Equipment Rentals:

Delighting Customers with No Asset Accounting Surprises

Barry R. Rickman
North American Consulting
NetScore Technologies

Executive Summary

Why should businesses own expensive assets when they are used infrequently? Deciding whether to buy or rent an asset involves considering various factors:

- Initial cost and downpayment
- Capital expense versus operational expense
- Investment rate of return – the opportunity cost of deploying capital on a purchase
- Depreciation
- Estimated days of use per annum (DOU)
- Maintenance and insurance expenditure
- Estimated residual value of the asset

Ultimately, the decision depends on:

- Whether the asset is multi-use or single-purpose (e.g., a forklift vs specialized electrical test equipment)
- Whether there are multiple projects nearby or in the future that require the equipment
- How many days per year do you predict using it

If renting is the answer, rental businesses must factor these costs into their rental prices, including selling, general and administrative costs (SG&A). Efficient sales and accounting are crucial, and technology solutions are vital in minimizing these costs. The most advanced solutions allow sales associates to select specific assets for rent, with fixed asset events recorded in real-time. This paper focuses on the latest advancement: browser-based software-as-a-service (SaaS) cloud solutions tightly integrated with fully functional horizontal ERP (Enterprise Resource Planning) systems.

Many calculators help rental businesses determine the cost of renting versus buying an asset. This paper, however, focuses on the return on investment (ROI) derived from input by NetScore customers, highlighting the value of rental solutions integrated with ERP.

Note: *The results can be influenced by the specific features deployed and the company's commitment to driving adoption.*

- Various calculators: https://www.calcxml.com/calculators/lease-vs-buy-equipment | https://finquery.com/blog/lease-vs-buy-analysis-calculator-business/

- Sources: When to buy or rent heavy equipment by Ritchie Bros | April 2, 2022, and Rent vs Buy Construction Equipment: How To Decide by Juan Rodriguez | Construction Trends | March 2021.

Expected Savings: Equipment Rental Tightly Integrated to ERP

Integrating equipment rental solutions with ERP systems can yield significant direct and indirect savings. This paper focuses on four categories of direct, quantifiable savings:

- Increase in Profit from Rental Speed-of-Service Efficiency
- Automated Fixed Asset Recording/Forensic Audit Savings
- Increase in Labor Efficiency/Decrease in Labor Cost
- Reduction in Training Costs

Increase in Profit from Rental Speed-of-Service Efficiency

An integrated cloud solution can increase sales revenue and net margin by enhancing the speed of service, allowing salespeople to focus more on customers without switching between systems. This efficiency enables them to sell more items per transaction and handle more daily transactions.

Examples:

1. Suppose salespeople have all order, inventory, and delivery information on a single screen. In that case, they can stay engaged with customers and sell at least one additional item per shift. For an organization with 12 salespeople,where the average item rents for $521, with a net margin of 10%, and 335 operating days per year, this results in an increase in revenue and a net margin of $2,094,420 and $209,375, respectively.
2. By assisting two additional customers per day, with an average transaction value of $1,567 and a net margin of 10%, the increase in revenue and net margin would be $1,049,890 and $104,989 respectively.

Total Increase:

1. Revenue: $3,206,990
2. EBITDA: $320,699

$320,699

Increase in EBITDA

This does not account for qualitative increases in revenue, such as improved customer satisfaction.

Automated Fixed Asset Recording/Forensic Audit Savings

Discovering unrecorded asset decommissioning/retirement during year-end book closing can lead to significant issues, including unexpected forensic audits. This process involves identifying unrecorded activities, determining depreciation, and any received monies. Advanced rental management solutions track assets in detail, requiring employees to record real-time asset status changes, such as maintenance or decommissioning.

Example:
If an accountant's average hourly rate is $50, six hours are required per asset for a forensic audit, and 100 assets are disposed of annually, the company could save $20,000 in fixed asset recording/audit costs.

Increase in Labor Efficiency/Decrease in Labor Cost

An integrated cloud solution can decrease labor costs per revenue dollar by keeping sales associates on the floor and reducing the staff needed to serve the same number of customers. It also allows businesses to drive more revenue with the same staffing levels.

Example:
For a company with $30M in annual revenue and a labor cost of 28% of revenue, reducing labor costs by 2% could save $168,000 annually.

Reduction in Training Costs

Integrating Rentals with ERP systems can reduce customer support and delivery staff training costs. NetScore customers report that employees train an average of eight hours faster due to the system's ease of use and intuitive mobile apps.

Example:
For a company with 20 salespeople, a 20% annual turnover rate, and an average hourly wage of $15 the annual savings could be $480.

Conclusion

A tightly integrated cloud solution offers an impressive internal rate of return (IRR) after accounting for the solution investment and an aggregate tax rate of 40%. Based on conservative savings and margin improvements from increased profit, labor efficiency, and reduced training costs, the expected 3-year IRR is 1,146%, with a payback period of less than six months.