MAYTAG COMMERCIAL

REEQUIPPING FOR SUCCESS.

Advice From Laundry Experts on Clearing Roadblocks to Equipment Replacement.

KEEPING YOUR BUSINESS MOVING FORWARD.

The consistency of running a laundromat is a large part of what makes it an attractive business. But looking beyond the regular customers, routine maintenance and steady cash flow, successful store owners know it's important not to confuse "consistent" with "complacent."

Your store may be pulling in a consistent gross revenue each week for years, but that's only half the story.

As Coin Laundry Association (CLA) President and CEO Brian Wallace points out, "Your store's value is based on the net. That net is not static. The water bill goes up, your equipment gets older and you're buying more parts."

In other words, without a consistent investment of time and money, the profitability of your store and value of your business will slowly erode.

Often, laundromat owners are hesitant to make these investments. That's why in this e-book we look at some of the common obstacles to equipment replacement that might be blocking a path to new revenue opportunities and the potential to decrease store expenses.

According to a recent survey by the CLA, the biggest concerns for most owners when it comes to reequipping or retooling was the capital expense, and how to finance it.[1] Maytag® Commercial Laundry invited several laundry experts to share their insights on these pain points, as well as two other common stumbling blocks —utility costs and lease length. The advice they offer can help you move forward successfully.

"An upgrade to equipment enhances the business which customers react positively to. This can provide an immediate bounce in business," says Tony Regan, vice president of sales/marketing for Eastern Funding, a commercial lender with years of laundry industry experience.

"New machines typically provide faster throughput resulting in a better customer experience. This, combined with other advantages, can help provide better profitability."

[1]CLA, *Based on 2021 Coin Laundry Association survey of 149 laundromat owners, sponsored by Maytag.*

THE EXPERTS

Brian Wallace
Coin Laundry Association (CLA), President and CEO

Tony Regan
Eastern Funding, Sr. VP of Marketing/Operations

Michael Buzzard
Maytag® Commercial Laundry, Senior Product Manager

John Holborow
Evo Development, President

James West
Best Wash Laundry Equipment, President

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THE CAPITAL EXPENSE

MISCONCEPTION #1: "I CAN'T AFFORD THE CAPITAL EXPENSE."

Unless there's a leak running out the front door or a shiny new store down the street, it can be tempting to use cost as a reason to avoid the disruption of your laundromat's day-to-day routine.

But if you take a closer look and weigh the capital expense against what you stand to gain, the cost might not seem as intimidating.

According to the CLA's Brian Wallace, laundromat owners need to understand that thanks to growing competition, the days of passive management are over. Today's successful laundromat owners understand that their success comes in part from reinvesting time and capital into their store.

"You've got a five-year loan on new equipment. But the nice thing about this business is the cash flow. The cash flow pays the debt. So the question is, once you get to year six, are you going to go on autopilot? When you get to year 12, have you been putting money aside?" Wallace says.

"If you don't pull the trigger on equipment replacement at year 12, then it's 15 or 16 years. You started with a twenty-year lease and best-in-class equipment—now you've only got five years left on your lease and 15-year-old equipment."

"The newer, more sophisticated owners that have been getting into the business over the last few years? They're not going to run 14-year-old equipment," he says. "The owners that really work at it, they get the maximum out of the store. That helps them buy the next store."

> "You started with a twenty-year lease and best-in-class equipment—now you've only got five years left on your lease and 15-year-old equipment."
>
> **BRIAN WALLACE**
> CLA

BEWARE THE ZOMBIE-MAT.

Even if you're not planning on selling your store, the discussion around equipment replacement needs to be framed by the question, "What is your store worth?"

"Reequipping is one of the big decision points for an owner. If you don't either sell or reequip at the certain key moments, you could really be hastening the devaluation of your business," Wallace says.

"Even good operators often don't have a handle on what their store is actually worth. You should be selling the store when it's worth the most. I think most owners are selling when they're worth the least."

He warns owners not to let their stores descend into what he calls "zombie-mats."

"The stores where utility costs have crept up, the lease is getting shorter and the net has started to erode. It's not as much fun and you start to neglect it and then you're not making repairs as dutifully every week and instead putting up out of order signs for the weekend. It's that sort of slow death that happens, and then that's when an owner tries to sell."

TO HELP KEEP THAT FROM HAPPENING, HE RECOMMENDS STORE OWNERS DO AN ANNUAL VALUATION OF THEIR BUSINESS.

