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PROVEN SOLUTIONS

# IMPROVE YOUR EQUIPMENT RETURN ON INVESTMENT WITH A PROPERLY CONDITIONED WATER SUPPLY

A new 600-pound cuber ice machine on average costs between $4K to $9K, while a 6-pan combi steam oven will cost about $12K to $35K. For a commercial semi-automatic espresso machine, a company has to spend between $8K to $20K. Even purchasing a 5-year old used machine, a company can expect to pay at least one-third of the new cost. With traffic only recently starting to increase after nearly a two year decline, operators have been understandably reluctant to spend on new equipment. As a result, foodservice equipment manufacturers saw a decline in sales of 15%-30%, or higher, in 2009-2010. This number is expected to improve in 2011 to a growth of about 1.9%. This will be significantly better than the last couple years, but nowhere near the growth seen in 2006-2007, when return on investment numbers were at their highest.

Due to the decline in sales, operators are holding onto equipment longer than ever. This has been coupled with budget cuts and staff reductions – all of which are putting tremendous pressure on facility managers. As a result, companies need to maximize their equipment return on investment by keeping maintenance and repair costs to a minimum, and preventing long term damage and excessive wear. There's an important means of accomplishing these, and that's by ensuring that equipment has properly conditioned water.

When purchasing an expensive piece of equipment, it's helpful to look at both Total Cost of Ownership (TOC) and Return on Investment (ROI). TOC is a cradle-to-grave analysis of the total cost of the equipment including purchase cost, delivery costs, installation costs, use, maintenance, upgrades and costs to dispose of the equipment. ROI, on the other hand, looks more at cash flow (cost vs revenue generated) and takes into consideration the benefits received from the purchase. For example, did a new combi oven increase the speed of food prep, thus reducing labor costs? Did a new espresso machine increase store traffic of customers seeking specialty coffees, and thus profits? This paper is going to take a short look at how water filtration impacts both.

A few years ago NAFEM developed a Cost of Ownership calculator. Below is a simplified version applied to an Espresso 2-Group Head machine purchased new (3400 watts, operated 8 hrs/day, 365 days per year).

- Without filtration, delimings are done 2 times per year, and heating elements are replaced annually due to scale. A 30% increase in energy consumption due to scale is also calculated in.
- With filtration, filters are replaced 2 times per year (done internally), delimings are no longer required and there is no need to replace heating elements.

As shown here, over $4,000 could be saved over the life of the espresso machine. This does not consider the cost of service calls and lost revenue due to equipment failure. This model can be applied to other application equipment, and in each case significant savings are achieved.

Consider this:

- Deliming is the most common maintenance expense for steam equipment.
- Scale is the most common service call for ice machines.
- Steam manufacturers often require some form of water treatment on their equipment to activate the warranty.
- Replacement heating elements can cost up to $300 on some equipment, close to the price of some filter systems.

To generate ROI and profitability, an operation needs to maintain a minimum number of customers per day. To sustain or grow a business, a company must nurture customer loyalty and gain positive word of mouth, which is most important today with the influence of social media on consumers. In the foodservice industry, this is oversaturated – especially in the casual dining segment – where companies have to fight for mindshare with consumers who have plenty of choices on where to spend their money.

Beverages are among the most profitable items a foodservice operation offers. They also play an important role in building a positive customer experience, since the beverage is nearly always the first impression that a customer has of a restaurant. Great tasting water is critical at a restaurant, since coffee is 98% water, fountain drinks are 87% and ice is 100%. High quality beverages even impact perceptions of food quality. A research study of 689 consumers found that:

- 73% of consumers believe that restaurants that filter their water have better quality beverages.

