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Deciding When to Replace Laundry Equipment

A closer look at the decision-making process

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What factors should laundry owners consider when deciding whether to replace older, potentially outdated laundry equipment?

It's a challenging question every coin laundry owner has to answer, and just about every laundry professional has at least some general theory about how and when to replace old or inefficient laundry equipment.

To help address this question, the Coin Laundry Association solicited the input of a broad range of coin laundry professionals—laundry owners, equipment distributors and manufacturers—who represent a cross-section of experience, opinion and expertise in the decision-making process for upgrading and replacing equipment. We spoke with small and large operators from different geographic regions.

Based on our interviews with these industry pros, it became clear that the relative importance of most factors that play into a replacement decision—such as chronological age, efficiency, obsolescence, customer appeal—really is unique to each specific laundry.

In fact, determining how to rank the importance of these decision factors depends not only on the individual management style and business plan of the operator, but also on the geographic region, local utility environment, neighborhood demographics, business size and market competition.

For example, the chronological age of a machine may be less important in a rural single-laundry market, and more important in a competitive urban one. Likewise, a machine's utility efficiency may be less important in an area with average water and sewer costs, and more important in a city with very high costs.

What does emerge as very clear is that new machines will help owners save money on utilities, offer more pricing options, and justify price increases. New equipment also can attract new customers and increase turns, and provide some slight boost in the overall value of a store. And these improvements and advantages, acting together, generally allow an owner to invest in a retooling on a cash-flow neutral basis or better.

The following white paper examines the primary factors that owners should take into account in making the decision to re-equip. It also provides a few general guidelines aimed at helping operators put these decision-making factors into perspective within the context of a specific coin laundry.

While each situation is unique, we hope this brief examination of the decision-making process will make what is always a tough business decision a bit easier.

1. What is old?

So what actually constitutes "old, outdated equipment?"

Many characteristics play into this question, and the answer usually is somewhat subjective, and more often than not is specific to a given store or neighborhood. The key characteristics owners use to define "old, outdated equipment" are listed below.

CHRONOLOGICAL AGE. Washers and dryers, like any other machines, have what might be called average "prime" lifespans. Typical prime lifespans for laundry equipment include:

- **Top-loaders:** 5-7 years
- **Home-style front-loaders:** 5-7 years
- **Heavy-duty front-loaders:** 12-15 years
- **Dryers:** 12-15 years

Machines that are properly maintained and used as intended can last many years beyond these prime lifespans. A dryer or heavy-duty front-load washer, for example, may last as long as 20 to 30 years—but it will do so at a much higher cost, consuming what today would be considered enormous amounts of water and energy compared to newer, more efficient machines.

USAGE. How heavily a machine has been used also must be factored into a decision to replace. Machines in a 24-hour store can be expected to do more turns than those in a 12-hour store. A well-maintained machine may last 20 years in a location with modest traffic, but that same machine, with the same level of maintenance, may be worn out at three or five years of age in another location with very heavy traffic and harsh use from customers.

CONDITION. How does the machine look? Is it chipped or rusty? Is it impossible to clean? Is the owner able to replace the front of a dirty-looking but otherwise viable machine to make it look newer?

EFFICIENCY. Utility efficiency almost always carries some significant weight in a replacement decision. New machine models will nearly always be more water- and/or energy-efficient than the ones that preceded them.

REPAIR FREQUENCY/COST. How often does a specific machine require repair? A machine that breaks down more than once every two or three months is probably a candidate for replacement. Cost can be as much of a factor as breakdown frequency and downtime. If an owner with a line of identical machines of the same age sees the same $2,000 repair emerging in more than one or two of those machines, it could be an indication of similar expenses to come. High costs for repairing borderline machines raise a red flag.

SERVICEABILITY. Older machines that still are functioning well may face another problem: The lack of available replacement parts. If a machine's parts are difficult to find or to obtain quickly and affordably, it may be better to replace the machine than tolerate longer down times and higher costs for parts.

RELIABILITY. This is a function of repair frequency and serviceability. How long and how often are machines out of order? Unreliable machines rob owners of profit and customer good will.

OBSOLESCENCE AND CUSTOMER APPEAL. How does a store's machines compare to newer models, from both the owner's and user's perspectives? Older machines may run fine, but not accommodate features that benefit the owner, such as cycle modifiers, time-of-day pricing and multi-level vend for water temperature. Or they may not provide the cycle selections customers want. Machines may function well, but nonetheless seem ancient to customers—too worn, too small or too slow compared to those of the competition. Or it may be the case, for example, that smaller, viable seven-year-old machines no longer serve the needs of a local market that now demands higher-capacity equipment. Machines simply may be obsolete in reference to the community the laundry serves.

OWNER'S TIME. Hands-on owners often fail to track or put a value on the time they spend maintaining and repairing their machines. An owner who spends an inordinate amount of time repairing marginal machines might be better off replacing those machines, and putting that time to better use managing or marketing the laundry to generate better profits, or working on other businesses.

RECORDS. While a record is not a characteristic in itself, scrupulous recordkeeping can aid an owner in determining what constitutes "old," and in deciding which machines to replace and when to replace them. This means keeping accurate, complete records of the cost and frequency of all repairs and maintenance, the number of cycles and turns per machine, motor wear, utility costs, and when and where machines were rotated to even out wear and tear. Anything in the store that is worth doing or paying for is worth tracking.

