



# HOW DISTRIBUTORS CAN ADD ON EQUIPMENT RENTAL BUSINESSES

*This download explains how building materials suppliers can add equipment rentals to their existing distribution businesses to create new revenue streams and improve customer relationships*

# ADDING EQUIPMENT RENTALS TO YOUR DISTRIBUTION BUSINESS

## WHY SHOULD BUILDING MATERIALS SUPPLIERS ADD EQUIPMENT RENTALS?

An increasing number of distributors, particularly building materials suppliers, are now offering equipment rentals. Renting equipment is a business that works well with distribution businesses, particularly in industries like construction, building materials, large-scale irrigation, and the like. Your customers already come to you to purchase building materials, so by offering construction equipment rentals you can create a new revenue stream and build closer relationships with your customers at the same time. Construction equipment rentals and building materials supply have many cross-sell and up-sell opportunities. It is fairly easy to add on an equipment rentals business alongside an existing distribution business; however, you will require specific [equipment rental software](#) capabilities. Some ERP solutions offer both distribution software and equipment rental software capabilities that work together out-of-the-box. This kind of integrated solution is the best approach.

# UNDERSTANDING EQUIPMENT RENTALS

## DIFFERENCES BETWEEN EQUIPMENT RENTAL AND DISTRIBUTION

Short-term equipment rentals are accounted for as operating leases under FAS13 and US GAAP. This means that the lessor retains legal and accounting ownership of the rental equipment. Rental items are treated as fixed assets on the lessor's Balance Sheet. Rental income is recorded as items are rented and costs are recorded periodically through depreciation expense. Rental items are always non-inventory items and may be serialized or not serialized. In contrast, a distribution business purchases goods and capitalizes these into inventory. The distributor then marks up these inventoried items and sells them to customers. As goods are sold, they create sales income and matching cost of goods sold.

## EQUIPMENT RENTAL BASICS

Equipment rental items are carried as fixed assets and you purchase the equipment for the purpose of renting it rather than for sale, as a distributor would. You then make these items available for rent to your customers for the desired number of days typically at a rental price per day and you record rental income. Periodically you would record depreciation on rental items, which creates the expense charged against the rental income. Your customers either call or come in seeking to rent a specific type of equipment item. So, you need to be able to see all such items available for rent as well as those items currently on rental and when they are expected back. Customers either pick up or you drop-off the rental equipment to the jobsite. Equipment rentals often run for extended periods corresponding to the life of construction projects.

# EQUIPMENT RENTAL SOFTWARE

## KEY FEATURES NEEDED WITH EQUIPMENT RENTAL SOFTWARE

There are several important features of good [equipment rental software](#). If your equipment rental software is missing any of these key features, it will cut down on efficiency and make your rental operations more challenging.

### **Business Day or Calendar Day**

You should have you the option of counting rental periods by business day or by calendar day. Typically, construction rentals are done by the business day while most consumer-focused rentals are by the calendar day – think of renting a car, for example.

### **Rent by Day or By Hour**

Some businesses may want to rent items by the hour. This is typically only done for consumer-focused businesses like renting power tools for example. You should be able to select either option for a particular rental.

### **Pricing Subject to Quantity Breaks**

Most rentals are offered at a price per day but then offer significant discounts for 3-day rentals or 1-week rentals or 2-week rentals. This should be easy to configure and should be able to work on the basis of business day or calendar day.

# EQUIPMENT RENTAL SOFTWARE

## KEY FEATURES NEEDED WITH EQUIPMENT RENTAL SOFTWARE (CONT'D)

### **Monthly Billing for Longer-Term Rentals**

Construction equipment rentals are typically long-term corresponding to the life of the construction project. You must be able to allow monthly billing of a long-term rental and to easily track all the interim monthly invoices and payments.

### **Serialized or Non-Serialized Products**

Larger equipment items (e.g., excavators) would typically be serialized to distinguish one specific machine from another of the same Brand, same type and with the same product code. Typically, serial numbers are scanned in using handheld barcode scanners to facilitate easy return and check out of rental items. However, this won't work for smaller products for which multiple similar items might be rented together (e.g., scaffolding or construction fencing panels). It would be too onerous to have to record the serial number of every fence panel, for example. So, you need to be able to accommodate serialized or non-serialized rental items.

### **Serial Master Record**

All serialized products should be able to be tracked to record when they were purchased, when they are sitting on the lot, when they are on rental, which customer they are rented to, on which invoice, as well as when undergoing maintenance.

# EQUIPMENT RENTAL SOFTWARE

## KEY FEATURES NEEDED WITH EQUIPMENT RENTAL SOFTWARE (CONT'D)

### **Rental Products Status Screen**

To be able to respond to a rental request for (say) 3 aerial lifts for 4 days, for example, you need to be able to see all the items you have available and those currently on rental. You should be able to see all the towable boom lifts, at a glance, to see how many are available. You should also be able to see, for example, how many scissor lifts are available, as possible replacements.

### **Managing Depreciation**

You should be able to record depreciation expense easily and quickly for all rental products. You should also be able to accommodate whatever accelerated depreciation schedule methodology makes most sense for tax purposes, for your business for that equipment type.

### **Selling for Salvage Value**

Rental items can typically only be rented for a portion of their economic lives and then may sold for salvage value. You should be able to easily handle decommissioning of a rental item and then selling it from inventory for salvage value. The same process should also be available for damaged rental items.

# INTEGRATED EQUIPMENT RENTAL AND DISTRIBUTION SOFTWARE

## WHY INTEGRATED SOFTWARE MAKES SENSE?

If you already have a building materials supply business and want to add equipment rentals, you need integrated software. With integrated equipment rental and distribution ERP software you can fully combine your rental operations with your distribution business. For example, you might rent an excavator and sell pipe and conduit systems at the same time. You can also have a single GAAP-compliant accounting system that correctly accounts for both the rental business as well as the distribution business. You can also use the centralized reporting, dashboards, business intelligence and data analytics for both businesses. Using the reporting and BI tools you can identify rental items that are underperforming and take steps to improve utilization. You can also manage your whole rental portfolio to ensure that you have the right mix of rental products and manage uptime and maintenance schedules.

## SUMMARY

If your [equipment rental software](#) doesn't measure up, contact us to demo [Accolent ERP](#). Accolent ERP is a Cloud-based ERP solution that supports both wholesale distribution and equipment rentals in one product. Accolent ERP is designed for small and mid-sized business.



## CONTACT US TODAY TO LEARN MORE

ADS Solutions is a leading provider of Cloud ERP software to small and medium-sized businesses.

Accolent ERP is optimized to serve the needs of distributors and building materials suppliers. Contact us for a quote or to schedule a demo.

Email [info@adssolutions.com](mailto:info@adssolutions.com), or visit our website, [adssolutions.com](https://www.adssolutions.com).