HOW-TO GUIDE

How to Measure the Top KPIs for Your Heavy Equipment Dealership

Unlock best practices and top KPIs
that lead to better insight for better business

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TARGIT

Contents

Strong Boom 3

Top 3 Industry Trends 4

How to Successfully Ride the Trends 6

Best KPIs for Fleet Management 8

Best KPIs for Heavy Equipment Sales 12

Best KPIs for Heavy Equipment Finance Departments 15

Best KPIs for Heavy Equipment Parts and Inventory 18

Effective Dashboards for Heavy Equipment Data 21



INDUSTRY OUTLOOK

Strong Boom

There's no denying we're in the midst of a healthy rental equipment boom. And there's no sign of it slowing. In fact, the American Rental Association (ARA) projects that industry revenue will continue to grow at 10 percent year-over-year and reach $52.3 billion in 2022.

As the construction equipment distribution market grows, so do its challenges and opportunities. There are a number of trends that have strengthened or emerged in recent years that heavy equipment rental companies must now face.

INDUSTRY TRENDS

Top 3

01

TREND 01

The Need for Rentals Continues to Grow

Many factors are contributing to a rise in rental demand. The construction industry, in particular, is booming. Equipment inventories are low. Likewise, the rental market's growth will be driven by higher prices for equipment that meets new emission standards. Companies must find ways to keep up.

02

TREND 02

The Technician Shortage is Here to Stay

Blame it on retiring baby boomers, competition among other technical industries, changes in the industry, or the type of education young people are pursuing today. As the equipment rental industry continues to grow, dealers will soon be pressured to raise wages and benefits for technicians and invest in training to advance the skills of more mid-level technicians. Because of this, purse strings may need to be tightened elsewhere to maintain growth.



03

TREND 03

Analytics Importance is Skyrocketing

The industry is now embracing the importance of data management and analyses for insight on better ways to do business. Companies must be proficient at accurately measuring key performance indicators (KPIs), then using the results to make improvements that increase efficiency. The growth of the Internet of Things (IoT) in heavy machinery and the need to capture and understand customer data could bury companies. Creating a strategy to leverage any and all data is paramount.

BETTER DECISIONS

How can Heavy Equipment Dealerships Successfully Ride the Trends?

In the past, fleet management and business decisions may have relied on little more than gut instincts and past experience. But a modern business cannot run on the strategy of "that's how it's always been done."

Data analysis is the key to better decisions. An all-encompassing business analytics strategy should touch every department of an organization. The insights it uncovers helps dealers:

- Streamline processes
- Increase profitability and efficiency
- Use data to inform decisions

Data-driven decisions also improve the customer experience and offer transparency, flexibility, and freedom from the complexity that has historically plagued the heavy equipment industry.

Collecting and analyzing data helps heavy equipment distributors face their most critical daily challenges, including complex billing and scheduling periods, balancing asset portfolios and cash flow, delivering full insight into fleet utilization, improving customer service, and managing the equipment lifecycle.

"A modern business cannot run on the strategy of 'that's how it's always been done!."

The trick to harnessing the increasing flow of data is knowing which metrics to monitor most closely. To help, we've created a list of top KPIs for the heavy equipment industry and why they matter.

The importance of these KPIs will vary from business to business, and even over time within a given business, but this list shows the top examples we've seen during our experience in the heavy equipment industry.



Best KPIs for Fleet Management



01

Financial Utilization: Annualized Rental Revenue / Total Acquisition Cost

Financial Utilization, also called Dollar Utilization, measures the exact amount of revenue earned by each individual piece of equipment. To calculate it, take the annualized rental revenue and divide it by the total cost of acquisition. Keep in mind that the potentially significant variances of acquisition cost between new and used equipment will highly affect your Financial Utilization.

Benchmarking the Financial Utilization percentage helps compare the pieces of equipment making the most money for your dealership. This number can help you determine what new pieces you should add to the fleet and whether those pieces should be new or used. You can also expand this metric to include revenue from other services or products, such as fuel and delivery fees.

