Rental ERP vs. Broad Spectrum ERP

Considerations When Choosing an ERP

wynne

Executive Summary

When choosing an ERP (Enterprise resource planning) for a rental business, there are many solutions that are available. What are some areas to consider when choosing one that best supports the rental business?

Many businesses rely on a broad spectrum ERP designed to support the processes common to most businesses. Solutions like SAP, Oracle, and Infor are designed to support common business processes for the average business. **However, for a specialty business, like a rental business, they might be better served with a company that specializes in supporting unique rental processes.**

This white paper discusses five areas a rental-specific ERP is better suited for the rental industry. The paper ends with suggestions on how you can write a rental request for proposal (RFP) that better reflects your rental processes.

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Five Reasons Why an ERP Designed Specifically for the Rental Industry is Needed

1. Managing the Complexity of Rental Charging and Billing

For those ERPs with their roots in manufacturing and retail businesses, the rental industry is a confusing minefield when it comes to charging and billing. Whether your rental business focuses on day/week/month type calculations, equipment use of excess hours and shift-based charging, or if your company includes labor and maintenance within your charging profiles, rental charges are complex. Most generic ERP systems do not support these complex charging methods right out of the box.

The basic problem is that traditional ERPs are developed to address quantity, price, and discounts. They can do fantastically complex things with those three pieces of information. A rental ERP, however, needs to deal with four factors: quantity, rate, discount, and duration. Duration is what makes things complicated. It's like adding a 4th dimension to an architectural drawing and it's not just as simple as multiplying the quantity by the number of days or hours.

When does a day start: midnight or 24 hours from the time the rental started? If the customer takes a piece of equipment out on a Saturday for 5 days is that the same price as if they took it out on a Monday for 5 days? If they take an excavator out for 1 day, do they get charged a 1 day rate, or 50% of the weekly rate because there is a minimum charge?

If your company charges in advance, which is prevalent in some niches within the rental industry, what happens if you price an item for 4 weeks and the customer brings it back after 2 weeks? If you charge in arrears and the customer takes 3 deliveries during the course of a month, do you try and pro-rate them all into a neat end of month single invoice, or do you bill them separately on their individual anniversaries? What happens if there is a mid-month public holiday and the customer doesn't expect to be charged for holidays?

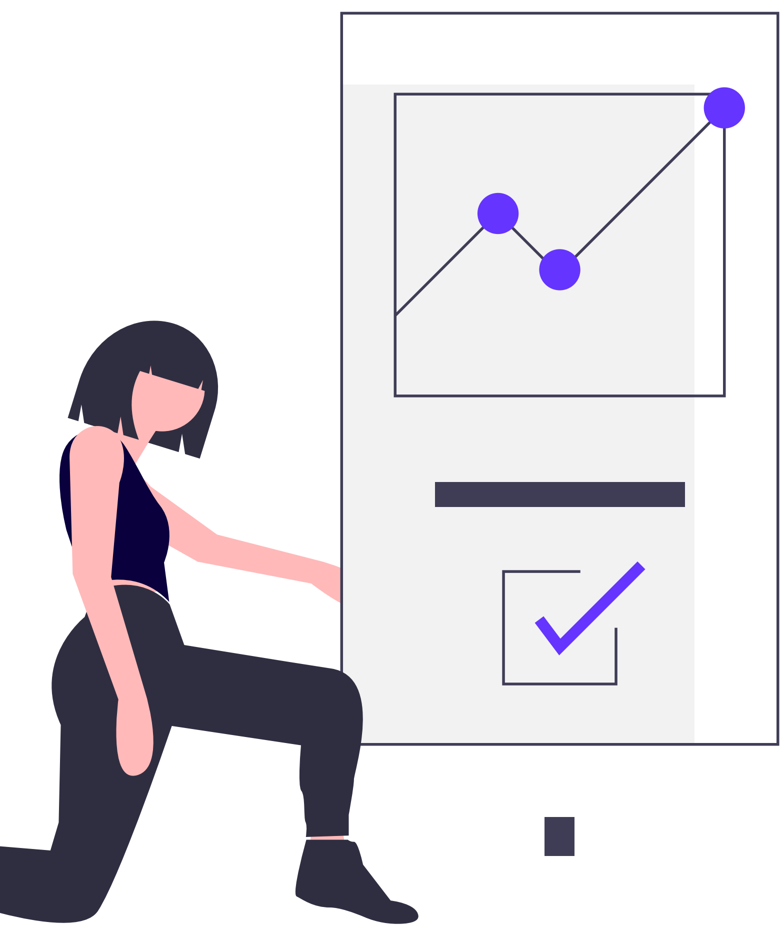
When rental customers are large enough to demand their own special charging rules, life gets even more complicated for the ERP. How does your ERP handle a customer requesting a 5 day charge when your rental business thinks in terms of 6 days in a week? Or if your customer wants consolidated billing across all job sites and contracts on a specific day of the month, how would your ERP handle that?

