

# Do The Math!



## New Equipment—or Not?

By Jay Goltz

**L**ike all manufacturers, production framers require equipment to make our product. Most of the equipment in other industries costs far more than what a saw, mat cutter, mounting machine, or anything else related to picture framing would cost. It is not uncommon for a printing press or other industrial type machine to cost hundreds of thousands of dollars.

When it comes to making a buying decision for a new piece of equipment, it is not just the initial cost that needs to be considered, however. The piece of equipment is going to last for a number of years, so the true cost of that equipment per year needs to be calculated. An accountant would do what is called a Return on Investment analysis (ROI) to help analyze the true cost of a potential purchase. For example, I have just ordered a new Pistorius double miter saw for cutting metal frames. I haven't bought a new saw in quite a while, so it provided me with a good opportunity to "do the math."

The new saw is costing about \$15,000. The question is, just what is the saw really costing per year? The miter saw we are using now is requiring a lot of maintenance and is definitely showing its age, which is 23 years old. It has probably cut about 500,000 frames over the years. That is about 3 cents per frame. This is not part of my analysis; I just thought it was an interesting fun fact about how the cost of equipment is often spread out over a lot of frames. (I hope it was fun for you.)

Anyway, what is the cost per year for the saw? It's \$15,000 divided by 23 or \$652 per year, or about \$55 per month.

Given that I already have a saw, as one would expect in a production facility, what is the return on investment for replacing an old piece of equipment with a new one? This is much harder to calculate than

when you analyze buying a piece of equipment that is going to save some labor, like the first time you buy a double miter saw. In this case, it is about the quality of the cut, the maintenance required on the machine, and the cost of the saw breaking down.

This was an easy decision, even though I can't put an exact dollar amount on any of these items. I am confident that for \$652 per year, a new saw is money well spent.

Cost of a new saw	\$15,000
Cost of saw per year (23 years)	\$652
Cost of saw per month	\$55
Cost of saw downtime per year	>\$652

Sometimes it is not just about doing the math, it's also about eliminating problems. The saw will not break down when business is slow and have the time to deal with it. It will break down when we are busy and using it a lot. The cost of stopping production will far outweigh whatever "savings" we made throughout the year of not buying a new saw.

There is eventually a point of no return when it comes to extending the life of equipment. Sometimes it makes sense to buy new equipment while the old equipment has some life left in it so you can use it as backup.

The math on that is simple—one happier customer because the job got completed on time. Priceless. ■

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