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and clients benefit from my experience leveraging ROI to make informed decisions and achieve remarkable outcomes that support the business.HOW TO CALCULATE THE ROI OF A PROJECTThe formula for calculating the ROI of a project is: ROI = (Financial Value - Project Cost) / Project Cost x 100If a project costs \$10,000 to implement and is expected to generate a financial value of \$15,000, we can calculate the ROI using the given formula:ROI = (\$15,000 - 10,000) / 10,000 x 100 = 50%For every dollar invested, the project is expected to generate a 50-cent return.The benefits of calculating ROIIf you are managing multiple projects with limited resource availability, making informed decisions about which projects to prioritize is crucial. ROI gives a clear and objective measure of the potential returns a project can generate, which then enables PMs and stakeholders to assess the values and inform strategic decisions. Let's explore the advantages that arise from using ROI for selection and prioritization. It helps you set the perfect project management strategy with your business leaders or Project Management Office. It puts a price tag on project value. ROI turns subjective stuff into hard numbers. It shows business leaders the actual dollar worth of a project, turning uncertainty into value-added data.You can prioritize project features like a pro, knowing which ones will give you the best bang for your buckCalculating ROI makes you dig deep and discover unexpected benefits. It helps you look beyond the surface-level benefits and identify additional advantages that can significantly contribute to the success and value of your project.By comparing actual ROI with expected ROI, a project manager can monitor the project's financial performance against the projected ROI, identify deviations, and take corrective action Allocating resources becomes smoother and more data-based, resulting in fewer resource shortages or wastageIt helps set priorities: once you decide to launch a project, ROI comes to the rescue again. It helps you rank your projects and decide which ones get the VIP treatment. The higher the ROI, the higher the ranking, and the quicker you'll get the resources you need.It impresses stakeholders. They want to know what's in it for them, and ROI gives them the answer. When you tie a value like revenue or brand awareness to your project, it becomes way easier for them to make the go or no-go decision. 3 types of ROI and what they mean for your projectOnce the values are input into the ROI formula, it becomes vital for the project manager to interpret the outcome accurately to make informed decisions about the project's success and profitability.1. Negative ROIIf the ROI value is less than one (negative value), the project does not generate any profit or financial gain.If your project's ROI turns out to be a negative ROI, it doesn't mean you should panic and throw in the towel. Sometimes, taking a calculated risk and accepting a temporary loss is worth it if it helps you achieve a bigger goal.You can level with the financial wizards and other company leaders to figure out what level of risk is acceptable. They'll help you understand how to make sense of the ROI results in your specific context. Here are some ways to adjust or fix a negative ROI:Adjust resources: consider choosing resources that have a lower cost rate to allow for more profitReduce costs: look for ways to decrease expenses without compromising quality or the objectives, like negotiating contracts with vendors or streamlining processesRevise the scope: assess the project's scope and objectives eliminating unnecessary features or components2. Positive ROIWhen the ROI value is greater than one, representing a positive value, it indicates a profit or gain from the project.A positive ROI indicates that your project is generating profits and delivering value to your organization. But your job does not stop here: you need to continuously monitor the project's strengths contributing to the positive ROI, leverage them, and use them to your advantage.Here are some ways to keep your projects positive:Robust planning and risk management: identify potential risks and develop risk mitigation plans to minimize their impact on the projectStakeholder communication: continuously engage with project stakeholders through project updates, progress and milestones, seek feedback and address concerns promptly. This helps to keep everyone aligned and expectations closely managed, which will positively enhance performance.Lessons learned: Conduct project review and retrospective sessions with both the internal and client teams at key milestones and the project end. This helps identify areas of improvement along the way or to implement into future projects so the positive value successes continue.3. Zero ROIIf the ROI calculation yields a value of zero, it implies neither loss nor gain. In my experience, organizations may still want to invest in a project that breaks even. For example, they might want to build their portfolio or establish a relationship with the client that will bring future opportunities. Pro tip: prioritize projects with the best ROIThe business landscape is the most fast-paced and competitive it's ever been, so it's not enough to just deliver projects (I wish). We need to prove our worth, show the money, and secure the resources we need for future triumphs.Think about using a resource management and project planning tool like