HOW-TO

Analyze your equipment fleet

BY KEVIN SABOURIN

It's that time of year again. Time to sharpen the pencils, clean the eyeglasses and put new batteries in the old calculator. But business planning doesn't have to be so difficult.

Close your fiscal snapshot by finishing the financial aspects of your new business plan, establishing new sales goals and reviewing your human capital needs. Now's the perfect time to reflect on last year and determine what worked and what didn't. Take a close look at one important part of your business plan that has huge implications for operational efficiency, employee retention and the bottom line—your fleet.

Fleet management—equipment costs and how well the fleet integrates with the entire operation—is one of the biggest challenges landscape contractors face every year. A fleet affects everything from employee happiness and engagement to your profitability. Sound fleet planning can't be taken for granted. You can't make poor fleet decisions and not expect it to affect other areas of your business plan.

Consider several factors about what makes a sound fleet and how it impacts your planning:

- Does the equipment handle your jobs efficiently and effectively?
- Does your equipment work well, or is there a lot of repair work because of its age?
- Do you have the right equipment for the bids you're getting, or do you have to make do?
- Are you meeting your financial goals based on your fleet's cost against the bids earned?

These questions can be viewed from the perspective of the company owner, operator and customer. If your fleet gets the job done but is old and difficult to operate:

- The owner might be happy because he's saved the cost of new equipment, but his head is in the sand regarding the upkeep cost and inefficiencies of old equipment.
- The operator, like the equipment, will be worn out. It takes a lot of effort to maintain a piece of equipment that no longer does the job effectively.
- Customers, noticing the inefficient equipment, might question how the job was bid and how you manage your business. Because a customer's perception of the success or failure of your business is often based on equipment.

If the wrong machine for the job or too much machine shows up:

- The owner will have productivity and expense tied up in a suboptimized unit capable of much more work.
- The operator is likely to be happy with too much machine (it makes quick work of the task), but they'll be unhappy to have to make do with a machine that's not right for the job.
- The customer could either be confident in your company resources or concerned about potential collateral damage from unnecessarily large machines operating on site. And the expense of the new equipment, which is passed on to them in higher job costs, could also be of concern.

Next, examine how you organize your jobs, by route or job type. The route approach requires nimble units closely bundled because of their physical proximity. The job type allows for more highly specialized pieces built for the task at hand. However, it sacrifices some of the geographic benefits of minimized travel time. Maybe you use a mixture of route and job types.

If your equipment deducts from, rather than contributes to, your financial goals:

- The owner's financial goals won't be met if the equip-

QUICK TIP

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ment is overused or underused or if maintenance and repair costs outpace the income from jobs.

- The operator will struggle financially if compensation is based on job cost containment.
- Customers likely will be unaware of the company's inability to reach its goals, but they'll notice the higher bid and cost numbers in an attempt to balance goals better. Customers might not vocalize their frustration, then switch to a competitor that can meet its goals without higher prices.

After an analysis, you might determine your fleet doesn't match your needs for the upcoming business year. You might therefore decide that it's time to make changes. That means disposing of a portion of your fleet while paying close attention to the total cost of ownership (TCO) and fair market value (FMV) to recoup as much of your financial losses as you possibly can.

TCO consists of 1). a systematic accounting of all costs, direct and indirect, relating to an investment decision or acquisition, and 2). a model for managing an asset using data to analyze and establish best practices. The TCO model concludes it's time to dispose of a piece of equipment when the expense of an asset is greater than the return.

Effective disposition is based on FMV, which is an estimate of the external market value of an asset based on what a knowledgeable, willing and unpressured buyer would likely pay a knowledgeable, willing and unpressured seller in the open market. FMV differs from the intrinsic value one might place on the same asset based on his preferences, biases or extenuating circumstances.

By closely analyzing your fleet you will take the guesswork out of this far-reaching portion of your plan. Inspect your fleet's age and maintenance costs, study them in relation to your jobs, and look closely at each job's costs in relation to your fleet. The data will paint a clear picture of your year, taking you one step closer to a confident and easy business planning process. LM

Sabourin, a former national accounts manager for The Toro Co., is president of EquipmentSite.com. Contact him at Kevin.Sabourin@equipmentsite.com.