

BUSINESS OPPORTUNITY PROFILE

Prepared for the

Inward Investment Facility

Linden Economic Advancement Programme

LAUNDROMAT OPERATIONS

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INTRODUCTION

There are numerous exciting business opportunities in Region 10 for investors who wish to invest in agriculture, agro-processing, small-scale mining, manufacturing, logging, sawmilling, tourism, transportation industry, or services to name a few.

LEAP Inward Investment Facility (IIF) recognizes that potential investors need information on business opportunities. This series of Business Opportunity Profiles is intended to help investors identify viable opportunities in the various sectors.

These profiles address generic issues such as the appropriate technology involved and where possible, potential markets, estimated investment and production costs. However they are not intended to be replacements for project feasibility studies.

Selection of technology, financing plans, feasibility studies and other related issues remain the responsibility of the investor. All financial quotations are in US\$ unless otherwise stated.

REGION 10

Region 10 is the logical hub for Guyana's development. With an area of over 16,835sq.km (6,500sq.miles), it is centrally located and contiguous to most other administrative regions. It has abundant land and natural resources, and is the natural gateway into the hinterland's forest and mineral reserves. Boasting excellent river and road transport links out to the coast, it is also the natural choice for Atlantic-bound South American trade. Besides the town of Linden there are significant communities in Coomacka, Old England, Great Falls, Rockstone, Anarika, Mabura, Ituni, Aroima and Kwakwani.

At present, the main economic activities are mining, logging, agriculture, fishing, transportation and distribution along with manufacturing and construction.

THE TOWN OF LINDEN

Linden, with a population of approximately 30,000¹ is the Region's main population centre and is located inland from the coast, 107km (66miles) from the capital city Georgetown.

Spread over an area of 142sq.km (55sq.miles), the town is situated on the two banks of the Demerara River. Originally a mining town, whose economy had been based on the bauxite industry, the town is redefining itself as a key port of call in and out of the hinterland. Aware that the time of the "Bauxite economy" is over, the population is increasingly involved in small business activities like merchandising, furniture manufacture, and construction, thereby transforming the town into a centre for industrial

¹ Census 2000 – Statistical Bureau

and service activities. Linden is also a supply centre for hinterland communities and itinerant miners.

Some of its specific strengths are:

- The size and layout of the town lends itself to easy manageability of its resources.
- There is a well developed network of utility services including stable electric power, water supply and telecommunication services.
- The town itself possesses abundant natural potential in mineral and forest resources in its immediate environs, and land is available for potential development.
- The location of the town on both banks of the Demerara River provides for easy transportation arrangements and lends itself to development of an *entrepôt* facility for Atlantic-bound Brazilian goods.
- Linden has an essentially young population with 85% of its residents under 45 yrs.
- Linden-based Industries are less prone to natural disasters than those along the coastal areas.

BUSINESS ENVIRONMENT

The Government of Guyana has approved various general and sectoral incentives as part of its comprehensive strategy aimed at reviving the economic fortunes of Region 10.

These incentives can be found in:

- Customs (Amendment) Act No. 6 of 1999,
- Investment Act No. 1 of 2004
- Customs Duties (Amendment) (No.1) Order 2004.

Special Incentives for Region 10 and specifically for Linden, Ituni and Kwakwani are:

- Waiver of Customs duties and Consumption taxes on all imported items of plant, machinery, equipment and spare parts.
- For manufacturing and agricultural investments, waiver of Customs duties and Consumption taxes on vehicles imported exclusively for use in the business.

EXECUTIVE SUMMARY

In recent decades, clothes's washing by machine has gained worldwide acceptability as an effective and attractive alternative to the drudgery from this compulsory task. In most societies some form of cleaning services are available to the public and laundries have long been established in Guyana's capital, Georgetown. Though machine washing has caught on in Linden like everywhere else, there are only a few fledgling laundry operators who display neither the vision nor the acumen to take their businesses to the next level. Thus many potential customers of the town's 30,000 citizens frequent Georgetown's Laundromats and dry cleaners.

