Speaker Background

- Paul Pettit, VP Performance Improvement
- Revenew International LLC
- Over 25 years of progressive roles within industry and professional services
- Project Management Professional (PMP), Construction Controls Professional (CCP), Certified Construction Auditor (CCA), Certified Internal Auditor (CIA), Certified in Risk Management Assurance (CRMA) and Certified Professional EH&S Auditor (CPEA)
Learning Objectives

- Learn about different types of rental equipment
- Hear about different ways equipment can be priced and rented
- Better understand the rent vs. buy decision and potential benefits
- Listen and see actual rental equipment findings from past construction audits
- Share your equipment rental audit findings with your fellow colleagues
Construction Rental Equipment Topics

- Types of Rental Equipment
  - Contractor Owned Equipment
  - Third Party Owned Equipment
- Pricing of Rental Equipment
  - Contractor Owned Equipment
  - Third Party Owned Equipment
- Rent vs. Buy Decision
- Auditing Rental Equipment
CONTRACTOR OWNED EQUIPMENT
Contractor Owned Equipment

- Contractor Owned Equipment
  - Owned by the Contractor or setup up as a separate company by the Contractor?
  - Billed as if new, at fair market prices, or cost plus a markup?
  - Rented hourly, daily, weekly or monthly?

- Rent vs. Buy Decision
  - Will renting the equipment from the contractor cost more than buying it for the project?
Contractor Owned Equipment (continued)

- **Benefits When You Buy vs. Rent**
  - It’s your equipment
  - You can keep it
  - You can sell it
  - You can donate it

- **Risks When You Buy vs. Rent**
  - You need to track it
  - You need to maintain it
  - You need to fix/repair it
Contractor Owned Equipment (continued)

- **What to Audit**
  - If owned by the Contractor, ensure you’re paying fair market rates or cost plus a reasonable markup.
  - If priced hourly, daily, weekly or monthly, ensure you’re getting the most advantageous rate.
  - If the total rental cost over the duration of the project will exceed the purchase price of the equipment, assess whether the equipment should be purchased.
Contractor Owned Equipment (continued)

- Let’s Take a Look at Some Example Findings
Contractor Owned Equipment (continued)

- The Story of the 6’ A Frame Ladder
Contractor Owned Equipment (continued)

- On sale at Home Depot for $75
- Rented to the Project at $10/week
- Project duration 12 months
- Project had 10 ladders
- Let’s do the math:
  - $10/week x 52 weeks x 10 ladders
- Total Project rental costs = $5,200
- Total Home Depot Price $750*
Contractor Owned Equipment (continued)

- The Story of the Dell Laptop
Contractor Owned Equipment (continued)

- On sale at Dell.com for $400
- Rented to the Project at $100/month
- Project duration 24 months
- Project had 12 laptops
- Let’s do the math:
  - $100/month x 24 months x 12 laptops
- Total Project rental costs = $28,800
- Total Dell.com Price = $4,800**
Contractor Owned Equipment (continued)

- The Story of the Backhoe Loader (Part 1)
Contractor Owned Equipment (continued)

- Per EquipmentWatch, market price for that year, model & condition is $800/month
- Rented to the Project at $2,000/month
- Project duration 12 months
- Project had 4 backhoe loaders
- Let’s do the math:
  - $2,000/month x 12 months x 4 backhoes
- Total Project rental costs = $96,000
- Total EquipmentWatch Price = $38,400***
Contractor Owned Equipment (continued)

- The Story of the Backhoe Loader (Part 2)
Contractor Owned Equipment (continued)

- Rented to the Project
  - Monthly rate was $2,000/month
  - Weekly rate was $750/week
  - Daily rate was $250/day
  - Hourly rate was $50/hour
- Project duration 12 months
- Project had 4 backhoe loaders
- Operator Log showed 10 hours/day
- Project worked 6 days/week
Contractor Owned Equipment (continued)

- Contractor charged the hourly rate due to requested OT
- Let’s do the math:
  - $50/hour \times 10 \text{ hours/day} \times 6 \text{ days/week} \times 52 \text{ weeks} \times 4 \text{ backhoes}
- Total project rental costs = $624,000
- Using Owner’s most advantageous rate:
  - $2,000/month \times 12 \text{ months} \times 4 \text{ backhoes}
  - Total costs $96,000
  - Contractor profit $528,000
THIRD PARTY OWNED EQUIPMENT
Third Party Owned Equipment

- Owned by a Third Party (like United Rentals, Hertz Equipment Rentals, etc.)?
- Billed at established or discounted rental rates?
- Rented hourly, daily, weekly or monthly?

Rent vs. Buy Decision

- Will renting the equipment from the third party cost more than buying it for the project?
Third Party Owned Equipment (continued)

- **Benefits When You Buy vs. Rent**
  - It’s your equipment
  - You can keep it
  - You can sell it
  - You can donate it

- **Risks When You Buy vs. Rent**
  - You need to track it
  - You need to maintain it
  - You need to fix/repair it
What to Audit

- If owned by a third party, ensure you’re paying the established or discounted rate plus a reasonable markup by the contractor.
- If priced hourly, daily, weekly or monthly, ensure you’re getting the most advantageous rate.
- If the total rental cost over the duration of the project will exceed the purchase price of the equipment, assess whether the equipment should be purchased.
Third Party Owned Equipment (continued)

- Let’s Take a Look at Some Example Findings
Third Party Owned Equipment (continued)
Third Party Owned Equipment (continued)

- Rented to the Project
  - Monthly rate was $2,000/month
  - Weekly rate was $750/week
  - Daily rate was $250/day
  - Hourly rate was $50/hour
- Project duration 24 months
- Project had 5 manlifts
- Contractor markup at 20%
Let’s do the math:

- $2,000/month \times 24 \text{ months} \times 5 \text{ manlifts} \times 1.2
- Total Project rental costs = $288,000

Using actual equipment rental rate (straight boom, smooth surface, used, scheduled), reasonable markup rate and discount for multiple rentals:

- $1,500/month \times 24 \text{ months} \times 5 \text{ manlifts} \times 0.85 \times 1.1
- Total Project rental costs = $168,300
Third Party Owned Equipment (continued)

- Other items to consider with equipment:
  - Operator Logs
  - Fuel Logs
  - Maintenance Logs
  - Delivery and Pickup Tickets
- Other examples to share (time permitting)
Conclusion and Takeaways

- **Contractor Owned Equipment**
  - Pay fair market rates or cost plus markup
  - Get the most advantageous rate
  - Make an informed Rent vs. Buy decision

- **Third Party Owned Equipment**
  - Pay established or discounted rates plus reasonable markup
  - Get the most advantageous rate
  - Make an informed Rent vs. Buy decision