| OWNERSHIP COSTS | | WITHOUT FILTRATION | WITH FILTRATION |
|---|---|---|---|
| Initial Cost Summary | Purchase Price | $6,000.00 | $6,000.00 |
| | Filtration System | — | 350.00 |
| | Taxes | 420.00 | 444.50 |
| | *Total Initial Cost* | **$6,400.00** | **$6,794.50** |
| Setup/Installation Costs | Installation/Commissioning | | |
| | Install Labor Rate | $75.00 | $75.00 |
| | Estimated Install Time (h) | x 2 | x 3 |
| | *Total Setup/Installation Cost* | **$150.00** | **$255.00** |
| Equipment LifeSpan | Anticipated Lifespan (Years) | 10 | 10 |
| Annual Service and Repair Costs | Replacement Part Cost | $200.00 | — |
| | Labor | | |
| | Hourly Labor Cost | 75.00 | — |
| | Total Labor Hours | 0.00 | |
| | *Total Annual Labor Cost* | — | — |
| Annual Preventative Maintenance Costs | Replacement Part Cost | $50.00 | $275.00 |
| | Labor | | |
| | Hourly Labor Cost | 75.00 | 75.00 |
| | Total Labor Hours | x2 | x1 |
| | *Total Annual Labor Cost* | **$150.00** | **$75.00** |
| Annual Utility Cost Summary | Electric Utility Costs | | |
| | Electricity Rate ($/kWh) | $0.110 | $0.110 |
| | Annual Electricity Consumption (kWh) | 1285 | 993 |
| | *Total Annual Labor Cost* | **$141.35** | **$109.23** |
| | *Total Cost of Ownership Over 10 years* | **$15,980.00** | **$11,610.00** |
| | *Total Savings with Water Filtration* | | **$4,370.00** |

Profit per 16 oz. Iced Tea Serving: $1.25
Average Servings Per Day: 60
Profit Per Year: $27,375.00

| TEA BREWER PURCHASE | YEAR 1 | YEAR 2+ |
|---|---|---|
| Ice Tea Brewer | $700.00 | $0.00 |
| *Net Profit (Bev Profits-Tea Brewer)* | **$26,675.00** | **$27,375.00** |
| **WITH FILTRATION** | **YEAR 1** | **YEAR 2+** |
| **Filter System Purchase** | | |
| Filter System | $950.00 | $0.00 |
| Replacement Filters | $0.00 | $450.00 |
| *Net Profit (Bev Profits-Total Equipment)* | **$25,725.00** | **$26,925.00** |
| **5% Additional Drink Purchases/Day** | | |
| Average Servings per Day | 63 | 63 |
| Annual Net Profit | $27,093.75 | $28,293.75 |
| Additional Net Profit per year* | –$281.25 | $918.75 |
| *5-year Additional Net Profits w/Filtration* | | **$3,393.75** |
| **10% Additional Drink Purchases/Day** | | |
| Average Servings per Day | 66 | 66 |
| Annual Net Profit | $28,462.50 | $29,662.50 |
| Additional Net Profit per year* | $1,087.50 | $2,287.50 |
| *5-year Additional Net Profits w/Filtration* | | **$10,237.50** |

**Annual Net Profit w/Filtration — Annual Net Profit w/o Filtration*

- 83% of consumers state that taste drives where they purchase their coffee drinks away from home.
- 55% of consumers are more inclined to eat at a restaurant that has water filtration.
- 58% of consumers state that if they knew a restaurant filtered its water, they would be more likely to order beverages made with water (coffee, tea, etc.).
- 67% of consumers believe that restaurants that filter their drinking water are likely to have better quality food.

Research supports that better tasting beverages could lead to increased drink purchases and therefore higher check averages. If a company purchased an iced tea brewer ($700), and sold 60 iced tea drinks per day with a $1.25 net profit margin per drink, the company would have an annual profit of $27K. If the same company added a water filtration system ($950), and the resulting better tasting beverages increased customer drink purchases by 5% (3 additional drinks sold per day), over five years the company would enjoy an additional net of over $3,300. Furthermore, if sales increased by 10% (only 6 additional drinks sold per day), over five years the company would obtain an additional $10K.

There is no guarantee that a filter system will increase a company's drink sales, but it is known that customers want and appreciate beverages that start with filtered water. Water filtration provides many benefits including reducing overall costs on equipment repair and maintenance, and improved customer satisfaction. If a company weighs these against the purchase price of a filter system and replacement filters, they will find that filtration is a smart investment.

To learn more about the business benefits of improving water quality, contact Pentair Everpure.

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