



Computerization: Investing in the future

*Incorporating
technology
can yield
incremental
revenue*

By Jack Shea

Many see computerization as a necessary expense, but it should be viewed as an investment with an attractive return. On a dollar-for-dollar basis, a computer system can be a better value than the hardest-working piece of machinery.

After all, your computer system manages inventory, rental transactions, customer service and maintenance records, dispatching, sub-rentals, purchase orders, contracts, billing and accounts receivable. Unfortunately, few rental owners take the time to measure the value of the computer system.

The purchase price of a computer system for managing a rental company varies. As an example, let's say the typical cost of a computer system is about \$28,000. The rental management system would cover three distinct components — the hardware, which includes the server, workstations, printers and other peripheral equipment; the applications software plus an operating system such as Microsoft Windows® or Unix®; and implementation services such as training, database creation and installation.

The software is usually the most expensive element of the system, accounting for about 60 percent of the cost, while hardware would account for about 32 percent and services would account for about 8 percent.

The hardware will typically need maintenance and replacement over time. While I've seen rental management systems run on the same hardware for 10 years or more with minimal maintenance or downtime, most business owners will replace key components — such as the server — every five to seven years. Some businesses replace these components every three years as a preventative measure.

The cost of a \$5,000 server, incurred every five years, amortizes to \$1,000 annually. If five workstations, two printers and other miscellaneous elements total another \$4,000, and last six years on average, the annual cost is \$667. So the total hardware cost of your system over the first 10 years of its lifecycle would be \$8,960 — or 32 percent of the initial investment — plus one replacement server at \$5,000 and \$2,668 of other amortized replacement costs is a total of \$16,628 or \$1,663 per year.

Software for a five-user system can range quite a bit in cost, but using our example, 60 percent of \$28,000 would be \$16,800. Software should have a much longer lifespan than hardware — I've seen rental businesses operate with the same software for 20 years or longer. If we use a lifespan of 15 years and an initial investment of \$16,800, the annual amortized cost of the software is \$1,120.

There also are ongoing costs to upgrade the **► Page 42**

Many rental businesses can improve inventory utilization by installing rental software that keeps track of current and projected inventory availability. One example of this type of software is Solutions by Computer's Enfinity, shown at right, a rental system that lets you view availability information in graph form by date range, with the ability to zoom in for a closer look at shortages and transaction details. This screen also displays optimizations, quotations, delinquent returns and other impacts on availability, all of which represent opportunities to avoid missed rentals and increase profits. This example shows projected availability of air compressors:

A. Standard (normal) inventory level
B. With optimization
C. Including outstanding quotations
D. Availability and rates for similar items
E. Compressors on the 8-level "inventory tree"
F. Legend describing graphed inventory levels



INVESTING From Page 40 software with new functionality and technological developments to help keep pace with the evolution of rental operations. Some computer vendors bundle this benefit together with support services, which typically cover diagnostics, telephone support through a help desk and general problem solving. Across all industries, support and upgrade services typically cost between 17 and 22 percent of the current list price of the software involved. In the rental industry, this cost tends to fall between 12 and 15 percent. In our example, maintenance computes to \$2,520 annually.

The life of the software is a key point. Well-designed rental applications software should not need replacement unless your business needs change or you outgrow the software's capabilities. Most systems are replaced because the rental owner made a deliberate decision to change the software they originally invested in, not because the software stopped functioning.

The other cost component of a rental management system is implementation services. Services of \$2,240 — 8 percent of \$28,000 — amortized over the software's lifespan, cost \$149 a year.

As a result, the annual cost of a mission-critical rental management system capable of running virtually all aspects of a rental business is \$5,452 in our example, which is probably less than most people pay in electric bills each year.

The five-user system in our example should be adequate to manage a rental business doing \$2 million or more in annual revenue. This means that the annualized cost of \$5,452 calculates to about 0.27 percent of revenue for such a rental business, which is far less than the typical information technology (IT) cost of 1 to 2 percent for small businesses across all industries.

Economies of scale also apply here as they do with most substantial business purchases. A smaller rental operation with less revenue can be run with a less costly computer system, but the cost as a percentage of revenue will be

higher than in our example. Conversely, larger businesses will incur a lower cost percentage.

Despite the math, many rental owners find it easier to invest in rental inventory than technology. The premise is that money spent on a backhoe is temporarily out-of-pocket, but quickly begins earning money back on rentals, while money spent on a computer system is considered to be an out-of-pocket expense.

Most rental business owners can easily calculate the return on investment (ROI) of a piece of equipment, but the ROI that a good rental computer system can provide is much less obvious.

While no one has done industry-wide research, some rental business owners have reported a 3 percent or more increase in revenue due to proper rate application and policy enforcement and 4 percent or more revenue growth due to improved availability information after installing a computer system. For a sample rental business doing \$2 million a year in annual revenue, that translates to incremental revenues of \$140,000 in the first year.

The most dramatic year-over-year improvement usually happens in the first full year after computer installation, but there are substantial long-term benefits that never diminish. For example, the other benefits of a computer system with rental management software could include faster service at the counter, greater customer retention, rapid productivity of new hires, informed inventory buying decisions, easier direct marketing and greater efficiency in overall operations.

The next time a computer investment is under consideration, take a true measure of the cost you will incur and the benefits you will receive. **RM**

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