



EUROPEAN  
RENTAL  
ASSOCIATION

# Parts Management, Profitability, & the Internet

*Dr. Alexander Schuessler*

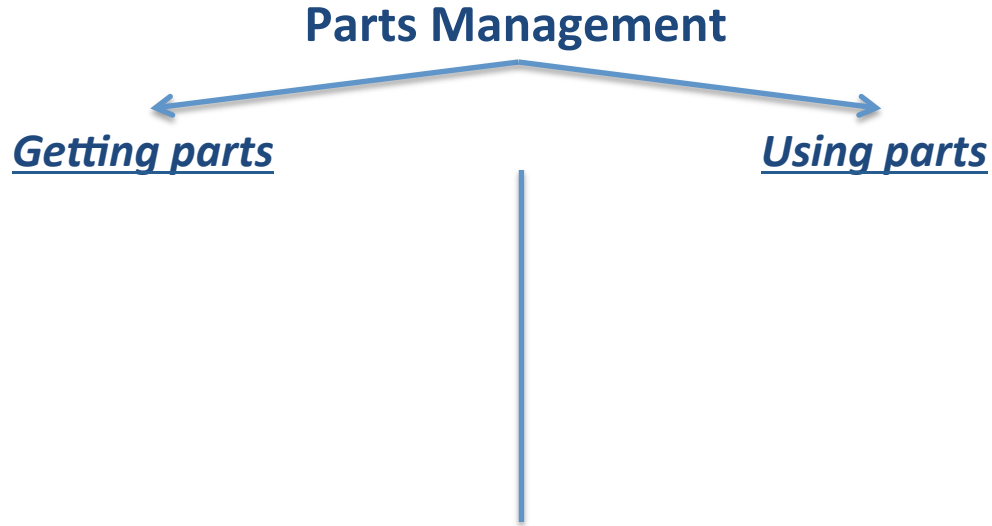
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ERA Convention 2014, “Internet as a Game Changer”, Amsterdam 24-26 June

## Primary Points Today:

1. Parts management contains both transactional and operational dimensions, both of which need to be integrated
2. Efficient parts management is a significant driver of rental company profitability, both in terms of cost and turnover (revenue)
3. Internet technology provides OEMs growing opportunity to deliver significant parts management efficiency to their fleet customers



## Parts Management

### Getting parts

### Using parts

- ✓ • Procurement of parts  
(dealers, OEMs, third parties)
- ✓ • Company-internal, centralized stock  
(hubs, warehouses)
- ✓ • Company-internal, dispersed stock  
(branches/depots)

✓ **Sourcing:** transactional efficiency

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### Using parts

- Routine Fleet Maintenance ✓
- Equipment Repair  
(warranty; customer damage; failure) ✓
- Third-party repair, parts from fleet  
(re-rent; split rent; outsource) ✓

✓ **Sourcing:** transactional efficiency

✓ **Operations:** operational efficiency

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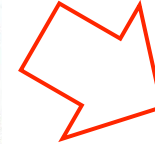
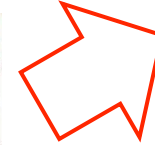
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Modern Parts Management cuts across transactions and operations.

**Total Equipment Lifecycle Management.**

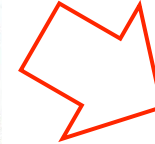
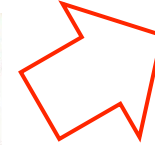
## Parts Management is inherently extremely complex

- *Supercession*
- *Serial-number-specific*
- *Retrofit kits*
- *Parts bulletins*
- *Safety kits*
- *Inventory searches*
- *Reconditioned parts*
- .....



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## Economic Impact

- ① Fleet owners spend a lot on **labor** to **find, manage & source parts**. (*Cost high*)
- ② Both **mistakes** and **delays** reduce **equipment use**. (*Turnover/Revenue down*)
- ③ This is **unrelated** to the **cost of parts**, but a function of **operational efficiency**.



