

THE FUTURE OF FLEET MANAGEMENT: THE OWNERSHIP DECISION

Bud Howard
Hertz Equipment Rental Corporation

OUTLINE

A. Equipment Ownership

- What are Trends for the 90's?
- What are Budget Implications?
- What effect will the Economic Cycle have?
- What are Relative Benefits of...
 - Renting?
 - Leasing?
 - Ownership?

B. Future Trends

- Short Term Economy - Positive
- Long Term - Uncertain
- Financial Sophistication Improving
- Budget Tips
- Reinventing Government
- Governments
 - Cost Reduction
 - Risk Reduction
 - Efficiency

C. Fleet Decisions

- What has changed?

Pride of Ownership — Renting, Leasing
Financial Sophistication

- Non-Financial

Pride of Ownership — Renting, Leasing
Shorter Term Projects
Diversification/Flexibility
Economic Cyclicity

D. Rent versus Buy

Rent

- No maintenance cost - Maintenance cost built into one price;
- No disposal problems;
- Cost accounting - simplified;
- Newness of equipment;
- Flexibility on job planning;

- Labor downtime is less;
 - Fixed rate cost - no hidden cost of ownership;
- and
- No credit line tie up.

Buy

- Build assets on your books;
- Buy equipment to your own needs;
- Pride of Ownership;
- Availability of equipment for use; and
- Interest rates are down.

E. Key Points to Consider

- Budgets;
- True Cost Ownership - Direct / Total Costs;
- Cost of Rental;
- Cost of Leasing;
- Utilization;
- Availability;
- Service & Quality; and
- Equipment Requirements.

F. Cost Implications - Typical Backhoe

| | |
|---|-------------------|
| Rental | \$ 55,000 |
| Discount (16.2%) | - 9,000 |
| Price | 46,000 |
| Down Payment (20%) | - 9,200 |
| Amount Financed | 36,800 |
| Depreciation (72 months) | 639.00 |
| Interest | 144.00 |
| Maintenance & Insurance (WAG Method) | 300.00 |
| Loss of Income on Down Payment | 54.00 |
| Estimated Gain | - 51.00 |
| Monthly Payment | \$ 1086.00 |
| | 72.4% Utilization |
| Per Year | \$ 13,032.00 |
| Average Rental Rate, \$1,500/month x 12 months = | 18,000.00 |

G. Final Analysis*Cost*

- Cash Flow;
- Direct *versus* Indirect;
- Budget; and
- Control

Risk

- Damage Reserve;
- Use Requirements;
- Model Improvements; and
- Cyclicity.