

December 2011

Key drivers

TOTAL COST OF OWNERSHIP OF CONSTRUCTION EQUIPMENT

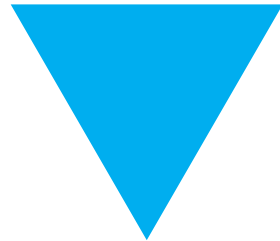
This guidance document has been drafted by the European Rental Association's Committee on Equipment Technology

This guidance represents a common understanding among the rental companies and the construction equipment manufacturers of the drivers influencing the total cost of ownership of equipment including the three main phases of the lifecycle of equipment: acquisition, operations and maintenance and divestment.

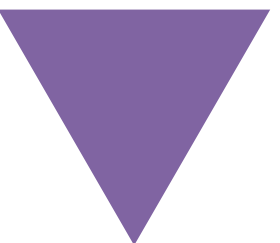


TOTAL COST OF OWNERSHIP OF CONSTRUCTION EQUIPMENT

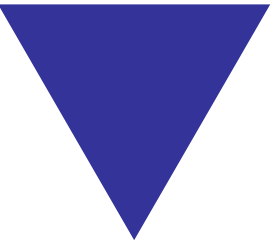
ACQUISITION



OPERATIONS & MAINTENANCE



DIVESTMENT



FIRST PRIORITY ISSUES	Product Costs (direct)	Process Costs (indirect)	Opportunity Costs (indirect)	Description / Related Activities	Cost Drivers
	Equipment cost				Depreciation over Lifetime
		Transport / PDI cost		Inbound transport from supplier to warehouse	Delivery terms – Shipping mode
		Administration cost		Registration of new equipment (asset booking)	Rental items
SECOND PRIORITY ISSUES		Purchasing cost Handling cost Storage cost	Cost of capital	Demand planning, testing and selecting of new products Receiving and storing of new equipment Storage area and infrastructure Internal interest rate on tied-up capital	Type of investment – Size of investment Shipments - Rental items Rental items – Size and weight Payment terms – Internal interest rate

FIRST PRIORITY ISSUES	Product Costs (direct)	Process Costs (indirect)	Opportunity Costs (indirect)	Description / Related Activities	Cost Drivers
	Spare parts costs				Spare parts needed to service/repair equipment
		Handling cost -spare parts		Planning, ordering, receiving, storing and picking of spare parts	Spare parts – Repair/service frequency
		Handling cost - equipment		Picking, packing, receiving and storing of rental equipment	Rentals
		Service cost		Exchanging wear parts according to service schedule	Service frequency – Service cycle time
		Repair cost		Exchanging broken parts	Repair frequency – Repair cycle time
		Training cost		Training of sales and service personel	Trainings – Product/application complexity – Hazardousness of equipment
		Sales cost		Advising and training of customers	Active customers - Product / application complexity - Hazardousness of equipment
		Marketing cost		Communication of product and service offering	Potential customers
			Lost sales	Days equipment is not available to rent	Rentals (inspection frequency) – Inspection, repair, service cycle time
SECOND PRIORITY ISSUES	Insurance cost	Inspection cost Transport cost Transfer cost Administration cost	Rental rates	Insurance fee for potential theft, damage Testing and cleaning of rental equipment Shipping equipment to & collecting from customers Transferring equipment among depots Administration cost Chargeable daily fees	Purchase price – Risk of damage / theft Rentals – Product design Rentals - Unplanned returns Transfers – Product availability Rentals Rental duration – Service offering – Brand recognition

FIRST PRIORITY ISSUES	Product Costs (direct)	Process Costs (indirect)	Opportunity Costs (indirect)	Description / Related Activities	Cost Drivers
	Recycling cost				Fee for recycling of equipment
			Second-hand sales	Revenue generated by selling off second-hand equipment	Second-hand sales price – Economic life time – Brand recognition
SECOND PRIORITY ISSUES	Warranty cost	Transport cost Administration cost Handling cost Storage cost Sales cost Marketing cost		Accruals for potential liability claims Shipping to customer / recycling company Invoicing, book keeping... Picking, packing, shipping Providing storage area for excess equipment Acquiring and contacting potential customers Advertising of used equipment	Equipment claims Sell off equipment – Economic life time – Size & weight Sell off equipment – Economic lifetime Sell off equipment – Economic lifetime Sell off equipment – Economic lifetime – Size & weight Sell off equipment – Economic lifetime Sell off equipment – Economic lifetime