Wynne regularly receives RFPs from rental companies looking for software. Often, particularly when the RFP has been put together by external consultants, we see rental charging relegated to just a few questions out of hundreds. Charging customers and getting the billing right is one of the most important things an ERP system does for you. If it doesn't have this fundamental building block in place from day one, then that ERP is incapable of delivering what is needed to run your rental business without development and customization.

For businesses seeking new software and exploring different ERP options, make sure you take the time to include specific examples in the RFP. Don't assume that a generic ERP analyst will understand what you mean by specific rental industry terminology. The chances are they won't. That is why we strongly advise devoting an entire section of your RFP to charging and billing at a level of detail that prevents your ERP vendor from just answering "yes" to a generic question.

2. Understanding the Value of Add-on Sales

The selected ERP needs to be flexible enough to handle those differences, and while generic ERPs can manage loss/damage waiver charges, they are rarely comfortable with charges based on recurring fees.



Ancillary charges and add-on sales are big components to any rental business. Industry research suggests 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, additional item suggestions, or hazardous waste management. These ancillary fees are a key component to most rental companies' revenue stream, so make sure you select an ERP capable of managing those charges.

Damage waivers are common for most rental transactions. Typical rental companies charge anywhere from 10 to 14% of the cost of the rental for damage waiver fees. Damage waivers can be calculated in a number of different ways for various pieces of equipment. One type of equipment might be flat-rated, while another is based on a percentage of the net or gross rental rate. There might also be minimums and maximums that need to be calculated and differences by location and customer.

The selected ERP needs to be flexible enough to handle those differences, and while generic ERPs can manage loss/damage waiver charges, they are rarely comfortable with charges based on recurring fees. For a generic ERP, the insurance covers the delivery of the product, not the usage of a product over a period of time.

Add-on sales is another area to consider when choosing an ERP. Rental companies optimize their revenue stream by recommending additional items to rent or buy during the rental transaction. The ERP needs to be able to associate items used for specific tasks or with certain equipment to produce a checklist of related items for sales reps to review at the point of sale.

Logic needs to exist in the ERP to manage these associations, and while generic ERP systems are certainly capable of suggesting products with an initial product, being able to associate additional rental items alongside consumables and services is a challenge. Adding transport or specialized labor with the base rental product often starts to expose the cracks in an ERP which is already struggling to modify its existing software to fit a rental model.

Another common rental practice is bundling associated items to create a kit. For example, a scaffolding tower consists of cross braces, scaffolding poles, foot boards, scaffolding planks, ladders, wheels, etc. When an item is selected, the ERP needs to package up the right piece parts that make up the full rental. The ERP needs to associate costs correctly for each part, as well as manage partial returns if one piece is lost or damaged. Again, generic ERPs can create kits or bundles – they are often used to promote sales of new or complex products. But being able to track the revenue at the kit header level (after all, the customer is renting a scaffolding tower, not a load of pieces), while still keeping track of the pieces apportioning the costs back to the components of the kits after billing is often several steps too far!