Steadily increasing economic activities in Linden, leading to more employment, are adding uniforms, overalls etc to the wash burden. And the influx of thousands of flood driven newcomers to the Region further increases the high demand for a quality service in this Region.

Since for the most part, customers are accustomed to, and are satisfied with wet cleaning laundries (except for special items like tailored suits requiring dry cleaning) success is assured for a Laundromat that offers a reliable service.

An operator-based Laundromat is preferred as research shows that the novelty of coin-operated self-service quickly wears off and the equipment is prone to damage from misuse. Besides, coin-operated Laundromat machinery is going out of production and will be difficult or impossible to replace. The operator-based outfit will use common American made heavy-duty washing machines and dryers like the GE, Whirlpool and Sears brands, as these have proven dependable at Laundromats in Georgetown. The general and sectoral incentives for reviving Region 10's economy which include, among other things: *Waiver of Customs duties and Consumption taxes on all imported items of plant, machinery, equipment and spare parts*, may also benefit a startup operation which chooses to import its equipment.

Service technicians are readily available in Linden to do routine servicing like belt adjustments.

This business can be sited anywhere that has a reliable supply of treated water and a regular electrical supply but a location close to the business centres on Mackenzie or Wismar is best. Renting premises will not be difficult and a building buyout is possible.

Advantages to investing in this industry in this locale:

- Very good returns on investment in a relatively short period are possible once the operation is managed efficiently, coupled with aggressive marketing.
- The initial start-up costs are quickly recoverable and though the heavy-duty laundry equipment should have at least a 5-year life, it will be depreciated on a 2-year schedule.
- With the use of appropriate equipment, the labour involved is not expensive, as it is mostly unskilled and not intensively employed, with production increases coming easily through additional hours of operation, and not necessarily through the hiring of additional labour.

- The equipment is available locally together with requisite spares.
- Being an electrical energy intensive operation, a Linden located Laundromat will benefit from lower electricity charges, likely to be guaranteed for the foreseeable future. At the cost of US\$0.06 per kw/h the commercial/industrial electricity supply costs less than even domestic supplies elsewhere.
- There is no immediate significant competition from other operations.

An effective Laundromat can be set up for as little as US\$20,000. Actual revenues will be, of course, a result of marketing skill and general management, but projections suggest full cost recovery in less than 3 years.

A full feasibility study will be required prior to startup to determine actual startup costs, working capital and financing requirements.

THE OPPORTUNITY: LAUNDROMAT

The cleaning of garments and other fabrics, which become soiled as a consequence of everyday use, has always been an arduous task. This drudgery has been alleviated only by the advent of washing machines in the middle of the last century. While initial acceptance was slow, modern day demands for speed and efficiency have made garment washing by machine both acceptable and attractive.

Machines have reduced the labor, but little else has changed in the three basic functions of laundering: cleaning, drying and finishing. These functions are the core of any fabric cleaning process, although the details vary and steps may be minimized or even omitted.

Since individual washing machines are still outside the reach of most families, in many societies it is now usual to buy laundry services from operators that include:

- Wet operation Laundromats, with an operator receiving, cleaning, and returning batches of clothes to the customer, but not providing pressing or other services;
- coin-operated (wet-op) Laundromats with the customer operating the equipment;
- dry cleaning operations providing related services such as clothes pressing and finishing, or alternatively, more limited service.

Washing by machine has caught on in Linden like everywhere else as evidenced by continuing sales of washing machines at the main department/furniture stores. Unfortunately for their buyers, most of these are of poor design and prone to breakdown.

Demand Potential

The recent upsurge of economic activity in Linden, leading to more employment, has increased individuals' wash burdens with uniforms, overalls etc being added to the mix. And the thousands of new citizens of the area, whose influx was triggered by the January 2005 coastlands floods, have come with expectations of these common services.

