

THE COMPREHENSIVE GUIDE TO ANCILLARY FEES

MAXIMIZE YOUR REVENUE



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INTRODUCTION

Are Your Ancillary Fees 15% of Your Revenue?

If you answered no, then this e-book is for you. Industry research suggests that equipment rental companies get 15% of their revenue from their ancillary fees and incremental charges. The definition of these fees varies from company to company, but most include damage waivers, transportation and refueling charges. Add to that a myriad of other add-on or additional charges for anything from environmental fees, to additional item suggestions, to hazardous waste management. These ancillary fees add up to a substantial increase to your revenue stream.

This e-book explores different ancillary charges you can consider to increase your incremental revenue.



ENVIRONMENTAL CHARGE


Rental companies handle hazardous materials such as lubricants, fuel, solvents and batteries every day. These materials are harmful to the environment and need special handling to dispose of them properly. The added waste management cost of these products is expensive and many companies impose a charge to recoup that cost. Expenses include rental equipment and shop waste disposal, construction and maintenance of clarifiers, fuel handling, labor costs and more.

How Much Can You Charge for This?

Many rental companies charge an environmental fee or surcharge on top of the rental charge. These fees are designed to offset the costs for these direct expenses and handling work. Keep in mind this fee is not a government-mandated tax, surcharge or fee, but rather a fee issued by

an individual company to offset the hard and soft costs of proper environmental management. Be mindful to not call this an EPA charge. Once collected there is no remittance required to the government or any regulatory agency. So any money recouped from this method is booked to your ancillary revenue stream.

One approach to determining how much to charge would be to look at your hard out of pocket costs each year for waste disposals of common items like used oil collection, tires, solvents, lubricants or clarifiers. Make sure you include any collection, landfill, recycling, transportation, and labor costs. Then compare that cost to your annual rental revenue from high environmental cost inventory to calculate how much extra you would need to charge to cover the costs. Then you can either tack on an additional percentage for each rental day or else a flat fee based on the equipment classification.



Protect Yourself: Know the Laws

Prior to implementing an environmental fee, be sure to always check with your legal department as well checking your state, county, and local laws and regulations.

DAMAGE WAIVER



DAMAGE WAIVERS

A loss/damage waiver (LDW) is charged in addition to the standard rental fees of your equipment. It is a benefit for both parties, as it generates revenue that you can use to replace or repair damaged equipment, while at the same time it gives your customers some piece of mind during the rental period.

Make sure your customers fully understand the liability associated with renting your equipment and how paying the extra damage waiver would mitigate that liability. Be mindful that LDW is not insurance (although some companies do refer to it as insurance), it is an agreement between you and the renter that limits their financial responsibility for loss or damage to the rented equipment, in exchange for a fee, subject to the terms and conditions of the rental agreement.

Generally the waiver fee covers loss to, or damage of, the equipment during the rental period. The damage waiver

should not release the customer from all liability; just the areas that are not in the customer's control. This means waivers generally cover vandalism, theft, fire, smoke, weather-related or equipment failure. While any misuse of the equipment, neglect or failure to maintain the equipment properly is not covered.


How Much Can You Charge for This?

Equipment rental companies generally charge 10-14% of the rental rate for damage waiver fees. This fee goes directly to your revenue line and can either be set aside to cover damage costs or added to your general revenue funds. If no damage occurs then there is no repair or loss costs associated with the rental and the fee is additional income.

Some strategies to aid in a successful introduction of damage waivers are:

- ▶ Get professional assistance from your attorney and insurance carrier to structure and present the fee correctly.
- ▶ Check with associations, such as the American Rental Association (ARA) or the European Rental Association (ERA), as they may offer some guidance.
- ▶ Make sure the renter clearly understands the fee and what it covers or excludes. Then clearly document that information in the rental contract.
- ▶ Enable the customer a way to decline coverage if they can provide proof of insurance.