2 Utility efficiency improvements

How do improvements in utility efficiency inform the decision to re-equip? What is the "payback" on replacing equipment of a certain age/condition?

As noted earlier, coin laundry equipment has become progressively more efficient with each new generation of models, in terms of both energy and water consumption.

Over the last few years, the natural gas supply has increased, driving down its price. On the other hand, water and sewer costs have increased dramatically over the last decade. Those costs are expected to continue to rise as utilities increase rates to recoup the expense of replacing aging infrastructure, and as water supply grows scarcer in some regions.

Research and past experience show that water and sewer rates are nearly guaranteed to stay on this upward course. Municipalities surveyed by CLA have indicated that large, consistent increases in water and sewer charges will continue to be the rule in most of the country in the years ahead. At the same time, rates also may vary greatly within a region. Some localities, such as San Francisco, charge rates that are four times greater than jurisdictions just 20 miles away.

Given these steadily rising costs, coin laundry owners can always gain some benefit in terms of energy and water consumption savings by replacing older equipment with newer, more efficient models.

WATER. Gains in water efficiency are particularly significant. In top-loaders, for example, design improvements have steadily reduced the volume of water used per cycle:

- **>15 years ago:** 45 gallons per cycle
- **10-15 years ago:** 32 gallons per cycle
- **last five years:** 24-25 gallons per cycle

An old 30-pound front-loader may have used 2-3 gallons of water per pound of clothing, whereas today's models may use a gallon or less without compromising washing results. Other utility efficiency improvements can be captured by swapping out top-loaders for front-loaders that use far less water per pound.

ENERGY. Upgrading to high-extraction washers also reduces drying time, providing benefits to both operators and customers in terms of lower energy consumption and faster drying times.

PROGRAMMABILITY. Another key factor to consider is that new equipment, once installed, provides owners with greater flexibility to respond quickly to rate increases by allowing them to easily adjust the vend price structure to absorb higher utility costs. Some manufacturers suggest that owners may be able to save 20 percent to 25 percent on the bottom line by replacing severely outdated equipment with new, highly programmable models.

Another thing to note is that owners who conscientiously track their utility usage are in a better position to make well-informed replacement and upgrade decisions. Equipment distributors and manufacturers also can provide owners with insights into efficiency gains, and will go through formulas with owners to calculate the expected costs and savings generated by specific replacement scenarios.

REBATES. Gas, electric and water utilities in various states and service areas occasionally offer cash rebates to reward upgrades to more efficient equipment. The rebates, while not insignificant, generally are not large enough to be a major factor in retooling decisions. At the same time, it is free money, and owners contemplating upgrades are advised to investigate any rebate programs offered by their local utility providers. Operators also should be aware that such programs often draw from a set amount of funding that becomes exhausted over time, so prompt action is best.

3 Tax benefits

Add'l sources:
http://www.fdcpa.com/Tax/0712taxnews-irc-section-179-deductions-schedule.htm
http://www.section179.org/section_179_faqs.html

What are the tax benefits (depreciation, etc.) to consider when looking at this type of capital purchase?

One of the key benefits of making new capital investments is the ability to write off those investments, either through multi-year, straight-line depreciation over the life of the asset, or through special incentives that may vary from year to year.

Two of the most often used of these special incentives are the Internal Revenue Code Section 179 deduction and bonus depreciation.

IRC SECTION 179. IRC Section 179 allows a business to accelerate the depreciation of qualified purchases of new and used capital equipment in the year of purchase, up to certain limits. Subject to renewal by Congress every year, recent legislation has set the Section 179 deduction limit for 2013 at $500,000, retroactive to the beginning of 2012. (The deduction cannot exceed a business's taxable income for the year in which the deduction is taken.)

BONUS DEPRECIATION. First-year bonus depreciation—on the qualified purchase of new equipment only—is another federal tax incentive that is renewed on an annual basis. Also meant to help businesses afford investment in certain fixed assets, the bonus depreciation rate for 2013 is 50 percent.

These generous depreciation deduction incentives can have a large role in an operator's decision in terms of the size and timing of equipment upgrades. While these two incentives may seem straightforward, laundry owners considering applying these deductions for the purchase of new or used equipment need to make their plans in close consultation with a qualified tax advisor to see how these incentives relate to their specific business, location and tax year.

STRATEGIES. Whether or not to take large, first-year deductions also may hinge on how frequently an operator re-equips, the cost and extent of the upgrades, and the number of stores the operator owns. It might make more sense, for example, in the case of a large, multi-store operator who buys a large amount of equipment on a regular basis, to take depreciation on a normal straight-line basis over a period of years. A smaller operator, depending on his or her financial position, might find greater advantage in taking a large first-year deduction. (In both of those scenarios, of course, the tax deduction strategy will be influenced by other factors that are unique to each business.)

An owner also may choose to spend a set amount each year on new equipment to consistently reduce overall tax liability or shift tax brackets. Using this strategy, an operator can regularly purchase equipment in a tax-advantaged way, as well as demonstrate to customers that the owner is consistently improving the facility. Other operators may even treat tax savings as "real money," setting aside equivalent amounts to help fund future equipment investments.

