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Rental rates - Part 2 -

The 'demand side'

Lessons from the car rental industry

One of the most highly developed rental industries is short term car rental. Asset management, marketing, rental rates, charging for extras, the industry is full of things that have been tried, rejected, developed, and tried again. The two largest companies, Hertz and Avis have each in the past been owned by car manufacturers, Hertz by Ford and Avis by General Motors.

Asset management

When was the last time anyone saw old cars at a car rental company? The car rental industry gets fantastic deals from manufacturers, which have been making more cars than the market wants for years. Often they give buy-back guarantees, which means the manufacturers get the vehicles back for a predetermined price - usually at the rental company's option.

This does two important things. It lowers the risk for the rental company, making fleet reduction easy and disposal the manufacturer's problem. It also makes the vehicles easy to finance. Car rental is a small portion of total car use, which makes it a tempting place for manufacturers to dump excess production, taking pressure off retail price discounting.

Asset management for equipment rental companies

Many rental companies are good at buying equipment and renting it out, but poor at selling it on. The most



advanced rental companies have plans in place to react quickly to over-supply in a market, the majority of equipment however is purchased from the manufacturer, often in special company colours, financed on an inflexible five year lease, then sold via used equipment dealers or traded back to the manufacturer.

How about developing an in-house resale division, and/or a rental fleet in a second country? Then select equipment from manufacturers which have particularly high resale values, in manufacturer's original colours, then sell at retail prices when it's time for a replacement, though strong marketing, including a great used equipment website?



Strong marketing of used equipment really pays off.



Transport costs should be charged at commercial rates.

A good example of this is Irish and UK rental company Height for Hire, which has marketed its used machines from more than 30 years, and AFI, one of the UK's largest platform rental companies which started a Resale division and then acquired AJ Access Platforms, a well-established sales company with a worldwide customer base.

Rental charges and fees - additional revenue

The equipment rental industry can learn much from car rental and airlines on the pros and cons of extra charges. Each charge has an opportunity for revenue, but also an opportunity to annoy the customer. One key to the annoyance factor of extra charges is the question "did the customer expect the charge?" Accounting departments will query or reject invoices for charges not on the original purchase order, so surprise charges can be counterproductive and slow down payments. The following are some of the more common extra charges.

Charging for nights and weekends

Many countries assume a five day week for rental equipment use and yet much equipment is used at night and on weekends, all of which is given away free of charge. Technology can help here. Even the simplest Telematic systems can tell the rental company when a machine has worked and if an electric unit when it was put on charge. If this is used to charge for the extra usage or unjustified service call outs, the technology can pay for itself in a matter of months. Unauthorised use of the equipment by a second contractor after hours is surprisingly common place and can be tracked or prevented, an unexpected benefit for both customer and supplier.

Transport and logistics

Is there an opportunity to make a margin on transport, which is invoiced to the customer? Each market has its own particularities on whether customers will pay for transport, or whether or not

Insurances		CSW (Collision Damage Waiver)	CSW Plus (Collision Damage Waiver Plus)	Super CSW (Super Collision Damage Waiver)
Rent at / Insurance fee / coverage	per day	US\$ 11 - daily	US\$ 18 - daily	US\$ 25 - daily
Damage to the rental car	✓	✓	✓	✓
Damage to a third party caused by fault of the renter	US\$ 565 - Deductible	US\$ 565 - Deductible	US\$ 200 - Deductible	US\$ 200 - Deductible
Theft or other damages to the rental car like vandalism, fire	US\$ 565 - Deductible	US\$ 565 - Deductible	US\$ 200 - Deductible	US\$ 200 - Deductible
	Fully Liable	US\$ 565 - Deductible	US\$ 200 - Deductible	US\$ 200 - Deductible

this service is subject to pricing pressures. The temptation in downturns is to discount transport, or even give it away, in an attempt to win a long rental and hold onto higher daily rental rates. Does this work? It depends on market specifics and if the company has good systems and work practices to make sure that the free transport is not given away on short rentals, or ones that are booked long and become short. It may be easier to convince customers that free transport is a one-time promotion, and that higher rental rates are sacred. The rental company also benefits if the rental goes longer than expected.