Linden has a single recognized "laundry", operated in the unlikely location of a stall in a market, out of sight, and known only to its existing clientele. That operator has little capacity for handling additional business. The few other individuals who take in washing to supplement their income also use machines but these operators are limited in scope and impact. There is need for several laundry services in this township of 30,000.

Since for the most part, clients are accustomed to, and are satisfied with wet cleaning (except for special items such as tailored suits which demand dry cleaning services) the recommended format is a wet cleaning operator-based outfit offering some mix of starching and initially, minimal pressing functions, for the following reasons:

- The novelty of (coin operated) self-cleaning soon wears off as it requires customer attendance and time, and the equipment is prone to more misuse and even abuse as researched in industrialized societies. Statistics from the USA show that the coin-operated sector accounts for the smallest portion of the industry with 3,044 facilities processing 4,914 tons of clothes per year for an average 1.6 tons per facility. This compares poorly to operator-based commercial shops that number 30,494, with a cleaning volume of 630,520 tons of clothes per

year, the facility average being approximately 19.7 tons of clothes per year. Besides, coin operated Laundromat machinery is going out of production and will be difficult or impossible to replace.

- Dry cleaning is highly specialized and is a risky investment for first-timers that offers very low returns on investment. There is also high risk of damage to clothes with consequent litigation / compensation payments. Even in the USA it is not a high profit business, and many dry cleaners are barely able to stay in business. Typical start-up costs in 1993 were US\$113,000, and over 60 percent of dry cleaners had annual revenues below US\$113,000.
- The operator-based Laundromat is simpler to manage and operate, and offers better equipment management and control.

Advantages to investing in this industry in this locale:

- Very good returns on investment in a relatively short period are possible once the operation is managed efficiently, coupled with aggressive marketing.
- The initial start-up costs are quickly recoverable and though heavy-duty laundry equipment will have a 5-year life, it will be replaced after 2 years operation.
- With the use of appropriate equipment, the labour involved is not expensive, as it is mostly unskilled and not intensively employed, with production increases coming easily through additional hours of operation, and not necessarily through the hiring of additional labour.
- The equipment is available locally together with requisite spares. Requirements are outlined under Production Process and Technology.
- Since these are (electrical) energy intensive operations, locations in Linden are optimal as this township has, and will for the foreseeable future continue to enjoy, the lowest cost of electricity nationwide. In fact, the cost of commercial/industrial electricity supply here is less than even the cost of domestic supply elsewhere. This will have a beneficial impact on the cost of operations.
- There is no immediate significant competition from other operations.

Market Strategy

Convenience is the driving force in commercial laundering and the Laundromat's product is the service of cleaning clothes conveniently. Location near the consumer and fast turnaround on their clothes, as well as the cleanliness of the item are important to a Laundromat's success. Consumers care little about what solvent is used to clean their clothes as long as the cleaning service is convenient, fast and effective. For this business the market is divided into two parts:

- a) Customers who shop for price and will accept adequate quality,
- b) Customers who are buying quality cleaning with price being less of a concern.

The latter are more steady customers while the former will forego laundry service during financial downturns. It will help to assure the public that the outfit addresses other issues like quality of wash, value for money, damage to clothes and cross contamination.

Several strategies could be tried for any new outfit including:

1. Discounts,
2. Attractive contractual arrangements to restaurants and hotels etc.
3. Competitive pricing.

PRODUCTION PROCESS AND TECHNOLOGY

The modern laundry industry has developed into an efficient operation that has benefited from significant research into washing techniques and continuing development of labeling machines, washers and dryers and specialized devices for ironing (pressing). Most of the equipment is electrically driven, operating typically on 115v AC supplies. Laundering has three basic functions: cleaning, drying and finishing where garments are pre-treated for stains, and then machine washed in a solution of a solvent, soaps and detergents. The solvent is extracted by first draining, then spinning the clothes. Finally, the garments are dried through a combination of aeration, heat and tumbling, and then they are, optionally, pressed.