02

Time Utilization: Days Rented / Days Available

It’s not good business sense to carry equipment with low utilization rates. By tracking Time Utilization by machine and time period, you can make quicker, more accurate decisions on what equipment or parts to keep on hand. This KPI shows you increasing or decreasing utilization trends so you can make decisions about now and the future.

Your dealership's analytics solution will alert you proactively when your fleet falls below a certain utilization percentage. Sub-par utilization is an easy determinate for removing machines from your fleet instead of holding on to equipment that is not making any money.

03

Washout Percentage: Total Income / Total Expenses

The Washout Percentage is calculated upon disposal of an asset or to more accurately predict the future disposal of an existing asset. This metric is the measurement of profitability over the life of a machine.

This metric has variations, but the simplest way to look at it is cash in versus cash out. The formula is total expenses (purchase price, prep, carrying costs, maintenance) versus total income (rental income, sale price).

Different plans or scenarios can be created for machines still in the fleet's “what-if” phase. For example, what is the sale price required to reach the desired return on a piece of equipment?

04

Maintenance-To-Income Ratio

It’s not good for your business to carry machines that are consistently out of commission for maintenance. Revenue is lost, but — more importantly — customer satisfaction can decline, increasing the potential for customers to go elsewhere for the equipment they need.

You can get ahead of these potential issues by tracking your fleet’s maintenance costs, history, and age in comparison to revenue. With the right information at hand, you’ll be able to eliminate problem machines and replace them with more reliable equipment.

“With the right information at hand, you’ll be able to eliminate problematic machines and replace them with more reliable equipment.”

05

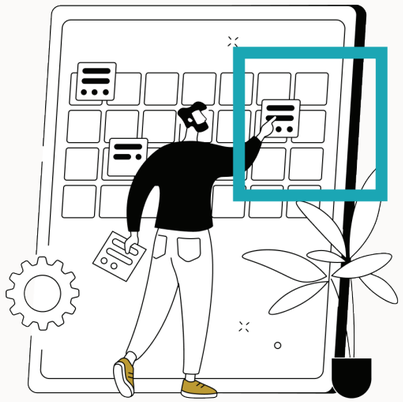
Physical Utilization: Rental Days Committed to Customer / Potential Rental Days

Physical Utilization differs from traditional Time Utilization because it measures the time a piece of equipment was committed to a customer and not available to other customers. Your Physical Utilization may or may not align with the time for which a customer was billed (breakdowns, weather issues, and compensation for pre-existing problems come into play here).

According to industry standards, 72 percent of your dealership's fleet should be out on rent at any given time, 20 percent should be in the yard and rental-ready, and no more than 8 percent should be non-rental ready. Non-rental ready includes equipment in transit, in need of maintenance, or entirely out of commission.

This metric will tell you precisely when to acquire new equipment and when to sell off old equipment. If your Physical Utilization is below 72 percent, you likely have too many pieces of that equipment. If it is above 72 percent, you likely should purchase more.

Don’t overlook your non-rental ready benchmark. If a machine in your fleet consistently spends more than 8 percent of its time non-rental ready, that unit is a problem. No machine should ever be non-rental ready for more than two weeks. If fixing it doesn’t reliably keep it off the hard-down list, it’s likely time to sell it.



Best KPIs for Heavy Equipment Sales

01

Return on Average Assets: Net Income / Average Total Assets

Return on Average Assets (ROAA) measures how efficiently assets are utilized. This metric highlights the return on the assets purchased using invested or retained dollars.

As dealers, the goal should be to have a high return on assets, as your ROAA demonstrates how well you manage your balance sheet to generate profits. Your dealership's ROAA can be used by management, data analysts, and investors to determine how well efficiently you generate a profit through the equipment and accompanying supplies you sell.

02

Percentage of Industry Sales: Dealer Sales / Industry Sales

Percentage of Industry Sales, also known as PINS to Caterpillar dealers, is used to measure a dealership's competitive market position. It compares dealer sales or equipment rental to average industry sales.



"The BI and analytics tool of choice will be able to combine internal sales data with third-party sales data, often provided by the manufacturer."

