

Winning

The Bottom-Line Battle

While there is never just one way to do a job, there are always combinations that will help you get the highest productivity at the lowest cost.

By Greg Sitek

Equipment acquisition has to be a planned business strategy in today's construction environment. Too many factors can turn the bottom line on a project from black to red. With costs fuel costs bouncing up and down and labor in short supply in many areas of the country it is in your best interest to fit your equipment fleet to your specific project.

At one time, when equipment ownership was an unrealistic measurement of success in this market, you could own everything you were ever going to use. There were tax advantages to doing this. Today that's simply not the case. In today's world owning a large fleet could be a serious mistake.

With oil hitting a record high of \$97 a barrel you can bet that fuel prices won't be dropping anytime soon. We may be at that point in time when you would be better off parking some of your fuel-hungry owned machines in favor of renting or leasing smaller more fuel-friendly units.

Basically there are three equipment acquisition scenarios: buy, lease or rent. There may be other options but they probably aren't legal. When you buy you can buy new or used. When you lease you go with a straight term lease or a lease

with purchase options. With renting you can go whichever way best suits your particular situation: straight hourly rental; daily rental; weekly rental; or monthly or term rental. There are rental packages that offer fuel and maintenance choices as well.

There is a list of drivers that influence your equipment acquisition strategy. They include: the economy, interest rates, equipment costs, operating costs, maintenance cost, transportation or mobility costs, residual value, labor cost, depreciation, your credit position, your capital position, and lead time or availability.

Caterpillar's Performance Handbook has a 44-page section on Estimating Owning & Operating Costs that contains worksheets and information relative to the above listed drivers. Other manufacturers have similar information that can help you understand which mix is best for your operation. There are also software packages that can provide this type of information. With them you provide the information and they give you possible solutions.

There are some basic rules of thumb that can help you make some of these decisions. For example, your use of a piece of equipment will determine which acquisition proposition is

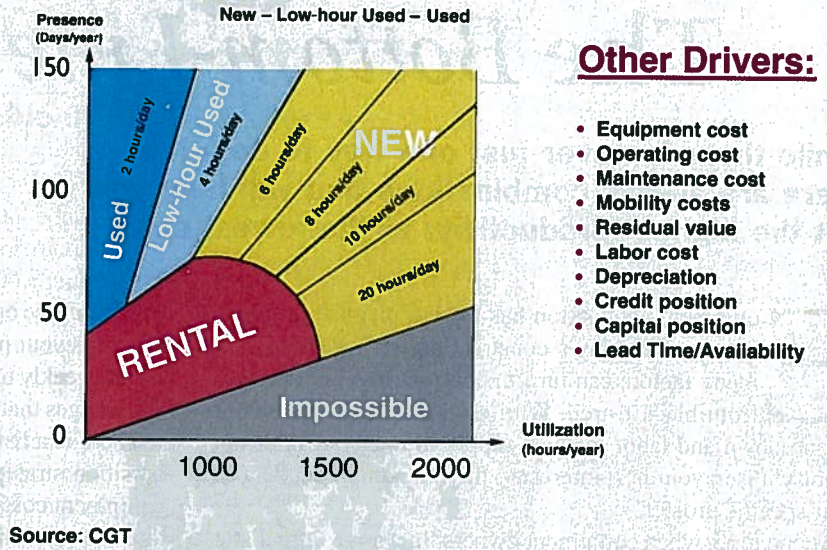
economically the most sound. If you plan on using a machine for two hours a day for at least 45 days you can satisfy this need with a piece of used equipment. If the use factor goes up to four hours a day for more than 50 days you should consider buying a low-hour used machine. Once you get to a level where you're using the machine for more than six hours a day for more than 50 days a year you probably should consider new equipment. The chart that's included gives you a graphic illustration of when it makes sense to buy or rent. Hours of



use per day are not the determining factor. You also need to consider the total number of days per year that you plan to use a piece of equipment. In this proposition, leasing would be a purchase consideration.

In today's world you need to have the ability to be flexible and the only way you can do that is through a combination of owned, leased and rented machines. You want to be able to match your equipment fleet to the job. Bigger isn't always better, fit is what counts. If a piece of equipment is bigger than what you need you are probably wasting fuel and with fuel prices being what they are ...

Economic Drivers Primarily Determine Where Customers Reside in the Cascade



Other Drivers:

- Equipment cost
- Operating cost
- Maintenance cost
- Mobility costs
- Residual value
- Labor cost
- Depreciation
- Credit position
- Capital position
- Lead Time/Availability



When acquiring equipment be sure to add attachments into the equation. There are any numbers of machines – backhoe loaders, excavators, skid-steer loaders, wheel loaders, compact track loaders, tool carriers, telehandlers as examples – that are not single-purpose machines. Each of the machines listed above are really “multi-taskers” capable of doing more one thing. One skid steer, for example can be kept busy all day by changing attachments. There are literally hundreds of attachments that can improve your jobsite flexibility and increase your versatility.

Always consider your options. When you look to buy ask yourself if what you are planning on buying is a good core piece of equipment that you can and will use on virtually every job, every day. Does adding a couple of attachments improve its usefulness? Ask the same question when you get ready to rent a piece of equipment. Will I be better to maximize my use of this piece of equipment if I include a couple of attachments? While there is never just one way to do a job, there are always combinations that will help you get the highest productivity at the lowest cost. Your primary objective is to figure out how to do more with less. Acquiring the right equipment the right way will help you win more bottom-line battles. ■