- ▶ Sales personnel should promote the waiver to all customers and explain how it can benefit the customer. You can also make it a policy to charge a damage waiver fee if no damage waiver insurance is provided by the renter. Educate your sales team on what the fee covers and make sure they understand that it is not insurance. It also helps that they understand which equipment would be best to include and which would not.
- ▶ Do not include too many exceptions that will make your policy have little or no value.



Special Considerations for Damage Waivers When Discounting Rates

Damage waivers based on a percentage of the rental fee can be calculated based on the gross, rather than net revenue. Doing so will optimize the amount you receive, regardless of your customers' discount or contract pricing.



TRANSPORTATION CHARGES

Your company incurs a multitude of costs associated with the transportation of equipment, such as driver's total compensation (which includes benefits, uniforms and training.) The costs for your transportation vehicles include depreciation, maintenance, insurance, license and registration. In addition, there are third party costs to consider as well. In this chapter, we'll discuss the number of ways you can collect on all of the costs associated with the transportation of equipment.

If you're currently charging a flat fee for each delivery, pick-up, transfer or exchange, there is no guarantee that you will be able to recoup all of the expenses you're incurring. Especially when you consider cases where the equipment requires a special type of vehicle, or permits, for transport or if the customer's job site is farther than typical. Over time, these

seemingly small expenses add up, and it will be your bottom line that takes the hit.

How Much Can You Charge for This?

Instead of a flat fee, consider charging based on a combination of travel distance and type of vehicle. Create rates based on a “per mile/kilometer” unit of measure, making sure you have special rates for vehicles with higher cost of ownership.

Rather than charging based on distance, you may decide to charge an hourly rate for the entirety of time spent transporting equipment. It’s important to consider that you’re not just paying for the time your driver is on the road—you’re also responsible for the entirety of time spent at the customer’s job site. Your drivers may arrive as scheduled and yet sit idle, waiting for operators to finish the “one last thing,” or find themselves at a job site where the equipment is inaccessible. By charging by the hour, you can guarantee you’ll regain money spent on an idle driver. If by the hour is not an option, standby time may always be considered. Another reason to think about charging by the hour is when there is a cancelled movement. Should a customer schedule a pick-up, then cancel while the driver is already on their way, the customer should be liable for the time spent on the road. Yes, we want you to keep your customers, but costs are costs. Perhaps including a minimum transportation fee can be applied if the driver has been on the road for over an hour when the haul is cancelled.

Opt to include a specialty fee for transportation requests that occur after business hours. Emergency deliveries, such as

requiring a backhoe immediately after a water main break, could incur an immediacy fee for having to reschedule drivers' routes and readying equipment.

There are many other opportunities where you can include transportation fees on agreements or special jobs. In the cases of large, long-term jobs, such as on an industrial plant, movement of equipment from one area of the plant to another may require transportation or hauling. Also, if your customer requires on-site equipment repair or maintenance, consider drive time as a separate line item on the work order.

For times when you don't have the specialty vehicle required or the fleet to manage all of your transportation needs, you'll need to work with a third party hauler. In cases such as these, you'll want to associate the purchase order with the rental agreement. If the rental agreement is closed, you can create a separate sales invoice or debit memo once you've received the invoice from your hauler. This is also the case for merchandise that your customer requires immediately and needs to be overnighted directly from the manufacturer to the job site.

Bear in mind that the charge should be an individual line item on a customer's invoice and not added into the rental cost of the equipment. The delineation enables proper state sales and use tax to be applied for the rental charge versus transportation. In states where transportation is non-taxable, you will want to accurately determine the appropriate rate to cover your costs and make sure that those items are clearly separated from the rental charge.



ADD-ON SALES

Add-on sales refers to the practice of renting or selling additional items to go along with the primary rental. Your sales team should recommend items that the customer can add to their order to get the job done. These additional items are a convenience for your customer and can add a little extra to each sale. And all those little sales add up to extra revenue for you. It all starts with presenting the counter personnel with suggestions on what to add.

How Much Can You Charge for This?

