



Make the most of rented equipment

For small landscape contractors, renting may offer advantages you can't overlook

BY STEVEN LILLYBECK

During the recession of the early 1980s, however, that changed. Today, bonding agents — like bankers — want to see cash in the bank before granting a bond.

"For some commercial landscaping work, you have to be bonded," Fritz said. "They want to see money in the bank, and for somebody in my position, that can get kind of tricky. If all my money was tied up in capital investments on equipment, I wouldn't have enough to meet the bonding requirements. By renting, I keep my cash to meet the bond, and I can still get all the equipment I need to do the job."

Equipment rental industry is catching on

Fortunately, the equipment rental industry has grown to the point that contractors don't need to own equipment. The number of rental dealers and the depth of fleets those dealers maintain have grown almost exponentially in the last 15 years. In addition, manufacturers of everything from handheld augers to bulldozers recognize the rental phenomena and have responded accordingly.

Fritz is a classic example of the type of customer rental dealers depend on. "Typically, I'll rent anything from small aerators to small finish dozers, backhoes and skid steers," he said. "I have a piece of rental equipment out almost every day."

In a time when automobile leasing is commonplace, renting, rather than buying, has made the big time. Jeff Fritz, president of Action Grading & Landscaping, Milwaukee, WI, rents some of the equipment he needs (see photos). This helps him control his cash flow, manage growth and keep his bankers happy.

Two years ago, Fritz started his own company after working 28 years in landscaping for other. But, like most contractors starting out, he didn't have a lot of capital to invest in equipment.

"When I first started out, my plan was to go out and bid things," Fritz said. "But, you have to have something to show for it. You can't just walk into a bank and say, 'This is what I want to do and here's what I need.' The bank doesn't just give you \$40,000 and tell you to go buy something. They want to see money in the bank."

A bonding experience

Similar problems occur when it comes time to secure bonding. A generation ago, bonding agents let contractors use their fleets as security when granting bonds.



Why rent?

1. Keeps cash in house (better for bankers and bonding agents)
2. Simplifies bidding
3. Quick equipment turnaround (few days' use)
4. Rent-to-buy option
5. Subcontracting for bigger operators

Simplified bidding

In addition to bonding and finance, Fritz has other reasons to rent. Among other things, he says renting simplifies the bidding process.

"Renting makes bidding on jobs really easy," Fritz said. "I know in advance what my weekly and monthly rate will be, and if I need more equipment on the job, I can get it immediately."

There are other reasons. As a small landscape contractor, he does not have the luxury of a large storage facility during the off season, nor does he have the desire or the help to perform expensive and time-consuming equipment maintenance. By renting, Fritz gets well-maintained equipment. When he finishes his job, or when the slow season begins, the rental dealer picks up the equipment. Theft, storage and maintenance — not to mention a monthly payment — are someone else's problem.

According to Michael McElwrath, branch manager for the Cat Rental Store in the Milwaukee suburb of Waukesha, Fritz typifies many of his customers.

"Jeff is a smart contractor," McElwrath said. "A lot of the equipment he needs for a particular job, he only needs for a day or two. Even if he has enough jobs to warrant the use of a specific piece of equipment for an entire summer, it still makes sense for him to rent. I'll stretch out his terms, change his rate from a weekly to a monthly rental and work with him."

If Fritz determines that he wants to purchase a particular piece of equipment, the rental option comes into play again. Most rental dealers will allow a contractor to negotiate a rental-purchase option either up front or retroactively.

This works to the benefit of both established and start-up contractors. In the case of the latter, rental-purchase allows someone like Fritz to bid jobs, get the contract and build up cash as the season progresses. When he has enough cash in the bank and is secure in the fact that more jobs are forthcoming, he can exercise his option to buy the equipment.

Established contractors follow a similar pattern. Even the most experienced contractor may suffer a shortage of cash at the beginning of the season. The rental-purchase option allows these contractors to do the same thing. As the season progresses and the cash rolls in from completed jobs, he or she can decide whether it makes sense to convert rented equipment to owned equipment.

With either a rent-to-rent or rent-to-purchase option, contractors can protect themselves from unforeseen circumstances, like an economic downturn or work lost due to illness. If the situation demands, the contractor can turn the equipment back to the rental dealer and walk away from the burden of a significant loan payment out of sync with the amount of work at hand.

Plan for equipment use

This is not to say that rental is the best thing to do all the time, but contractors should pay close attention to utilization rates and cash flow. Utilization is key.

As a landscape contractor, carefully examine the utilization percentage you conservatively expect to realize on a specific piece of equipment. After that, if you determine that you will use a skid steer for at least 60% of the time, for example, purchasing that skid steer makes sense. However, if you determine you will use that same skid steer less than 60% of the time, rental is the way to go.

But if cash flow is more important, look at the rental-purchase option, regardless of anticipated or realized utilization rates.

Rental also has provided Fritz with other indirect benefits. Fritz said his relationship with his local rental store has put him in touch with larger contractors looking for subcontractors.

"I've been doing a lot of residential work," Fritz said, "but I'm getting ready to do some larger commercial work. I made the contacts for that work because the guys at the Cat Rental Store put me in touch with larger general contractors in the area who needed some sub work."

— *The author is a freelance writer based in Port Byron, IL. He has reported on the equipment rental and construction industries for more than 13 years.*