"Even if you just stick that valuation in a drawer, just going through that exercise every year is important, because your store's value is a moving target based on the net, and that net is not static."

KEEP MOVING: CALCULATE YOUR EQUIPMENT EQUATION.

Every store is unique, with its own demographics, competition and equipment mix. So there's no specific formula that can tell a laundromat owner when it's time to replace equipment. But there are a consistent set of variables to take into consideration.

Wallace calls these variables part of the "equipment equation" that weighs the cost of servicing a loan against the savings and added revenue from new equipment:

- How much could new machines save you on your water, sewer, gas and electricity bills?
- How much are you spending each month on replacement parts and service calls?
- How much income are you losing during busy times from out-of-order machines?
- How much would the higher vend prices on new machines increase your revenue by each week?
- How many new customers could brand-new machines attract from other stores in your area?
- How much would the ability to write off new equipment impact your business taxes?
- What would new equipment add to the value of your business if you were to sell?

THE FINANCING

MISCONCEPTION #2: "I CAN'T AFFORD TO FINANCE NEW EQUIPMENT."

If you're worried about the risk of financing the purchase of new equipment, remember that in general, laundromats face much less risk of failure than other small businesses. According to data from the U.S. Bureau of Labor Statistics, only about 50% of U.S. small businesses are still in business after five years.[2] Laundromats, on the other hand, have an average five-year success rate of 95%.[3]

No matter the economy, laundry is an essential service that your customers can't go without. Unlike other small businesses, capital is not tied up in inventory or receivables.

> "Lenders assume a conservative ROI—if the lender is willing to take the financial risk, there shouldn't be any reason why the store owner shouldn't."
>
> **TONY REGAN**
> EASTERN FUNDING

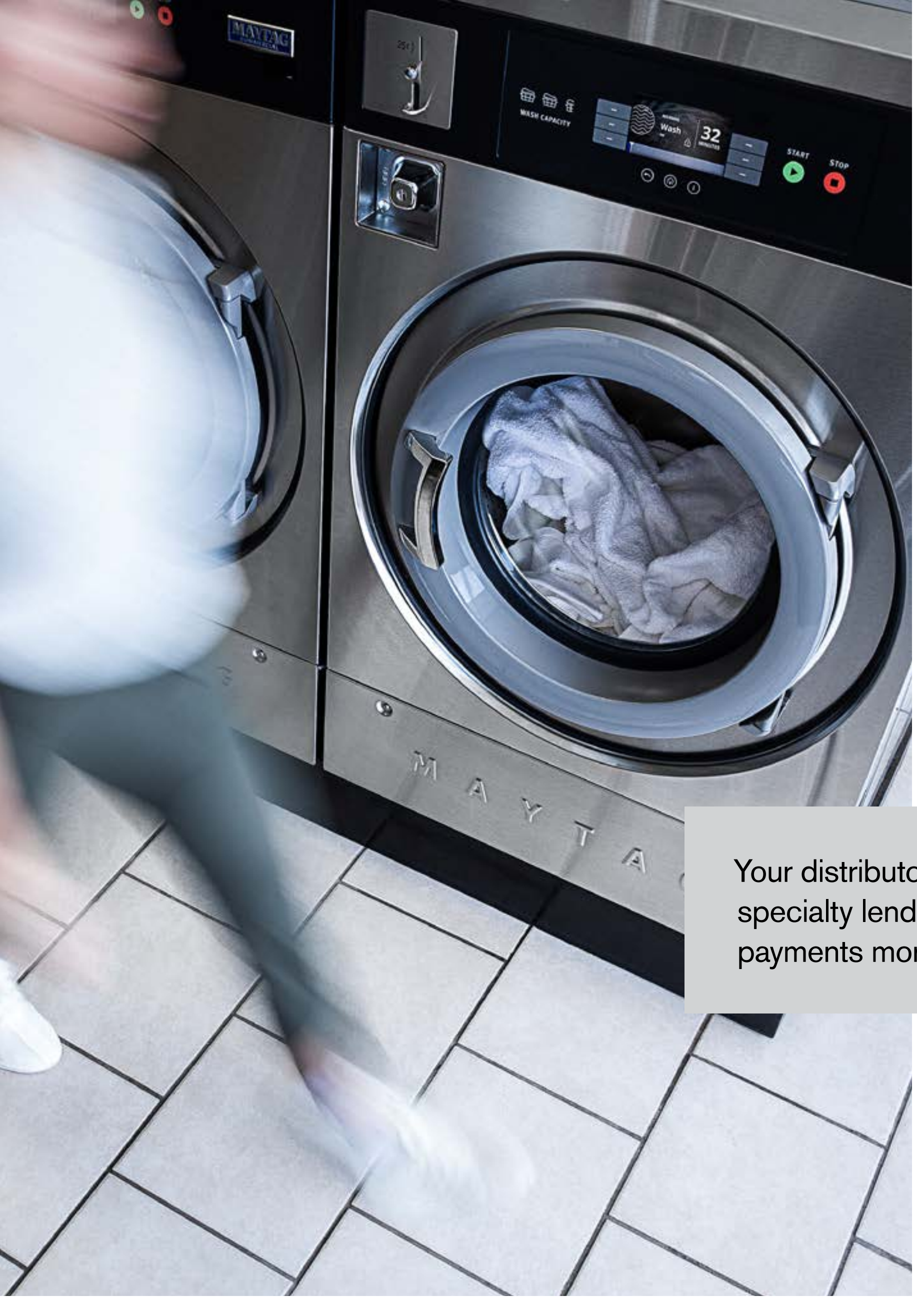
Remember, too, that new equipment can help you reduce unexpected maintenance costs and downtime. That combined with the potential utility savings and opportunity to raise vend prices, will help mitigate the added cost of the monthly note.

