

TALKING DOLLARS AND SENSE

Leasing, Financing or Buying Your POS System



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In the restaurant business maintaining your budget can get a little tricky sometimes - which is why it's important when you purchase your point of sale (POS) system that you explore all of your payment options carefully. You want to be sure to find the best financing fit - a solution you can live with during good times and bad and one that will make it easy to keep your budget on track month in and month out.

Fortunately there are several purchasing options available, so you have a good chance of finding something that will work for you and your restaurant. "In this business each case is going to be unique," explains Staci Molzhan, co-owner and chief financial officer (CFO) of Neighborhood Grills and the Lunchbox Laboratory restaurants, specializing in great food served in a casual, friendly setting. "I might give very different advice to various individuals depending on the details of their specific restaurant situations when it came to financing anything. There's no right or wrong answer for everyone."

Molzahn has taken advantage of almost every option available when it came to financing POS systems at each of their restaurant locations. "The Greenlake Bar & Grill system was leased," she says. "For three of our restaurants - Lake Forest Bar & Grill, Crossroads Bar & Grill and the Lunchbox Laboratory Southlake Union restaurant - we purchased the systems outright. At the Lunchbox Laboratory location in Bellevue, we paid for the hardware upfront and then financed the software through the vendor company."

These options - leasing, financing or an outright purchase - are the three basics to consider when you need a new POS system. Leasing, which is handled through companies like Direct Capital, Northern Leasing, POS Credit Corporation or Resource Leasing Company, allows you to pay a fixed amount on a monthly basis over a three to five year period. If you choose to finance your POS system, this can be set up either through the vendor company itself or as part of a bank loan.



For The Pita Pit, a restaurant franchise dedicated to fresh, fast and healthy eating with over 300 locations worldwide, it made sense to include the purchase of the POS system within the package developed for new owners. "When a franchisee signs on to open a Pita Pit, Maitre'D POS software and Partner Tech hardware are part of the program," explains Tony Marsters, director of IT services for The Pita Pit.

"To open a new location, a franchisee needs to come up with over \$225,000," he continues. "That's a significant amount of money - whether someone is using his or her own funds or financing through a bank. Once you're working with that kind of money, including several thousand dollars more to cover the cost of the POS software isn't a big deal. It makes sense to have the franchise package be as comprehensive as possible, so our owners can have everything they need to get started without separate, unexpected expenses - especially during that first year when a restaurant typically doesn't make much."

"If I can get a good loan through a bank for a new location, it often makes sense to include the cost of the POS system," agrees Dan Graham, manager of retail operations for Dilettante Chocolates, a chocolatier offering cakes, truffles and a fabulous mocha menu through several retail cafés alongside a growing national wholesale operation. "Once you add up the cost of architecture, build out, painting, fixtures, pastry cases and espresso machines, you may be looking at over \$250,000, so at that point, adding in the POS system won't make a big difference one way or another."

Whether you choose to finance the system through a bank loan or the POS vendor company itself might come down to the rates and terms available. "The interest rates offered right now through the banks are pretty attractive, if you are looking to finance a new restaurant and have good credit," says Molzahn. "But if you're buying a new POS system for an existing location and all you need is the software, financing through the vendor company might be your best option. At our newest location, the Lunchbox Laboratory in Bellevue, we purchased the hardware outright and then financed the software over 12 months through Posera. We were thrilled with this new payment option, which Posera has just started offering. We will probably continue to finance new POS systems through Posera as needed moving forward."



In the restaurant business, hanging on to cash, can be a very smart strategy. “We try to put in as little of our own cash, when we’re opening a new restaurant,” explains Molzahn. “The world of restaurants is unpredictable. If we have an opportunity to hold onto cash, usually we take it. As long as the cost - the interest rate - doesn’t outweigh the benefits, we often can minimize risks by hanging onto our cash. At any point - whether for equipment breakdowns or a bad week in business - we could have to dip into our cash reserves. I like to know there’s money there if we need it.”