3. Managing Rental Accruals and Forward Charges

Make sure you are challenging all the ERP's functionality to make sure it can address your complex financial requirements. Assuming that a generic, big ERP will simply be able to accomplish them is likely to prove costly.

However rental business is managed, you are almost certainly going to end up accruing rental charges if you bill in arrears. Most ERP systems are used under the concept of accruals for purchase receipts not yet invoiced, work order parts currently in progress, and a host of other practical financial transactions. Yet, they are not for accruing rental charges.

Rental accruals tend to be a bit of a departure from the norm for a non-rental ERP system. How, for example, do you accrue for something that has only been out on rent for 4 days but is on a monthly rate calculation? What if the rental contract is open-ended? These are the kind of questions that need to be answered with complex business logic and code. The accrual transaction needs to be able to identify what to accrue for and what to leave on one site.

Wynne spent a long time with one business whose ERP struggled with an accrual including different time periods for different pieces of equipment on the same contract. All had separate expected off-rent dates and the generic ERP system simply couldn't cope with asset level accruals. Instead, it tried to summarize the data. Ultimately, the accruals were simply wrong and the finance team got frustrated trying to make sense of the data in the GL.

For a lot of companies, rental accruals are also not just something needed at the end of the month. For a lot of companies, a daily accrual gives a really good set of data to their branches and salespeople to understand the current billing position. Often, companies run daily accrual reports without posting to the GL purely to get an accurate idea of how their business performs against their monthly target revenues. This is something that generic ERPs cannot always provide.

If your business has customers that pay in advance, then the ERP has to manage early returns and revenue recognition. It's not efficient to manually manipulate data in the GL; the ERP system needs to automatically split out future charges from the current period and auto-credit them into the nearest open period should the customer return early.

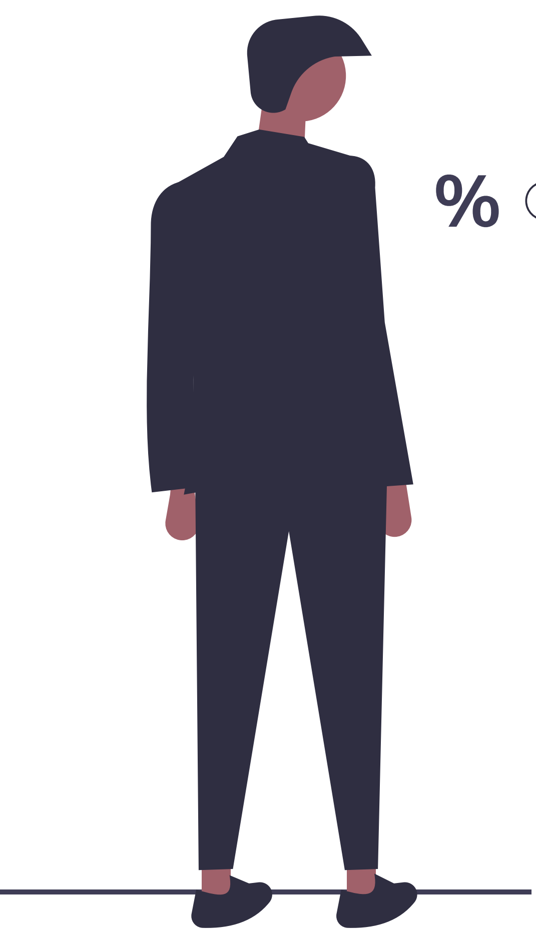
Make sure you are challenging all the ERP's functionality to make sure it can address your complex financial requirements. Assuming that a generic, big ERP will simply be able to accomplish them is likely to prove costly. Any ERP should address these specific industry practices. Don't make assumptions, because these are not standard processes for generic ERPs.

