Using Technology to Increase Utilization and Profits in Equipment Rental

With foreword by Dan Kaplan

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Foreword

For years, I have advocated the use of business practices that improve the bottom-line performance of equipment-rental companies. Most of these practices are based on a simple idea: "profitability is the natural result of maximizing the flow of dollars into a company while minimizing expenditures at optimal levels." Taking steps to address profitability, however, requires access to information. You simply cannot "fix" what you can't measure.

It is important for rental companies to collect, store, and utilize data that tells you about how, when, and where your equipment is being used. Unless you have this data, you won't be able to understand what your customers want and when they want it. You won't be able to maximize the number of hours your equipment is in operation (asset utilization), and you won't be able to bill your customers accurately. Similarly, you won't be able to maintain your equipment efficiently or set your company apart from competitors as a "premier provider" of rental equipment.

Before you can take the steps needed to increase your company's profits, it is important to first understand concepts such as "asset utilization" and "return on investment." Once you understand these well enough to act upon the information you receive, you can take a fresh look at your business. You will be able to locate the critical points where money enters and leaves your company, and you will be able to evaluate the many helpful tools now at your disposal—selecting the ones that can best play a role in building your business on a foundation of hard, measurable facts.

With that in mind, the white paper entitled "Using Technology to Increase Utilization and Profits in Equipment Rental" will help you to understand some of the basic factors that can have an impact on the profitability of an equipment-rental business. I hope it will encourage you to begin asking the kind of questions that will lead to better asset utilization, improve your return on investment, and increase the profitability of your business.

Respectfully,

Dan Kaplan
President
Daniel Kaplan Associates

Improved utilization increases ROI, and the added revenues that come from the savings a company can realize from accurate equipment monitoring can positively impact a company's bottomline equivalent to raising rental rates.

Executive Summary

In an increasingly competitive environment, rental companies must understand how equipment utilization affects profitability, and ultimately how to improve their utilization. The three accepted measures of utilization are on-yard, time, and dollar, but it is dollar utilization that most directly impacts a company's bottom line. The concept of return on investment (ROI) is also important because it yields hard numbers that reveal how much profit a rental company earns. Accurate information is necessary to determine ROI, and specialized business software is used by leading companies to perform both utilization and ROI calculations. By analyzing both your utilization and ROI numbers, you can identify key areas within your operation that need improvement, and take the appropriate steps to adjust the way you conduct business.

Rental companies should also be aware of new wireless equipment-monitoring technologies that provide more recent and precise information about where, when, and how equipment is used as well as equipment health. This information contributes to better equipment utilization, and can be used to respond to developing situations as they occur instead of after the fact.

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Introduction

Purpose

This white paper explores how equipment rental companies can reduce costs and increase profitability by gathering and using information that addresses utilization and ROI. It also explores how wireless technologies can help rental companies further improve utilization and ROI in order to increase profitability.

Wireless equipment-monitoring technologies provide:

> Engine-hour data

> Location information

> Critical system alerts

The Impact of Utilization on Profitability

Reliable information about how equipment inventory is used lies at the heart of improving profitability. Without this information, rental companies cannot effectively measure profitability or identify ways to improve it. Similarly, unless the role of business software and concepts such as on-yard utilization, time utilization, dollar utilization, and ROI are understood, rental companies cannot evaluate the information they possess in a beneficial and consistent manner.

The Impact of New Equipment-Monitoring Technologies on Utilization

New wireless equipment-monitoring technologies can contribute to better equipment utilization and ROI. They provide additional, more precise information about where and when equipment is used on a near real-time basis, which enables companies to respond more quickly and efficiently to developing situations. Such information can improve billing accuracy, prevent and resolve misunderstandings with customers, help evaluate customer claims, improve maintenance practices, enable more effective planning, and reduce the risk of loss due to theft and misuse.

Wireless Technologies that Enhance Business

Wireless equipment-monitoring technologies can play an important part in automating administrative functions while enhancing the effectiveness of rental software. They accomplish these tasks by providing timely data that was previously unavailable including:

- Engine-hour data—detailing precisely when equipment is used.
- Location information—identifying where equipment is located.
- Critical system alerts—monitoring the critical health of equipment.

With this knowledge readily available through wireless equipment monitoring, rental companies can use this information to help improve dollar utilization, time utilization, and ROI.

Impact on Dollar Utilization

Benefits of Timely Engine-Hour Data

Rental companies can bill customers for all actual usage hours when they have access to detailed and accurate engine-use data. This information can be delivered at user-defined intervals or retrieved on demand, and this ongoing record of engine-hour data provides opportunities to verify customer claims and help settle disputes.