These functions are the core of any fabric cleaning process, although the details vary and steps may be minimized or even omitted. Dry cleaning processes are very similar to wet laundering, except that clothes are cleaned in dry cleaning solvent instead of water.

Washing

A vital first stage in the commercial laundering of domestic fabrics is the individual marking of every article in a customer's wash. While this can be done with a permanent marking system this requires keeping a large register and constant reorganization in the collection area as clothes come off the process line. It is far more convenient to use PC generated once-only labels which enables a combination of letters and numbers to be selected for a customer and each of his/her articles receives this marked label fed from a reel of process-proof tape and applied by adhesive and hand pressure. Color-coding is also usable and can be applied to indicate special conditions, runs etc.

The labeled articles are then sorted into bins which are classified according to the wash process involved – e.g. blankets, sheets, pillow-cases, white shirts, rayons, silks, white coats, coloreds, towels etc.

Mostly heavy-duty domestic/commercial washers (with spin drying functions) are used. The washing operation typically employs a tumbling agitation with the internal cylinder or a paddle rotating first in one direction then in the other throughout the wash and rinse cycles. Usually the operating conditions for a particular batch are pre-set for the type of wash being done. These settings include

- the amount of water used (softened where necessary),
- the number of wash and rinse cycles
- the quantity of solution or detergent being used. It should be noted that the industry tends to use soap solutions and alkali rather than the synthetic detergents common in domestic use.
- The wash temperature

Since, even in heavy duty machines these presetting devices tend to go defective and are expensive to replace, manually controlled machines are still widely used where the washing solutions and filling cycles are performed by hand. Other

treatments may be included in the washing and rinsing stages such as bleaching and starching.

Drying

Normally at the end of the wet cycles the load is partially dried by high speed spinning in the washer itself or in a separate hydro extractor. Drying in sun and breeze is unreliable and too prone to environmental accidents to be feasible in an industrial environment like Region 10. Besides, it involves more investment in space; lines, clips and handling than are necessary, obviating any saving in fuel costs. Wood fueled ovens and hot air extractors may be employed but are prone to dust infiltration and fabric contamination. At any rate, the aforementioned advantage of operating in Linden makes the operation of electrically powered dryers very feasible.

Finishing

The finishing stages required typically will vary from load to load as many persons opt for only a plain wash and spin-dry. Other loads will be expected to receive at least starching. For drying, centrifugal extraction spinning is only the first stage followed by tumble-drying in hot air dryers. These, like the washers, typically operate from 110v AC but are high current machines and consume lots of electricity. Here the advantages of operating in Linden will be immediately apparent. The most sophisticated laundries (as opposed to Laundromats) offer specialized ironing facilities using presses developed for finishing shaped articles. These all consist basically of heated, polished metal surfaces applied to the side of the fabric where finish is most important, the article itself being laid or arranged over a padded fabric surface. This is analogous to the heated surface of a hand iron being used on a household ironing board, but in the case of presses, there is no sliding movement but pressure and heat. In these cases steam works have to be built and operated and add considerably to the complexity of the operation. The pressure and heat ranges of such equipment are in the order of 100 to 150psi at temperatures of 340° to 370° F (170°C to 180° C).

There is a recent increase in demand for starching of clothing and laundries are being expected to offer this service. As the machinery used for finishing must also cook the starch, they operate at higher than normal temperatures, usually 450° F (232° C) which significantly increases fuel consumption.

Special requirements

For specialized industrial loads such as hotel and restaurant furnishings and fabrics, disinfection is important and this is carried out by the application of heat and special solvents. At some stage of the washing process, a high temperature has to be maintained for a sufficient period of time. It is not envisaged that hospital loads will be accepted since these require very different sanitization and segregation procedures to prevent cross-contamination. Hospital laundering is usually performed at specialized hospital laundries.