Float, which can help you assess the benefits of the projects before it even starts. For example, you can set up a resource as tentative to a project, add the allotted budget per person, and enter the cost rate for each of them. This gives you a full visual of how many projects you have in progress, about to start, and in your future forecasted pipeline: The Schedule dashboard in Float showcases planned and tentative projectsYou can also take a retroactive look at previous projects, look at your team's utilization rates and the difference between billable and non-billable hours: The Report dashboard in Float shows historical trends of team capacity, scheduled hours, overtime, billable vs. non-billable hoursBy calculating ROI on past, present and future projects, you can make informed decisions about which projects to pursue. And if you want some help with getting that done, try Float for free today! Plan and track your projects with FloatTrack project work easily and see data that help inform your future projects for better planning.Try for free Millions of merchants of every size have collectively made over \$1,000,000,000 in sales on Shopify.Online and in personGet a stunning store that's made to sell—whether you build from scratch or start fast with pre-built themes.Local and globalGrow around the worldShopify takes the complexity out of international selling, from delivering products faster and more affordably with Shopify Shipping to localizing your experience with Shopify Markets.Desktop and mobileTake care of businessFrom back office to front of store, you're always in control with the fully centralized Shopify Admin.Do it all right from your pocket with the full-featured Shopify mobile app.Higher conversionsHigh-intent shoppersShopify Checkout converts 15% higher on average than other commerce platforms and exposes your brand to 150 million buy-ready shoppers.Bases an external study with a Big Three global consulting firm in April, 2023.Shopify puts your store within 50 milliseconds of every shopper on the planet, with the capacity to handle even the most epic product drops.O!Add your first product2Customize your store3Optimize your payments4honest financial / roi calculator 50%50%InvestedProfit Related:Investment Calculator | Average Return Calculator In finance, Return on Investment, usually abbreviated as ROI, is a common, widespread metric used to evaluate the forecasted profitability on different investments. Before any serious investment opportunities are even considered, ROI is a solid base from which to go forth. The metric can be applied to anything from stocks, real estate, employees, to even a sheep farm; anything that has a cost with the potential to derive gains from can have an ROI assigned to it. While much more intricate formulas exist to help calculate the rate of return on investments accurately, ROI is lauded and still widely used due to its simplicity and broad usage as a quick-and-dirty method. Many money-making schemes involve several businessmen seated at a table during lunch talking about potential investments until one of them exclaims about one with a very high ROI after doing the calculations on a napkin. ROI may be confused with ROR, or rate of return. Sometimes, they can be used interchangeably, but there is a big difference: ROR can denote a period of time, often annually, while ROI doesn't. The basic formula for ROI is: ROI = Gain from Investment - Cost of InvestmentCost of Investment As a most basic example, Bob wants to calculate the ROI on his sheep farming operation. From the beginning until the present, he invested a total of \$50,000 into the project, and his total profits to date sum up to \$70,000. = 40% Bob's ROI on his sheep farming operation is 40%. Conversely, the formula can be used to compute either gain from or cost of investment, given a desired ROI. If Bob wanted an ROI of 40% and knew his initial cost of investment was \$50,000, \$70,000 is the gain he must make from the initial investment to realize his desired ROI. Difficulty in Usage It is true that ROI as a metric can be utilized to gauge the profitability of almost anything. However, its universal applicability is also the reason why it tends to be difficult to use properly. While the ROI formula itself may be simple, the real problem comes from people not understanding how to arrive at the correct definition for 'cost' and/or 'gain', or the variability involved. For instance, for a potential real estate property, investor A might calculate the ROI inverting capital expenditure, taxes, and insurance, while investor B might only use the purchase price. But the positive here is the lessons to be learned for future projects. Here are some ways negative ROI can help project managers: It can identify inefficiencies, overspending, and underestimated costs to help refine future processes. Negative ROI often stems from unforeseen risks or poor risk management. It can be a wake-up call for project managers to focus on risk assessment. Analyzing projects with negative ROI helps project managers make better decisions about how to invest their future resources. Calculating project ROI can be done in six straightforward steps. Estimating the project's duration sets a strong foundation for realistic expectations and accurate ROI calculations. To nail time estimates, break down the project into smaller tasks and estimate the duration of each one. We recommend using a Work Breakdown Structure to outline your project's tasks and create more