This metric should be monitored regularly to benchmark a company's performance against other manufacturers in the industry that represent the same class of equipment. From a business intelligence (BI) perspective, the BI and analytics tool of choice will be able to combine internal sales data with third-party sales data, often provided by the manufacturer.

03

Market Basket Analysis

A Market Basket Analysis can help you understand what products customers routinely buy together. It arms sales representatives with the data they need to recommend add-ons to customers at the time of sale.

This type of analysis is commonly used for retail eCommerce sites, such as Amazon. Consider Amazon's "frequently purchased together" combinations below every product description. The same cross-sell tactic is incredibly useful for heavy equipment dealerships as well.



For example, the Market Basket Analysis may show that most customers who rent excavators also purchase safety equipment such as hardhats, earplugs, and goggles over the course of the job. The sales rep could use this information to offer a discount to buy those supplies upfront when they rent the equipment itself.

Your marketing department can also use a Market Basket Analysis to better connect with customers. The analysis mines data on your customer's needs, including those who you haven't heard from in a while. With a better understanding of what customers are shopping for, marketers can create personalized messaging and share relevant promotions.

Best KPIs for Heavy Equipment Finance Departments

01

Debt to Equity: Total Liabilities / Total Equity

Debt to Equity focuses on a company’s financial leverage. It indicates how much debt a company uses to finance its assets relative to the value represented in equity. This ratio is an indication of current or long-term liabilities.

Most heavy equipment dealerships aim for a Debt to Equity ratio of 3 percent or lower, which often limits the amount they can borrow to finance equipment. However, the industry tends to surpass the recommended 3 percent, with some dealers reporting ratios of up to 50 to 70 percent.

If you find yourself consistently above 20 percent, it might be time to re-think your financial strategy and the level of risk you’re willing to take. A more aggressive approach for financing growth with debt opens up more significant potential for financial troubles.

02

Aging Accounts Receivables

This metric refers to accounts with the longest payment times. Keeping your dealership's number of aging accounts low helps ensure the continued growth of your business.

That's why it's critical to have a reliable invoicing solution to ensure timely payment on invoices. The payment process should be simple, with all forms of payment accepted. Look into user-friendly online portals that offer instant payment options for your customers.

Other ways to avoid a surplus of aging accounts include:

- Instituting late payment fees
- Defining strict financing terms
- Offering discounts for early payments
- Writing off bad debts
- Moving on from slow-to-pay clients

03

Rental Rates & Revenue Generated: Equipment Revenue / Paid Equipment Rented

It’s essential to know your current revenue at the close of each business day. Rental Rates and Revenue Generated assesses the total equipment revenue for a specific time period versus the total amount of equipment revenue paid and rented or sold within the same timeframe.

Knowing how much revenue your dealership generates in a given period allows you to benchmark your current operations against results from previous months and years. It also makes it easier to predict, plan for, and compare quarterly and year-to-date results.

04

Financial Utilization: Yearly Rental Revenue / Original Acquisition Cost

This KPI was mentioned above for the Fleet department, but it's worth expanding upon here too. Achieving optimal financial utilization is a challenge for many rental companies. It's critical to keep equipment out on rent enough to generate adequate revenue and cover expenses and debt. But too much time in rental rotation results in costly wear and tear.

Keeping your Financial Utilization high means better returns and a faster ROI for each piece of equipment. Consider this: a $25,000 machine that brings in $23,000 annually achieves a 92 percent Financial Utilization rate.

The standard rate varies depending on the type of rentals in rotation and the size of the business. Still, an appropriate target should be 65 percent for national enterprises and 100 percent for smaller rental centers. As for time off the lot, aim for 60 to 70 percent of time utilization to generate adequate revenue while also ensuring regular preventative maintenance.

You can usually attribute low Financial Utilization rates to continuously problematic, older, or underperforming machines. Conversely, it could also result from rental rates that were set too low.

Best KPIs for Heavy Equipment Parts and Inventory

01

Turnover Percent: Cost of Goods / Average Aggregate Inventory Value

Inventory Turnover Percent represents the number of times a part must be replaced during a given time period. It is perhaps the most important KPI for parts and inventory because it reflects the overall efficiency of the entire supply chain.