But like other factors that contribute to retooling decisions, tax savings alone seldom provide enough of a reason to compel an operator to upgrade equipment, and must be considered as part of a larger re-equipping strategy.

4 Vend price

What are the vend price implications—and opportunities—of upgrading equipment? And how does this factor impact the payback scenario?

Upgrades not only provide operators with a key opportunity to increase vend prices, but also to do so in a way in which customers can see a tangible added value.

PRICING CONTROLS. New equipment provides more flexibility in control, allowing store owners to maximize vend pricing by adjusting it for time of day, day of the week, or week of the month, to conform to the load level and usage patterns of customers. Other flexible-pricing controls that permit cycle-based and water temperature pricing allow owners to pass on the cost of water-heating and energy, as well as provide customers with a greater selection of price levels.

EQUIPMENT MIX. Replacement projects provide owners with the chance to adjust the mix of equipment in a store to their monetary advantage. The owner may use the retooling to capture a segment of business the store might be missing—for example, by replacing smaller washers with larger washer-extractors to satisfy customers' appetite for higher-capacity machines—which also carry substantially higher vend prices. Or perhaps demographics are changing to include a growing retiree population—presenting the owner with the opportunity to remove a row of top-loaders and replace them with a row of double-load washers or stacked washer-dryers, allowing the owner increase capacity and boost revenue per square foot.

APPEARANCE. The simple fact is that shiny new equipment looks like it's worth the extra money to use, and most owners can reasonably expect to raise prices 10 percent to 20 percent for new equipment of like capacity. Moreover, in response to a growing customer migration toward higher-capacity machines, owners likely will opt to replace existing equipment with larger machines that command higher vend prices. In either case, customers tend to be more open to price increases when they see improvements in equipment and expanded wash and dry options.

PAYBACK. A quick example nails down an attractive payback scenario related to a simple 50-cent bump in vend price:

50 cents x 100 loads a week = $50
$50 x 52 weeks = $1,040

Equipment upgrades also present owners with the opportunity to market by "telling a story" that supports higher vend prices and encourages usage. That story, for example, might highlight the ability of high-extract washers to cut drying time and get customers out the door faster.

5 Laundry value

What impact does the age/condition of equipment have on the value of a given laundry?

While the age and condition of equipment does have some effect on the value of a laundry, a store's capital assets in general have less to do with valuation of a given business than good gross sales and positive cash flow.

Although there are many ways to value a laundry, the simplest method is to calculate it using net profit times a multiplier used in the laundry's specific market, with a slight adjustment up or down for the age and condition of the laundry's equipment.

That said, if there were two laundries with similar financial characteristics in a given area, and one had far newer equipment, in all likelihood a buyer would deem the more recently re-equipped one the more attractive business.

For that reason, operators in most markets probably would be wise not to ignore replacement so long that they end up with a store full of 20-year-old equipment. Most owners probably would judge it better to replace machines at least gradually to preserve the ongoing viability of the business—and avoid the need for a more extensive retooling over what could be an uncomfortably short period at a later point in time.

While most experts agree that older functioning equipment in itself generally will not drive down the value of a store significantly as long as the profit is there, it is also true that newer equipment usually will generate more cash flow, and once paid off, substantially more profit. It will be clear to a potential buyer that older equipment that still generates cash also comes with higher utility costs and less pricing flexibility.

On the other hand, in certain markets some buyers see established laundries with out-of-date equipment as opportunities for reinvestment, and may acquire such businesses with the intention of reestablishing them through extensive replacement and upgrades.

http://www.bizben.com/blog/posts/coin-laundry-valuations-070709.php

6 Financing and loan terms

How should financing availability and loan terms impact this re-equipping analysis?

Simply put, financing provides operators with the opportunity and means to upgrade equipment "using other people's money." In a capital equipment-intensive business such as a coin laundry, the availability of affordable financing is a key consideration in any retooling effort.

As of 2013, rates are better than they have been in a number of years. But financing availability and terms do vary over time, and rates do fluctuate. Under certain economic conditions, loans may be more difficult for laundries to negotiate and obtain. This is especially true when it comes to traditional lenders such as banks, which prefer to secure loans using collateral such as real estate, rather than equipment for a business they know very little about.

For this reason, coin laundry owners typically turn to two alternate sources of financing: Niche lenders who specialize in and understand the coin laundry business, and the equipment manufacturers themselves.

Because manufacturers offer low-cost, flexible financing options as incentives to drive sales of their equipment, owners pursuing a replacement plan often judge manufacturer-provided financing to be the more convenient solution to their needs.

The fact that manufacturers offer custom financing also is something owners should consider if they are thinking about the purchase of used equipment, which generally cannot be financed on similar terms.

The lending incentives equipment-makers typically offer may include:

- Low interest rates
- No-interest periods
- Graduated payments
- Loan terms up to seven years
- No money down
- Interest-only periods
- Deferred first payment
- No prepayment penalty

Nearly all owners seek financing which—after accounting for the monthly loan payment, expenses and revenues—will leave them in a cash-flow-positive position. Unless an owner is in an extremely secure financial position, few will pursue a replacement project that does provide some immediate dollar benefit. At a minimum, most expect the financial gain from a replacement project to be sufficient to offset the new cost.

That's why it is critical to conduct a detailed pre-loan analysis for each individual replacement project. Manufacturer-lenders can help in his analysis, and there are software programs specifically designed to aid coin laundry owners in making such calculations.