detailed and accurate estimates. In Toggl Track, setting time estimates for your tasks is easy when creating or editing projects. You can also use the Project Dashboard to see past data and create estimates based on similar projects. In professional service teams, like agencies and consultancies, labor costs account for a large part of a project's total expenses, so set them up from the start to measure project profitability effectively. In Toggl Track, you can set labor costs at project and organizational workspace levels. Here's how to add labor costs for individual project members in two steps: Go to the Projects page and select the Team tab. Add Labor Cost under the COST column for each project member. Next, establish and set up your billable rates. These should reflect the value of your work, cover all project costs, and be profitable against current market rates. Here are some tips for setting effective billable rates for your project. Analyze project costs: Calculate direct costs like labor and materials alongside indirect and administrative expenses. Clarify these costs before deciding on your billable rates. Understand market rates: Market rates can often vary depending on your location, expertise, and industry. Research and the going rates for similar services to ensure you remain competitive. Include a profit margin: Besides covering costs, your billable rates should also include a profit margin. The margin size may vary based on your growth strategy or competition. Add a contingency margin: Risks like project delays, unexpected costs, and scope changes are common in any project. Adding a contingency margin to your billable rates creates a financial buffer against unforeseen risks. When these variables are clear, use a project profitability tool like Toggl Track to add your billable rates at workspace, project, and team member levels. It's easy to add billable rates for project members: Go to the Team's tab on the Projects page and add rates for each project member under the RATE column, as shown below. Start tracking billable hours once your rates are set up. Make sure you clearly define what's billable and what's not. Separating billable and non-billable hours will make your life easier when billing clients and give you accurate profitability insights. Here's how to track billable hours with Toggl Track's timer in the web app: Type in your 'time entry description' Find your client Select what 'project' you're working on Select the 'task' within the project Start the timer Further Reading: How To Track Billable Hours For Accurate Invoicing Finally, calculate your project's ROI with the following formula: The cost of investment means all project expenses and the net profit equals the total revenue minus total project costs. For example, if you complete a project with total revenue of \$150,000 and total project costs of \$100,000, your project ROI would be: Net profit = \$150,000 - \$100,000 = \$50,000 ROI = \$50,000/\$100,000 x 100 = 0.5 x 100 = 50% For every dollar you invested in the project, you gained 50 cents in profit—a 50% return on your investment. Monitoring project ROI helps you identify performance issues and bottlenecks early and take action. Using a powerful reporting tool like Toggl Track, you can easily track the profitability of your projects. The Insights Dashboard shows project profitability data for a chosen period in a visual, easy-to-understand format. This profitability report shows project income versus expenses and total billable hours tracked. You can also export this profitability report in CSV or Excel format. While the fundamental ROI formula stays the same for all projects, how you calculate net profit and cost of investment varies with each project model. Fixed price projects have a well-defined budget from the start, so calculating ROI for fixed price projects is straightforward. With this type of project, you know both the total revenue and the total costs of the project, so the calculation is as follows: First, you need to calculate the net profit by subtracting the project's expenses from the fixed price paid by the client. Then, you can calculate ROI using the formula shown in the previous section. For example, if a client pays \$100,000 and the project costs \$70,000, the net profit is \$30,000. Then, calculate the ROI: divide the net profit by the project costs and multiply by 100, which is \$30,000/\$70,000 x 100 = 42.86%. In this case, the ROI is 42.86%. T&M projects have a flexible budget and charge clients for the actual time spent and materials used. Calculating ROI for T&M projects can be more challenging as revenue and costs vary. Here's how to do it: Track billable hours accurately and make sure to account for all labor costs. Keep a precise record of the materials you used for the project and their costs. Calculate the net profit: the total billable hours minus labor costs and materials. Calculate the project's ROI using the formula above. For example, if total billable hours result in \$120,000 and labor and materials cost \$90,000, subtract these costs to get a net profit of \$30,000. Next, calculate the ROI: divide the net profit by the total costs and multiply by 100. This formula gives \$30,000/\$90,000 x 100 = 33.33%. The ROI of 33.33% indicates that the project has a 33.33% return on the investment. Further Reading: Time and Materials vs. Fixed Fee: What To Choose? For recurring revenue projects like subscriptions or ongoing service contracts, you must assess profitability