

## Construction Advisor

*Construction Advisor* is pleased to welcome you to our monthly newsletter – Industry Insights. Bringing you all the latest industry news, project announcements and data to help you to plan and build your business.

The Rental Issue **P.1**

Hire versus Buy **P.3**

Understanding Rental Pricing **P.4**

Secrets of the Rental Industry **P.6**

## The Rental Issue.

**Equipment rental is part of construction. Whether it is directly or through sub-contractors, rental equipment will be on just about every building/construction/mining site in Australia. It may be a generator, boom lift, site shed or a portaloo.**

Sometimes equipment rental can feel like an expensive burden on the construction process, but there is more than meets the eye. The actual cost of equipment rental to a project probably ranges between 3%-5% of the total cost however it represents a far higher percentage of your downtime risk. If 'that' boom-lift goes down, the crane sits idle, if 'that' generator goes down, the site-sheds aren't powered and the workforce is stood-down. Risk versus cost is part of any business decision but in the case of rental, cost can be misleading.

The decision to rent, as opposed to buy, equipment is driven by many factors (read more in our in-depth piece later in this monthly). Reducing capital outlay, avoiding maintenance costs, outsourcing risk, tax-offsets and avoiding end-of-project/life disposal all contribute to a preference to rent rather than buy.

The most obvious downside of buying versus renting is that you take on all the asset ownership responsibility: maintenance, depreciation, downtime, storage, and disposal. Using a rental provider absolves you of many of these costs/burdens and outsources the responsibility to address them.

The rental industry in Australia is highly fragmented, a handful of national providers exist but otherwise thousands of local companies are scattered across the country. Providers are broadly defined as either a generalist or specialist in the equipment scope offered. Generalists can best be evidenced by the likes of Coates Hire with an equipment offering including Access (EWP's),



Power/Generators, Pumps, Civil and Site Accommodation. Specialists, focus on either a single or couple of product categories.

The benefits of choosing a generalist include consolidating invoices/creditors, single point of contact, simplified procurement and certainty of supply. However you are sacrificing some benefits of locals/specialists.

By their name, specialists are focused on a particular equipment category, their salespeople and staff are drilled in their field and offer a superior level of advice and service in delivering their products (mostly).

Whilst there are 'specialists' in fields like access equipment/site accommodation, they come into their own in more technical product lines such as pumping, power, shielding/propping and welding. At the end of the day, a boom lift is a boom lift and a portaloo is a portaloo. Whereas these technical products either rely on engineering knowledge or scientific application.

Choosing the right rental provider for your job/project is not always as simple as getting the cheapest price. Fleet size (the ability to deliver the volume you require), equipment servicing capability (in the event of breakdown), response times and safety management are all key criteria to consider.



Deciphering equipment rental pricing is in itself an artform. Responses to RFQs can vary greatly based on the respondents, their assumptions and predictions. Later in this monthly, we take an in-depth look at the industry pricing and help you to interpret why some prices may vary greatly for the same RFQ.

Technology has slowly started to enter the sector with a number of providers embracing tools such as GPS tracking, remote monitoring and customer portals. For large or remote projects, these tools can be very effective in reducing costs and managing assets. The challenge, of course, is that all of these systems are proprietary and therefore not compatible when you are using multiple suppliers.

The industry does face uncertainty in how it effectively responds to climate targets and environmental management. A number of players do charge an environmental levy to recover some of these costs but there is a long way to go in making meaningful change.

A number of players in the site accommodation/portaloos sectors have made advancements in technologies such as led lighting, solar panels, push-button taps and lead-free paints. Equally, a number of OEMs now offer hybrid and electric powered tools in elevated work platforms and material handling. However the realities of engineering and physics prevent a lot of larger machinery from adopting electronic drive motors or running on bio-fuels. A 20t excavator or 16t roller requires a significant amount of torque to be effective and these alternate technologies do not (currently) offer the power required.

It is without question that Coates Hire dominates the industry nationally and this would usually raise concerns about a lack of a competition. There have been a number of contenders (or pretenders) who have sought to snatch the 'number 2' spot to compete with Coates but none have so far emerged. I say 'would' be a concern because the industry is so fragmented with SME and specialist suppliers that competition does exist and in reality, rental prices have fallen dramatically over the past 5-7 years as the initial mining boom subsided.

The industry has not escaped the interest of 'disruptors' who have had varying success in capturing market share. The most notable are Plantminer and isseekplant. Both act as listing aggregators – hosting other entities equipment available for hire in exchange for a 'clip of the ticket'. Most established rental providers have shunned this approach although many small fleet plant owners have embraced it.

Construction Equipment Rental has its place in the industry. Without it, constructors would require significantly higher capital outlay on projects, vastly higher asset management and holding costs as well as the headache of asset tracking and disposal operations.

Rental is an easy punching-bag when 'that' boom lift is an hour late or the generator breaks down but at the same time, this is an incredible industry that can deliver 20 ton of operational equipment to a site on the other side of a city with 2 hours notice... consider that the next time your uber-eats order is 15 minutes late.



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## Hire versus Buy... the age-old question.

**Whenever there is a discussion about construction equipment rental, there is an obvious question... why don't we just buy it? There are actually good examples and reasons why you shouldn't.**

The truth is, that construction equipment rental in Australia probably dates back to the days following the arrival of the first-fleet. But from a documented/business perspective, the origins of Coates Hire are probably a good place to start. Coates started life in 1885 as an engineering firm in Melbourne. After developing a new vibratory roller, it was the city of Melbourne who supposedly said... "we don't want to buy it, but can we rent it?". So, in the aftermath of WWII, Coates Hire and Australian construction equipment rental was born.