In general, most owners can expect new machines to generate more income than the machine it replaced—a fact that makes financing a purchase more palatable. In addition to earning the "normal" average income from a line of new machines, an owner might expect a number of factors to improve revenues in order to cover the monthly cost of the note and other expenses, as well as provide additional profit beyond that. These factors include:

- Higher vend prices
- Utility efficiency savings
- Increased number of users for new equipment
- Less revenue lost to down time

As a final note, it is important for operators to maintain good relationships with lenders and equipment distributors to ensure they receive the best deals—both on equipment and the loans to finance its purchase. Every dollar spent to support higher interest rates and greater equipment costs puts the break-even point on a replacement project further out of reach.

7 Down time

How should laundry owners examine the current costs of repairs and maintenance, turns lost to down time, and potential customer dissatisfaction with older/poorly functioning equipment among the considerations for equipment replacement?

A host of negative factors can contribute to an owner's decision to replace equipment. And all these factors share one common element: *They rob the owner of both time and money.*

LOST TIME. Coin laundry operators, like many owners of small businesses, often tend to overlook or devalue the time they spend arranging for or performing repairs and maintenance. So the first question an owner considering replacements should ask is:

> *"How many hours each month am I spending on arranging repairs and extra maintenance—or performing it myself—that I could be spending managing this or another business?"*

LOST REVENUE. Down time means less income generated by the now idle machine. The machine that goes down consistently may be repaired and put back into service, but the income it lost during down time will never be made up.

> *"Are frequently out-of-service machines returning net losses or unacceptable levels of profit?"*

LOST CAPITAL INVESTMENT. While owners expect a certain amount of expense for routine maintenance, repair and parts, most operators with experience also have a clear picture of what constitutes normal levels of these expenses. So another question to ask is:

> *"Am I spending an amount on repairs and parts that would be better spent on buying new equipment?"*

LOST CUSTOMER CONFIDENCE. A store where out-of-order signs are a frequent sight can take a toll on customer good will. And if patrons begin to worry about machines "eating their quarters," and the store is in a competitive market, those customers will find a store where losing coins is less of a risk. On the other hand, customers are likely to see an owner who replaces malfunctioning equipment with new machines as a good steward and someone who cares about his customers. Therefore, an owner who makes frequent repairs might be well advised to observe or talk to customers to find out:

> *"How do my customers see the store? How do they see me?"*

RECORDS. Good recordkeeping provides metrics owners need to make informed business decisions. This is particularly true when making decisions of whether or not to replace expensive capital assets. That's why it is critical for owners to keep meticulous records on the usage, repair, maintenance, and down time of each specific machine in a laundry. Having good, detailed information is the only reliable way to pinpoint which machines are costing the most to repair and keep in service, which ones have the most wear, and which are experiencing the most down time.

It also is imperative for operators who employ others to make sure employees accurately track everything that goes in their store. Records are only as good as the person who keeps them.

THE 'NEWNESS' FACTOR. Aside from these issues, there is another major point: A key advantage of replacing equipment (unless one buys used machines) is the plain fact that the equipment is now new, and has a five- or 10-year warranty. This "resets the clock" on service calls, repairs and parts. This also means that, for the most part, fixed costs—payments on a note and regular maintenance—replace the variable costs of ad hoc repairs, maintenance and parts purchases, making it easier for the owner to budget.

At the same time, if machines run well but are merely unsightly to look at, an owner may opt to take the less expensive route and repaint machines, change out panels and faceplates, and make other cosmetic repairs to restore their "new" look while still keeping these machines in service. Machines that look bright and new may be particularly important in markets where competitors' stores feature newer equipment.

8 Selling plans

How should one's plans for selling a store influence whether or not to re-equip?

As noted in the earlier discussion on laundry valuation, while the age and condition of equipment does have some effect on the value of a laundry, the value of a given coin laundry will be set based more on its sales and cash flow.

Outside of those parameters, the price of a laundry generally will be adjusted only slightly up or down based on the age and condition of its equipment.

On the other hand, unless a buyer is looking to gut a store, he or she will look for a business that not only shows a good profit, but also one whose machines are in reasonably good condition. No one wants to buy a problem.

SHORT-TERM HORIZON. Sellers may or may not have a choice as to when to sell a store. Because coin laundries most often are small businesses consisting of one or two stores, owners sometimes may be forced to sell stores quickly because of an unforeseen event, ill health or family emergency. In those cases, there often is little time to do more than make a few absolutely necessary repairs and replacements, and perhaps make some low-cost cosmetic improvements. Operators with only a short time to prepare a store for sale—less than one year—must be careful to limit replacements only to those that are absolutely necessary.

Most owners agree that as a general rule one should do very little in the way of replacement within a three-year period before a sale. This close to relinquishing the business, appearances and simple maintenance begin to take precedence, and most owners say that keeping things working and burnishing appearances is more important at this point than investing in new equipment.

LONGER-TERM PLANNING. However, owners who anticipate selling a store at some more distant time in the future have the luxury of timing their purchases far enough in advance that newly replaced equipment puts a fair share of the early return on investment into their own pockets rather than those of the eventual buyer.