## Fleet Economics: Some Numbers

### Parts spend by a typical large equipment rental fleet:\*

**1 – 2% of a rental company's total annual spend** is on parts

*(Lowest spend)*

**65 – 80% of all purchase orders** are for parts

*(Most frequent spend)*

**75 – 90% of all wrong PO's** involve parts purchasing

*(Most frequent mistakes)*

**95 – 100% of all parts purchasing errors** cause downtime

*(Most expensive mistakes)*

\* North American "RER Top-10" Equipment Rental Companies, SmartEquip Measure

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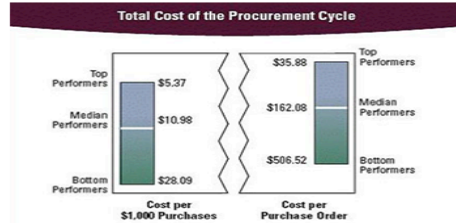
This can make 1-2% of total spend the costliest procurement for operational reasons!

## 1. Some transactional cost estimates

(US Accounting Firms)

### Cost to Process a Purchase Order

- **\$96** *Ernst & Young.*
- **\$150** *Gunn Partners.*
- **\$190** *Deloitte & Touche*



Experts estimates of the total cost to process every paper-based purchase order, regardless of whether it for a \$500,000 piece of operating machinery or \$30 worth of paper clips.”  
*Purchasing Today*™  
 February 1, 2011

**\$125**

*National Rental Fleets w/ Procurement Systems*


### A. Cost of sourcing parts:

- **\$96 – 190 / non-parts order**, using traditional PO;
- **\$125 / non-parts order**, for US national rental fleets using electronic procurement systems;
- **Significantly higher for parts orders**, due to complexity of selection, sourcing, receiving, etc. \*

\* Remember this, next time you are negotiating a parts discount with your suppliers.

## 2. Some operational cost estimates


(AEMP)

**Typical Values for Wrench Time** 

Be careful who you share this with, but studies show:

- **Average Performance: 25% – 35% Wrench Time**
- Top Performance: 50% - 60% Wrench Time

% Wrench Time	Hours in an 8-Hour Shift
20%	1.6 Hours
30%	2.4 Hours
40%	3.2 Hours
50%	4 Hours
60%	4.8 Hours

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### B. Cost of lost “wrench time”:

- **65-75% loss**, due to parts research, searching parts & service information, filling paperwork (general fleets);
- **40-50% loss** among highest-performing rental companies;
- Cost estimate: **approximately 50%** of service technician job time is a function of parts management.

### 3. Some revenue/turnover loss estimates

#### C. Loss of equipment uptime

Difficult to estimate. Two rough “rules of thumb”:

- **1 labor hour saved** for parts location and service = **1 hour of equipment availability** added; **multiply** by financial utilization.
- **2 - 3 % points** of availability, which corresponds to **1 - 1.5%** of increased rental turnover (assuming 50% utilization), or **1.25% to bottom line**. Potentially a **30-40% increase in profit!**

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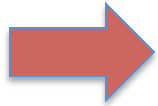
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## So far....

- ✓ Transactional and operational dimensions of parts management
- ✓ Some fleet economics of inefficiency for parts management

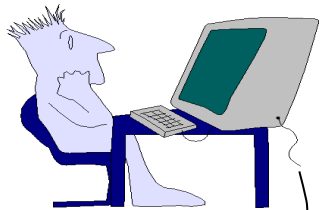
## Now...

- Increasing opportunities for OEMs to directly improve the fleets' operational efficiency; ***this is the most exciting technology development facing parts management today.***



## How can technology & the Internet help parts management?

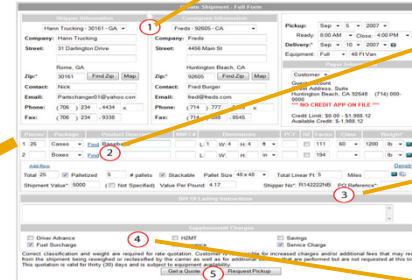
**20 years ago** – OEM Websites with parts & service support / parts purchasing



