

ROI and Metrics

Return on investment (ROI) is a ratio that establishes the relationship between an investment and the likely financial benefits from that investment. The calculation is essentially made on the basis of a forecast; what are the expected level of investment and stream of benefits with and without this particular project? No matter how it is calculated, it is merely a number.

The elements that give ROI calculation credence are the perceived validity of the assumptions and the level of accountability for reaching these results. Assumptions should describe the cause and effect relationships that will ultimately drive the achievement of the forecast results. The person that is accountable for achieving the results must be able to manage resources in a manner that impacts these cause and effect relationships and ultimately achieves the desired result. If that result is not achieved, the responsible manager must explain the variation in terms of these relationships.

To achieve any type of meaningful accountability, the cause and effect relationships must have corresponding metrics and goals associated with them. For example, consider a proposed investment that is intended to reduce call center wait time and thereby reduce contribute incremental revenue. Seems logical but there are some other cause and effect relationships here. Reduction in wait time should reduce the level of abandons and may positively impact frequency of purchase. There is also an issue of whether abandons call again or are lost to the competition. To setup reasonable accountability, the following metrics would be needed:

- Wait time
- Number of abandons
- Number of orders
- Revenue levels

In this situation, if the reduction in wait time did not generate the anticipated reduction in abandons, it could suggest that the required threshold is lower than anticipated and a greater reduction is required. The order rate would also need to be validated that average number of orders goes up on a daily basis.

Calculation of an ROI without identifying the cause/effect relationships and metrics is an exercise that has no real accountability. If the results are not met, use excuse no. 42. Reduced accountability implies a diminished probability for success. ROI should represent a roadmap to success not a statement of hoped for results.