for each billing cycle and determine the average ROI over the client's lifetime. This is a simplified process of the ROI calculation for this kind of project: Calculate the net profit for each period (e.g., monthly, quarterly, etc.) Calculate the total costs for each period (e.g., monthly, quarterly, etc.) Divide the net profit by the total costs and multiply by 100 to get the ROI. Repeat this calculation for each billing period. Finally, calculate the average ROI over the entire client relationship by averaging these periodic ROI percentages. This approach provides a clear measure of profitability over time. You might ask why should project managers and business owners calculate project ROI. The answer lies in the benefits this process provides: Prioritize profitable projects: Not all projects are created equal. Some might deliver profitable numbers, others might give you negative project ROI. When you calculate ROI for projects, it's easy to see what brings in the most profit and what doesn't to help prioritize profitable projects and clients. Spot bottlenecks and solve them timely: Your company's leadership wants to see project ROI and profit. Calculating project ROI lets you spot potential negative numbers and take action to boost your chances of approval. Evaluate project success: Project ROI is a key measure of project success. A high ROI indicates the project successfully met its financial goals. The higher the ROI, the better. Promotes growth: Looking at your projects through the ROI lens gives you useful insights into what works and what doesn't to make changes to improve. Here's a practical example of how to calculate project ROI: Let's say a tech company decided to create a new project management software. They set a budget of \$500,000 for research, development, marketing, and distribution. After launching, the software generated \$750,000 in sales in the first year. We calculate ROI with the formula: ROI = Net profit/Investment cost x 100 First, we find the net profit by subtracting the cost from the revenue: Net profit = \$750,000 - \$500,000 = \$250,000 Then, we can calculate the project ROI: ROI = \$250,000/\$500,000 x 100 = 50% Achieving a 50% ROI proves the project was profitable and a good financial decision. You've calculated your project ROI, and the results were not so good. The goal now is to improve the ROI of future projects. Here are some tips to do that. Project estimates are the foundation for the project's expectations, costs and timelines. Estimates help you track progress and negotiate project budgets. That's why they should be as accurate as possible. Alex Taylor, Head of Marketing at CrownTV, agrees that accurate estimates can lead to higher ROI: "In my experience, one best practice that I highly recommend to improve project ROI is to make more accurate estimates. While they may seem like a simple concept, it holds immense power in maximizing profitability and success. Accurate estimates let us set realistic expectations from the start. When we can accurately estimate the resources required, the time needed, and the potential costs involved, we can make informed decisions and allocate resources efficiently. This ensures that our projects are planned and executed with precision, reducing the likelihood of costly delays, unexpected expenses, and resource wastage." With Toggl Track, you can access historical project data to create accurate estimates: Go to Reports, then Summary Report, and see the time and costs of past projects in a clear, visual report. Find similar project tasks using the Project filter. See how long each task took to complete and create more accurate estimates. To track project progress and see how actual time compares with estimates, access the Project Dashboard on the Projects tab and select the project you want to track. Here, you can see a forecast of when a project should end based on estimates and progress against the fixed fee amount you set at the start. The more your team works on billable projects, the more revenue they bring in. Improving your team's billable utilization rate can boost the ROI of your project, but it can also hurt it. Give your team members too much work, and they risk burnout, which impacts their productivity and your bottom line. To avoid this, use Toggl Plan's Availability Overview feature to always assign the right amount of billable work to your team. In this view, you can see each team member's booking percentage and available hours for more efficient project planning. Further Reading: How to Increase Billable Hours: 7 Ethical Ways Non-billable tasks, while essential for day-to-day operations, do not directly generate revenue. Common non-billable activities include admin duties, internal meetings, email management, and client communication. These tasks do not lead to billable work. Identifying and reducing the time spent on these tasks means you can allocate more time to revenue-generating work and improve a project's ROI. Tom McSherry, the Managing Director of LeadLocal, highlights how important it is to make the most of internal meetings: "Efficient meetings are about saving time and fostering mutual understanding within the project team. We utilize meetings to revisit our project benchmarks, delegate responsibilities clearly, and brainstorm creative digital strategies for our clients. These steps lead towards our project's success and increased ROI." The first step in effectively reducing non-billable tasks is to identify them. With Toggl