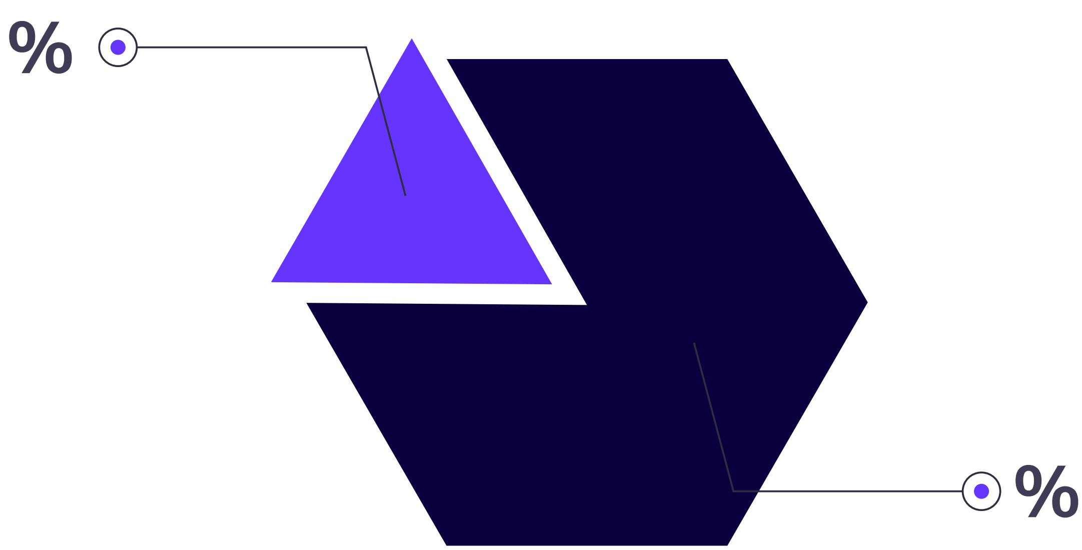
4. Re-Rent Functionality

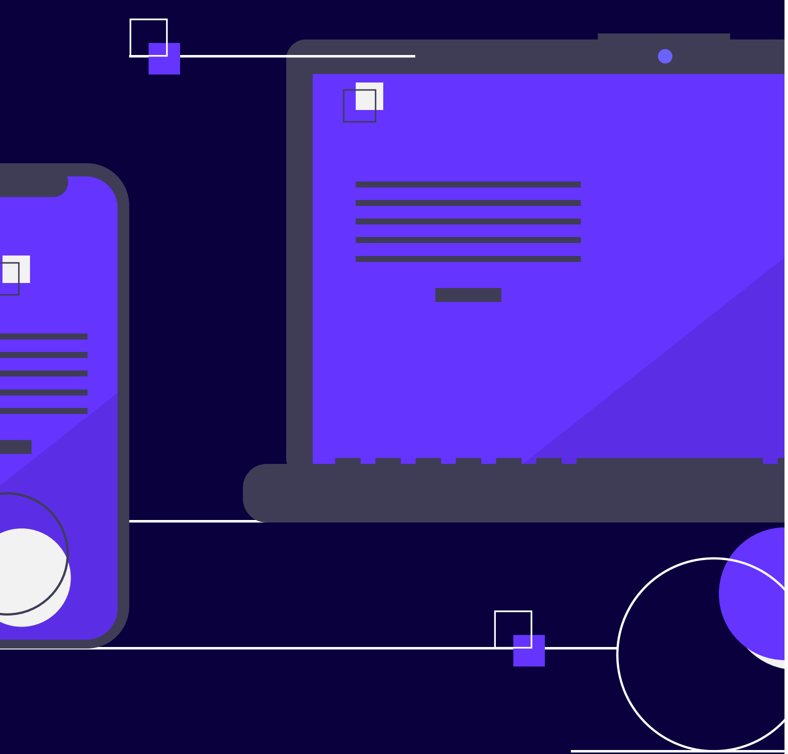
A genuine rental ERP understands re-rents. It is an essential part of any rental business and it needs to be integrated into your day-to-day business activities.