The basic concept is simple: I can buy this machine, or I can pay someone else who already owns one for the time that I require it for.

### **The case for buying.**

When you buy an asset it is, of course, yours to do with as you please. You can:

- Use it.
- Move it.
- Change it.
- Sell it.

But this also means that you have to:

- Pay for it (all of it).
- Maintain it.
- Replace it (if something goes wrong, or it becomes obsolete).
- Store it.

And at the end of the day, dispose of it.

### **This is where rental comes in.**

Rental companies have always found it difficult to define themselves – ask 5 CEOs and get 5 different answers. They may be; asset managers, capital managers, service providers or retailers.

***The true answer is that they are actually all of these things and more.***

Equipment rental companies absorb levels of risk. They assume the risk of asset ownership, maintenance, distribution, replacement and disposal. The premium that is paid for temporary possession of an asset is that these risk factors are no longer held by the end-user.

There may also be significant tax incentives to renting over buying. In the case of buying, often you may depreciate the asset value over a significant number of years (a drip-feed of tax relief). Whereas renting/hiring may allow you to claim this cost as a business expense in the period that it is incurred.\*

The devil, of course, is always in the detail. There are some items that you are better off purchasing rather than renting. Think of non-mechanical, low tech accessories such as hoses, leads, traffic/witches hats. Depending on the duration that these items are required, a rental fee will often dwarf the actual cost of buying the item outright.

*\*Please note that this is not and should not be taken as financial/accounting advice. You should consult a tax professional before acting on any financial commitment relating to this topic.*





## Equipment Rental Pricing Demystified. Why does an angle-grinder cost more than a scissor-lift for a day?

**It is true that the equipment rental industry has taken a long time to catchup up with some 'modern' business theory and pricing in the sector is no different.**

It may surprise you to hear that equipment rental is actually considered on-par with insurance in its pricing complexity. A traditional retailer lives by two measures: supply and demand.

The concept is simple: when demand is high and supply is low, prices are high. When demand is low and supply is high, prices fall.

The problem is that, before a rental provider has even reached that point, there are about 15 calculations/considerations/assumptions that have been made.

Here are some of the factors that a rental provider has already built-in (or should have) before they offer you a price for anything:

- Capital cost (cost of the asset).
- Effective Life (how long before this asset must be sold/scrapped).
- Whole of Life Maintenance (just like a car, you need to replace gear-boxes, oil filters etc...).
- Geography (how remote is this project and the cost to service it)
- Under-recovery (when an asset breaks down, the replacement transport cost has to be absorbed).
- The cost of preparing the item for hire (pre-hire service/check).

Just to name a few. It is the last point that explains our original question, one that

confuses many.

**So why do some small items appear to cost as much as larger and more complex ones?**

This comes down to a combination of 3 main factors: the labour required to service the equipment, the effective life of the tool and the expected 'utilisation' of each item.

Just like your car, servicing equipment takes a combination of labour and parts. If our hypothetical labour rate is \$100/hr and it takes an hour to prepare a piece of equipment, the rental company has to charge at least \$100 to cover their costs.

Effective life plays a big part in working out what an item costs. The rental company is looking to pay back the cost of the item over its 'hire-able' life. For large equipment this is usually 8 – 12 years, for some small/specialist tools this can be as short as 6-12 months.

Finally we have expected utilisation, this is the percentage of time that the rental provider expected an item to be on-hire and earning money. Staples such as small scissor lifts can expect up to 80-90% utilisation whereas smaller tools may sit on the shelf for a week between hires. So the expected utilisation has to be applied to our earlier effective life to ensure that the asset has paid for itself (and made some money) before it has to be disposed of.

So when you receive the responses to your rental RFQ and the submitted prices vary by 10-20% between providers, it is usually because of one or all of the assumptions that the provider has made based on these factors.

## Need a coach for yourself or your staff?

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## Developing positive relationships at work and at home

Almost all kinds of relationships, become strained when either or both parties are subject to the challenges we now face under Covid-19, and current statistics bear this out (1 out of 2 breakdown).

Access to information which helps us understand, diagnose and improve relationship behaviours is critical if we are to create a positive environment, both in the workplace and at home.

Whether with clients, colleagues, a boss, a partner or children, the quality of these relationships will have a profound impact on both your business performance and personal wellbeing.



The Construction Advisor Relationship webinars contain 12 key principles designed to increase your relational competence to help you understand and implement helpful behaviours, and minimise destructive ones.

### For further information ...

contact us on:

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## Secrets of dealing with the rental industry... Shhh...

**Dealing with any supplier is a dance, you want the best deal possible and they want the most sales they can get. There are some ways to 'game' the system that are completely legal and accepted.**

### Get it early.

Need that boom/scissor at 7am on the dot to get the job done before the crane arrives? Most rental companies actually appreciate delivering items the evening before the hire starts – this lessens the load on the early morning rush. (You might also get a cheeky couple of hours on the gear before rental tariff starts.

### Take a long weekend.

Some rental operators enjoy long weekends too... this (in some cases) means that you can get an item for an extra day or two without additional charge.

### Don't be 'that' customer.

Most providers offer a 24 hour emergency service – this is usually some poor soul with a mobile phone attached to their hip. If you're on night shift and decide you don't need that light tower anymore, don't call the emergency line at 3am... that poor soul is probably expected to be at their desk at 6:30am.

### 'Un-cross hire'

For short term hires this won't work, but for long term hires, if your provider has said that they cannot supply their own equipment but will send another firm's gear that means that they've secured it at a price cheaper than what they are charging you. Off-hire with your supplier and ask the other provider to take up the contract at the lower price... it just might work.



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