

KEY SERVICE INSIGHTS



ACCOUNTING AND BOOKKEEPING NEWSLETTER

MEASURING ROI: TOOLS FOR PROFITABILITY AND STRATEGIC GROWTH

What are Key ROI Metrics

It is important for a company to calculate its return on investment or ROI. In a business setting, the ROI can be tied to a specific product or relate to the cumulative activities of the business. Key terms important to ROI include:

- **Return on invested capital ("ROIC"):** This is a ratio used to measure how efficiently a company allocated capital to profitable initiatives.
- **Net Present Value ("NPV"):** This is a calculation used to determine the value in today's dollars of future cash flows from a given project or initiative.
- **Internal rate of return ("IRR"):** This metric is used to estimate how profitable a potential investment may be for a company.
- **Payback period:** This is the amount of time expected for a company to recoup its initial investment.

Why ROI Matters

Measuring ROI is important because **ROI provides a clear, quantifiable way to assess the profitability of any investment**, allowing a company to compare different opportunities, allocate resources effectively, identify underperforming areas, and make informed decisions to maximize the company's financial gains.

By regularly assessing the effectiveness of its investments, a company can make adjustments to enhance profitability. This proactive approach assists in risk management by promptly addressing potential challenges. Investment in a company requires a strong understanding of ROI. Evaluating performance and identifying potential areas for improvement can greatly increase profitability.



ROI is an essential tool in a company's strategic decision making process, guiding company leaders in achieving company goals. **ROI helps measure profitability, optimize resource allocation and evaluate performance.** By leveraging ROI, company decision makers can prioritize initiatives that offer the most potential for growth and success, thereby driving the company's overall performance.

Supporting Small and Mid-Size Businesses

As part of our services to our clients, we want to provide simplified information as to the information on the company's performance metrics so they can better understand the financial health of the company with the goal of empowering our clients to be more informed and make better decisions.

We focus on representing small and mid-size businesses. **We advise our clients as to the implications of their financial statements and empower our clients to make informed decisions about the direction of their company based in part on the financial statements.** At Praestans, we can handle these important accounting and bookkeeping functions while coordinating professional services customized to the client's needs.