



EUROPEAN  
RENTAL  
ASSOCIATION

## Equipment Procurement Strategies from Customers

Lease vs Buy vs Rent Analysis and  
TCO Total Cost of Ownership

*Jeff Eisenberg*

Claremont Consulting UK



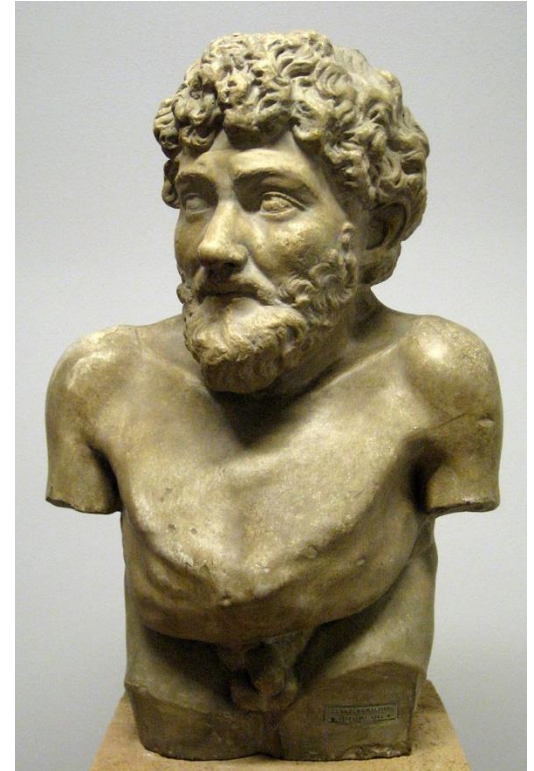
*Please react on Twitter, @era\_rental*



ERA Convention 2018, "TOMORROW'S CUSTOMERS", Vienna, 23 and 24 May

When all is said and done,  
much more is **said** than **done**.

Aesop 564 BC



How do Customers decide to Lease or Buy or Rent equipment?

Discussions with large and medium contractors who Lease and Buy and Rent equipment  
Germany, Netherlands, France, UK

How to decide what to own? Calculation and Rules of Thumb

What do we always own? And what do we never own?

Impact of IFRS 16 – balance sheet treatment for Operating leases

One contractor's "asset light" project

We asked Contractors:

What does the rental industry do well? What does the rental industry need to improve on?

- ❑ The TCO Calculator from the European Rental Association TCO tool introduced in 2015 is in use by many large contractors –
  - Online tool, free to use, confidential
  - over 200 log ins every week
  - One regular user is one of the largest road builders in Europe
  
- ❑ Enthusiastic response to the draft new tool including Lease vs Buy vs Rent
  
- ❑ For LBR (Lease vs Buy vs Rent) calculations : Large variance between contractors
  - Many use “rules of thumb” to decide to Lease vs Buy vs Rent equipment
  - Surprising lack of data based tools for equipment decisions

(Machine > 15 T (Wheel Loader) Updated at: Fri, 02 Mar 2018 13:58:32 Main folder

New folder

### Investment related inputs

- Machine life: Years 5
- Purchase cost: Value 100000
- Delivery cost: Value 1000
- Administrative cost: Value 500
- Weighted Average Cost Of Capital: % 8
- Annual inflation rate: % 2.00

### Operation related inputs

- Working days per year: Days 260.00
- Working hours per day: Hours 8.00
- Labour cost: Value / Hours 45
- Lubricant costs: Value / Liter 7
- Cost per grease fitting: Value 40
- Grease fittings per 2000h: Number 4
- Cost of one average filter: Value 11
- Filters changes in 2000 hours: Number 4.00
- Bucket replacement frequency: Hours (interval) 2000.00
- Bucket cost: Value 5000
- Get per bucket: Number 3.00
- Bucket replacement time: Hours 1.00
- Get replacement frequency: Hours (interval) 500.00
- Get unitary cost: Value 50
- Get replacement time: Hours 2
- Relocation transport costs per year: Value 2

### Relocation transport costs per year

- Value 2

### Administration time per year

- Hours 1.00

### Shop annual overhead allocation

- Value 500

- Annual h/s inspection: Value 200
- Insurance cost per year: Value 1000
- Tyre life: Hours 5000.00
- Tyre cost: Value 5000
- Daily cost of replacement machine: Value 150
- Expected number of events per year: Number 2
- Expected duration per event: Days 2
- Transport cost per event: Value 500

### Divestment related inputs

- Gross selling price: Value 10000
- Commission percentage: % 10
- Make ready costs: Value 2000