Administrative charges and per contract charges

Processing rental orders takes people, software and organisation and all carry a cost. The airlines have all kinds of fees, for check-in, bags and credit card use etc... some understandable and some opaque. Should the rental industry charge a fixed £10 per contract for processing? In most markets this would be difficult, as it has not traditionally been charged for.

Fuel

Supplying fuel can be welcomed by customers, but some charges can be annoying. For generator or water pump rental, fuel is a significant part of the rental and a significant profit opportunity. The UK rental industry has tried to take advantage of this by putting low-taxed red diesel into rental equipment but charging for white - road diesel. The car rental industry sometimes has extra low rental prices that come with a 'mandatory' tank of expensive fuel, which can also have a high annoyance factor.

Insurance

The car rental industry has a long history of charging for insurance. The headline rental rate is discounted, and then the 'up-sell' comes as expensive insurance is offered when the

vehicle is collected. This is now a highly developed product, with different costs to lower the excess (deductible) in the event of an accident, often with exclusions for commonly damaged items such as tyres and glass.

For construction equipment rental, particularly in the UK, both the customer and the supplier side of insurance is also well developed. Many contractors insure their own rented in equipment, since the UK is unusual in that it has standard rental agreements from the Construction Plant-Hire Association (CPA). The penetration of insurance is growing in the UK, although many risks are excluded by the rental company.

As with car rental, this is often sold as a 'damage waiver' or some other term not mentioning the word 'insurance' since insurance is heavily regulated and often taxed differently. Since the customer gets something extra for the insurance fee, this can be an easier sell than some of the other fees which may add no new apparent value for the customer.

Environmental charges

The business of maintaining, repairing and cleaning construction equipment is costly. Oil, filters, tyres, batteries and even the dirt washed off machines must now be disposed of in a legal and proper manner. In most European countries and in the US, customers are used to seeing an environmental disposal charge when they service or put tyres on their car, and it's often more elegant to accept a moderate environmental charge than risk one's green credentials. Many national rental associations have promoted this with success. Often the charge is €5 or €10 per rental contract, which soon adds up.

Cleaning fees

When a machine is delivered to



a muddy construction site, the customer expects to return it along with a certain amount of mud, picked up in its normal use. Can you charge for cleaning? If the vast majority of rental companies already provide this service for free, this is going to be a challenge. This is not to be confused with customers returning equipment covered with difficult to remove paint, cement or fire resistant ceiling coatings, etc.

First day premium charges and minimum rental periods

In the equipment rental industry it seems that everyone wants the machine delivered Monday morning, or the first of the month. A one-day rental on Monday is a challenge logistically, while there may be less demand for Thursday, so the one-day rental on Monday can make a machine difficult to rent the other four days of the week, considering cleaning, inspection, etc. How about pricing a machine £100 the first day, £50 the second and £40 each subsequent day? Premium first day charges are commonly seen in northern European countries, perhaps due to the tool rental sector, but less so in southern or eastern Europe.

Price increases and new charges

The key to getting the customer to pay more is communication. How is the customer's own business going, are they busy, are they raising their own prices to their customers? Is the rental company investing in new equipment, therefore helping to justify a higher price? Customers don't like paying tomorrow's higher price for yesterday's equipment and service. A successful marketing

and communication campaign to customers, highlighting the fact that the rental company is investing in new equipment, extra services and care for the environment show that while the customer may be paying more, they are getting more as well. Sales training and negotiation skills are key here, customers want a good deal of course, but equipment rental is often a very small portion of their overall costs.

In conclusion, rental rates go down much more slowly than they go up, because of oversupply, and two ratchet effects, one on pricing and one on fleet movement. There are opportunities to use fees and charges to add to revenue, but each fee and pricing strategy has its own advantages and disadvantages. The real key is asset management - being able to move equipment out of poor markets to where the demand is better. The best rental companies will continue to proactively correct their own supply and demand problems rather than waiting for things to get better.

The first part of this article appeared in the March issue of *Cranes & Access* and is available at www.vertikal.net

Jeff Eisenberg has been in the equipment rental industry since the mid 1990s, when he established Genie Financial Services. Since 2000 his roles have included rental company director, shareholder, advisor, consultant and even equipment operator. His Claremont Consulting business advises financial institutions, investors and rental companies.

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