

5 Reasons in Measuring ROI for IT Projects - Complete Guide

The stakeholders of a starting IT business project should understand the concept of return on investment (ROI). To see an [IT plan](#) to fruition, financial resources are placed on the line and they come in large sums. So if mismanaged, major losses will be suffered by the IT company. However, that dire outcome can be avoided with a clear, precise, and transparent ROI. If you're an executive, a manager, or an investor in an IT project, this article will help you understand the importance of ROI.

What Is IT ROI?

Information technology (IT) return on investment (ROI) is the amount of profit that an investor receives out of his or her investment of an IT project. Measuring the ROI is among the key functions of [project management](#) and it's the [accounting](#) department's responsibility to calculate it.

The ROI concept is one of the elements that helps IT project stakeholders to have a clear objective and a sense of direction. It's understood that profit is the driving force of such projects, aside from business innovation and expansion purposes. Here are five reasons why measuring ROI for IT projects is essential.

Determine Project Prioritization

Your IT company may have multiple upcoming or ongoing projects at once. With an estimate of each possible ROI, you can determine the hierarchy of their prioritization. If the estimates of the ROI bodes well for the financial future of the IT company, it could be deemed as a top priority project. Sponsorships will then be arranged for the project.

Evaluate Team Performance

Measuring the ROI of a project doesn't only concern money. It also speaks volumes of how well the team is performing their IT services on an ongoing project. There are many formulas in evaluating performance through the ROI concept. Most of them provide detailed results that can improve the operations of an IT project. With or without ROI, tracking every team performance report should be a practice of every project manager.

Measure Project Returns

When [planning an IT project](#), part of the objectives checklist should be the emergence of project returns. From the word return, it's a given that an ROI calculation can let project stakeholders measure the returns of the project. The project return estimates can then be utilized as one of the basis in projecting the possible profit of the project.

Investment Prioritization

This matter is more of a concern if you're the investing party of various IT projects. By measuring the ROI of the IT projects you're about to invest in or purchase, you can identify which ones will likely be profitable on your behalf. In doing so, you can determine which of them to prioritize in investing. Remember that IT projects are very delicate. A lot can go wrong if mismanaged, which in turn affects your investment negatively. So make sure your investment priorities are clear.

Budget Management

In measuring the ROI, you'll also be measuring the cost estimates of every expenditure required of an IT project. So, ultimately, measuring the ROI can help with the project's [budget](#) management process. The expenses for the project will be minimized as much as possible, which will help the project stakeholders in making it profitable in the long run. Here's what an excellent ROI is according to Trendshare.org: a 15% return on investment on a yearly basis is a good number. It's achievable through careful bargaining and proper financial management.

How to Calculate Return on Investment

Every IT business or any business in any industry has its own methods in calculating ROIs. Some of them are sophisticated, whereas some are simple enough to understand even for people who aren't familiar with the ROI concept. But in this article, we'll stick with the former because as much as possible, we want to make things basic and effective. Here's a simple way of calculating ROI for IT projects.

Cost Analysis

Conducting [cost analysis](#) is a practice that every management team does for every business endeavor. In measuring ROI, it's the first thing to do. The funding or the investment cost of the [project plan](#) will be used as a divisor in finding the results of the ROI. For the cost analysis, you can also refer to the project proposal plans and [budget plans](#).

Benefits

The benefits, or technically known as net profit, are among the primary reasons why an IT project is planned in the first place. The lifecycle of a project infrastructure will depend on how profitable it is in the future. For that very reason, project managers and stakeholders determine the possible net profit of a project. The benefits or net profit will be utilized as a dividend in calculating the ROI.

Comparisons

After finding the results of the cost analysis and the net profit, it's time to do the actual ROI calculations. The basic technique is simple compared to other technical specifications in finding the ROI. Simply divide the net profit by using the investment cost as the divisor. Once you've found the quotient, multiply it by 100. After that, you'll have the actual and precise return on investment. It's not as hard as it seems. And as a reminder, there might be times when the net profit will be a net loss. In that case, the ROI result will automatically be negative, which means the investors will not receive anything back out of their investment, and that's not good for the IT project's future.

Basic formula in calculating return on investment: $\frac{\text{Benefits or Net Profit or Net Loss}}{\text{Cost of Investment}} \times 100$

Admittedly, measuring IT project ROIs can be a lot of pressure for the project stakeholders. It can say a lot about how a project can progress during its production stages, and how the business will be affected. However, ROI measurements do keep everyone involved in the project on the same page. The project operations will be harmonious and the chances of success will soar high. So whatever IT projects you will be a part of, always remember the importance of the ROI concept.