There are three types of kits that you could consider creating to aid in add-on sales.


- ▶ The first is a list of closely associated items that customers might want to rent in addition to the item they requested. Automated software creates a list

of closely related items for your sales reps, who can then review the list with the customer and simply add those items to the sale. Not only does this help you, the merchant, but the renter also benefits by getting everything they need for the job up front.

- ▶ This same methodology can also be useful when preparing a renter for a specific job. For example, if you have an engineer who had a specific job that normally uses end frames, cross pieces, joints, drop pins, planks, etc., you could recommend they rent or purchase all those pieces today instead of coming back later for them. You have the experience and knowledge to know what it takes to get the job done. By sharing that with your reps and customers, you are likely to increase sales in the process.
- ▶ In addition to rental items, renters typically need to buy sales items as well. Depending on the category or class of equipment, there are a number of items you might suggest they buy or rent. For access equipment, you may want to suggest buying a safety harness. Suggested items may be as simple as an extension cord or safety goggles. In general, adding safety equipment as a suggested item not only creates additional revenue, but also protects your clients from potential hazards.

In addition to recommending specific items, you could also merchandise a series of items that are commonly needed in addition to your rental equipment. If a customer comes to rent a sanding machine, your employees can point to

the sandpaper supply and add it to the sale. Strainers and breathing masks are needed when people use paint sprayers, so why not provide a ready supply of them for your customers?



Pricing Your Merchandise

Adding merchandise to your showroom can boost sales, but is also a big convenience for your customers. And as such, you are able to charge a premium price for the item since you are not competing with big box stores or supply chains.



FUEL AND FUEL SERVICES

In addition to charging for fuel consumed, you also need to mitigate the costs of having a fuel tank on premise, or when you need to get fuel off-site (and the time associated with travel to and from the fuel station.) We'll discuss the ways you can effectively invoice your customers to ensure you're covering your fuel expenditures.

How Much Can You Charge for This?

It's important when sending equipment out on rent that you include the fuel charge for the equipment's full tank capacity, even on smaller fuel-powered items, like small generators or rototillers. For items that include propane tanks, you can charge for the full tank of propane every time it goes out on rent.

Upon return, you can use the fuel gauge as a way of measuring how much to invoice the customer, rather than waiting for fuel to be replenished and calculating costs per gallon. Managing fuel consumption and charges in this manner is essential for high-volume facilities, where equipment may not be re-fueled immediately. For example, charging by quarter-tank increments allows your yardmen to quickly read the gauge, and add fuel as a sales item by the amount missing during the check-in process.

If pricing by the gallon isn't ideal, then simply adding a refueling charge will also suffice. When determining the refueling charge, make sure that you consider all expenditures (market fluctuations, costs to own and maintain pumps, time to refuel, travel time if going offsite, etc.)

In addition to your normal fueling and re-fueling fees, you can also include fuel services as a separate line item. This would include cases when re-fueling is performed by a third party for large capacity items at the job site, such as a fuel bladder. Even if you have your own fuel truck, including this service charge covers your costs for labor and distance. You can choose to charge the premium for the fuel itself, or charge fuel plus a service fee.



SERVICES

There are peripheral services that are required with most construction jobs that create an additional revenue opportunity. Services associated with caring for equipment, operating the machinery, and safety are all areas you could provide or outsource and charge for the service.

How Much Can You Charge for This?