For the envisaged operator-based Laundromat the washing function can be done using widely available heavy duty washing machines such as GE, Westinghouse, Sears, Maytag etc brands as these have proven completely dependable in other high volume commercial operations in Georgetown. Similarly, the dryers can be the same brand and type and are good for 10 years service before requiring significant repair. Service technicians are readily available in Linden to perform routine maintenance such as belt adjustments.

The finishing services should be introduced gradually and only when there is a clear indication that the market will sustain the investment.

REQUIREMENTS FOR SETUP

The critical factors for setting up a Laundromat are:

1. Location

Though operation can go on anyplace, it is best to find a location close to either of the business centres on Mackenzie or Wismar as Lindeners tend to buy services in the business areas and not necessarily near home. They are also generally reluctant to venture into other residential neighborhoods for certain services. Location in the business centres will assure a reliable supply of water and power, and easy access for customers. It will be necessary to rent premises though a building buyout is always possible.

2. Building

A very one flat building may suffice for an initial startup, the main consideration being the security of the machinery and proper connections to electrical supply. A building layout of approx 400 sq ft (typically 20'x20') is quite sufficient for acceptance, pre-sorting, laundering and delivery and materials storage, though 300 sq ft will also be adequate. Either size will comfortably house 10 washers and 5 dryers with the appropriate piping for supply and drainage, but if significant finishing services are introduced later then the additional space will be beneficial.

3. Electrical supply

The building should be wired appropriately to avoid electrical overloads, shocks and risk of electrical fire. Certified electrical contractors should be employed to install appropriate supply wiring based on the needs of the operation. Many qualified, skilled personnel are available in Linden.

4. Water supply and disposal

The location must have access to a high volume supply of treated water, preferably softened. Water in this area is typically of medium hardness and can benefit from softeners to enhance detergent action. Supply piping should be 3" bore to provide the required volume in high demand situations. Drainage and effluent discharge will be considerable, in the order of hundreds of gallons per day at the rate of 40gls per load for wash rinse cycles. A single machine, processing a minimal 10 loads per day, use as much as 400gls per day. At full capacity, the operations could throughput as much as 8000gls per day. The supply of water can be adequately met by the Guyana Water Inc. commercial supply that is quite reliable in the suggested areas in Mackenzie and Wismar. The commercial rate for water is negligible at a mere \$0.48 per cubic meter (220 gallons) or less than one cent per gallon.

5. Ventilation

The location will need to be properly ventilated to ensure safety and preserve health. The design and layout of the operation should make provision for eliminating hazards.

6. Equipment and supplies

The critical issue in equipment selection is capacity and durability, the requirements being:

1. 20 to 25lb capacity washers of heavy duty, top-loading design capable of 140 duty cycles per week, operating on 115v AC and capable of providing high-speed spinning for centrifugal extraction of wash and rinse water. Any of the common American made Westinghouse, Whirlpool, GE, Sears etc top loading models will suffice;
2. 20lb Dryers operating on 115vAC; same brands as washers;
3. Computer system with appropriate peripherals, running laundry software for producing labels and for managing accounts;
4. Industrial grade extractor fans for ventilation;
5. Small 3Kva AC Generator to power the equipment through blackout periods to finish a run and avoid spoilage due to excessive soaking of work in progress. The generator is just to finish the run, but not for continuous operation;
6. Clothes hangers for suspending finished work and polystyrene bags for deliveries of clothing;
7. Supplies of detergents or soap solutions used in the industry; water softeners, bleach, and starch for mid-stage treatments;
8. Safety wear including respirators, galoshes (long rubber boots) and washing gloves;
9. First aid equipment for treatment of poisonous substance inhalation or consumption, electrical shock, chemical or temperature burns.

ANNUAL FINANCIAL PROJECTIONS

For the purpose of this projection, weekend work is assumed with a day off during the week for maintenance and servicing:

Output: 10 wash loads per machine (equipment capable of 20/ day)
Selling price: \$2.94 per wash load, washed and dried, priced for market penetration
Workweek: 6 days (unskilled labour typically works 12 hr/day, 6day weeks)
Work year: 50weeks, assuming slowdowns due to *force majeure*.

