

The economics of acquiring an espresso machine

If you are still on the fence if you are (or not) to invest and add an espresso machine to your existing or new restaurant/café read the following. It might very well help you in your decision making!

TORONTO, ON (Nov. 7, 2011): According to a recent study* conducted by Ipsos Reid on behalf of McDonald's Canada, some Canadians are willing to go to great lengths and make lifestyle sacrifices to keep up a steady supply of their favourite specialty coffee beverage.

The McDonald's Canada study also reveals the following information:

- Eighty-eight per cent of Canadian coffee drinkers consume specialty coffee beverages
- If price wasn't a consideration, 45 per cent of coffee drinkers would pick a specialty coffee beverage as their coffee drink of choice
- Four in 10 Canadians (40%) consider specialty coffee a treat for themselves
http://www.mcdonalds.ca/ca/en/our_story/corporate_info/press_room/PR_McCafe1.html

Ok let's look at some numbers and see if it makes sense (*the following study is based on a café style operation, with takeout volume. Restaurants can apply the same numbers but eliminate \$0.19 from their cost of goods sold*):

(1) Cost of equipment

Cost of an espresso machine (2 groups Iberital L'Anna): \$4600.00

Cost of an espresso coffee grinder (Fiorenzato F64E) : \$1100.00

Cost of an electrical & water installation (estimated) : 750.00

Total acquisition cost (taxes not included): \$6,450.00

(2) Cost of Goods sold

| Product | Yields | Unit cost |
|---|------------|-----------|
| 1 kg of coffee (At \$16.00 per kilo or \$7.25/lb) | 1000 grams | \$0.02 |
| 1 shot of espresso coffee | 8 grams | \$0.13 |
| 2 shots of espresso coffee | 15 grams | \$0.24 |
| 4 Gallon of milk | 128oz | \$0.03 |
| Small Capp (8oz milk) | 8oz | \$0.25 |
| Big Capp (16oz milk) | 16oz | \$0.50 |
| paper cup 12oz. - 20oz (averaged) | 1 | \$0.09 |
| Lid 12oz. - 20oz (averaged) | 1 | \$0.06 |
| Sleeve | 1 | \$0.04 |
| Sugar bags | 2 | \$0.02 |
| Da Vinci Syrups (25oz. bottle) | 1oz | \$0.32 |

| Take Out Coffee Simulation | COS | Average Cost | Sell | Average Sell | Net | Average Profit |
|--|--------|--------------|--------|--------------|--------|----------------|
| Espresso | \$0.30 | \$0.37 | \$1.90 | \$2.12 | \$1.60 | \$1.75 |
| Espresso Long | \$0.36 | | \$1.90 | | \$1.54 | |
| Americano | \$0.34 | | \$1.90 | | \$1.56 | |
| Double Espresso | \$0.41 | | \$2.50 | | \$2.09 | |
| Espresso Macchiato | \$0.39 | | \$2.25 | | \$1.86 | |
| Espresso Con Pana (with whipped cream) | \$0.41 | | \$2.25 | | \$1.84 | |
| Cappuccino small | \$0.59 | \$0.73 | \$2.90 | \$3.30 | \$2.31 | \$2.57 |
| Cappuccino Double | \$0.95 | | \$3.50 | | \$2.55 | |
| Cappuccino Con Pana (with whipped cream) | \$0.64 | | \$3.50 | | \$2.86 | |
| Latte Small | \$0.59 | \$1.06 | \$2.90 | \$3.62 | \$2.31 | \$2.56 |
| Latte Double | \$0.95 | | \$3.50 | | \$2.55 | |
| Caramel Latte (20oz) | \$1.25 | | \$3.90 | | \$2.65 | |
| Ciocolatte (20oz) | \$1.25 | | \$3.90 | | \$2.65 | |
| Hazelnut latte (20oz) | \$1.25 | | \$3.90 | | \$2.65 | |

Assumption on volume of coffee sold by type: Espresso's 20%; Cappuccino's 40%; Latte's 40%

| Take Out Coffee Simulation | Average Cost | Average Sell | Average Profit |
|---|--------------|--------------|----------------|
| Espresso's 20%; Cappuccino's 40%; Latte's 40% | \$0.79 | \$3.19 | \$2.40 |

Average food cost: 24.6%.
Gross average profit: 75.3%

(3) Sales simulation (30 days/month)

| Coffee sales per day | 10 | 20 | 30 | 40 | 50 | 100 | 150 |
|----------------------|-----------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Sales per month | \$957.40 | \$1,914.80 | \$2,872.20 | \$3,829.60 | \$4,787.00 | \$9,574.00 | \$14,361.00 |
| Cost of goods sold | \$235.94 | \$471.89 | \$707.83 | \$943.77 | \$1,179.72 | \$2,359.43 | \$3,539.15 |
| Gross profit | <u>\$721.46</u> | <u>\$1,442.91</u> | <u>\$2,164.37</u> | <u>\$2,885.83</u> | <u>\$3,607.28</u> | <u>\$7,214.57</u> | <u>\$10,821.85</u> |

(4) Outright purchase: Amortization cost of equipment (shown on a monthly basis):

| | | |
|----------------------|----------|-------------------|
| Amortization 1 year | \$537.50 | 7 coffees per day |
| Amortization 2 years | \$268.75 | 4 coffees per day |
| Amortization 3 years | \$179.17 | 2 coffees per day |

(5) Leasing: Rates (Principal & Interest):

| | | |
|--|----------|-------------------|
| Financing \$6,450 for 12 months @ 13.5% interest | \$577.61 | 8 coffees per day |
| Financing \$6,450 for 24 months @ 13.5% interest | \$308.16 | 4 coffees per day |
| Financing \$6,450 for 36 months @ 13.5% interest | \$218.88 | 3 coffees per day |