Eastern Funding's Tony Regan reminds owners that lenders aren't out to burden them with payments they can't afford, since a store that can't stay in business is one that can't pay back their loans.

Lenders are risk-averse, so when it comes to return on investment, they generally work with the most conservative estimates.

"Lenders assume a conservative ROI—if the lender is willing to take the financial risk, there shouldn't be any reason why the store owner shouldn't," he says. "Your cash reserve is important. Why not pay off the equipment over time and preserve your cash?"

[2]U.S. Bureau of Labor Statistics, Survival of private sector establishments by opening year, accessed 3/18/21. | [3]CLA, Getting Into the Laundry Business [Webinar]



THE IMPORTANCE OF INDUSTRY-SPECIFIC FINANCING.

For a laundromat owner considering taking out financing to reequip, talking to the right lender is essential. Industry-specific lenders like Eastern Funding and Highland Capital have a better understanding of the value of a coin laundry business, often making them easier to work than a traditional bank.

"Typically, traditional banks are not very active financing coin laundries. That is because of the perception that it was a cash business, that it is difficult to put a value on the business as a whole, versus just the hard assets. As industry-specific lenders, we focus on the cash flow of the business."

For store owners who are investing in a full retool or store renovation, these industry lenders may be able to leverage the business' equity to lend funds for non-equipment upgrades.

Your distributor can tell you more about special financing offers available from specialty lenders through your equipment manufacturer, which can help make payments more affordable than what might be available through your regular bank.

KEEP MOVING: GET A BETTER PICTURE OF YOUR FINANCES.

If you're not sure about financing for your store, start with your own finances. Reviewing your business finances can help you get a clearer idea of what needs to be replaced and what you can afford. Many of the same variables you looked at as part of the equipment equation are also helpful here.

Look at how much you're spending on utilities, particularly as a percentage of your overall expenses. Has that number been getting bigger over the years?

Regan also notes that to be successful, even after new equipment is installed, store owners and managers need to understand how customers are using—or not using—their laundromat.

For example, when is the store busiest? What machines are seeing the most use? Are you spending money servicing top-loaders, but not seeing much return from them?

THE ROI

MISCONCEPTION #3: “THE ROI ISN’T WORTH IT.”

According to CLA industry surveys, most laundromat owners rate high utility costs as one of their main pain points.[4]

But the CLA’s Brian Wilson says that despite their concern over utility costs, most laundromat owners he talks to don’t actually know what percentage of their gross revenue is spent on utilities.

In stores where owners are investing just the bare minimum to keep their equipment alive, the utility expense ratio can be as high as 35% of the store’s total gross revenue; for the average laundromat, the ratio is closer to 22-23%. But he says there’s plenty of room for improvement.

“For a newly equipped store? Twelve to 15% isn’t crazy. That's an enormous difference.”

The problem, he says, is that owners often leave utility savings on the table because of the difficulty of comparing manufacturers’ various efficiency claims or awareness of various state and federal energy efficiency regulations that equipment must meet.

"We developed our latest multi-load washers with tightening water use standards in mind." says Michael Buzzard, a product manager with Maytag® Commercial Laundry. “So depending on size, our multi-load washers use an average of between 4.5 to 5.4 gallons per cubic foot on their factory default settings.”