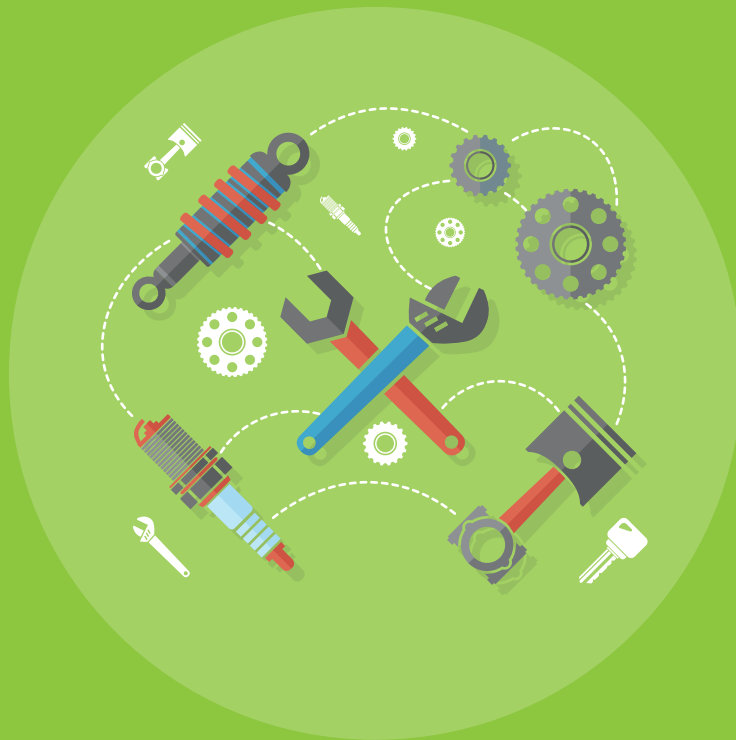
If you rent chain hoists, hole hoists, tuggers, etc., you know that the equipment needs periodic inspections to make sure they are OSHA compliant. Inspecting and testing these items on a daily, weekly, and/or monthly basis is a necessary requirement and an expense that you can charge to your customers. You can track the inspections and charge a flat fee to your renter for each inspection in addition to their standard rental charge.

Certain equipment is best operated by a professional that you hire to go along with the rental. You can add the hourly rate of the operator to the hourly rate of the equipment and include the two line items on the customer's invoice. There are also some jobs that require manpower to supervise the job to make sure it is compliant. If you need to hire a certified electrician, for example, to make sure a wiring job meets certain standards, you can bill out their time by the hour.

There are also service charges associated with the setting up and dismantling of equipment that can be billed out by the hour or completed job. For example, you may be asked to send a team to build scaffolds at a job site. You can invoice this in a few different ways, either by charging a straight hourly rate, or by charging based on the linear meter of scaffolding completed. Or, if your customer rents a generator with cable extensions and cable boxes for an event, you may be asked to set it up and make sure all electrical configuration is correct.

Safety is a critical aspect of any job, and companies may need to hire safety officers, paramedics, or fireman to supervise activities. Providing these personnel in addition to the equipment rental would be another way to increase revenue. You can bill an additional hourly or daily rate for these people on top of your rental fees.

One other, often overlooked, opportunity is providing modular office or waste disposal services to job sites. Many larger jobs require office space for the builders and well, everyone needs bathrooms. Procuring these services from other vendors and then including them with your rental is both a convenience for your client and a potential gain to your revenue stream.



SHOP SUPPLIES

In the shop, standard operating procedure is to charge for parts and labor used during the maintenance of the equipment. Your shop person will add each as a separate line item, and the customer is invoiced. Inventoried parts, such as filters or belts, are easy to capture on an invoice as a sales item, which means you'll easily recoup the cost as it leaves your inventory. The same goes for labor; the time each shop person spent on working on the equipment is applied to the invoice and the customer is charged an hourly rate.

Even though you're tracking inventoried items and labor, it's possible you'll still end up short. While it seems trivial to charge the customer for a bolt, handful of washers and a bottle of brake fluid, this will eventually add up to become a significant amount once you've run your annual inventory

count. What's your true cost to maintain customer-owned equipment?

How Much Can You Charge for This?

It would be difficult for any person to detail each and every part used on a work order, especially lubricants, so the simplest way would be to use a percentage of the total work order as a way to recoup costs. Adding a shop supply fee should be listed as a separate sales line item. Typically, 2% is a reasonable amount and should cover most of the items consumed on a customer work order, whether it is performed at your facility or at the job site. You can also set a minimum threshold so that regardless of the work order amount, you'll always receive a minimum \$5 shop supply fee. Conversely, you can also include a maximum threshold, as a protection to your customer.