Most experienced coin laundry operators generally agree that to make the replacement project worthwhile, any substantial replacement of equipment—a row of dryers, for example—must be done far enough in advance of the time of sale to allow the owner to pay off the equipment, and then generate several years of earnings after the loan is paid off

Depending on the term of the loan, this could mean an owner would try to make any substantial equipment replacements anywhere from five to 10 years before the sale. The replacement of a row of dryers—financed over five years, for example—would have to be done a minimum of seven years before the intended year of sale in order to recoup the investment and then generate several years of profit after the loan is cleared away.

Moreover, an owner who is looking at a longer time horizon—and who sees a comfortable market ahead—can afford to be a bit more aggressive in a reequipping effort. The higher vend prices and additional turns produced by new machines will not only result in a faster payback and increase the value of the store, but also may make the business more attractive to a potential buyer.

9 Full or partial replacement?

What are some common strategies for upgrading/re-tooling a store – i.e., full store replacement versus a gradual/stepped/laddered approach?

As with all the other considerations owners face when contemplating the purchase of new machines, deciding on the replacement strategy itself may be influenced by a host of other factors that are unique to a specific store, such as location and competitive environment, amount of downtime, age and wear, utility capacity, length of lease and access to financing.

That said, there are three main strategies for replacing machines:

AS NEEDED. While all replacement is based to some extent on what could be considered "need," in this case one is referring to a strategy under which an owner trades out only those machines that simply have come to the end of their life and can no longer be kept running in an affordable way. These are machines, as most owners might say, that have been "run into the ground." This is a relatively common practice. Machines are run as long as possible and replaced only when they are totally worn out. This strategy may be less desirable in competitive markets, where keeping old machines online may put a store at a competitive disadvantage. (An exception might be if a store's machines are so heavily and harshly used that they are quickly worn out and replaced with some regularity. In that case, the owner might use the "as needed" strategy successfully in a competitive market.)

FULL REPLACEMENT. While replacing all machines in a store is a less common approach, owners may do so when market conditions or long-term business plans require a more extensive retooling strategy.

Here is one such scenario: A store's sales are dwindling because of age and wear, but the laundry still shows promise in a market—that is, demographics in the neighborhood remain suitable, and the store has had a good sales history before the drop-off started. To ensure the business remains viable, the owner decides to replace all the machines in the store and do a basic cosmetic facelift. While this requires a large cash outlay, a full replacement will increase the store's overall capacity, improve its utility efficiency, make it more attractive to customers, allow the owner to increase vend prices, and provide the owner with the opportunity to match the mix of machines more closely to the community's current needs.

Full replacement also may be part of an even more ambitious strategy to *re-launch* and re-characterize a laundry. Such a re-launch effort may be done by the current owner, or by a new market entrant whose business plan involves buying a run-down laundry for pennies on the dollar. In either case, the owner's plan is to completely gut, refit and re-launch the business in the community. In this case, the full replacement is part of a long-term strategy to create, market and grow a brand-new business to serve an established clientele.

Depending on the amount of mechanical refitting required for full replacement, an owner may close the store entirely, or keep it partially open during the upgrades in order retain customers and revenues.

STEPPED/LADDERED. The stepped or laddered replacement method preferred by some operators involved replacing a group of machines at intervals. It typically involves replacing a limited number of machines at one time under a certain criterion. Examples might include replacing one row of machines at a time, all or some of one kind of machine, or all machines of a certain age. This method features a number of advantages not offered by the all or (nearly) nothing approaches represented by the "full replacement" and "as needed" strategies outlined above. These include:

Improved customer perception. Most longtime owners believe that customers like to see continual improvements over time. By investing in a certain number of new machines every few years, customers see owners as good stewards who are making sure their customers consistently receive new and improved service options.

Consistent tax advantages. Whether an owner follows a gradual depreciation schedule or takes a large first-year deduction (when available), buying new equipment on a regular basis provides owners with a more consistent tax advantage, either year to year or on some regular schedule.

Less lost income. Replacing machines on a regular basis rather than keeping them until they run into the ground generally results in less downtime, less lost income, and fewer dollars spent on parts and repairs.

Stores also generally remain open during a partial replacement project, so day-to-day operations continue, and less revenue is lost. Furthermore, when machines are replaced on a stepped basis, more machines are likely to be on warranty at any given time, meaning less money is lost to repairs.

Better long-term planning. Some owners prefer to replace machines incrementally so they are able to spread out expenses and integrate purchases of equipment as a regular part of their long-term business plan. For example, an owner may plan to replace 20 percent of a store's machines every five years. Budgeting becomes easier when equipment purchases become less of a variable and more of a fixed cost.

Adjustment opportunity. A gradual replacement strategy also provides an owner with a regularly occurring opportunity to adjust a store's machine mix to match customer needs, such as installing more large dryers to appeal to a new market segment. An owner may also use a single round of replacement—perhaps upgrading a line of washers—to test customer response before finalizing a decision to launch into a more extensive replacement project.

Market security. By replacing a certain number of machines on a regular basis, an owner can ensure the machines in a store are mostly newer models that meet the needs of the market. A store with machines that are not outdated, and which match the broader market, will be less likely to attract competition.