Re-renting equipment is a standard practice for most rental companies. There are times when rental companies must look to other providers to secure equipment to meet their customer's immediate need. The handling of the re-rent process can be complex, especially for broad spectrum ERPs.

At Wynne, we supply software to construction companies as well as to rental businesses. Most of our construction companies use a generic ERP software for their construction businesses and while it works well in the construction arena, they have challenges with re-rents. In most cases, managing re-rents either requires a manual, spreadsheet-heavy process, or they spend a huge amount of time creating purchase order amendments and adding additional receipts for each time period that they need to match to a supplier invoice. If you have something sub-rented for 7 weeks on a weekly billing cycle, then that requires 6 amendments and 6 additional receipts just to process the re-rent invoices.







A genuine rental ERP understands re-rents. It is an essential part of any rental business and it needs to be integrated into your day-to-day business activities. That means if you are mid-flow in a rental contract and realize you need to rent something in, it should be possible to execute from that screen and not require a separate business process. Your workflow (and approvals) for re-rents probably need to be different than for those buying equipment. You may even want to control the margin between the re-rent PO and the rental contract to make sure you never make a loss.

The biggest obstacle in a lot of ERP systems is that a piece of re-rented equipment is physically being used by you, but isn't owned by you. It's not a lease (that is a banking transaction, not a rental transaction), nor is it something you've bought. You've just borrowed it, you're going to get charged for it, and ultimately, you'll return it to the vendor without expecting a credit for the return.

A specifically rental ERP understands these concepts from its original inception, as re-renting is part of the system DNA. For a generic ERP, concepts like tracking owned equipment alongside re-rented equipment, automatic separation of re-rent revenues from owned-asset revenues, physical tracking of delivery of re-rented equipment to customers, and managing pickups simply doesn't exist.

This is an area that you fully need to explore in your RFP if you are reviewing ERP systems. Don't simply add a few questions in and assume that the person reading the RFP will understand what you mean. Re-rents are so far from the principles of what a Generic RFP understands that you're likely to end up with inaccurate responses, only discovering a hole when it's too late.

5. Rental Equipment Asset Management

A genuine rental ERP understands re-rents. It is an essential part of any rental business and it needs to be integrated into your day-to-day business activities.

Generic ERP systems are great at managing assets. After all, fixed asset management is an essential part of all ERP systems. The problem is that most ERP systems manage financial data. So, while your depreciation charges and maintenance costs will fit neatly into the generic ERP, it will struggle with the physical reality of your equipment and assets.

If you have a large excavator, then moving it from one location to another is not as easy as changing a location flag on an asset master record in the fixed asset records on the system. Moving the asset from one location to another requires transport paperwork, and it may take several hours or even days to move it from location A to B. Simply changing a flag in the background is just an excuse for your data to become inaccurate when another customer off-rents something early at location B, making the move no longer necessary. Accurate availability data is the absolute backbone of your rental software.

Of course, even though your depreciation calculation in the generic ERP will almost certainly be right, that doesn't help you manage the depreciation allocation between locations. If two of your rental locations each used a piece of equipment during the month, then neither of them will want to be allocated the full monthly depreciation cost at the end of the period. A rental ERP should be able to re-allocate depreciation based on time in each location so your location managers aren't encouraged to generate unnecessary moves on the last day of the month!

Generic ERPs also struggle when it comes to analyzing revenue against individual assets. One of the most common challenges we see is that the generic ERP cannot capture revenue data at the asset level. Standard interface file layouts in ERP systems often don't include an asset number as a field. These systems associate sales revenue, not recurring revenue, which builds up over time. Strangely, it's sometimes more difficult to get the revenue side of the asset ROI calculation than it is to get the maintenance costs from a generic ERP.

This is an area where RFP questions and demonstrations are really important. If you ask, "Can you manage equipment transfers between locations?", then the answer from most ERP providers will be yes. If you ask, "Can you manage the allocation, picking, transport, and delivery confirmation between locations?", then you're challenging the ERP for a more thorough response. When you see the demonstration, make sure you ask them how the process is triggered and how the team in the location knows that something needs to be transferred.