In this scenario, the cost of goods is the cost for a company to deliver parts to customers, excluding administrative expenses. The average aggregate inventory value is the cost of all items on inventory.

02

Fill Rate Percent: Number of Correctly Serviced Requests / Total Requests

The Fill Rate measures the percentage of customer needs your dealership meets through immediate stock availability, not including backorders or lost sales. Fill Rate helps dealers

see where demand is likely to be recovered or better serviced with improved inventory performance.

The more backorders, the worse your Fill Rate. If a customer needs a part for a project that you don't have on hand, that's lost business. This metric helps dealers understand how well they are servicing their customers. It's a key indicator of customer service levels and supply chain efficiency.

“That’s why an analytics solution that delivers important KPIs in easily digestible dashboards is critical.”

03

Parts Gross Profit Percent

Gross Profit represents the actual profitability of your dealership's parts. It accounts for several variables that can be difficult to tie back to hard costs, such as inventory carrying expenses, sales rep commissions, manufacturer and dealer rebates, handling fees, and emergency service fees.

Keeping a finger on the Gross Profit of every part in your inventory will help you decide what to continue carrying, what to cut, and what to order more of. Dealers typically do a particularly poor job of measuring this calculation, despite having the data at hand. That's why an analytics solution that delivers important KPIs in easily digestible dashboards is critical.

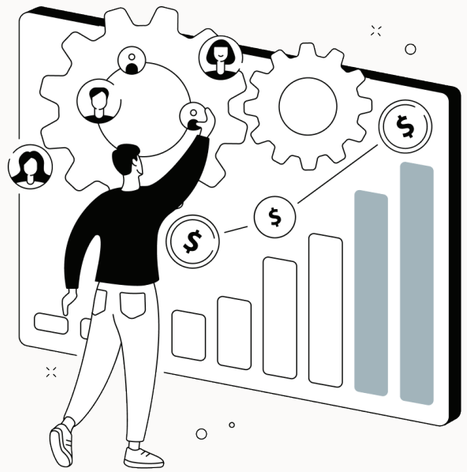
04

Repairs & Maintenance Expense Cost / Revenue Generated

Excessive repairs and high maintenance expenses are the most glaring red flag that a piece of your fleet is costing more than it's worth. This expense KPI is the clearest indicator of which units you should remove from your dealership's inventory.

Repairs and maintenance costs include preventative maintenance and major repairs. You should record these costs at every service instance. Each piece of equipment's overall repairs and maintenance expenses should be between 6 and 8 percent of the total revenues.

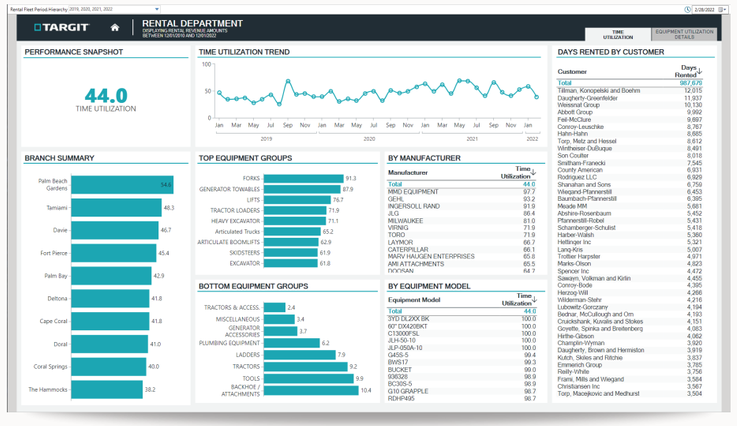
No machine should accrue repairs and maintenance expenses that cost over 10 percent of the rental revenue it generates.