Rather than replacing all the machines in a store at once, or replacing them on a long-term rotating basis, owners also may pursue a strategy that lies between those two options. This might be called a laddered **full-replacement strategy**—for example, a plan that calls for replacing all the machines in a store over a five-year period. In that case, an owner might work with a distributor to devise a plan that prioritizes the purchase and replacement of various equipment over a four-or five-year period.

Whichever strategy an owner ultimately chooses, that strategy will be determined by a specific business's location, local demographics and the owner's individual financial situation.

10 Lease as a factor

How should the laundry's lease impact the re-equipping analysis?

It is no exaggeration to say that a coin laundry is at the mercy of its lease.

Not only does the laundry occupy the leased space, but much of the laundry is in fact bolted down to it. Within the space that houses a laundry, floors have been cut to accommodate drains, ceilings and roofs opened to accommodate venting, and half-walls and bulkheads built to hook up equipment. A laundry's capital equipment is physically installed into a facility, so moving it once it is installed is at the very least a logistical and financial nightmare. Once a coin laundry is in, it is in for the long haul.

The bottom line is: The lease is the most critical factor affecting any major replacement decision.

Although some operators will consider a slightly shorter period, most operators will not consider any substantial replacement effort with anything less than a 10-year lease in place, and most would prefer more. The rationale is that 10 years covers the debt-service period, plus several earning years beyond that.

Under certain circumstances, some operators might need to make an exception on the 10-year rule if their back were to the wall in terms of equipment age and condition. But neither they nor the lender who is financing the purchase are likely to proceed if the lease does not cover at least the full term of the loan.

Because substantial purchases of capital equipment are inevitable in the coin laundry business, most canny owners are keen to renegotiate their leases at the earliest opportunity—in the best scenario nailing down 20 years in five-year options. The long horizon provides the owner with the time to make capital investments, and the options allow an operator to withdraw from a location if demographics change so greatly that “the market leaves.”

11 Alternative payment systems

How should the laundry owner’s interest in an alternative payment system influence the decision of whether or not to replace machines?

While there has been growth in the use of alternative payment systems in recent years, most operators separate the question of whether to install an alternative payment system from the question of whether to replace machines. For most operators these are distinct and unrelated issues.

On the other hand, once the decision to replace or upgrade machines has been made, operators may see it as an appropriate time to investigate the issue and decide whether an alternative payment system, or APS, should be part of the replacement project.

APS systems may take different forms, but all involve some sort of magnetic stripe reader that accepts one or more kinds of payment—credit cards, regular and prepaid debit cards, and customer loyalty cards. In addition to machine-mounted readers, which may be combined with coin slide or drop systems, APS setups include an associated PC-based operating and accounting system. Customer loyalty card systems also require a value transfer machine which accepts cash and sometimes credit/debit cards.

Alternative payment systems offer many advantages, including:

- Reducing or eliminating the tasks related to handling cash
- Decreasing risk of vandalism or theft by minimizing or eliminating cash
- Simplifying and streamlining accounting and recordkeeping
- Expanding pricing flexibility
- Reducing owner oversight requirements
- Enabling remote management, monitoring and pricing
- Providing new marketing opportunities (loyalty card systems in particular)
- Providing cash benefit for lost cards containing value (loyalty cards only)

In some locations and areas, credit cards are making headway, in others, customer loyalty cards. One advantage of using customer loyalty cards rather than credit cards at the machine is that patrons can use credit cards at the value transfer machine to transfer larger amounts of value to loyalty cards. This avoids using credit cards at the washer or dryer itself and incurring merchant fees for micro-purchases.

LOCAL PREFERENCE. Customer acceptance of an APS depends to some extent on local preference. Owners who know and understand their customers are the best judges of whether or not to absorb the costs to install them, regardless of the advantages those systems may offer. Customers in some markets, those in some rural areas, for example, may be less likely to prefer or adapt to APS.

OWNER PREFERENCE. The decision also may come down to owner preference. A hands-on owner who operates the only laundry in a rural location, and who generates a good income using coin systems that customers use and understand, may have little incentive to adopt an APS. On the other hand, deciding to introduce APS also could rest on lifestyle issues: That same owner, with two such stores located remotely from one another, may decide that phasing in APS on all new machines could gradually make life easier.

Many owners also believe that—because of the cost APS entails in a business that already is top-heavy in capital investment—one should adopt APS only if one plans to take full advantage of the new opportunities for marketing and creative pricing that the systems make possible.

In the end, when deciding on APS, owners need to ask the same questions they ask when they make other capital investments: Will it draw more traffic? Will it better match customer needs? And will it make me more money?

12 Upgrading capacity

How can a store re-equipping project potentially help expand the capacity of an existing laundry?

This factor is self-evident to anyone who has replaced machines in recent years. Due to changing demographic factors and user preferences, the general trend is toward larger machines.

In most locations, customers in the industry's prime demographic—low-income renters—are demonstrating a preference for high-capacity washers and dryers. Top-load 18-pound washers are being replaced by 40-, 50-, 70- and 100-pound front-load washers and washer-extractors. Thirty-pound stacked dryers are being traded out for larger-capacity stacked tumblers.

Depending on the mix of these machines—as well as utility and parking limitations—an owner can double the capacity of a store within a footprint that is the same as or slightly larger than the one the replaced machines occupied. More machines and higher capacities mean more turns and higher vend prices. New washers and dryers simply complete their work in less time, move customers through with greater speed, and become available more quickly for the next turn.

