



SOLVE THE RENTAL RATE PUZZLE

How data science can maintain competitive rates while increasing rental duration and hitting utilization targets.

WHITEPAPER



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For equipment rental companies, increasing rental duration and achieving utilization targets, while still ensuring competitive rates are the keys to profitability. Yet, companies often struggle to achieve P&L goals in the face of a fragmented, highly competitive and discount-driven marketplace, cyclical construction industry and decentralized pricing authority. Additional challenges and downward rate pressure stem from many small regional players who are prone to over-discount and compete solely on price.

The pricing status quo for many equipment rental companies is to rely on sales reps at the branch depot to determine the appropriate discount from published price lists. Customers often receive additional discounts on the back end once the order is invoiced, but both the customers and sales reps lack visibility into that discount structure at the point of sale. This lack of transparency and subjectivity results in inconsistent and misaligned pricing from transaction to transaction, rep to rep and branch depot to branch depot. It ultimately harms revenue and rental duration and leads to a transactional customer-vendor relationship.

As with so many business practices, there's simply a better way to do things. Imagine if companies took a more rational and transparent approach to setting rates. Meaning, customers that rent a piece of equipment for a longer duration (e.g. month) from a region should get a better deal than customers that rent the same piece of equipment for a shorter duration (e.g. week) in that region. A taller crane should have a higher rate than the shortest crane. A customer that spends \$100k per year should get better rates than one that spends \$10k per year.

Rational pricing certainly makes sense, and it is what you would expect, but often complex factors prohibit front-line decision makers from quoting rates in this way. Let's dig into why and discuss how companies can set rates that incent customers to do more business with them and result in higher revenue and utilization.

WHY THE STATUS QUO COMPLICATES THE RENTAL RATE PUZZLE

Here's a fairly standard negotiation scenario between a branch sales rep and a customer: First, the sales rep gives a quote, often giving a discount off the list price. Then, if the company spends at a certain level, or if a longer rental duration warrants, the company will receive a deeper discount. While these discounts make sense from a pricing perspective, they are executed on the back end through the invoicing system, and therein lies the problem.

At the point of negotiation, the customer has no definitive way of knowing how much to spend or what length of rental duration will earn additional price breaks. The sales rep has no way to sweeten the deal. Meaning, reps don't know which levers to pull (rent for a longer period of time, spend more, increase spend over time, etc.) and by how much, to offer the customer a better deal. Furthermore, the discount given by the sales rep is often a function of experience and is based on intuition or gut feel, opening rates up to a

large margin of error when it comes to consistency and fairness. Neither party has visibility into how, when or why the next price break will hit. At some point, the customer will see fewer discounts and take that as a signal they have reached the top discount tier.

What happens next? Time to shop the competition! It's truly a failing proposition for all parties. The company loses revenue, the sales rep loses commission and the customer is stuck in a perpetual game of shopping around. Overall, the customer-vendor relationship remains largely transactional with no potential for a deeper, more rewarding relationship.

A BETTER, RATIONAL APPROACH TO PRICING

Rental companies' profitability is tied to utilization of equipment and duration of rentals. Each time a rental company has to prepare a piece of equipment to be rented, there are operational costs. It's in the best interest of the rental company to have high utilization and encourage customers to rent for longer periods of time.

Rental companies can conquer the complexity in their business with advanced price optimization and management tools. By forgoing the traditional, highly manual approach, rental companies can deliver market-aligned rates across day/week/month spreads, align their cat classes and account for specific regional and rate zone disparities. By doing so, rental companies can incent their customers to do more business with them, resulting in higher utilization and revenue, and increased rate transparency, consistency and fairness. Customers who spend more and rent for longer durations reap the benefits through additional price breaks.

The solution considers all the factors that drive rates, including geography, customer spend, customer growth, equipment type and customer average rental duration, to determine price micro-segments. It then uses optimization techniques to simultaneously align rates across two or more dimensions, such as customer spend and customer average duration, to ensure a logical relationship, while minimizing price moves and holding the price steady for the segment with largest revenue. Term-based rates (daily, weekly, monthly) are then set logically. The rate guidance is delivered to sales reps in real-time through their existing quoting systems in the form of a deal envelope (start, target and floor rate). Additionally, sales reps can receive override guidance with guardrails so they can negotiate rates as needed without over-discounting and without losing the sale. This gives the sales rep the flexibility to account for the current utilization of the equipment at that branch and the ability to negotiate pricing from a position of strength.

These smarter, more rational rates solve the rental rate puzzle: Customers know they are getting a fair and logical rate. At the time of the rental decision, they understand how rental duration, total spend and spend growth factor into the quote.

Sales reps can share with customers how to secure a better overall deal based on the factors above, and therefore generate more revenue for the business and more commission for themselves, while building a stronger customer relationship. Moreover, the equipment rental company achieves higher utilization and revenue.

The real lasting benefit, however, is in the deepened, transparent and mutually beneficial relationship between all parties.

Contact Zilliant to learn more about how you can leverage data science to increase rental duration and hit utilization targets, all while maintaining competitive rates.