Track, team members can easily track time spent on unpaid work throughout the day. Toggl Track then generates Summary reports to show exactly how much time your team spends on non-billable tasks. Bottleneck tasks can slow progress, cause delays, and negatively impact your project's ROI. Your goal is to identify, address, and manage bottlenecks to minimize disruption. Uku Tomikas, the CEO of Messente, talks about how his team tackles bottleneck tasks: "We use project management software to visualize each project's workflow, allowing us to identify delays and bottleneck issues quickly. Through regular check-ins and our open-door policy, team members are encouraged to report issues as they occur, allowing us to respond promptly and keep projects moving forward." You can use Toggl Track's Summary Report to see how much time your team spent on what tasks and identify bottlenecks easily. Accurate and detailed invoicing based on time tracking data builds client trust and minimizes time spent resolving invoice disputes. With Toggl Track, you can create PDF invoices from your tracked time and send them to clients to receive faster payments. Here's how: Go to the Reports page and create a Summary Report. Then, click "Create Invoice" on the bottom right side, as shown below. You can also customize invoices by adding invoice ID, purchase order numbers, tax, custom memos, and more. With the right tools, calculating, tracking, and improving your project ROI is relatively easy. Want to see how Toggl Track can help you measure project ROI, avoid scope creep, and improve profitability? Sign up for a free Toggl Track account now. Work tools to elevate your productivity - apps for incredibly simple time tracking and effective project planning. Understanding how to calculate the potential return on investment (ROI) of a project is an essential financial skill for all professionals to develop. If you're an employee, knowing how to calculate ROI can help you make the case for a project you're interested in pursuing and have taken the lead on proposing. If you're a manager, understanding ROI can give you greater insight into your team's performance. If you're an executive, working knowledge of ROI can make it easier for you to identify which projects should be greenlit and which should be passed over. Once ROI is proven, it may be possible to replicate success by applying lessons learned from the first project to other segments of the business. If you're unfamiliar with accounting and finance, the prospect of determining the ROI of a project may seem beyond your abilities. However, it's not an overly complicated process. By understanding the basics of financial valuation, which can enable you to put a monetary value on companies, projects, or anything that produces cash flows, anyone can learn to calculate the ROI of a project. Free Guide: Financial Terms Cheat Sheet Access your resource today. DOWNLOAD NOW What Is Return on Investment? Return on investment (ROI) is a metric used to denote how much profit has been generated from an investment that's been made. In the case of a business, return on investment comes in two primary forms, depending on when it's calculated: anticipated ROI and actual ROI. Anticipated vs. Actual ROI Anticipated ROI, or expected ROI, is calculated before a project kicks off, and is often used to determine if that project makes sense to pursue. Anticipated ROI uses estimated costs, revenues, and other assumptions to determine how much profit a project is likely to generate. Often, this figure will be run under a number of different scenarios to determine the range of possible outcomes. These numbers are then used to understand risk and, ultimately, decide whether an initiative should move forward. Actual ROI is the true return on investment generated from a project. This number is typically calculated after a project has concluded, and uses final costs and revenue to determine how much profit a project produced compared to what was estimated. Positive vs. Negative ROI When a project yields a positive return on investment, it can be considered profitable, because it yielded more in revenue than it cost to pursue. If, on the other hand, the project yields a negative return on investment, it means the project cost more to pursue than it generated in revenue. If the project breaks even, then it means the total revenue generated by the project matched the expenses. Return on Investment Formula Return on investment is typically calculated by taking the actual or estimated income from a project and subtracting the actual or estimated costs. That number is the total profit that a project has generated, or is expected to generate. That number is then divided by the costs. The formula for ROI is typically written as: ROI = (Net Profit / Cost of Investment) x 100 In project management, the formula is written similarly, but with slightly different terms: ROI = [(Financial Value - Project Cost) / Project Cost] x 100 Check out our video on return on investment below, and subscribe to our YouTube channel for more explainer content! View Video Calculating the ROI of a Project: An Example Imagine that you have the opportunity to purchase 1,000 bars of chocolate for \$2 apiece. You would then sell the chocolate to a grocery store for \$3 per piece. In addition to the cost of purchasing the chocolate, you need to pay \$100 in transportation costs. To decide whether this would be profitable, you would first tally your total expenses and your total expected