This also is one of the reasons leasing can be a good option. “A restaurant is a cash flow business,” agrees Allen Shulman, CFO and vice president of corporate business development for Posera. “By leasing a POS system, you’re not tying up your cash. As you consider your purchase options, you need to ask yourself some questions: What’s the best use of my capital? What will give me the greatest return? Would it be better to put our capital into a POS system or into something like advertising and marketing to drive sales? How much in cash reserves do I need to have available? Do I have enough to cover payroll in a tight month? Will we use up all of our available credit if we finance the system through a bank loan?”

Another advantage in leasing is that a lease isn’t viewed as a loan ‘on the books.’ In essence you are “renting” the system. You don’t actually own the system - unless at the end of the lease term you choose to take the buy out option. You may decide to simply return the system and upgrade to the next, latest version. There are some restaurants that operate on a kind of perpetual lease - turning in one system, then signing a new leasing agreement for the next.

When Dilettante needed POS software and hardware for several locations at one time, leasing was clearly their best option. “We didn’t have either the cash or the credit available through a bank loan,” says Graham, “and leasing helped us to absorb the costs. Although of course we ended up paying more for the system overall by leasing.”

Building Your Case

When it comes to applying for a lease program or a loan, the finance company or bank will be looking for similar criteria, including:

- Restaurant background and experience
- Credit score
- Current financial obligations
- Reserve cash



When you lease, you may end up paying as much as 10-to-20 percent more for the use of the system with interest rates of anywhere from 10 to 16 percent or higher. “You also are creating a monthly obligation, that can present a challenge during slow months,” says Shulman. “You may want to address this with the leasing company at the outset by seeing if they might agree to stagger a payment during January, February or March - typically the slowest quarter in North America. Go ahead and ask the lease company to work with you to customize and fit the lease program to your unique situation. If you decide to lease, you want to be sure you don’t end up missing payments. If your system is repossessed, you will be out of business altogether. You want to be sure that never happens.”

One more aspect to take into account when leasing: Even though you will not actually own the equipment, you are financially responsible for repair and maintenance if needed. Of course, when you finance or purchase a POS system outright, you also will need to be prepared to handle the cost of repairs. In addition, you will have to decide how you want to handle software updates and help desk support. Some restaurants handle these costs as part of an annual service agreement. Others prefer to pay as they go.

Another factor in your finance decision-making is the size of the POS system you need. If you’re looking at just one or two terminals, you may be able to afford to just write a check. “Our POS footprint is relatively small at each of our cafés,” explains Graham. “We have at most two terminals. So whether we’re paying cash or financing, the amount isn’t astronomical.”

But in the end, whether you lease, buy or finance, a POS system is an essential part of operating a restaurant today. The good news is that the system will pay for itself overtime. With the right POS system, you will save time and money in increased efficiencies from inventory to tracking labor to recording sales to implementing promotions. Think of it as an investment in your future success.

In Short

CASH PURCHASE

- A good option if POS system is relatively basic, small or inexpensive;
- Allows you to get payment out of the way;
- No worries about meeting a monthly obligation moving forward.

LEASING

- Allows you to pay a fixed amount on a monthly basis over a three-to-five year period;
- Interest rates can range from 10% to 16% or more;
- Not considered a loan;
- System cost could end up being 10% to 20% more overall if you lease;
- Missed lease payments could lead to loss of POS system;
- Be sure you can meet regular monthly obligation;
- Buy-out option to purchase system offered at end of lease term, or can turn in system at end of lease and begin leasing new, latest version;
- Enables you to hang onto cash and invest in advertising, marketing and other ways to grow your business.

BANK FINANCING

- Current interest rates are attractive, ranging from 5% to 10% or more;
- By including POS system in new restaurant loan, you will have just one monthly payment that covers everything;
- Allows you to keep cash reserves, which can be critical during that first year in business and a good strategy in general in the unpredictable world of restaurants.

VENDOR FINANCING

- Typically set up as automatic monthly debit over a one-year period;
- Interest rates are 10% or more;
- Often a great route if you need to finance only the POS system;
- Allows you to hold onto cash reserves.

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Learn more about POS.

Consider this tip sheet just the beginning of a fruitful POS process. To learn more about selecting the right POS for your restaurant or restaurant group, talk to a Maitre'D expert at 1-888-404-2662 or visit us online at www.maitredpos.com.



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