

# All that glitters *(sometimes)*

Don't let a great price for used equipment overwhelm you — rental may be superior in an inferior economy

The economy sags, lags and bags any chance you had to buy new equipment for your fleet — it's too much capital to commit at a time like this.

But old machines need to be replaced and a core fleet has to be kept in shape. So you buy used, right?

Rental industry leaders agree there may be some good used buys out there, even some bargains. But, they say, buying just because a machine is relatively new, has low hours and is a fraction of the new price may not fit your needs in this economy as much as increasing your rental usage could do.

Why? Because right now the key word associated with our short-term economic future is 'uncertainty.'

"The most significant economic news on the horizon is that we have a very unsure future," says Bud Howard, senior vice president of sales and marketing for Rental Service Corp. "Nobody is quite

sure what 2002 or 2003 is going to bring us. I think there is optimism, and everybody's attitude is 'I think it's going to be OK.' But when you peel that layer back and start making economic decisions that drive your business, particularly those decisions that have to do with costs that are fixed into the future, there is some reluctance to bank on that optimism."

"The current economic uncertainty," says United Rentals Chief Operating Officer Wayland Hicks, "is one of the compelling reasons not to buy, because renting gives you the flexibility of using equipment and buying later when the economy picks up. It minimizes the risk of having your capital tied up and finding the economic environment getting worse."

## **'I can't predict the economy'**

"Say I'm a contractor and my business is OK," says Howard. "It's not growing like it used to but it's doing alright, and I've got jobs through this year and next. I can't afford to buy new, but backhoes are something I use a lot so I'm a potential used equipment buyer.

"But I can't predict the economy, so I need to stay flexible more than anything else. Do I really want to tie up capital when I may need to change in a hurry? My work load may fall, I may have to change my core business either to stay afloat or I may need to go after some new business that's not what I usually do."

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— *Wayland Hicks, United Rentals*



# is not sold ... *it's rented*)



by John Latta

Howard argues that there is an inherent risk in these economic times to assigning capital to anything but absolute necessities when it comes to equipment. "You have to be ready to adapt," he says. "If there is a shakeout and some local companies fail, or if things pick up quickly, you need to really go after new business that may not be your traditional work.

"Better not have too much tied up in backhoes if you suddenly need skid steers," says Howard.

"If a contractor has any hesitation about the economy," says Gerry Plescia, president of Hertz Equipment Rental Corp., "even if he has a year's worth of work out there but is not sure what will happen after that year, renting can give him a chance to hang on until better times rather than buy used.

"We have multi-month or one-year rentals that are alternatives to buying or renting short term," says Plescia.

Quality used equipment can be a clear winner in some situations, say industry executives. For example, if you have an almost non-stop schedule to keep it busy well into the future, or if buying and owning fleet is central to the core culture of your company.

## **Wait and see**

Even the rental companies are puzzled by this economy. Some rental houses are reporting sluggish buying of their used equipment, and some are not as actively trying to sell used as they have in the past. But they are earning good rental money from their fleets, evidence that perhaps more people are following a wait-and-see approach to buying new fleet

and using rental as a bridge to the better times of a revitalized economy.

A greater reliance on renting than buying during a lethargic economy would continue the American contractor's trend toward renting more equipment.

"There is a very sustained trend that is shifting from owning equipment to renting equipment," says Hicks. "If you go back to the early 1990s, maybe only 3 percent of a construction fleet was rented. Today roughly 20 percent is rented. And that is increasing at a rate of 2 to 3 percent every year."

## **Buy used from a rental house?**

"I suppose people think they get manhandled," says United Rentals' Wayland Hicks, "but when our machines are sold, they are as good as any used machine anywhere."

"We allow customers to review the service and maintenance record from the machine," says Hertz's Gerry Plescia.

"You'll know more about an ex-rental than any other machine you could buy used," Plescia says. "You know it's been supported by professional mechanics after every rental, that they've done preventive maintenance and checked everything that needs checking between rentals. They have to. You can't send it out to the next rental unless it's representative of your company and your service.

"So if a track broke or the engine blew and we've repaired or replaced them — not patched them — that's a good buy," he says.

Keep in mind, says RSC's Bud Howard, that rental houses are usually selling fleet that's about three years old compared to an average of five years from contractors.

"You're getting something with a lot more life left in it in most cases," says Howard.



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Rental Service Corp.*

Rental, says Hicks, allows would-be buyers to do the work they need without being locked into a position. Renting lets you get off a backhoe and on to an excavator, go after a job you really need but don't really have the fleet for, expand or contract your fleet, and increase or decrease spending by micro-managing what you rent.

"When you compare that to buying used equipment, there is no downside," says Hicks.

Rick Owens, vice president of store operations for NationsRent puts it this simply: "If you are to make the best decision on what you buy, you need to know all of the costs associated with what you are buying, not just the obvious ones."

"It's not just a matter of comparing the cost a used backhoe and comparing it to renting that same backhoe," says Gary Bernardez, president of AMECO, a business unit of the Fluor Corp. that specializes in fleet outsourcing. "Contractors have to ask themselves 'Where else could I invest that capital?' and 'What other areas of my business need capital and could make better use of it?'"

