

Calculating your return on investment

Issued by [Pyrotec](#)

5 Sep 2018

In today's competitive business environment, staying ahead of the game is essential. To do this, manufacturers need to ensure that their equipment remains effective and runs optimally at all times.



The overall performance of machinery and equipment depends on its Overall Equipment Effectiveness (OEE), which refers to a number of factors – the availability of the equipment, its performance rate, and the quality versus reject rate. In other words, each of these OEE factors relates to downtime costs. As we know, downtime is a major hindrance to attaining manufacturing efficiency. It leads to hold-ups in manufacturing processes and creates a cascading effect that disrupts workflow.

All equipment has a limited lifespan, so it is important that when considering purchasing new production machinery that your return on investment (ROI) is based on sound planning.

Terminology

- **ROI:** a benchmark used to evaluate the gain on an investment in comparison to the initial amount invested.
- **Pay Back Period (PBP):** an estimate of the number of years needed for the equipment to pay for itself.
- **Useful Life:** the number of years a piece of equipment can operate.
- **Residual Value:** the value of the equipment at the end of its useful life.

Purchasing equipment typically needs a large up-front capital investment, and some financial factors will help you to make the decision.

Your ROI is probably the most helpful because it will allow you to compare how one capital investment compares to others. The PBP is also useful because it pinpoints when the equipment will have paid for itself.

The residential value tells you the cash you'll be able to get back for the equipment when you resell it.

What your ROI means

ROI is the gain from each rand invested. While higher percentages are more desirable, the ideal range is dependent on the equipment.

To calculate ROI: $ROI = \text{Net Income} / \text{Cost of Investment}$

PBP is calculated by dividing the cost of the investment by your annual cash flow. This gives you the amount of cash the equipment is expected to generate for the business each year.

Pyrotec Finance helps customers to purchase or replace their coding and labelling equipment. In addition to purchasing new equipment, this includes a rental service, where customers can rent a unit and return the machine at the end of the contract.

Another possibility is financing in the form of a rent-to-own agreement. Customers pay a set monthly fee, depending on the rental period, which includes a maintenance contract. At the end of the rental period, customers have the choice of paying an additional fee to own the printer or trading it in for a new unit.

Straightforward trade-in agreements, where customers simply trade in old printers for new units, are also available.

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