24%

Between 2008 and 2016, average water rates in the U.S. increased by nearly 40% and average wastewater rates increased by 24%.[5]

How can today’s washers do the same job with less water than older washers, despite having the same size tubs? It’s small improvements in how laundry is tumbled, rinsed or spun, adding up to significant savings.

Replacing washers won’t just help you reduce water use; it can help you reduce the amount of energy your dryers consume as well, says Buzzard.

“Because today’s washers use less water overall and extract more water during the spin cycle, there is less water left in a load once it’s transferred to a dryer. Just moving from a 100G washer to a 200G washer can reduce dry time by around 20%.”

[4]2020 CLA Industry Survey | [5]Water and Wastewater Annual Price Escalation Rates for Selected Cities across the United States (energy.gov), accessed 3/18/21

HELPING YOU REDUCE UTILITY COSTS.

"Our current 30 lb. rigid-mount washer uses just over 23 gallons of water per cycle on average; our previous model used around 30 gallons of water per cycle on average. That's a water savings of more than 22% for one of the most popular sizes of washers," says Buzzard.

Maytag Commercial Laundry also uses an axial airflow design in its Energy Advantage™ dryers. While traditional radial airflow dryers heat the drum from outside, axial airflow aims hot air directly at the laundry from inside the drum. That, along with an improved sealed cabinet design that helps keep heat inside the machine, means they can dry loads in less time, requiring less energy overall.

In fact, today's Maytag Commercial Laundry multi-load washers use up to 31% less water than previous models; our multi-load dryers use up to 25% less gas than previous models.[9,10]

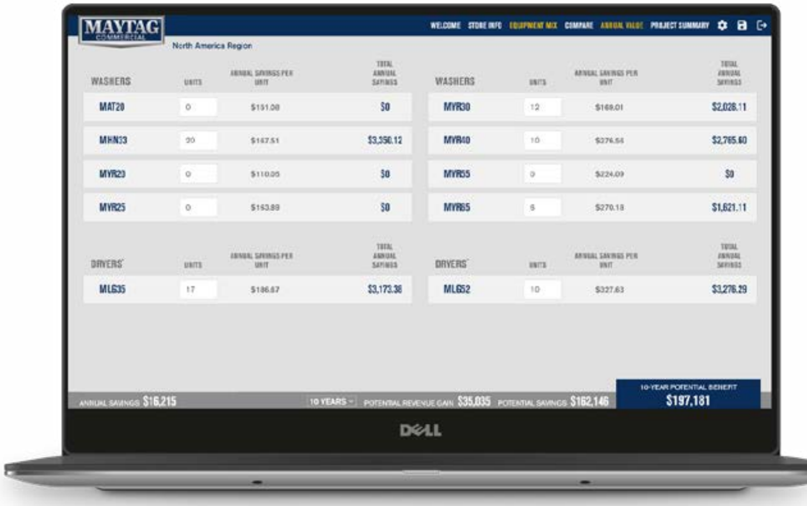
[9]Based on replacement of MFR18 washer to MYR20 washer and average total water use. | [10]Based on replacement of MLG31 dryer to MLG35 dryer and average total gas use.

KEEP MOVING: REQUEST AN ROI ANALYSIS.

Despite utility costs representing a major pain point, laundromat owners often don't connect replacing equipment with utility savings. Without an idea of the savings possible, that's understandable.

To help laundromats get a better idea of how the efficiency of their existing equipment compares with new equipment, Maytag Commercial Laundry developed a replacement calculator that does just that.

By entering your specific equipment mix, vend prices and utility costs into the replacement calculator, your distributor can generate a custom report that outlines the potential savings and possible revenue opportunities of various replacement scenarios.



THE LEASE

MISCONCEPTION #4: “MY LEASE IS TOO SHORT.”

The earning potential of a laundromat is directly proportional to the amount of time left on a lease, making your lease a major factor impacting any business decision you make.

It’s understandable to be hesitant to invest in new equipment if there’s uncertainty around the future of your lease. But before you assume your landlord holds all the cards or the terms of your lease are set in stone, it’s worth opening up a conversation.

"Every lease is different. The fact of the matter is that so much of it is negotiable. Don't count something out that you didn’t think of five or 10 years ago when you negotiated your original lease,” says commercial real estate developer John Holborow. Holborow encourages tenants to be transparent about what their business needs.