ANALYSIS EXAMPLES

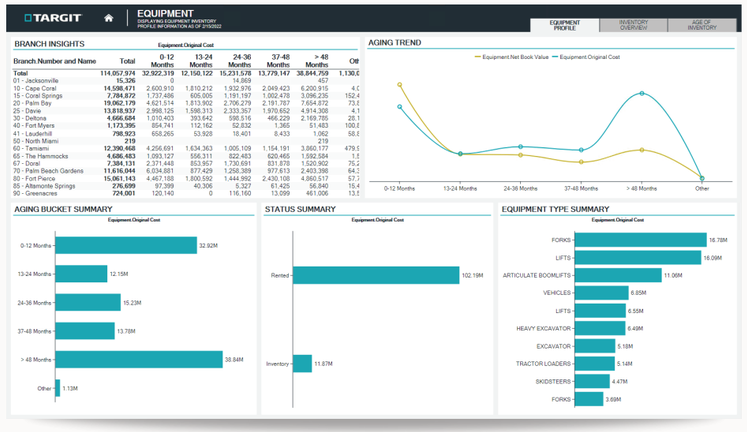
Effective Dashboards for Heavy Equipment Data

The data you need in easy-to-understand dashboards.



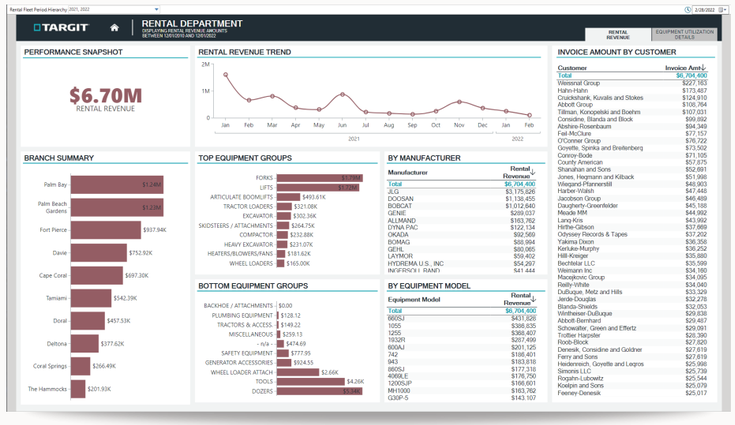
TIME UTILIZATION

See most and least utilized equipment by store, category, model, and time period with ability to drill into machine and customer detail.



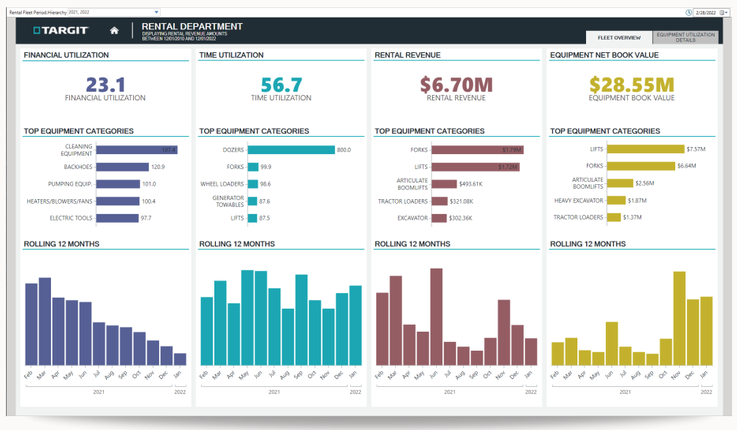
INVENTORY

Unlock instant insight to inventory status by machine makes and models. See exactly how many units are on-hand, their current status, book value, and sales price.