### TOTAL COST OF OWNERSHIP

- Annual ownership cost: Value 58332.54
- Monthly ownership cost: Value 4861.42
- Daily ownership cost: Value 233.13

### Rental inputs (optional)

### RENTAL COST

Save Lock and send to the app

Planned release by end  
2018, before introduction of  
IFRS 16

1 Example: Electric scissor lift, €11,000 cost						
2 Investment related inputs	Buy		Rent	Operating Lease	Finance Lease	
3						
4	5		per year	5 years	5	
5 Machine Life	years			then return	Lease	
6 Purchase Cost	11,000				11,000	
7					200 Lease fees	
8 Delivery Cost	150				150	
9 Administrative Cost	500				500	
10 Weighted Average Cost of Capital rate	10 %	< <input type="text"/> >			10 (use slider in "Buy")	
11					5% Interest rate in lease	
12					10% Up front payment	
13 Annual inflation rate	2%				2%	
14	11,650				11,850	
15 Operations related Inputs						
16						
17 Working days per year	250				250	
18 Working hours per day	8				8	
19 Total annual maintenance costs	8 %	< <input type="text"/> >		8 %	8 (use slider in "Buy")	
20 Labour cost	45	(Maint. 3% to 12%)			45	
21 Relocation transport costs per year	600		150	600	600	
22 Administration time per year	300			300	300	
23 Shop annual overhead allocation	110	(1% of equipment cost)		110	110	
24 Annual H&S inspection	300			300	300	
25 Insurance cost per year	165		165	165	165	
26 Daily cost of replacement per year	35			35	35	
27 Expected number of events per year	4	< <input type="text"/> >	1	4	4 (use slider in "Buy")	
28 Transport cost per event	150	2 to 22 days downtime	150	150	150	
29 Weighted Average Cost of Capital per year	550			330	550	
30 Depreciation	2,043				2,215 lease payment	
31	5,687.82		465	3,015.00	4,987.79	
32						
33 Divestment related inputs						
34 Gross selling price	1234	< <input type="text"/> >			1234 (use slider in "Buy")	
35 Commission percentage	12%	200 to 4000 Euros			12%	
36 Make ready costs	300			500 Damage repair /	300	
37	- 786			above "normal w-	- 786	
38						
39 Total Cost Ownership - Life	28,303		22,125	25,175	25,003	
40						
41 Cost per year (with no inflation)	5,660.63		4,425.00	5,035.00	5,000.61	
42			per month	Comparison	Comparison vs	Comparison vs buy
43			330.00	vs buy	buy	-11.7%
				-25.79%	-11.1%	

- ❑ New IFRS 16 requirement will show all operating leases on balance sheet
  - Contracts over 1 year in length
  - This will affect balance sheet ratios and borrowing covenants
- ❑ Contractors we interviewed all agreed:
  - New balance sheet treatment of operating leased assets will have a big impact on contractors
  - Particularly balance sheet debt ratios and bank covenants
- ❑ Almost all contractors interviewed said they had SOME equipment on operating lease

but

IFRS 16 will put pressure on fleet management data collection and analysis

- ❑ Everyone is conscious of the issue but there is still a lot to do
- ❑ One top ten contractor has an “asset light” programme
  - Reduce the amount of assets owned AND on operating lease

- ❑ First answer was usually – aerial work platforms
  - ❑ Reasons
    - There are many good suppliers of good quality equipment, good service
    - Short average rentals – means **logistics** are important
    - ONLY WHEN ASKED did the customers say the motivation was competitive rental rates



- What do we NEVER or (rarely) rent – always own?

- ❑ Equipment unique to the contractor, or providing a unique benefit
  - Example of specialist pavers for road construction companies
- Concrete formwork
  - Example of high customization
  - One contractor said “we are a concrete company”
- Unusually expensive vehicle mounted equipment
  - Vacuum excavators





- ❑ 2008 crisis had a big impact on fleet management;
  
- ❑ Project managers / site managers still have a LOT of influence in the Lease vs Buy vs Rent decision
  - Depending on country, company, and company culture
- ❑ Contractors internal rental pricing is often based on surveys of the rental market
- ❑ Contractors have many “rules of thumb” for example:
  - We like to own 80% of equipment on our sites in certain categories
  - (Why not 50% or 90%?)
  - One contractor in the Netherlands said
    - *“Rules of thumb must be re-enforced with data”*
  
- *Big Data and analysis is coming*
- ❑ Big data will put more emphasis on availability, reliability and logistics more than price

## Rental industry does well:

- Logistics
- Availability
- Big catalogue and investment

## Room for improvement:

- Invoicing process – especially damage and claims
- More work on telematics and data
- Sustainability – more to be done
- Average age of fleet for some rental companies – including Germany