

# Lift trucks: Solving the financial puzzle



**Own, lease, or rent? According to lift truck consultants, the method that businesses pay for lift trucks tends to be a sound economic indicator. Here's how distributors are working to solve the complex needs of today's fleet owner.**

BY TOM ANDEL

If an analyst told you that a market was in recovery, you'd probably think that was good news. Not so fast. If you were talking about the lift truck market you'd have to get beyond the complexity first. In fact, some business analysts see recovery being as problematic as the recession when it comes to lift trucks.

George Keen is one of those. Keen's a senior consultant with Currie Management Consultants, a Worcester, Mass.-based firm that specializes in distributor business enhancement strategies. Keen sees the lift truck market as a remarkably complex puzzle, as challenging to understand for sellers as it is for buyers.

According to Keen, customers' purchasing philosophy and behaviors evolve over time as a market matures. The problem with lift trucks is that although they are mature products, they employ some of the most leading-edge technologies

around—from computers and sensors to alternative power sources.

This leads to unpredictable buying patterns and competing approaches to selling. Depending on their needs, buyers may make their lift truck selection based on product innovation, price, total value, or total cost of ownership. Keen sees these as phases.

“Not all lift truck customers change at the same time, so distributors need to evaluate which customer is in each buying phase and then respond to them in an appropriate fashion,” says Keen. “While we have seen customers go from just choosing a brand to being very concerned about price, many have moved on to the ‘total cost of ownership’ where they really care about the residual value at the end of their ownership, the cost of maintenance, and the serious issue of non-productive down time.”

## Warehouse & DC: Liftrucks

Wherever you are in this procurement cycle, business conditions have also changed how equipment distributors deal with customers. Today in the lift truck market, there are new, compelling reasons to own equipment, to lease it, and even to rent. Let's take a look at each of those decisions.

### THE CASE FOR OWNING

With the recent business slowdown, there's a glut of underutilized lift trucks on the market. As they come off lease, they flood the used market, creating attractive buying options for many small companies.

Keen says that these buyers will lean into used equipment as a hedge against cost. While this is bad news for sellers of new vehicles, it's great news for servicing dealers offering maintenance programs.

Other buyers will purchase used lift trucks to fill their current needs while saving up for equipment that will suit their long-term strategies. At the same time, some dealers will discount and promote used equipment to get cash from their over-invested rental fleet and older used inventory.

But while there may be an abundance of used forklifts for sale, the quality quotient may be on the way down.

"I've seen a sharp decline in good, low-hour, late-model forklifts on the market sold as 'new-lift alternatives' since the third quarter of 2009 into the first quarter of 2010," says Matt McClelland, materials handling consultant at Johnson Lift Hyster, a distributor that serves the greater Los Angeles area. "While the glut of used trucks has had a negative effect on new forklift sales...this will level back out in the next six to eight months due to a lack of good, used equipment."

Roger Troost, president of Morrison Industrial Equipment, a Grand Rapids, Mich.-based Mitsubishi-Caterpillar distributor, has a slightly different interpretation of what's happening on the used equipment market. Troost says that he's seen the wholesale value for used trucks strengthen—which indicates that the used-truck glut has stopped and that those great values are no longer there.

That doesn't mean that warehouse and DC managers will stop buying late-model, low-hour, off-lease units in favor of new equipment. "I think as long as underutilized and low residual off-lease units move into the used market the smart buyers will continue to lease used versus new," says Troost.

However, Bruce Pelynio, president and CEO of Heli Americas, a Memphis-based distributor for China's Anhui Heli lift trucks, says that the maker of his line of trucks is counting on growth in the long-term ownership market here in the U.S. "I think the lease versus buy ratio will shift," says Pelynio. "People used to lease cars every three years and just flip them because they could get a \$199 payment for a Cadillac. Those days are gone because nobody wants the residuals any more—the capital isn't available to do that."

### THE CASE FOR LEASING

Leasing gives customers access to technologies they might not be able to afford when buying a lift truck outright. It also changes a customer's mindset from price to cost of ownership—especially if the lease comes with a maintenance package. That's why George Keen tells dealers to understand their customer's procurement phase.

"Just when you think all customers evolve from left to right, we get new products like the hybrid fuels, AC, and other fuel options. Customers are back to looking for the best product not best price," says Keen. "Dealers will need to be paying good attention to the customers' buying phase and not just throwing quotations out to every person thinking of buying new trucks. For example, throwing a low-ball quote out to a prospect who is concerned about cost of ownership will only lose you money."

On the customer side, Matt McClelland's advice to fleet managers is to look at solutions in three-year to five-year terms instead of a payment-to-payment basis.

"A lot of the solutions I have been offering as a consultant have a high perceived investment cost, but I usually can show savings in 20 months or less," says McClelland. "But some fleet managers look at the payment and decide to save \$5 per month instead of \$15,000 over 5 years. The technology to help companies

save thousands over that long term lease is usually in the payment."

### THE CASE FOR RENTAL

There are opportunities arising from the recent economic struggles of both buyers and sellers of capital equipment. Lift truck fleets with low utilization and high financing costs may be causing cash flow problems and owners may be tempted to dump that equipment on the rental market.

At the same time, dealers are seeing an increase in short term rentals (STRs) from clients who do not have enough money in their capital budgets for an immediate purchase or lease. In this case, an STR can help them meet their needs until the next capital budget.

Alternatively, large fleet owners may be receptive to dealers offering to "re-purchase" their fleet and rent it back to them through a long-term rental (LTR). This would free up cash from those assets.

"Although the dealer would need the financial position to make this offer, the long-term return could be very good," Keen explains. "They capture all the parts, service, and rental business and they also have total control of the account for X years, and should have good control at time of conversion. But dealers will need to be smart and creative in finding out how to deliver good value inside profitable contracts."

Just as leasing helps fleet owners stay on top of technology's evolution, rental can do the same, but for a shorter term. At the same time, it helps the fleet manager negotiate the uncertainty of these economic times.

"I would suggest fleet managers can be less reactive to an upswing or downturn in the market by buying more strategically," says Paul Hollowell, vice president of rental operations for Modern Group Ltd., a Hyster distributor that covers the Northeast. "They can do that by purchasing less than the immediate need for lift trucks and renting equipment as a prudent alternative."

The rise in STRs reported by distributors contacted for this article shows that these fleet managers are filling application gaps before committing to long-term leases or purchases. In the meantime these distributors and the OEMs they represent are busy preparing to meet that commitment. □