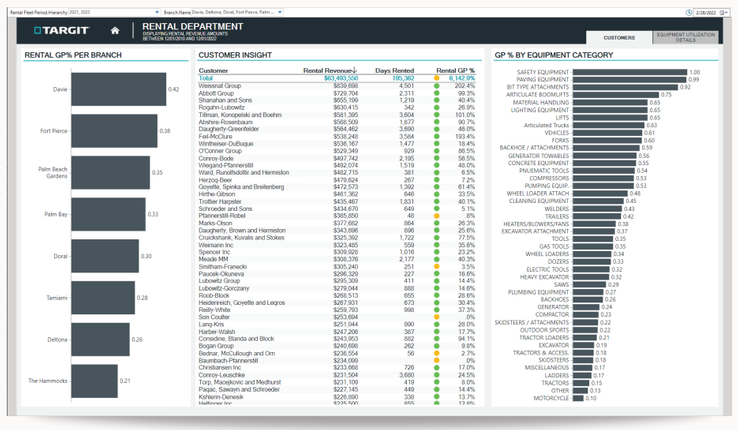
RENTAL REVENUE

Want to know how much revenue you've invoiced over time by customer, store, and model? You get everything in a single dashboard. Drill in further to get the transaction-level details behind every number.



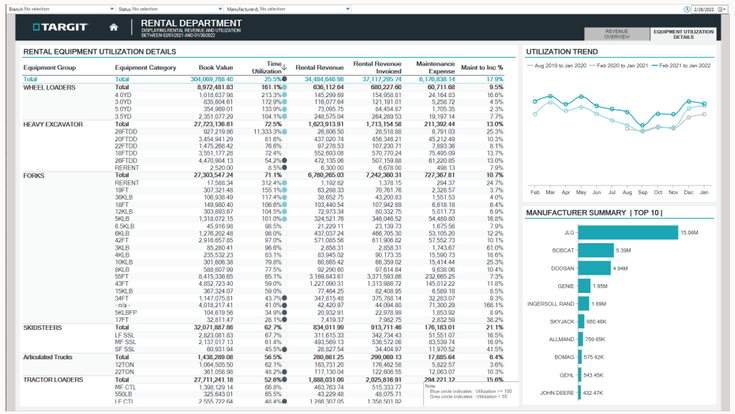
FLEET OVERVIEW

Get a quick overview of your fleet's KPIs for the current year, including Book Value and Rental Revenue. Want to know more about a specific KPI? Simply click on the dashboard and drill into a more in-depth analysis.



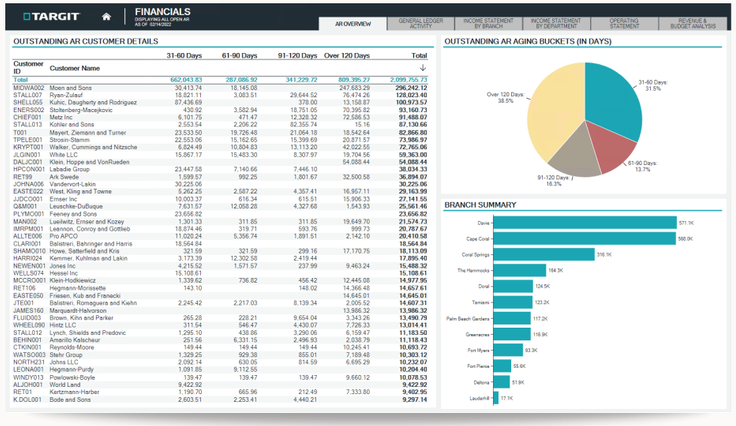
CUSTOMERS

Get detailed insight into your customer's rental revenue, days rented, and rental Gross Profit Percentage. Compare company locations for Gross Profit Percentage against a goal.



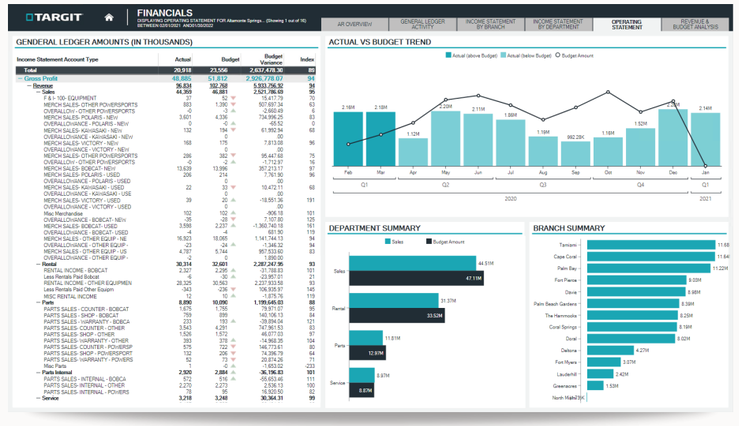
UTILIZATION & MAINTENANCE

Review key equipment metrics like Maintenance-to-Income ratios, Time Utilization, Potential Rental Days, Rental Revenue Income, Rental Revenue Invoiced, and Maintenance costs allocation (internal, customer, warranty, etc.). This analysis is invaluable for both the Services and Rental departments.



