



Business Virtual Learning

HS/Marketing

April 24, 2020



Lesson Topic - Return on Investment

Objective/Learning Target:

Lesson: April 24

1. Understand return on investment
2. Calculate return investment

RETURN ON
INVESTMENT



Return on Investment:

Return on investment(ROI):
Is a calculation that is used to determine the relative profitability of a product

A company may price its products to achieve a certain return on investment.

ROI Example:

ROI is money earned by a business divided by costs and expenses.

Profit / Costs

Assume your company sells trash cans for \$8 each. Your cost to make and market the trash cans is \$6.50 per unit.

$\$8 - \$6.50 = \$1.50(\text{profit}) / \$6.50(\text{costs}) = .23$ This means that your rate of return on investment is 23 percent.

[Watch this video on Return on Investment](https://youtu.be/eoAR8ZyAyoc)
<https://youtu.be/eoAR8ZyAyoc>

Example:

A trucking company has 5 delivery trucks that make 8 deliveries each per day and charge \$75 per delivery. If the cost of gas and other expenses per truck, per delivery is \$28 and the company has over all weekly fixed costs of \$2,500. What is the ROI for a 5 day week?

Step 1 – figure costs: 5 trucks @ 8 deliveries - 40 deliveries per day

$$28 \times 40 = 1120 \text{ costs per day} \times 5 \text{ days} = 5600 + \$2500 \text{ fixed costs} = \mathbf{\$8,100}$$

Step 2 – Figure Revenue:

$$40 \times 75 = 3000 \times 5 = 15,000$$

Step 3 – Figure Profit

$$15,000 \text{ (revenue)} - 8100 \text{ (total costs)} = 6,900$$

Step 4 – ROI:

$$6900 / 8100 = .85 \text{ or } 85\%$$

Practice 1

Create a google doc or write answers on paper.

Two young entrepreneurs, Rush and Josh, open a lemonade stand in front of their house. It cost them 25 cents to make one glass of lemonade. They sell the lemonade for 35 cents a glass.

What is the ROI?

Practice 2

Lauren Started her own business stitching sports figures on sweatshirts to sell at the homecoming game. It costs her \$9.00 for the sweatshirt, \$3.50 for the canvas, and \$1.50 for the special thread. If she sells the shirts for \$30.00 what is their return on investment each shirt?

Question 3 - a little more challenging

Tom has a mechanic shop called Tom's AutoCare and has 2 other employees who work 40 hours per week at a rate of \$22 per hour. He has a customer come in that needs the following work done:

Procedure	Cost to Tom's Auto Care	Price customer pays
Oil change	\$13.00	\$39.99
Tire rotation	\$12.00 per tire	\$60.00
Spark plugs replaced	\$45	\$85.00
Power Steering Fluid flushed	\$20	\$75.00

It will take one employee 3 hours to complete the work listed above. What will the ROI for this job be?

Question 4

1. A small manufacturer of toys invests \$1,000,000 in materials and labor to make 25,000 dolls. The cost to package, advertise, sell and ship them comes to \$245,000.
2. If 18,000 of them sell at \$75 and then another 5,000 sell at \$45, what is the ROI?
3. What would the ROI go to if they were able to sell the remaining 2,000 dolls at \$25?

Challenge question!!

- A store purchases 35,000 pairs of shoes at \$18.00 each. Total fixed costs associated with the shoes are \$8500.00.
 - If a half ($1/2$) the shoes sell for \$55.00
 - ($1/4$) sell for \$35.00
 - one-eighth ($1/8$) sell for \$29.50
 - and the remainder sell for \$20.00
- What is the ROI for the shoes?

**Show me
your work!**