Some companies use a combination of both a percentage for shop supplies as well as a separate environmental fee, for waste disposal and handling of hazardous materials.



SINGLE, DOUBLE AND TRIPLE SHIFTS

For metered equipment, tracking hours used and being able to charge for overtime is imperative for rental companies. When renting metered equipment, the assumption is that a one day rental is the equivalent of a certain number of hours per day. Any overage should be charged at some premium, depending on the amount of additional hours the equipment was in use.

How Much Can You Charge for This?

One common way rental companies charge for the overage is by billing for a single, double, or triple shift. If a standard work day equals 8 hours, the customer would be charged a single rate if they used the machine for 8 hours or less per day. If they used it for more than 8 hours, but less than 16, they would pay a rate that was 1½ times the single rate. If the machine was

used more than 16, then they would be charged 2 times the standard rate.

For example, if the standard rate for the generator was \$100 per day and it was used for more than 8 hours but less than 16, they would be charged \$150 for that day. If the generator was used more than 16 hours they would be invoiced for \$200 for the day. The table below illustrates this example:

| 0-8 hours | 8-16 hours | >16 hours |
|---------------|------------|-----------|
| No multiplier | 1.5x | 2.0x |
| \$100 | \$150 | \$200 |

Another method in billing for the overage is to charge based on the exact excess meter. In order to charge a premium for excess usage, you'll have to first determine your hourly rate for excess hours.

To do so, you need to divide the hourly rate by the number of hours considered "double shift". For example, if 16 hours is the equivalent to a double shift, and your daily rate is \$100, you would divide \$100 by 16 hours to get an hourly excess meter rate equal to \$6.25 per hour.

| Daily Rate | Double Shift | Excess Meter Rate Calculation | Hourly Rate for Excess |
|------------|--------------|-------------------------------|------------------------|
| \$100 | 16 hours | $\$100/16 = \6.25 | \$6.25/hr |

Continuing this example, a customer returns the generator after a 1-day rental, and the meter display a total usage time of 12 hours. In addition to the daily rate (equivalent to 8 hours), you now need to account for the remaining 4 hours of overtime. This calculation would be: The full daily rate of \$100 for the first 8 hours, plus 4 excess hours at \$6.25. This

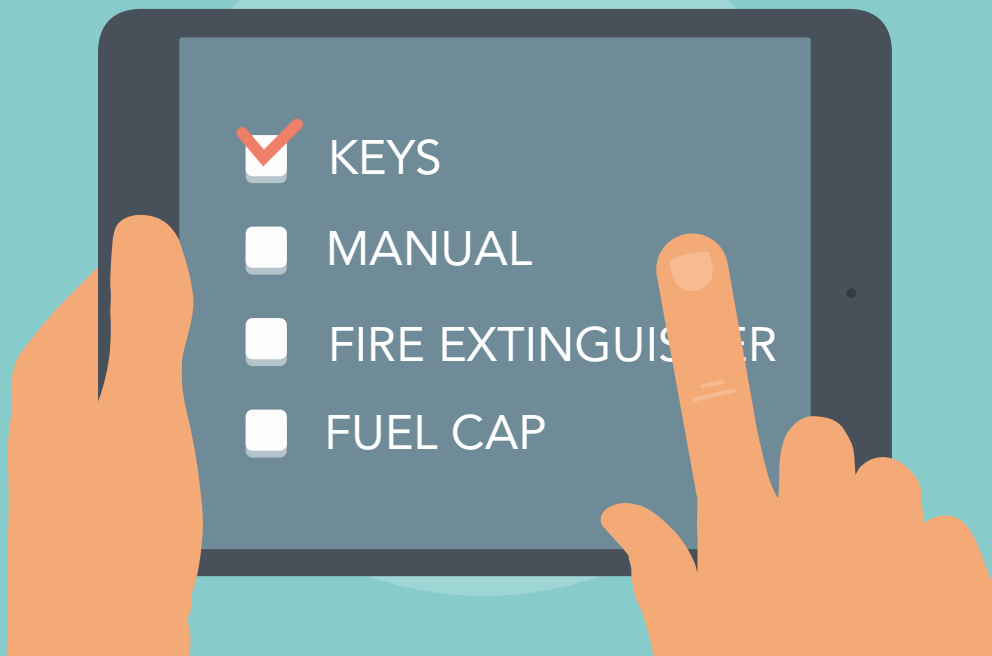
equals a total rental charge of \$125. This table demonstrates this calculation:

| 8 Hours (equal to daily rate) | Hourly Rate for Excess | Excess Hours | Total Rental Amount |
|-------------------------------|------------------------|----------------------|----------------------|
| \$100 | \$6.25 | 4hrs * \$6.25 = \$25 | \$100 + \$25 = \$125 |

There are a number of ways you can track actual usage. One way is to wait until the machine is returned and compare the equipment hour meter before the rent to after and calculate the average per day usage. It also might be helpful to send a sales person out to the job site if it is a long rental period to check usage. You could then calculate an interim bill if there was excessive usage. And a visit mid-rental period might also uncover some additional rental opportunities.

Another option is to employ telematics to track long term rentals. This allows your company to monitor use during the billing period remotely. If it's used for double shift for a month (e.g., greater than 160 hours in a 4-week period), you'll catch that during that rental period rather than at the end of the period where you are more likely to have disagreements with the customer about excess meter charges.

Monitoring telematics could also help you rent more equipment. For example, if the equipment is being consistently used for 8 hours a day, perhaps they would like to rent a secondary machine.



DAMAGED OR MISSING ACCESSORIES

Accessories that go out with rental equipment often come back damaged or missing. It's important that at check-out, there is a checklist to ensure that all accessories are either correctly assembled or are included with the rental package. Inspection at this time also guarantees that there will be no dispute should any accessory return damaged or missing.

How Much Can You Charge for This?

If upon rental return, it's found that an accessory is missing, the customer may be liable for the cost of replacing the item. If the customer accepted your Loss and Damage Waiver Protection, then it will depend on the terms and conditions of that agreement to determine whether the customer can be charged for the missing or damaged item.

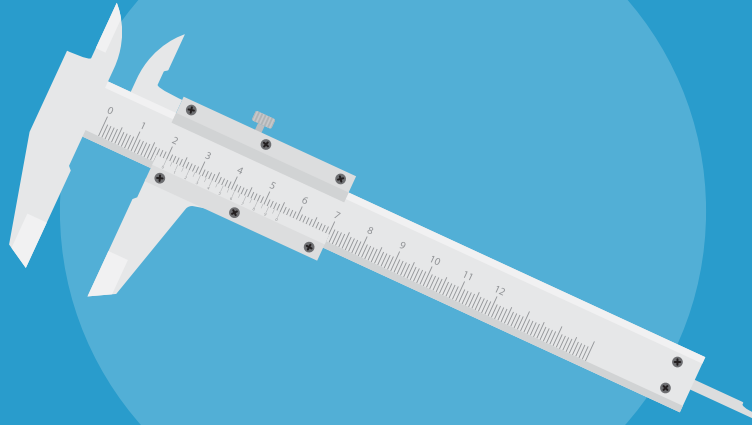
Scenario one: Your LDW explicitly states that items lost or damaged due to customer misuse are not covered. The customer accepts the loss/damage waiver, and returns an accessory damaged beyond repair. In this situation, you would be correct in charging the customer the replacement value of the accessory.

Scenario two: Your LDW explicitly states that items lost or damaged due to situations outside of the customer's control are covered. If a natural disaster were to occur and, as a result, some of the accessories were to be damaged at the customer's job site, you would not be able to charge for the replacement value.