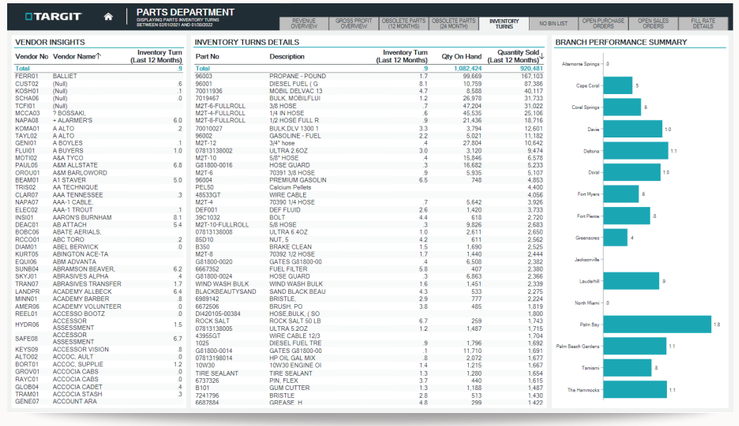
RECEIVABLES BY CUSTOMER

Quickly analyze your customers by their current receivables balance and see what salesperson is responsible for that particular customer. This analysis is a great tool to review each customer's current balance and determine if additional credit is available.



OPERATING STATEMENT

Create a robust Operating Statement that analyzes performance over time, by store, and across all departments – Sales, Parts, Services, and Rental. You can even expand your Account Levels down to five levels and access transactional information behind any of the numbers presented in the dashboard.



PARTS INVENTORY

Give your parts department full insight into how individual parts are performing. Measure inventory turnover over time along with Ending Balance of what is on hand.

There is a tremendous amount of tradition in the heavy equipment industry. And in today's rapidly evolving market, it's easy to let old habits stand in the way of progress.

The digital landscape is prompting dealers to take a more strategic approach to data that gives them greater insight into their industry, customers, and performance.

Don't fall behind out of fear of new technologies or processes. Find a BI and analytics solution that delivers an easy, seamless stream of insight without handholding from your IT department.

"Better insight into your company, your customers, and your potential is more accessible than you think."



*"We needed to **reduce the hours** our teams spent creating reports while improving each report's **timeliness and accuracy.***

TARGIT provided us with a one-stop-shop for all reporting that drives business decisions across all of our divisions."

- KIM LIGHTFOOT
VP OF STRATEGIC SERVICES
HOLT OF CALIFORNIA

HOLT of California CAT

TARGIT

AT TARGIT, we leverage decades of industry expertise to help our customers turn data into real business impacts. We give business users the tools they need to extract actionable insights that inform decisions, increase productivity, and improve profitability.

Our BI and analytics platform, *TARGIT Decision Suite*, combines an intuitive, user-friendly frontend with a robust backend designed for growth. TARGIT integrates with various other tools and pulls data from multiple sources to support your organization's entire data ecosystem.

Top-ranked by two of the industry's most reliable reports – *Dresner's 2021 Wisdom of Crowds® BI Market Study* and *BARC's The BI & Analytics Survey 2022* – we're a leader in all the essential areas, including customer experience, ease of reporting, and user adoption.

We pride ourselves on building lasting partnerships that support our customers through continuous innovation, insightful recommendations, and a people-first business model.

- **90+ Years Of Combined Dealer Experience**
- **80+ Equipment Dealer Bi Implementations**
- **30+ Years In The Business Intelligence Business**
- **1 End-To-End Enterprise Business Intelligence Solution**

REQUEST A DEMO TODAY

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