

10 PROFIT-BUILDING IDEAS

KARA LONGMIRE

Even in good years, good managers must look for ways to add revenue to the rental business. Here are 10 tips that have worked well from many of our clients.

1. Decide to be profitable.

People often think profits are “what’s left over.” Rather, profitability is a decision and rental centers can make it implicitly at the end of the year or explicitly upfront in the planning process.

Rental centers should strive to make a 20 percent operating profit. The ARA’s Cost of Doing Business Report (CDBR) shows that 25 percent of equipment rental businesses make up to 18 percent operating profit.

Estimate revenue conservatively. This should be a number with a 95 percent confidence level. It’s helpful to know the equipment rental revenue forecast in your geographic area. The ARA Market Monitor provides helpful and reliable data.

Once you’ve identified your revenue and profit goals, make expenses be “what’s left over.” For example, if your revenue goal is \$1.2 million and your profit goal is 20 percent, you will need to limit your expenses to \$1.0 million.

Next, develop ideas, strategies and tactics that can help you hit revenue goals and stay on budget.

2. Look at payroll reductions.

Payroll percentage clearly separates the most profitable equipment rental businesses from the rest of the equipment rental industry.

It varies by type of rental company, but in general, according to the CDBR, the top 25 percent of most profitable construction and industrial rental companies have a payroll of 23.6 percent of revenues vs. 24.8 percent of all companies.

Reduce your payroll to the lowest level of seasonal demand and hire temporary labor in peak seasons. The most profitable equipment rental businesses hire high school or college students, teachers and administrators who stay on for years.

3. Zero-based budgeting.

Most businesses start with last year’s budget and make some adjustments for inflation. This ensures

that your budget will contain unneeded expenses. Instead, start with a clean slate and only include budget items critical to achieving revenue goals.

It’s a good idea to have many self-explanatory general ledger (GL) categories; eliminate “miscellaneous” as a category. If an unexpected expense comes up, create a new GL. Alert’s general ledger interface works with most accounting programs.

4. Add a damage waiver.

Too many equipment rental businesses do not charge or charge enough for damage waivers. Companies with the highest profit margins recognize that and raise their rental rates to cover wear and tear on equipment. Rental centers that have

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raised their rates up to 16 percent report the only thing that happened was their profits improved. Charging a reasonable damage waiver can be the fastest way to increase profitability.

5. Identify missed rentals/sub rentals.

Rental software can track missed and sub rentals. These reports can determine if you have the right equipment in inventory and makes it easy to make a shopping list for shows and auctions.

6. Rebid vendors.

Regularly rebid all recurring vendor charges, including phone, cell phone, internet, credit card processing and insurance policies. Some companies make a low-ball bid, then raise rates on renewal. Assuming it’s a reliable company, take them up on their low-ball bid. When they attempt to raise their rates, rebid it. You can save can be substantially.

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7. Update your website.

In days past, Yellow Pages were critical to your business. No longer. Your website is the most critical part of your marketing today, in addition to personal salesmanship. It takes a substantial investment and ongoing work, but address these facets to increase profit margins:

- Use Search Engine Optimization.
- Have a mobile-friendly design so customers can access your website with a cell phone.
- Post current pricing.
- Add a portal where customers can request/review reservations, invoices and make payments.

8. Get the most out of your rental software investment.

You have likely spent thousands of dollars on rental management software and your supplier may spend hundreds of thousands of dol-

lars every year enhancing it. Many of these enhancements are free with a support plan. Make sure you have upgraded to the latest version; other enhancements are available for little cost. Ask your sales rep to recommend things that will improve your efficiency and increase profitability.

9. Service what you sell.

Many equipment rental operators also sell new/used equipment. Offer after-sales service, which can offset lower equipment rentals during the off-season.

10. Tap into annual events.

Recently, a large client sensed a major loss in booking lead times. Through Alert’s reporting function, it found the loss was greatest in \$5,000-plus revenue events. It found most of the larger events were annual events, so the rental center worked to guarantee retention by

encouraging earlier confirmation and increasing profit margins. Here’s what they did:

- Identified annual events in its computer system.
- Assigned a person to track annual events monthly.
- Shared photos and videos from recent events.
- Sent post-event customer satisfaction surveys for ideas and find out next year’s event schedule.
- Pre-event, updated last year’s reservation to include any suggestions.
- Developed a critical path.
- Used photos and/or videos in proposals.
- Included details in proposals to make client decisions easier.
- Added early-bird offers to encourage early rental decisions. **PCR**

Kara Longmire is co-president/CEO at Alert.

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Hydra-Tech Pumps	25, 42	hydra-tech.com
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