Accessories also include items that do not come directly out of your inventory, such as keys, lanyards, equipment manuals and fire extinguishers. These should all be noted as present upon check-out and the condition or status reviewed upon check in.

Other damages to the equipment which can be invoiced on a work order include:

- ▶ Repainting of equipment
- ▶ Body repair due to signs of rollover or misuse
- ▶ Replacing mirrors or glass
- ▶ Replacing or repairing of seat or seatbelts
- ▶ Replacing or repairing of any damaged components on the dashboard.



USAGE

Generating a condition report upon the return of the equipment is important as it allows you to track the usage of consumable items, such as blades and points. This condition report will provide information of the state and, depending on the item, the measurements upon return. Some forced or suggested items, such as a blade, have a limited lifetime due to the nature for which it was intended. A diamond blade, for example, will wear down at a considerable rate after each rental. Tracking the usage and invoicing the customer is a great way to ensure you're getting your full return on investment.

How Can I Charge for That?

In the case of something that can be measured, such as the diamond blade example from above, the yard personnel prepping equipment for delivery should use a measuring tool to get the exact measurement in millimeters. Once the blade

is returned, re-measure to determine usage, and then charge “by the millimeter”, or whatever measurement is appropriate for the accessory in question. This unit of measure should be created by category-class and added as a sales item.

Any items with teeth, or brooms, can also be measured and charged a usage fee. Even items such as tires can be measured by determining tread depth upon check-out and again and check-in.

Calculating what to charge per increment is solely at your discretion. However, one charge for all types of accessories will not pay off in the long run. Be sure that higher cost items have a premium surcharge.



ADDITIONAL FEES TO CONSIDER

In addition to the items we've discussed, here are two ancillary fees that could earn you more revenue.

CLEANING CHARGES

When determining your cleaning fees, take into account all costs: labor, cleaning fluids, power washers, pumps, hoses and electricity. You can use a flat rate fee, or include an hourly rate on a work order for equipment that returns in a particularly filthy state.

In addition to the labor costs required to clean equipment, there are many other miscellaneous items to account for: Fluids, such as water and cleaning solutions; hoses, which require replacement after time; pressure washers, including their accessories; and electricity.

Typically, cleaning charges are invoiced as a flat fee on contracts. You want to charge a cleaning fee for equipment that will be used in such a manner where becoming dirty is inevitable, such as with earthmoving equipment.

TELEMATICS CHARGE

As technology presents opportunities, customers will pay a premium for information on the equipment they're renting—information such as how much the equipment is being used, if the customer's operator is using it consistently for 8 hours a day, perhaps he'll want to rent a secondary machine. Or if he's in a high-risk area, notifications can be pushed if the equipment leaves a defined geo-fence. Or, if the equipment is running during hours of when it should not be used, the customer can then charge their subcontractor for hours used for a job which is wasn't intended.

If the unit has a telematics device installed, you can help offset the costs by charging a premium for the rental of the equipment.



CONCLUSION

Renters are looking to rent equipment from rental companies that have quality, well maintained equipment. They expect every piece of equipment to be in good working order, for it to be ready on time, and to be safe to use. Rental companies have expenses associated with maintaining their equipment, reading equipment and transportation to meet those expectations. Ancillary charges are one way that rental companies can cover those expenses. Make sure you are evaluating and charging for the wear and tear in your equipment and the costs of maintaining your fleet.

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ABOUT WYNNE SYSTEMS

Wynne Systems is a global software company producing rental equipment software and tools for a variety of sectors. Established in 1989, Wynne recognized the need for a truly complete enterprise resource planning solution, and committed itself to developing software that would meet the rapidly evolving and growing needs of the equipment industry. Today, Wynne is now in 37 countries, serving over 3,500 locations.

Wynne software is set up to handle the common ancillary charges covered in this e-book. We have a flexible billing platform that allows you to easily add or modify rates related to any of the categories presented in this book. Talk to us today about how we can help you recoup your expenses and increase your ancillary rental charges. Contact us at marketing@wynnesystems.com.

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