This combination of increased capacity, more turns and higher vend prices can produce dramatic increases in the revenue per square foot compared to old-style stores. A few square feet that formerly earned $3 a turn may now earn $9, using far less in the way of utilities. A row that once accommodated eight old home-style 12 lb. washers with a total capacity of 96 lbs. may now hold a row of five 60 lb. machines with a total capacity of 300 lbs.

Moreover, with the variety of models and options available today, owners can easily match the needs of the market by equipping a store with just the right mix of machines in various sizes and at various price points.

13 Customer perception

How does overall customer perception influence the decision to replace/upgrade equipment?

Washing clothes is a necessity: No one wants to spend time in a coin laundry. For most people, a visit to a typical coin laundry has all the allure of spending time in a doctor's waiting room. In each case, the customer or patient is looking for the shortest wait possible and a fast and satisfactory transaction.

Few laundries are perfect, but if customers have to spend time in one, here is what they want to see:

- Facility that is bright, clean and safe
- Sufficient number of new-looking, well-performing machines of various capacities
- Price points and wash and dry options keyed to their demographic
- Activity – i.e., TV, games, etc.

Generally speaking, customers will have a more positive perception of a store that has all or most of these characteristics than of a store that has few or none of them.

So how important is customer perception—and how much does it drive a decision to replace equipment? The answer depends on a number of things:

COMPETITION. The importance of customer perception—or customer satisfaction—correlates closely to the level of competition a business owner faces.

Coin laundry operators who face a high level of competition in their markets put a premium on making sure their customers see their laundries as the best choice among available alternatives. To owners in these markets, this means keeping as up with or surpassing the competition by making sure their stores have a good mix of newer, larger, feature-rich machines, and ensuring that the facilities always look clean and inviting. These operators give customer perception a greater weight in decisions of whether or not to replace machines, and if choosing not to replace them, many of these owners may—at the very least—feel compelled to rejuvenate aging machines with new tops and faceplates. Either way, these actions can buy good will by demonstrating that the owner cares—when customers "invest" $10 or $15 per visit, they expect the owner to invest as well.

On the other hand, operators who “own the market” in small towns or rural areas may put less weight on customer perception when it comes to equipment-buying decisions. As a result, they may keep older machines operating for more years than they might in a more competitive market, and address any concerns over customer perception simply by keeping stores clean and freshly painted, and their machines in good repair.

By the same token, because coin laundries tend to fare well in both good and bad economic times, investors increasingly are looking to break into the business by entering into competition in markets where existing stores may be older, and perhaps less well maintained. So putting less emphasis on customer perception does not mean becoming complacent about it, ignoring the competitive implications of machine replacement, and thereby allowing a store to be an easy target for competition.

SIZE. The size of a business also matters. Many single-store owners, even in markets where there is less or little chance of competition, may lean toward doing everything they can to ensure customers have a positive perception of their business—up to and including equipment replacement—exactly because they are single-store owners, and so "have more riding on" that one store than operators whose interests are spread among multiple stores.

DEMOGRAPHICS. The way a customer perceives a laundry hinges on more than just the overall look of the facility, or the age, appearance and condition of equipment. It also depends on whether customers see the right machines to satisfy their needs and get them in and out quickly. For example, a laundry in a neighborhood with many large multigenerational households will appear time-consuming to those customers if it keeps rows of top-loaders operating instead of replacing them with high-capacity washer-extractors. On the other hand, those top-loaders might continue to appear perfectly satisfactory to most customers in a neighborhood whose clientele consists primarily of empty-nesters and retirees.

Bottom line: The importance of customer perception to an equipment replacement decision can vary depending on a laundry's size, competition and local demographics. And like so many other factors that influence to equipment-buying decisions, operators will have the best fix on customer perceptions when they take the time and make the effort to really "know" their customers.

14 When does it not make sense?

What are some common scenarios in which it doesn't make sense to re-equip a laundry's equipment?

There a number of clear-cut situations in which re-equipping a coin laundry does not make sense financially, operationally, or both.

NEAR-TERM SALE. Operators who are planning the near-term sale of a store typically spend a minimal amount of money to maintain the store in the year or so preceding the sale. In these cases, purchases of new equipment make little sense, because the owner is unlikely to recoup the investment. (More discussion on this in topic 8 above.)

CHANGING DEMOGRAPHICS. There is no point in reequipping a store when the market leaves. Few businesses are more reliant on the nature of local neighborhoods than coin laundries. Because they are supported in large measure by a customer base of low-income renters, large demographic shifts can make or break individual businesses. The development of upscale townhouses where several blocks of low-income housing once existed can wipe out a significant chunk of revenue for the laundry that depended heavily on the customers who once lived there. If the reason a laundry was built has disappeared—or is dwindling—so has the need to retool it.

UNSUITABLE LEASE SITUATION. The lease is often the most valuable asset of an established coin laundry. It is more than an agreement—it represents not only a physical location, but also a specialized mechanical infrastructure and an established clientele. Few owners will invest in any substantial retooling if that lease is not secure—which to most owners means a minimum of 10 years—or better yet, 10 years with two five-year options. There is no sense in retooling if a landlord refuses to renew a lease or will not negotiate reasonable terms.

