

Do The Math!



The Price We Pay

By Jay Goltz

It is obvious that one of the keys to making money is to keep your expenses down—perhaps as low as possible before it starts to have some negative effect. There are different kinds of expenses. There are things like rent, utilities, and insurance, which are pretty much a given. The expenses that aren't a given, in many cases, are capital expenditures. Whether you buy or lease a new piece of equipment is frequently a judgment call. You don't have to think about whether you have to pay rent or electricity every month, but you do have to decide whether or not you are buying a new piece of equipment. I have seen many cases in which the feeling is that of saving money by not investing in a new piece of equipment. But the reality may be very different. The key in this case is to do the math!

Let's say that you are considering buying a new joining device. You have an older piece of equipment, but it doesn't do the best job and is a little slow. If you were to buy a new one, you would want to buy a good one—which maybe costs \$3,000. Should you “save” the \$3,000, or is it a good investment? The question is, what will that \$3,000 piece of equipment cost you per day?

Let's assume you have to borrow the money to buy this piece of equipment. If you paid it off over a three-year period, it would cost you approximately \$400 in interest. Let's load that into the cost. That would make it about \$3,400. If the machine lasts 10 years, the yearly cost

would be about \$340. If you work 250 days a year, then that equipment would cost you \$1.36 a day. If you are paying someone \$12 an hour, that worker is really costing you about 30 cents a minute. So if you can save five minutes a day, the machine would clearly pay for itself.

But there's more! There are four other ways the machine will pay for itself. The first is that your frames will be joined better. You'll get better quality, and it's hard to put a price on that. But for the sake of argument, let's just say you might lose sales of 50 frames a year without that quality. Number two, how many frames a month would you be joining badly with your old clunker? Even if it's only one a month, the new equipment pays for itself. Three, how often does your old machine break down? If it's a couple of times a year, the expenses associated with fixing it and not being able to make deadlines also makes the new one worth having. Lastly, what are the odds that your old machine will last 10 more years? So you either pay now or pay in the near future.

My guess is that half the joiners in the country need to be replaced—along with half of the other equipment that framing companies use. The problem is that everyone can see a big check going out the door but no one notices the small amounts of wasted time, material, and costs of less-than-great work and quality when it gets to the customer.

It always pays to do the math. ■

Is it worth buying new equipment?

Costs		Per Year	10 Years
New Joiner		\$300	\$3,000
Interest (\$133/yr for 3 yrs; \$0 for the next 7 yrs)		\$40	\$400
Total Cost		\$340	\$3,400
Savings			
Labor savings	5 min/day x \$12/hr = \$1.50/day \$1.50/day x 250 days/yr	\$375	\$3,750
More sales from better quality	50 frames/yr x \$15 margin = \$750/yr	\$750	\$7,500
Fewer wasted frames	1 per month = 12/yr @ \$20 each	\$240	\$2,400
Eliminated breakdowns	\$100 per event x 2/yr	\$200	\$2,000
Total Savings		\$1,815	\$18,150
Net Gain	\$685 - \$340/yr	\$1,225	\$12,250