“The security of knowing I’m going to have a tenant that's going to stay there for five or seven more years, that’s valuable. A 3,000 or 5,000 square foot space that’s vacant is going to be a much bigger drag on a landlord’s bottom line than offering rent abatement or an improvement allowance.”

He says a lease should be a tool for spelling out the terms of the agreement between tenant and landlord, not a threat one holds over the other.

"It's a partnership. As a landlord, you're relying on the tenants. The tenants are relying on you. It's only as good as we all are together."

JOHN HOLBOROW
EVO DEVELOPMENT

“I want you to be successful. In return, I promise that I'll keep the shopping center maintained, I'll keep the lights on in the parking lot and keep it full of tenants. That's my obligation to you. We're there together."

PARTNERING ON IMPROVEMENTS.

Partnering with your landlord can help you mitigate the expense of store improvements. Some ways they may be able to help include:

RENT ABATEMENT

The simplest and most common form of assistance landlords can offer is rent abatement or a temporary pause or reduction in rent. This is especially useful if you know you will have to shut down for a few weeks to make renovations and install new equipment.

TENANT IMPROVEMENT ALLOWANCE

Although less common, landlords may offer a tenant improvement allowance for improvements to the space that will be left behind after you leave, such as new flooring or plumbing.

Usually this is paid as a reimbursement for expenses, so make sure you are clear on whether or not your landlord will reimburse you for 'soft' costs like construction management fees.

UP-FRONT ASSISTANCE

Landlords like Holborow are willing to provide tenants cash they need to upgrade their business and let them amortize that cost across the lease period. But you have to be able to show them how their business would benefit.

"If you can say, 'Here's my plan, here's how much it'll cost, I've talked to the equipment financing people. It'll increase my sales by this much and bring more people to your shopping center,' which benefits everybody in the long run, we can negotiate."

JOHN HOLBOROW
EVO DEVELOPMENT

KEEP MOVING: UNDERSTAND YOUR LEASE.

Even with the most supportive landlord, a lease is still a negotiation, and not a do-it-yourself endeavor. Whether it's the CLA, your equipment distributor, a local business organization or a real estate lawyer, seek guidance and advice from industry professionals.

When you review your lease with them, be sure to consider the following:

- Do you occupy space in a shopping center with a large anchor tenant? Make sure your lease allows you to request a reduction in rent proportionate to any business lost if that business leaves.
- Do you operate 24 hours a day? Make sure your ability to do so is outlined in the lease.
- If your landlord is paying the water and wastewater utility bill, not you, request that they provide proof of payment. If they don't pay the bill on time, it's your business that suffers.
- Make sure the lease terms include clear deadlines and make sure any communication with your landlord is backed up in writing.
- How are rent increases structured? Pre-negotiated increases let you plan ahead, but many landlords prefer the option of redetermining rent based on fair market value when the lease is renewed.

CONCLUSION

FIND YOUR EXPERTS

“Retooling works. We know it works. I’ve seen multi-store owners who finally retool store one, and then couldn't do store two, three, four and five fast enough because they saw that the math really did pencil out, that the savings really were there,” says Brian Wilson.

With different landlords, utility rates and real estate costs, every laundromat is unique, which means the math of reequipping or retooling that store is as well. This ebook is meant to help you see past some of the roadblocks that may be in your way, but to move forward, you also need to work with experts who are familiar with your specific situation.

Depending on the questions and business challenges you have, the Coin Laundry Association and various local business associations can provide expertise. When it comes to financing or your lease, make sure to consult with an accountant or real estate professional other than your landlord.

Then visit ReplaceWithMaytag.com or contact your Maytag® Commercial Laundry distributor to get the replacement conversation started.

KEEP MOVING WITH THESE NEXT STEPS

- Calculate Your Equipment Equation
- Get a Better Picture of Your Finances
- Request an ROI Analysis
- Understand Your Lease

WHY WORK WITH MAYTAG®?

Maytag® Commercial Laundry has spent more than sixty years helping store owners and managers like you succeed, whether it's with the equipment that help keep customers coming through your door or the support and tools you need to help you keep your business running at its best, year after year.

FOCUSED ON BUSINESS OUTCOMES

We've spent sixty years focused on commercial laundry solutions designed and engineered to let you focus on achieving your business goals.

POWERING YOUR BUSINESS

We have the knowledge and resources to ensure our products meet the highest standards for quality and performance, so you can be assured they are up to the job you need them to do.

RELY ON US

From our world-class distributor network to the durability of our equipment, you can rely on our unwavering commitment to being a brand you can depend on.

MAYTAG® COMMERCIAL

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