INSUFFICIENT UTILITY CAPACITY. Inadequate utility capacity can stymie a replacement plan, even with a 20-year lease and a solid customer base. With the trend toward larger washers and dryers—which may necessitate changes to drains, wiring, electrical capacity, or water or gas lines—an owner may decide to back away from plans to do substantial upgrades to a store. Some changeovers also may involve things like high impact fees for new sewer hook-ups that can make an upgrade plan financially unviable.

LOW VOLUME. If a store has low volume, but it is earning its keep with older equipment that is in good working order, an owner may have little reason to upgrade it, especially if the store is unlikely to face any new competition.

OWNING THE MARKET. It may often be the case in small, and/or rural areas that a store enjoys a situation where it essentially is insulated from competition, and "owns the market." In such cases, an operator stands a better chance of keeping older equipment operating for extras years without alienating customers.

In all of these situations, owners may decide that riding it out with older equipment is preferable to taking a financial hit by buying new machines.

15 Cash-flow neutral upgrades?

Can re-equipping a store be done on a cash-flow neutral basis?

Many laundries today have machines among their equipment mix that are 10, 15 or 20 years old. At the same time, manufacturers have developed several generations of machines over those 10-, 15-, and 20-year periods that have featured ever greater levels of utility efficiency, pricing flexibility and user-friendliness. They have effectively reinvented the industry.

This presents owners of older equipment with the opportunity to make a quantum leap in technology that will bring them exceptional gains in utility efficiency, a broader array of choices for customers, and greater pricing control—simply by replacing equipment.

And in fact, there a lot of potential advantages related to a re-equipping project that can offset the monthly debt service that accompanies the purchase of new equipment. Among others, these include:

- Reduction in utility expenditures
- Increased turns from new customers
- Less machine downtime
- Higher vend price commanded by newer/larger equipment
- Less expense for maintenance, parts and repair
- Revenue gained through potential multi-cycle vends and up-charge capability
- Time regained by owners/managers to market the store
- Opportunity to match or exceed performance of local competitors

At the same time, replacing machines is an expensive proposition, and an owner should make the decision to do so only after conducting a complete payback analysis using every resource at hand, including his or her accountant, equipment distributor, and if necessary, lawyer. By using these resources, owners can collect the information they need to examine different pricing scenarios, calculate efficiency savings and revenue gains, and estimate payback timelines.

The more detailed the analysis the better, because how a replacement project will play out for a specific store over the short and long term, in the end, really depends on all the factors—financial, competitive and otherwise—affecting that particular store. And only by considering the impact of every factor in the analysis will an owner be able to accurately plot the payback, estimate eventual profitability and ultimately make the decision of whether or not to replace equipment.

While there are formulas and software programs that can be valuable aids in helping an operator make the decision to re-equip, owners must realize that every situation is unique, and that there is no "one size fits all" decision-making tool.

So, in terms of the question at hand—*Can re-equipping a store be done on a cash-flow neutral basis?—* most seasoned owners likely would respond "Yes."

With certain qualifications. As one seasoned operator said: "If you can't see how to do it on a cash-flow neutral basis—or better yet, do it in a cash-flow positive way—don't do it."

Conclusion

To the layman, a coin laundry might appear to be the simplest kind of business: One finds a location, fills it with machines and lets the customer do the work. It's just a space filled with equipment. How complicated can that be? But, as any owner knows, there is a lot more to it than simply keeping machines running and replacing those that don't. In fact, equipment replacement is just one part of a laundry's overall management scheme. And only by managing a laundry well can an owner be assured of making the very best decisions on when to replace equipment.

As has been discussed in this paper, that "good management" must include a number of key elements that you as an owner should address:

Scrupulous recordkeeping. Record everything about your equipment, including age, turns, income, repairs, usage patterns and anything else that will help draw a unique portrait of each machine.

Replacement strategy. Don't wait to be blindsided. Plan ahead. Even if you replace machines on an "as needed" basis, creating a multi-year replacement timeline based on each machine's age and usage can help you anticipate when machines likely will need to be replaced, and give you time to be financially prepared based on your own situation.

Detailed knowledge of customer needs. Actually talking to customers, watching how they use equipment, and seeing how many customers are or are not waiting to use certain machines can help owners fine-tune replacement decisions.

Awareness of current and evolving local demographics. Laundry owners need to be aware not only of what the market is today, but what it will be tomorrow. Knowing that a block of apartments is about to be razed for single-family homes can significantly alter your replacement plan.

A good sense of the competition. One cannot make replacement decisions in a vacuum. Study competitors in your market or markets, as well as those in areas adjacent to them, to keep an eye on actual and potential competitors. Even an owner who is the "only game in town" can be ambushed by being too inattentive to competition creeping into nearby areas, or attract competition by being too lax in responding to current customer needs.

Education. The most successful owners get that way by staying current on the many financial, regulatory, legal and industry issues that affect their business. Whether it's staying abreast of new technologies, studying up on the latest tax breaks for capital investment, appraising the effects of utility rate hikes on the bottom line, or consulting with experts on all of those issues, owners will always make better decisions by knowing more than by knowing less.

A coin laundry owner who incorporates all of these elements into his or her normal management activities will be in a far better position to review the many issues discussed in this paper when the time comes to replace equipment.

And when that times comes, that owner will to able to make an informed decision rather than an educated guess.