ACCOUNTING in the headlines

What is the NPV of Applebee's investment in tableside tablets for its restaurants?

At Applebee's, Presto tablets by E la Carte are being installed at every table. In total, Applebee's will be purchasing 100,000 tablets. Customers will be able to pay their food bill and order appetizers and desserts using the tablets. The tablets are not replacing wait staff; wait staff will still take the orders for entrees. Applebee's does not expect to reduce the work hours of its wait staff due to the tablet installation. By allowing customers to pay whenever they want using the tablets, it is expected that customers will be more satisfied, both with the ease and speed of payment. Diners are expected to get out the door faster with the new tablet payment method.

The tablets will also function as jukeboxes at individual tables since customers can select and pay for music tableside. In addition, customers will be able to play games on the tablets for a small fee. The music and game sales revenue will be split between Applebee's and E la Carte.

In addition to the initial purchase price of the tablet hardware, Applebee's will be paying E la Carte a subscription fee for the use and upkeep of the tablets.

Data and assumptions

Use the following assumptions for data for this exercise (all figures are assumptions only):

1. Each tablet has an initial purchase price of $250
2. The annual subscription fee per tablet is $50
3. Average revenue generated per day by each tablet is $1
4. Average number of days each tablet is in use each year is 360 days
5. Additional annual IT costs incurred for tablet integration into Applebee's system is $225,000
6. The useful life of the tablets is four years. Ignore depreciation and taxes.

Questions

1. Calculate the NPV of the investment in the tablets using a discount rate of 6%.
2. Now calculate the NPV of the investment in the tablets using a discount rate of 12%.
3. Does this investment in the tablets appear to be a financially sound investment for Applebee's? Why or why not?
4. Recalculate the NPV of the investment now using an estimated useful life for the tablets of three years instead of four years. Assume a discount rate of 6%. What happens to the NPV compared to when the useful life was assumed to be four years? Does this investment still appear to be financially sound?