Getting to the Short List: Developing an Effective Rental RFP

Choosing the right ERP to support your rental business processes is critical. While there may be many ERPs that might work, you should choose one that will work best for your business without requiring major overhauls.

Below are steps to consider when determining which type of ERP is best for your business. The most important things you need to consider when you're putting your RFP together are the things that make your business different.

Step 1: Work out what you want

If you're using a consultant to help you put together your RFP, they will almost certainly have a generic ERP checklist that they've used many times before. That's great, and you should take that as a first step, but give it a thorough read-through and remove anything that doesn't make sense for your business.

If you aren't using a consultant, then you need to include all your departments in putting together a list of requirements.

Whichever method you use make sure you include the operational business in the process. Operational processes tend to suffer most in a generic ERP solution, and often, productivity and efficiency in operational areas give you the longest term benefits. If 60% of your revenue comes from your rental business, then 60% of the RFP discovery should relate to your rental process.

Step 2: Decide your method

Method A: Traditional

Traditional RFPs put together a big spreadsheet of hundreds of questions listing all the features or functions you want in your new system. Create a scoring mechanism (e.g.: 5-Out of the box, 4-Minor customization, down to 0-Won't do it).

You might ask, “Can you manage price lists for different re-rent vendors?” But the problem with these kinds of RFPs is you end up with a nice, neat score at the bottom of the spreadsheet, with only a few people who actually bother to read the responses in detail.

Method B: Challenging

A challenge method would be to find out whether the supplier understands your business before issuing your checklist. Give the supplier a series of high level questions on the broad topics you know make your business special, such as “Explain how your system will make our re-rent process more efficient across all our departments” or “How will our counter staff be able to manage re-rent margins effectively?”

We’ve started to see this style of RFP more and more recently, and they are definitely a challenge for us, as a supplier. Rather than scanning down a bunch of questions, answering them quickly, and moving on, we have to consider the best response to each question. This is more work for us, but you should be able to see instantly whether we have an understanding of your industry and core rental processes. This helps you see if there is a fit for your specific business processes.

Step 3: Weigh your questions

Make sure that your questions are weighted in favor of rental-specific functions. Don’t spend too much time asking for relatively generic processes like “GL management” or “Buying equipment”. Being a rental company is what makes you different, and that's what your RFP should reflect. Identify, as quickly as possible, where the gaps will be so you can concentrate on those areas.

Like we stated earlier, if 60% of your revenue comes from rentals, 20% from sales, and 20% from maintenance and servicing, then that's how your questions should be weighted in an effective RFP. Always follow the money.