- **Unreported overtime use.** Use of equipment beyond normal work shifts may not be detected if engine-hours are only checked periodically. Continual updates on engine-hour usage enables the rental company to know when equipment is running more than it should, and that helps the company be more proactive in providing customer service. This results in more accurate billing because you can charge for all actual usage, or by notifying a customer that may be unaware the equipment is running as often as it is.
- **Use of equipment called off rent.** Wireless engine-use data verifies the continuing use of equipment that has been called off rent. If a piece of equipment is used after it has been called off rent, the rental company can collect additional revenue for that usage, or negotiate with the customer for an extended rental term. This information can also help identify unauthorized use by the customers or by employees.
- **Incorrect claims for credits.** Detailed engine-use data enables rental companies to verify claims for rain-days, downtime, or holiday credits. Accurate reports of when, where, and for how long equipment is used provides rental companies with the proof they need to help settle disputes with customers. This level of customer service can help a rental company positively distinguish itself from the competition.

Dollar Utilization

Dollar utilization incorporates the total annual dollars earned by the rental fleet, divided by the original fleet equipment cost. It can be calculated for an entire fleet, for a category of equipment, or for a single piece of equipment. Because it takes into account both time and rental rates, dollar utilization can be used to gauge the financial performance of revenue-earning equipment during a selected interval. Consequently, managers can relate this information to the overall profitability of their business.

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Benefits of Timely Location-Based Information

Wireless data can also reduce the risk of loss due to theft and unauthorized use because built-in positioning systems can issue alerts when equipment is moved beyond pre-designated GPS boundaries. This proactive alert comes into play as the equipment is being moved (in contrast to simple location devices).

- Positioning and communication systems support a flow of up-to-the-minute location information which can help retrieve stolen equipment more quickly.
- Once stolen equipment is located, the on-site presence of a rental-company representative can expedite processing and the official release of equipment at the recovery site.
- Prompt retrieval of stolen equipment eliminates or minimizes the following eventualities: costly replacement of stolen equipment, filing a claim with an insurance company, the cost of renting a temporary replacement, and the cost and inconvenience of work delays.

Reduce the risk of loss due to theft and misuse.

Impact on Time Utilization

Engine-Hour Data Promotes a Proactive Maintenance Program

Maintenance directly impacts a rental company's time utilization, particularly when unforeseen equipment downtime occurs due to machine failure. If equipment is properly maintained, it will have a longer service life, generate more revenue, and require fewer and less costly repairs. A proactive maintenance program is essential to providing a positive rental experience for customers, and access to timely engine-hour data and critical machine health alerts help prevent over- and under-servicing of rental equipment.

- **Under-servicing and credit penalties.** If timely engine-hour data is not available, periods of unexpectedly heavy equipment use may go unnoticed. Equipment failure leads to unexpected downtime, and this is not only inconvenient for customers, but also very costly because crews are left idle.

- **Over-servicing.** Unnecessary service trips reduce profits because it is expensive to pay for the time of a valuable mechanic when equipment doesn't need servicing. Engine-hour data also helps rental companies revise service schedules by identifying equipment that has been idle for a long period of time at a job site.
- **Critical machine health monitoring.** Sensors detect and send text message alerts when equipment reaches critical thresholds, spotting problems before damage is done. The rental company can request the customer shut down the machine to prevent potential breakdowns, and customers can be held accountable (and billed) for any damage.
- **Better use of service resources.** Service resources (especially mechanics) can be scarce and expensive. To make the best use of these limited resources, rental companies need to improve the efficiency of their maintenance programs.
- **Customer convenience.** Since the normal hours of operation for each piece of equipment can be recorded by wireless technologies, service technicians can schedule maintenance visits to correspond with expected periods of inactivity.

Impact on ROI

Improve Customer Service With Detailed Engine-Hour Data

Access to timely, accurate equipment data can keep customers and rental companies aware of positive or negative developments regarding job costs throughout a billing cycle. This enables rental companies to be more proactive in their customer service, and correct situations before they turn into disputes.

- **Unexpected accumulation of hours.** Up-to-date information about accumulated hours can prevent unwanted surprises and disputes at the end of a billing cycle—whether the hours were accumulated by unexpected heavy use or by unauthorized equipment use.
- **Sales assistance to customers.** Before visiting a customer office or job site, sales representatives from a rental company can evaluate a customer's utilization patterns and provide an instant analysis to optimize usage. This can cement a customer relationship and yield new and repeat business.

