

Rental equipment doesn't produce any revenue when it's in the shop or sitting in the yard. If we can keep utilization high and keep our Repair-After-Rent costs down, it will provide a major boost to Empire's bottom line.



Rental expenses crucial to Empire profitability

Things used to be simpler in this business. Sell machines to customers. Fix machines for customers. Sell parts to customers. Most of a Cat dealer's revenue came from those relatively simple transactions.

Then, equipment rental became popular, and life got a lot more complicated. Empire Machinery's rental inventories doubled or tripled in size for several consecutive years, and it became normal for customers to return a machine after renting it, instead of rolling their rental payments over into a purchase.

Selling a machine is a clean, simple transaction. Empire gives the machine to the customer, and the customer gives Empire money (or signs papers promising to give us money eventually). With a rental, Empire sells the machine to itself. We rent it out, make a little money, and it comes back. We wash it, perform routine maintenance, fix anything that's broken, and rent it out again.

If all goes according to plan, we repeat that cycle many times for a few years. Then, we sell the machine. When the dust clears, we sit down and try to figure out if we made any money.

Making that determination is complicated by the fact that significant amounts of money change hands among various Empire departments in between rentals. If a machine needs parts and service work before it can go back out, some of the dollars paid to Empire Rental by the customer will end up being recorded by the service and parts departments.

It's all Empire money, but how should it be booked? When a machine is sold after a few years in the rental fleet, do we count the dollars it generated in the parts and service departments when we calculate how much revenue that machine earned?

None of this would matter much if our rental business hadn't grown to the point where Empire is now one of Empire's best customers. It takes some serious sleuthing to follow the money trails back to the source.

So, why should you care? This is all stuff for Empire's top management and accounting people to sort out. Right?

Well, yes and no. Management and accounting have logged their share of hours looking for the best ways to get accurate numbers, but it's still useful for the rest of us to have an appreciation for what is at stake and how our business has changed.

Exactly how far do we go in repairing our machines? Do we repair back to new standards? When is a repair just part of normal wear, and when is it due to abuse or neglect?



Equipment rental has become a very significant portion of Empire's business. If the rental fleet doesn't produce a profit, it will be difficult for the rest of Empire's operations to take up the slack.

Currently, Empire Machinery has one-third of all its assets invested in rental assets. An investment that large must perform well for us to have any chance to meet our company goals.

Empire has identified four key measurements to help us track how well our significant investment is paying off.

1. Utilization. Tracking how many days a particular machine is actually on rent versus how many days it is in the shop or in the yard waiting for a rental is very critical. We need our mix to be as efficient as possible.

2. Repair-After-Rent (RAR). How many of the dollars earned on a rental are then spent on the repair or maintenance? The lower this number, the better.

3. Percent-To-Book (PtB). At any given time, we know what the book value is on a particular machine. Book value is what we owe on the machine. PtB refers to the relationship between the revenue a unit generates during a time period compared to the unit's book value during the same period. Customers won't pay more to rent a new machine than they will for one a few years old. Our goal is to keep the PtB as high as possible without paying too much for repairs on an older machine.

4. Sold-Revenue-to-Acquisition. This is a fancy term for comparing the amount of money we get when we sell a machine to the amount of money we paid to buy it from Cat. Obviously, we want to buy low and sell high. Unfortunately for us, our customers have the same idea.

As you can see, there's a lot of important information for Rental to track. Empire people have spent thousands of hours in recent years defining critical measurements and building systems to track this information. Whether or not the EM Rental Department can reach its goals will go a long way to determining whether or not Empire hits the Sweet Sixteen goals required to score gain-sharing payouts.

With a fleet the size of Empire's, even a small improvement in any of these measurements can mean a difference of hundreds of thousands of dollars a year. That's why, of the initial 6 Sigma projects currently underway, two are focused on these issues.

In April, the Rental Department also added two new Rental Equipment Managers to try to better manage our rental fleet investment. Long-time Empire employees Mike Rayala and Chuck Wallen joined Frank Tennant to oversee assigned portions of the rental fleet. Their duties will include working with Service Department personnel to determine how much repair is needed and working with customers to reduce unnecessary wear and tear on machines being rented.

Exactly how far do we go in repairing our machines? Do we repair back to new standards, or do we repair to used standards? When is a repair just part of normal wear, and when is it due to abuse or neglect? These are just a few of the questions our Rental Equipment Managers will have to answer on a daily basis.

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Inside Track gets a new look

You've probably already noticed the different look of this issue of the *Inside Track*. There's no big reason for it. It's just something magazine publishers do periodically.

There's another change many readers will find useful. On the H drive of the corporate LAN, you can now find three pdf files with full-year compilations of the *Inside Track*. One file has all 12 issues from 2000, another has 2001, and the third has 2002 to date. The files are searchable, using the Find function in Acrobat Reader. The files are in the *Inside Track Extras* folder within the *Marketing* folder.