revenues. Expected Revenues = 1,000 x \$3 = \$3,000 Total Expenses = (1,000 x \$2) + \$100 = \$2,100 You would then subtract the expenses from your expected revenue to determine the net profit. Net Profit = \$3,000 - \$2,100 = \$900 To calculate the expected return on investment, you would divide the net profit by the cost of the investment, and multiply that number by 100. ROI = (\$900 / \$2,100) x 100 = 42.9% By running this calculation, you can see the project will yield a positive return on investment, so long as factors remain as predicted. Therefore, it's a sound financial decision. If the endeavor yielded a negative ROI, or an ROI that was so low it didn't justify the amount of work involved, you would know to avoid it moving forward. It's important to note that this example calculates an anticipated ROI for your project. If any of the factors affecting expenses or revenue were to change during implementation, your actual ROI could be different. For example, imagine that you have already purchased your chocolate bars for the agreed-upon \$2 apiece and paid \$100 to transport them. If the most that the store will pay you is \$2.25 per chocolate bar, then your actual revenues drop substantially compared to your projected revenues. The result is a reduced net profit and a reduced actual ROI. Actual Revenues = 1,000 x \$2.25 = \$2,250 Total Expenses = (1,000 x \$2) + \$100 = \$2,100 Net Profit = \$2,250 - \$2,100 = \$150 ROI = (\$150 / \$2,100) x 100 = 7.14% Circumstances are rarely as straightforward as this example. There are typically additional costs that should be accounted for, such as overhead and taxes. In addition, there's always the possibility that an anticipated ROI will not be met due to unforeseen circumstances, but the same general principles hold true. How to Use Finance to Pitch Your Project Have you ever pitched a project to senior management, only to have the idea shot down under the guise of "not making financial sense"? It happens more often than you might think. By learning how to calculate ROI for projects you're interested in pursuing, you can self-evaluate them before they're raised up to decision-makers within your organization and defend them as they're being considered. Similarly, by understanding how to calculate ROI after a project you've spearhead is done, you can better speak to the contributions that you and your team have made toward shared company goals. High-performing businesses are successful because they make smart decisions about when and where they allocate available resources. Calculating the ROI of a project before it moves forward can help ensure that you're making the best possible use of the resources you have available. To learn more ways that you can use financial concepts to improve your efficacy and advance your career, explore our online finance and accounting courses and download our free flowchart to determine which is right for you. Do you want to build your financial fluency? Download our free Financial Terms Cheat Sheet. Calculating your project ROI is the key to hitting your revenue goals and understanding project cash flows better.Fortunately, calculating it isn't rocket science.Using the basic ROI formula we share below you can quickly and effectively calculate your project profits — both when starting a project and after having completed it. We've also covered the importance of calculating project return. What is project ROI?Project ROI is the return on your investment in a particular project. It's the profit a project generates after you exclude all the project costs that go into completing it.Essentially, calculating project financials is not as straightforward as looking at the amount you make from a project. Instead, there's a significant chunk that goes into working on the project (think: payment for people who help complete the work).There's also a sum that you separate out in taxes and overhead costs from each project. Not to mention, you've to factor in the money that goes into the tools used to complete the work.Project ROI is the money that you're left with after a detailed cost analysis of the expenses going into project planning, management, and completion.That said, there are four types of ROI to be mindful of:Anticipated ROI. This is the expected ROI that you calculate before starting a project. It's great for understanding whether a project is worth your time. Calculating it also helps with deciding on which projects to take when you've almost a full project pipeline. Actual ROI. This is the ROI that you calculate upon completing a project. By comparing it with the anticipated ROI, you can see how accurate your estimates were.Positive ROI. Having a positive ROI indicates that the return on the project is higher than the costs that went into completing it. Savvy agencies know this is the type of ROI they need to meet their revenue goals.Negative ROI. As its name suggests, negative ROI doesn't yield you any profit. If anything, the revenue earned is less than the costs of completing a project. When you see such a case, it's best to not take a project delivering negative ROI or renegotiate the budget with your client.Importance of ROI in project managementThe question now is, why bother calculating project ROI?Because it helps you:Understand which projects are bringing in the most profitNot all projects deliver the same financial gain.Some projects deliver an incredible ROI. Others might be a full waste of time, giving you negative project ROI.But by calculating