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ROI vs. ROV

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From a business standpoint when investing in construction technology, many businesses get stuck on the question "When will we see our return on investment?" It's a fair point. However, the return on value is an important aspect when considering business purchases.

WHAT IS A RETURN?

A return on investment (ROI) is the cost of investment and seeing that exact investment amount recouped. When considering business purchases, decision makers think about their ROI, but this simple formula does not take into full account what is at stake. If you spend $10,000 on equipment for the business, you want to see at least a $10,000 profit generated from that piece of equipment. In this situation, your ROI is 100%. If you make a $15,000 profit, then your ROI is 150%. If your profit is $7,000 then your ROI is 70%. ROI is a very simple math formula.

Decision makers who hold the company's purse strings get too caught up in what the return on investment is when making a business purchase. Certainly, the ROI is a valuable measurement when making purchasing decisions — you have to make a profit to stay in business; however, there are also intangible costs involved in any business purchase. These harder-to-quantify benefits are called the return on value (ROV).

ROV is the financial amount a company would attribute to the improvement of staff (new hires, retaining staff, and promotions), happy and satisfied customers that turn into repeat business and referrals, and the technology that helps the company run efficiently. There isn't a simple formula to ROV because each company is going to put a different value on what's important to them.

Today's business landscape has moved to a customer-centric approach to selling. You cannot sustain long-term growth by only considering your bottom line. To grow, you must consider the ROV of your business purchases because, ultimately, the value an investment adds will affect your profit — negatively or positively.

WHAT IS THE COST OF IGNORING ROV?

When looking at making a significant purchase for your business, like a new construction estimating software, don't only look to answer, "What will it cost?" Consider also "Why should we purchase this?" The price point of the software shouldn't be the only thing that matters. You also need to look at other gains if you move forward, and the losses if you choose not to purchase.

ROV isn't necessarily a number you can calculate because it takes into account all the benefits — those that accounting and financial software can't actively measure — of the purchase besides the direct financial return. Some of the values construction firms should consider are time savings, the accuracy of data, improved collaboration, an increase in repeat customers and the happiness of employees. Documenting these values and referencing them during decisions on capital investments will help in determining what's best for the business as well as considering ROI.

THE BIG DIFFERENCE BETWEEN ROI VS. ROV

While ROI has simple calculations, the biggest difference between that and ROV is people. Because of the customer-centric approach of construction, the value business owners put on people is a major variable in understanding ROV.

To start figuring out ROV, decision makers should know what their team members value. For preconstruction teams, do they hate doing the low-value-add activity of data entry? Do they thrive in customer meetings when the company's historical cost data is at their fingertips? Has someone threatened to throw their computer out of a window because of a misplaced decimal point in an Excel formula?

ROV IN PLAIN SIGHT

Investment in construction technology can improve your quality of work, make your team more efficient, help finish projects on time, and create consistency that builds trust with project owners. Providing the tools to your preconstruction team to do a better job keeps them more engaged, less stressed, and less burdened. Specifically, senior estimators would have the time to focus on strategic-level thinking, pursuing more projects and collaborating with owners to problem solve and offer alternative solutions.

Looking at the ROV is adding a price to the well-being of your employees and project owner satisfaction. For example, using Excel as an estimating platform drains preconstruction teams of time and effort to complete accurate estimates on time. Mining through multiple lines in a spreadsheet to find a specific cost quantity and the headaches of losing data when copying and pasting causes morale to decline. At some point, the best estimators will leave for a company that embraces innovation and new technology. And that company likely tracks their ROV. They know what their team members value and have purposefully made the decision to boost what employees value.

How much better off will you be after your initial investment? You will be more efficient and will be able to quickly respond to project owner requests. When you add these aspects into your business decisions, you will see that the ROV does turn into profitable dollar signs.

About the Article

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