from your business, there is a serious problem afoot that needs to be addressed immediately.

STARTING OUT

When you are just beginning your own business, you have plenty of time on your hands. This is the reason why most small business owners do not properly count their time in the ROI equation. They just look at cash expenditures and incoming monies, and they are satisfied with that calculation.

It is often said that people generate the kind of results that they believe they can achieve or the kind that they want to achieve. Seeing the goal is the first step to achieving the goal. Expectations will always bring results equal to the expectation.

Having been down the business startup path before myself, I too understand the desire to calculate ROI without consideration to

the time invested in the enterprise.

However, I also understand the importance of placing a value on my time and working that into my final numbers.

In the beginning, I ran two types of ROI calculations: all resources exempting my time, AND all resources including my time.

Of course, I actually set a higher expectation for my own income level. First, I had decided on ten dollars an hour for my time. Later, I adjusted that amount upward.

Starting out, even though I ran two versions of my ROI calculations, I relied first on my resource excluding my own time. Once I had achieved this goal, then I refocused my attention to reaching the ROI which took into account my own time.

Now, that time has passed, I can go back and look at my yearly ROI and see that I have earned enough cash to pay for those early days of famine.

THE SECRET OF TURNING ROI CALCULATIONS INTO SUCCESS

Every step in your business startup is a calculated guess as to what you believe you can achieve.

Measuring your results is essential to making your business

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profitable. ROI measurements are imperative to measuring and understanding the results you are achieving with your new or existing business.

Take into account all factors relating to the profitability of your business and don't smudge on the facts to make it seem more profitable than it really is. It is important to approach your business and your business results with absolute honesty. Be honest with yourself and face the facts of your task.

An honest examination of your business at regular intervals will help you get on and stay on track to keep the doors of your business open. You will thank yourself later.

About The Author:-----Stone
Evans Will Personally Build A
Money Making Website Just For You That's 100% Ready To Take Orders And Pull In Massive
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There's More To Marketing ROI (Return On Investment) Than Meets The Eye

By Joy Gendusa

All too often people look at marketing ROI in terms of response rate: in other words, "I sent out 10,000 pieces of direct mail and only got 39 responses which is terrible." This is wrong think.

When it comes to marketing ROI, you have to realize that the term means Return On Investment and the return is measured in dollars (or your local currency). Let's say you spend \$2,000 to get out a bulk mailing of 5,000 pieces and you get 10 calls as a result. Doesn't look like much. But of these 10 calls you close 6 and get immediate sales of \$12,000. That's marketing ROI! And that's not even taking into account the future sales to those 6 new customers. It could add up to hundreds of thousands of dollars.

The same simple mathematics apply to any other marketing efforts: radio ads, press releases or articles in magazines, print ads, yellow pages, web site, etc.

Obviously you need to keep track of response from each marketing campaign you do so that you can weed out unsuccessful campaigns and strengthen successful ones.

Case in point:

Jeff Lee, CFO of a very successful consulting company, Measurable Solutions, has adopted a successful small business marketing strategy based on direct mail marketing. Key elements are mailing out a newspaper and full color postcards. The design is done in house and the printing and mailing is done by a specialized postcard printing company. In his own words...

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"We get our best response from mailing out a newspaper and back it up with postcards. Depends on the postcards. Some postcards have pulled better than others.

"The professionalism of the postcards is something that is effective: it gets attention, it keeps the image that we want to keep, it creates the reach, it creates the response and keeps our leads in a very high range.

"We probably average around 7,500 post cards per week. Out of 7,500 post cards we'll get in an average of 15–20 leads. Of the 15–20 leads at least a third of them come to our introductory seminar. So say 5 or 7 people show up and they pay \$1,700 a piece. Off of that we close a further \$30–40,000 for services.

"The money we have put into the postcards is like a drop in a bucket compared to what we get back. We know that the more promotion we send out, the more return we're going to get. It always works."

That is excellent marketing ROI. Measurable Solutions spend about \$2,275 for 7,500 full color post cards. That includes printing, postage, mailing (including the mailing list). From that they get between \$8,500 and \$11,900 in immediate response for an introductory seminar and an additional \$30–40,000 follow-up sales.

Spend \$2,275, earn \$40–50,000. You don't need to have majored in advanced math and rocket

science to work that one out: that is what is meant by marketing ROI!

Results of direct mail marketing vary from business to business but the principle holds and always works: if you send out enough promotion, you will make sales and maximize your marketing ROI. Don't worry about response rate if your marketing ROI is high.

Joy Gendusa founded PostcardMania in 1998, her only assets a computer and a phone. By 2004 the company did \$9 million in sales and employed over 60 people. She attributes her explosive growth to her ability to choose incredible staff and her innate marketing savvy. She is always willing to share her marketing advice. Visit

<http://www.postcardmania.com>



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