RETURN ON INVESTMENT (ROI)

Purpose

To help you assess the return you have made on your investment in the intervention – is it value for money?

In the public sector, the ROI is the cost reduction, saving or avoidance obtained after an improvement in processes or systems against the cost of the improvement or intervention.

Return on investment is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments, social or otherwise.

Return on investment is a very popular metric because of its versatility and simplicity. That is, if an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should be not be undertaken.

How to use or apply

Use the following formula to calculate your ROI. You can do this in the scoping stage to assess viability of intervention options and at the end to assess the result.

ROI =

$$\frac{\text{(Intervention cost reduction, saving or avoidance) – (All associated intervention costs)}}{\text{(All associated intervention costs)}}$$

OR

$$\frac{\text{(Net gain)}}{\text{(All associated intervention costs)}}$$

You will have to carefully think about the monetary value of the investment made and the returns gained. Remember, this will include a cost of people's time, for instance, the proportional salary costs of the steering group involvement, not just easily attributable costs associated with commissioning.

When you assess the ROI you will need to consider it against the timeframes involved, in particular the long term implications for sustaining a return as well as comparing it against the relative impact of other interventions/investments.

Source(s)/Reference(s)

French, J., Blair-Stevens, C., McVey, D. And Merritt, R. (2009). Social marketing and public health theory and practice, p133

Example estimates of ROI on a proposal to extend social smoking cessation clinic opening times	
Numbers of current attendance annually	1,000
Percentage increase projected by increasing opening times	10%
Number of new clients	100
Percentage of new clients expected to quit	25%
Number of additional quitters	25
Average cost saving per quitter	£3,000
Annual gross cost saving (25 x £3,000)	£75,000
Annual costs of providing extended opening	£20,000
Net cost savings	£55,000
ROI (55,000/20,000)	2.75 : 1 or 275%