### **And if you do decide to buy used, what to look for?**

"If I was a construction company out there and I had to buy, or wanted to buy, a used piece of equipment the most important thing I would look for is quality," says RSC's Howard. "That means in the machine *and* in its support. I'd be asking what sort of quality assurance do I have?"

"I'd be looking for low hours and as many records as I could get, a solid checkup from my guys, and then I'd be asking about warranties, special financing deals, low interest and maybe some sort of maintenance contract where the seller goes some way toward offsetting an unexpected maintenance.

"If it's not too old, the major depreciation on its value is done and you have something that is working like a near-new machine."

This, he says, is working out the 'true cost' of ownership, the total cost to the company economy in dollar numbers and how directing that capital to a used machine might hinder another part of the company operation.

### **Running numbers**

And it seems more contractors are running detailed numbers before they buy — even the best bargain.

"In my opinion, contractors are becoming very sophisticated in determining their total cost of owning and operating equipment," says Bill Seidel, senior director of marketing, North America, for Case Construction Equipment. "They are doing it more often today where in the past the comparison between say renting and buying used might have been much more basic."

Buying used will save on the capital outlay, but it will cost more to keep, use and then dispose of.

"You have to work out what the residual value will be after several years and the anticipated hours you will put on the machine. This may be difficult to do considering the uncertainty about the economy and what one's actual usage may be," says Plescia. "Now also work out what your monthly and annual holding costs will be. You'll need to find a depreciation factor and work out interest payments, and the cost of tying up capital on your balance sheet and the cost of not being able to use somewhere else, which means you may have to borrow.

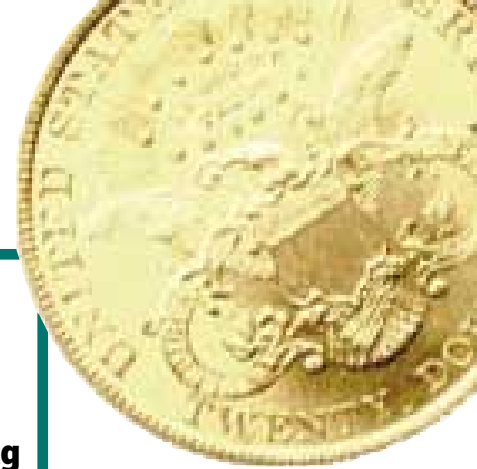
"Maintenance will be more for used equipment, and it will also be more unpredictable," says Plescia. "There the obvious servicing costs. Then there's the cost of your own staff doing preventive maintenance, people taking their time to change fluids and inspecting machin-



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*Hertz Equipment Rental*



struction equipment rental business, say industry leaders.

"The market place has changed for the rental user tremendously," says RSC's Howard. "There's much

ery. If a track replacement or some other major repair might be a possibility for your used machine in the next few years, you have to factor that in somewhere."

Remember too, says United's Hicks, "you probably won't have a warranty. That will lead to additional costs you wouldn't have with a new machine — or a rental."

There are other basic costs associated with used machines that will in many cases run higher than with new machinery — spare parts, storage, warehouse management, inventory, personnel costs, interest and downtime.

### **That was then, this is now**

Another reason contractors can look to renting rather than relying on used equipment to keep their fleet numbers up is changes in the con-

struction equipment rental business, say industry leaders. "The market place has changed for the rental user tremendously," says RSC's Howard. "There's much more security of supply for a contractor today, and even in a downturned economy the rental houses will be able to continue to ensure supply. Years ago contractors had to keep up minimum fleet numbers because there were times and places they couldn't rely on rental, but that has changed."

One number hasn't changed just because the economy has sagged. "A rule of thumb in the construction industry is that before you buy, be sure you can use a piece of equipment about 75 percent of your working time," says United's Hicks.

But, says Owens, this economy makes it much harder to know if you can reach that 75 percent figure because there is so much uncertainty as to how much work there is out there in the next few months, even into 2003.

And, says Hicks, make sure you take into account wild cards like the weather. "I was in Louisiana where we had 151 pieces of aerial equipment out working on erecting a \$2.1 million extension to a plant General Motors is building. Those booms worked great in 92-degree dry weather, but when it poured rain and there was mud all over the place, they didn't work. So we brought in a whole new set of booms with crawler tracks. Once they were towed into position, they worked fine in the mud. If you have bought a standard boom you would not be using it when the mud was so thick."

Rental industry executives also like to point out that changes in equipment technology today are coming so fast that a new rental is likely to give you a lot more productivity than an older used machine.

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### **'Gotta have it?'**

"There are many contractors out there that will sometimes feel they need to own machinery just from the sheer fact that they want to have it there ready for the next project," says Hertz's Gerry Plescia.

Most rental industry executives agree there will always be buyers — because it is the culture of many companies to own and that is what they feel sets them apart.

"Some people make more of an emotional decision," says AMECO's Gary Bernardez. "Most contractors have owned the majority of their fleet for years. Equipment ownership has been part of the company's culture. Some contractors believe they are effective fleet managers and continue to see that as part of their core business.

"That becomes a major part of their fleet-buying practices."