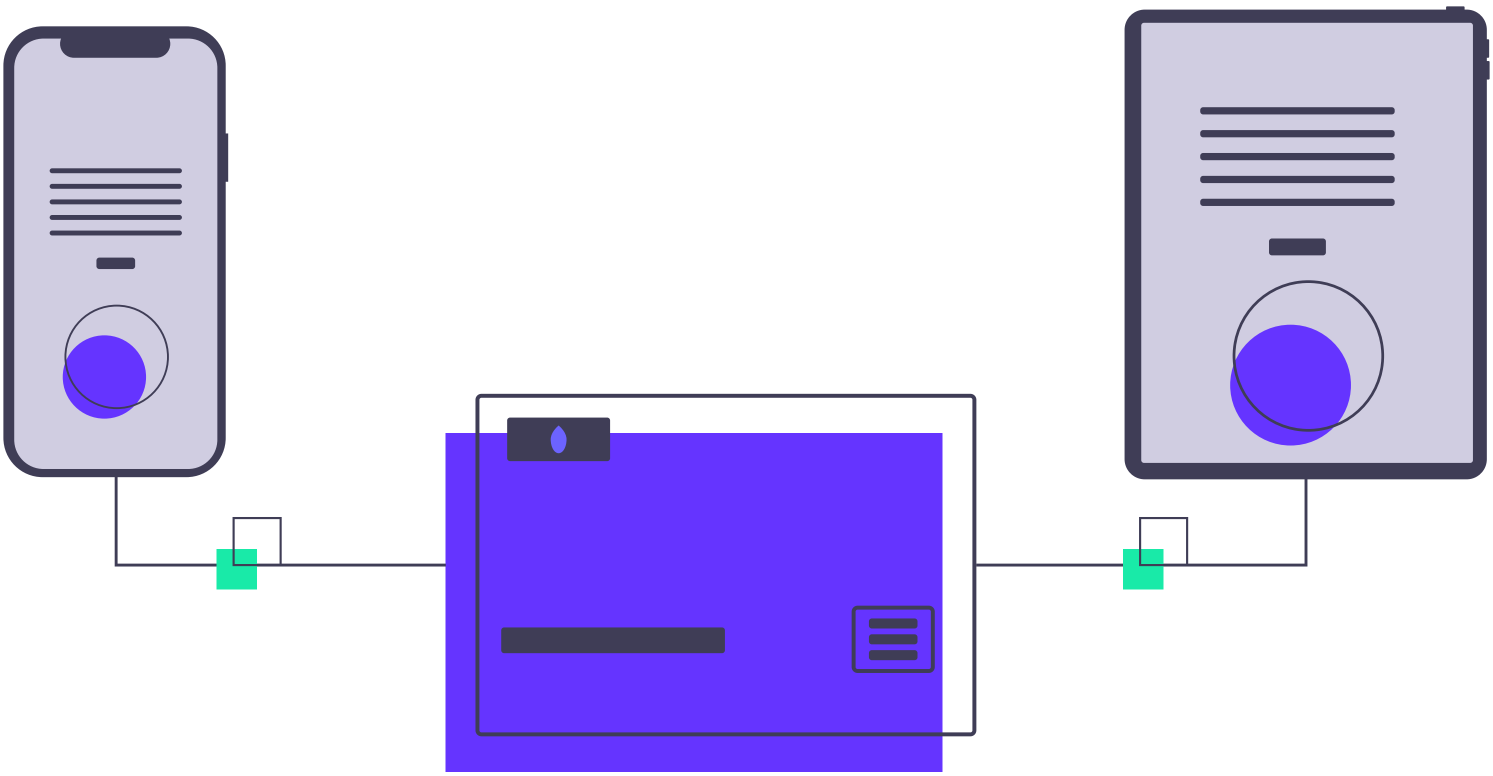
Step 4: Have an interactive workshop

Do not rely solely on an RFP response to make a decision or even to create a short list. You want to see the software in action which means a live demo of actual software and not just a PowerPoint presentation.

Break through the clutter by creating scenarios for the supplier to follow in the workshop. The best scenarios are not necessarily prescriptive in terms of process steps, but you should tell the supplier what you do now in simplistic terms and what you're trying to achieve. That way, you're encouraging the supplier to show you what they know about your industry, as well as their best practices.

If you have a scenario that is absolutely unique to your business, make sure you include it in your scenarios list.

Get operational and financial people in the room together to view the workshop and make sure they're allowed to ask questions. Realistically, you might only get through one or two scenarios in an hour if your team is actively engaged, so prioritize your scenarios. You find out more from questions and answers in an interactive workshop than from an Excel spreadsheet.



Conclusion

Choosing an ERP for your business is an important decision and selecting the wrong one could prove detrimental to your business. While choosing the safe, often-picked supplier might be the easiest path, it might not be best if you run a rental business. Rental businesses have unique process requirements and ways of dealing with inventory that are not handled by most broad spectrum ERP systems. Take your time to research and conduct full demos before you commit to a particular software.

Always consider your unique processes and make sure the software matches your processes, rather than matching your processes to the system. Consider an ERP that is built for the rental business that will already be able to handle the majority of your requirements, rather than a system that requires new modules or modifications to handle your basic rental needs.