project ROI, you can better tell which projects are delivering the most profit. In turn, this helps you understand which types of projects to take on and which clients to focus on retaining.Determine which projects to prioritizeWhen you've an expected ROI ready, you can start prioritizing projects that deliver the most value.In doing so, you can make sure progress on high-value projects is on track throughout the project journey and your client is satisfied from the start to the end. This is also essential for retaining clients who are ideal for hitting your revenue targets.It's easy to determine the subjective value a project delivers. For example, it may be a good client logo to add to your company. Or the client may be great for your business reputation.Knowing your project ROI, however, gives you the numbers to show stakeholders and leadership the results you're driving. This solid data is also helpful for planning pivots and informing your customer acquisition strategy. Say, for example, you want to target more construction businesses than your current target audience of luxury resorts. You can refer to your project ROI numbers to back the decision.How to calculate ROI for a projectNow that the fundamentals are out of the way, let's look at how you calculate ROI. Follow these steps:1. Take stock of project detailsBegin with reviewing the work that goes into a particular project, the expenses the work would incur, and the percentage tax applicable on it.Note that there's a lot to account for when it comes to project expenses. These include:Service costsSoftware costsOperating expensesAny additional costs Service costs are further broken down into the time needed to complete work and the number of people (plus their charges) working on the project.To this end, calculate your expenses using this formula:Total expenses = software costs + operating costs + additional costs + service costs (hours to complete work x number of people completing work x hourly wages)2. Apply the project ROI formulaAfter your cost assessment is complete, apply this basic ROI calculation formula:ROI = (Net profit/cost of investment) x 1000rROI = [(Financial Value - Project Cost) / Project Cost] x 100If you're sticking with the first formula (both are the same with the latter having broken down net profit, net profit or the actual profit is the sum that'll be left with after deducting cost expenses.Calculate it using the following formula:Net profit = expected revenue - total expensesThis will give you an anticipated project ROI value to keep in mind as you start working on the project.And to make sure you make as much actual ROI as the number you expect, keep track of your project data as it proceeds. Using a project management software such as Runn that helps track your project financials makes this part easy. Runn helps you track the actual data against expected data. For instance, if you've planned for XX hours for a project, Runn will show you the number of hours completed at any given point in the project's lifecycle. Similarly, it shows you how much money has been spent as compared with the budget for the tasks at hand.All this information helps you see how well you are on track to achieving your expected project ROI. You can also use this information to catch scope creep and subsequent revenue leakage in time so that it doesn't eat at your profits. for example, you can note there's more time going into a project than planned due to a client's requests on the project not included in the original project plan. Use this information to communicate a revised budget with your client to save your ROI.3. Cross-check your actual ROI with anticipated ROIOnce a project closes, calculate your actual ROI using the same formula shared above. This time, however, instead of adding estimates, add the actual values to the formula. This will give you the correct number of the profit a project generated — improving your project accounting. And while you are at it, compare both your actual project ROI and anticipated ROI. This is crucial for understanding how you can increase your project revenue. Project ROI exampleBefore we wrap this up, let's show you how this simple ROI analysis works with an example.In this example, let's assume a client's budget is \$5,000. This is your expected revenue.After you break down the project into tasks to determine the work that'll go into it and decide on who's working on it, and their charges, calculate the total expenses.For a rough example, let's say:Software expenses are \$200Operating costs are \$500Service costs are \$2500 (two people working on the project at a day rate of \$250)Now, add all of these expenses (\$200 + \$500 + \$2500 = \$3,200) to get your cost of investment. Finally, apply the formula: ROI = (Net profit) / (cost of investment) x 100Meaning: 1800/\$5000 x 100 = 36% where 36% is the project return. Ready to calculate your project ROI?With this basic ROI calculation, you can stay on top of your profits — even drive more of it as you learn which projects are the most profitable.By tracking your project financials throughout the project's cycle, you can also identify scope creep in time and communicate a fresh budget with your client. Remember though, you need to use this ROI formula both before a project starts and once it ends. This'll give you a better, more complete picture of the profit projects drive and also help you decide which projects are worth pursuing to begin with.Here's to better profit profitability