Return on Investment (ROI)

What is the significance of return on investment?

Return on investment - ROI for short - is an economic indicator of a company's earning power. It relates the profit generated to the capital employed. Other terms for ROI are return on capital, return on investment or return on capital employed.

Formula:

ROI in percent = (annual profit / capital employed) X 100

For example, with capital employed of EUR 1,000,000 and a profit of EUR 100,000, the ROI is 10 percent.

Return on investment for individual investments

The return on investment for individual investments - for example the purchase of a new warehouse management system - does not consider the total capital of a company, but rather the amount invested in the respective solution. This amount is set in relation to the annual cost savings or the additional profit that can be realized through the investment.

The ROI for individual investments indicates the period of use after which the investment is amortized, i.e. has "paid for itself". Amortization should be achieved within the useful life. For hardware and software products, the ROI should be achieved after three years at the latest. If the ROI is achieved within 12 months, the investment is budget-neutral.

Formula:

ROI for individual investments = annual savings or additional profit / capital investment

If the savings or additional profit per year equals the amount of capital used for the investment, then the ROI is one. The ROI is therefore achieved after one year.

Weitere Begriffe aus der Logistik erklären wir Ihnen auf unserer Website.