This projection is predicated upon a half capacity production schedule of 10 washes per day per machine (5 activity hrs per day per machine.) A 30 min duty cycle is normal for the wash and rinse cycles. The use of top loading will facilitate direct filling by high volume piping, eliminating the usual delay due to water recharge.

Investment		US\$ 19,608
Year 1		
<i>Revenues</i>		US\$ 88,235
<i>Expenditure approx.</i>		US\$ 58,691
<i>Net Profit</i>		US\$ 29,544
<i>Net Margin</i>		33.48%
<i>Breakeven Point</i>	<i>Period</i>	3.7 months
<i>Breakeven Point</i>	<i>Percentage</i>	31.03%
<i>Break even point</i>	<i>Sales</i>	US\$ 27,377
<i>Break even point</i>	<i>Production</i>	9,310 units

The major capital and operational items associated with this level of operations are:

Investment items

Land and Building (rented) mobilization costs	5,710
Plant and Machinery	12,672
Working Capital for 2 months	1,225
Total Capital Investment	19,608
Receipts per annum	88,235
Annual Fixed Costs	13,294
Cost of Production per annum	58,691
Profit per annum	29,544
Break Even point	31.0%
Net Annual Margin	33.4%

Machinery & Equipment

10	Heavy duty washing machines @ \$588 (2 year lifespan)	\$5,882
5	Heavy duty electrical dryers @ \$588 (2 year lifespan)	\$ 2,941
24	Wash day baskets @\$1,500	\$ 176
4	400g water tanks for water storage costing @ \$16,000	\$ 314
	5000w backup generator	\$ 1,960
	Water pump for water delivery during emergency	\$ 294
	Plumbing	\$ 245
	Electrical Isolation Transformer	\$ 858
	Total	\$12, 672

Production Items per run

Detergent etc	\$0.42/load	
Water	\$0.48 /cu m	Water \$172.00 yr at rate of \$0.48 /cu m
Electricity	\$0.06/kwh	

Employment Costs

Manager (salary of US\$245.00 / month)
 3 machine attendants to operate and load machines, wages US\$34 / week

Other Considerations

Rent \$245.00/mth
 Transportation
 Insurance
 Security provisions and devices
 Municipal Licenses and permits

FINANCING SOURCES

The following are some of the funding sources from which a borrower may access financing for an operation of this nature, either singly or in combination.

- The Linden Economic Advancement Fund (LEAF) provides financing for Region 10 projects.
- Small Business Development Trust
- Institute of Private Enterprise Development
- National Bank of Industry and Commerce
- Citizens Bank

Laundromat

Detailed Analysis

	Fixed Costs	Variable Costs
Production costs:		
Direct materials		\$1.27
Direct labor		\$0.17
Indirect production costs electricity, depn etc	\$1,471	\$0.05
Other expenses:		
Sales and Advertising expenses etc	\$490	\$0.02
Insurance	\$4,706	
Rent	\$2,941	
General expenses:		
Office salaries	\$2,941	
Supplies	\$392	\$0.½c
Miscellaneous general office expenses	\$353	
Totals	\$13,294	\$1.52

Sales and Income data:		
Selling price per unit		\$2.94
Expected unit sales		30,000
Target operating income for the period		24,510
Cost of Production per annum Variable & Total	45,397	58,691

Results

Contribution margin per unit		\$1.43
Unit sales at break-even point		9,310
Dollar sales at break-even point		\$27,382
Dollar sales at expected level		\$88,235
Net Annual Profit at expected level		\$29,544
Unit sales at target operating income		26,474
Dollar sales at target operating income		\$77,866
Break Even Percentage		31.03
Net Annual Margin at expected level as a Percentage		33.48
Break Even Period in months		3.7

Yields, Costs etc

Wages / Salary 3x US\$34 wk + Mgr US\$245.00/mth