Return on Investment

ROI is the only measurement that yields information about profitability by piece of equipment or by the entire fleet. The definition is as follows:

$$\text{ROI} = \frac{\text{(Rental Revenue – Depreciation-Interest-Parts and Labor)}}{\text{Equipment Book Value}}$$

An ROI of zero means that a particular piece of equipment (or equipment category) is covering its operating expenses, but not contributing to profitability. Likewise, negative ROI means that the piece of equipment is deteriorating profitability. Finally, ROI data helps rental companies determine when to purchase new equipment.

- **Rent or buy decisions.** Early in a rental contract, it may become obvious to a rental company that a customer is accumulating so many excess hours that purchase of the equipment would be more cost effective than continuing the rental. A proactive contact suggesting the purchase option can strengthen a long-term bond with that customer.
- **Service differentiation.** Access to timely information and feedback allows rental companies to deliver a higher level of service, which differentiates the rental company from competitors and builds customer loyalty.

The rental company gains new revenue, and differentiates itself by providing superior service to all parties.

Customer service can even be enhanced by strategically redeploying equipment to new customers. If the rental company identifies idle equipment at an existing customer site, it provides an opportunity to contact that customer and offer to reduce the length of the contract. Now the equipment can be offered to new customers, resulting in a benefit for both the previous and new customer.

An added service and revenue-generator that some rental companies are taking advantage of is the "power by the hour" practice. In a typical scenario, the rental company drops off some under-utilized equipment at a job site, and informs the contractor the equipment is available for use. If the equipment is used, the monitoring systems automatically report all engine-hours so that billing is accurate. Not only does this practice help rental companies provide exceptional customer service, but it also helps generate additional revenue on equipment that could have remained idle.

Location-Based Information Helps Improve ROI

Lien rights with customers can be tricky if equipment is moved to a new job site without notifying the rental company. The right to collect on possible liens may be lost if proper paperwork is not filed on the new property, but wireless monitoring technologies can document equipment use regardless of location. This reduces the amount of time spent on lien management, and resources are used more efficiently.

- Monitoring technologies alert rental companies so they can proactively send "prelim" agreements to the owners of sites to which rented equipment has been moved.

- Furnishing documentation at the beginning of a dispute can minimize arguments about matters of fact, and helps reduce dispute costs and the long time required for resolution.
- Rental companies can reduce the cost and time spent on charting and documenting equipment usage because documentation is automated.

Precise knowledge about where and when equipment is used—especially when it is unauthorized—can protect a rental company's legal and liability concerns by performing the following important functions:

- They provide documentation of non-contractual use by a renter, such as occurrences when equipment is used without the knowledge of the rental company.
- If a rental company has a lien and must appear in court, it has documented evidence for the time and place of all equipment use. This reduces deposition costs and counteracts biased depositions from customers by providing objective data.

If there is an opportunity to increase profitability without raising rental rates, then both customers and the rental company win.

Conclusion

Rental companies face increasing demands on their business from competitors and other market influencers, and the easy way to improve a company's profitability is by raising rental rates. However, it's important for a rental company to determine how to better differentiate itself from the competition, and raising rates is not always the best way. If there is an opportunity to increase profitability without raising rental rates, then both customers and the rental company win. This can be done by identifying data that is valuable to the business, and understanding how that information impacts utilization and ROI. Once these concepts are understood, a rental company can take steps to save money by utilizing wireless equipment-monitoring technologies. These technologies provide additional and more detailed information about their equipment, which makes it possible to respond to developing situations more quickly. Continual updates enable rental companies to manage fleets more proactively, and as a result, improve productivity and efficiency. As more companies implement these technologies, customer expectations and competitive standards will rise. Companies that are early adopters of wireless equipment-monitoring technologies can immediately set themselves apart in this highly competitive industry.

About QUALCOMM Wireless Business Solutions

QUALCOMM Wireless Business Solutions (QWBS) provides companies around the globe with industry-leading mobility platforms, applications, and services that are ideal for mission-critical applications and enhanced security. Products include the OmniTRACS®, OmniExpress® and OmniOne® mobile communications solutions as well as the T2™ Untethered TrailerTRACS® asset management solution and the GlobalTRACS® equipment management solution. QUALCOMM solutions feature location monitoring, security alerts, productivity-enhancing applications, and wireless advisory and managed network services. These products serve a variety of industries including transportation and logistics, third-party logistics, and construction.

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LCL0273 06/05