OEM



OEM SYSTEM



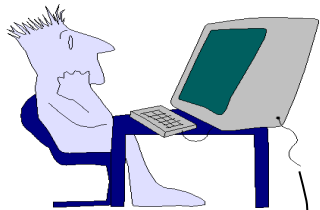
FLEET CUSTOMER



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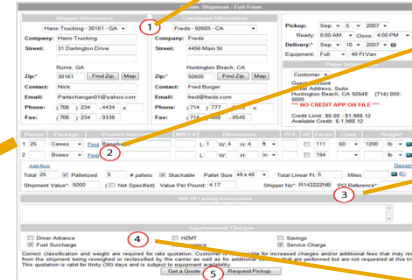
- Great for the OEM (put parts info on website & let customer do order entry for you);
- Offered electronic ordering discounts to customer (incentive)
- Lowered customer satisfaction (at least initially)



OEM



OEM SYSTEM



FLEET CUSTOMER





## How can technology & the Internet help parts management?

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**Transactional Benefits**

**OEM**

**Fleet Owner**

+

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**Operational Benefits**

+

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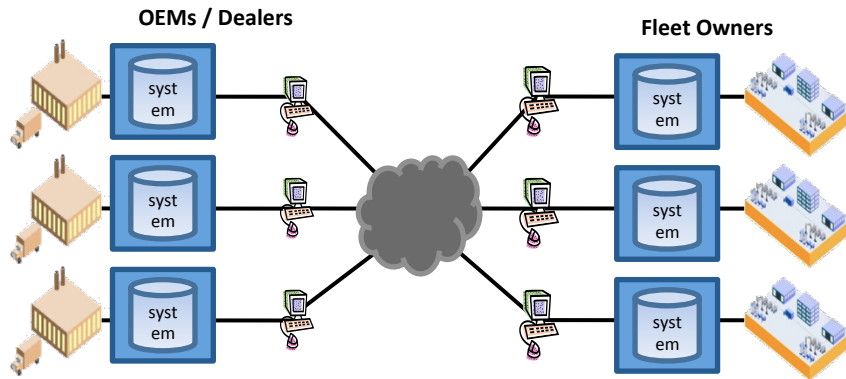
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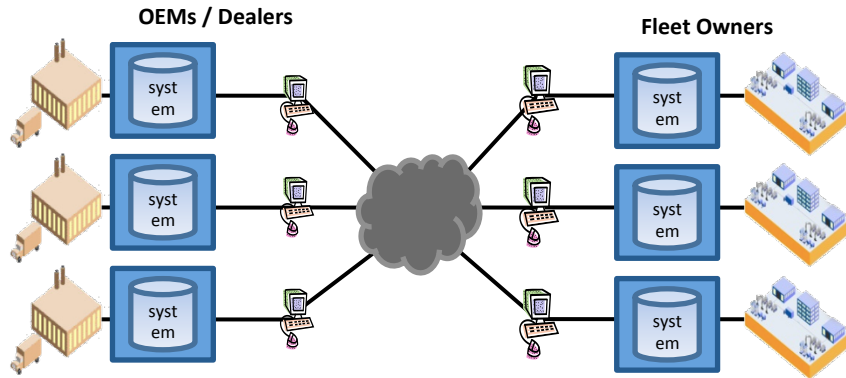
**Today & Future** – OEMs (and dealers) provide real-time, workflow-integrated support



**Connection of multiple enterprises**

## How can technology & the Internet help parts management?

**Today & Future** – OEMs (and dealers) provide real-time, workflow-integrated support



Connection of multiple enterprises

### Current initiatives:

- Vendor-managed parts inventory (VMI);
- “Asset-seeking” parts retrofit / safety alerts;
- Multi-system / multi-brand / single-platform real-time parts stock information;
- Serial-number-specific, always-current, interactive parts documentation, delivered into the workflow (“connected workplace”);
- Etc.

## How can technology & the Internet help parts management?

Today

	<u>OEM</u>	<u>Fleet Owner</u>
<b>Transactional Benefits</b>	++	++
<b>Operational Benefits</b>	++	++

into the workflow ("connected workplace");

Connection of multiple enterprises

## Primary Points Today (recap):

1. Parts management contains both **transactional and operational dimensions**, both of which need to be integrated
2. Efficient parts management is a **significant driver of rental company profitability**, both in terms of cost and turnover (revenue)
3. The Internet provides OEMs **growing opportunity to deliver significant parts management efficiency**, directly to their fleet customers

# Thank you!

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