

The Equipment Equation

Should you rent or purchase your next crane?

Business was good in the construction sector in 2017. That has created steady work and a bright outlook for crane owners, as well as manufacturers, distributors, and rental houses who provide iron.

But crane owners and users have long memories. When it comes to investing in new equipment, scars inflicted by the most-recent recession have some operations still favoring equipment rental over purchasing.

The crane industry offers short-term and long-term rentals. Also, re-rentals between crane rental companies, dealers, and manufacturers, can help companies respond to business opportunities. “Many reasons for renting cranes haven’t changed over the years. More companies now may consider renting as a result of the last economic downturn, which was a difficult time for many companies,” says Harry Fry of Harry Fry & Associates, West Newbury, Mass., a financing and leasing source for the crane industry.

“Today, many customers tell us they are busy, and believe they’re going to remain busy for the foreseeable future. But they have long memories and retain some skepticism,” says Fry. “For many years, there was a business exuberance that growth would continue to steam along. When we had the dot-com bust and 9/11, the industry was negatively affected but bounced back in six to nine months, on average. However, after the 2008 economic debacle, the crane and lift industry, or the economy as a whole, didn’t bounce back as quickly as expected. It’s safe to say nobody could figure out or know what the new normal is,” he says.

“We went into the recession and didn’t come out of it very quickly, so I think memories are deep-rooted, and may be a factor in why we’re seeing more rental requests,” says Fry.



More crane owners consider renting as a result of the last economic downturn, which was a difficult time for the industry, says Harry Fry of Harry Fry & Associates. Crane owners are busy and believe they'll remain busy, but retain some skepticism.

He adds that his company receives calls daily that say, “We’re really busy, we could use more equipment, and business seems positive over the next couple years. But we’re concerned about carrying the debt if the market turns.” Fry counsels those customers to carefully weigh the cost of renting versus the merits of ownership against their individual business models.

When considering the pros and cons of renting versus owning, the crane owner has to know his business/market. The math can be basic, but the list of factors might be long. The crane company owner has to look at his equipment needs, consider short- and long-term revenue potential, and determine the level of financial risk he wishes to assume.

“Most importantly, look at your current financial situation, the cash you have on hand, the revenue coming in, and your primary business, to analyze how often the equipment will be used and what type of revenue it will generate,” says Brian Dineen, finance specialist

with construction lender Heartland Wisconsin Corp., Milwaukee, Wis.

Weighing the Pros and Cons

Crane financing experts such as Fry and Dineen will tell you there really is no hard-and-fast rule for rental frequency or hours of operation that, once surpassed, signal it would be smarter to buy the machine outright.

“It depends on the type of equipment, its cost, and the revenue it contributes to the overall company,” says Dineen. “If you have a piece of equipment needed only for the occasional job, you’ll want to rent it. If you use that crane on most jobs or all of your jobs, you want to look at buying the machine.”

Fry says length of the rental contract plays a part in the decision, too. It’s a short-term versus long-term contract consideration. “Will [the crane] work into their fleet for other jobs after this one, or is it a one-shot deal for a specific job? Once a job or jobs begin exceeding 12 months, the economics may not favor renting. On the other hand, he says, if you have an 18-month project, it might

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be beneficial to rent a machine if there are no more jobs lined up for the specific crane after this project is completed.

Advantages of Ownership

Beyond usage, though, other factors carry a good deal of weight in the decision. Equipment availability is obviously a primary factor. As Dineen points out, if you own a crane, you can use it anytime you want, 24/7. But if you rent it, you have to be concerned with issues such as equipment availability and how far ahead of the project you'll have to place an order for that machine. Plus, as an owner you can control a lot of factors, he says, including cost, operation, maintenance, and upkeep. If you're renting the crane, you use it when you need it, return it to the rental company, and it's up to them to maintain the machine long-term.

"Again, it depends on how often you need and use a particular piece of equipment," explains Dineen. "If you have equipment in your inventory that isn't exactly the same but can be subbed on certain jobs, it comes down to usage. If you're going to use a specific machine frequently, say weekly, you're better off buying it. If you use it sporadically or on specific projects, it makes more sense to keep renting."

Another factor in the decision is per diem costs, he says. Rental per diem is easy to determine, but under ownership, the daily cost is a little more difficult to calculate. "You have to factor in maintenance, fuel, downtime, etc. It's trickier to figure out, but usually it comes out to

less than rental. Rental companies mark up those costs [because they're in business] to make a profit."

Finally, says Dineen, a user has to consider equipment transportation. With boom trucks and truck cranes, you drive the crane to the jobsite. But rough-terrain and crawler cranes, for instance, have to be transported to the jobsite. That involves other costs. There's the fuel cost for transporting, as well as some maintenance involved. Also, when transporting equipment that can't be driven, you have to think about heavy-haul capacity. "And the transport equipment itself has to be considered: Do you have a trailer, or do you have to rent one every time you move a crane?" poses Dineen.

When Renting is the Best Move

There may be times when renting a machine long term may make the most sense for your company. Renting may be an ideal arrangement for start-up crane companies, and seems to be a positive trend making a huge impact on the crane industry these days. "We're seeing a lot of companies getting off the ground, and that's a great sign for the industry," Fry says. "These folks have the potential, the background, and the experience, and so they're going out on their own. During a time when finding crane operators is challenging, it is good to see people willing to take the risk." Renting allows them to operate a crane or two while they develop their market and finding out what crane works best before purchasing, he believes.

Renting machinery is an excellent move for a crane business start-up, because it can be difficult to find financing when your operation is new. Renting can help a young company establish itself as credit worthy. "They can establish clientele and credit, and develop historical financial info for future crane acquisitions," Fry says.

For established crane companies, the ability to rent equipment can make a company more flexible in exploring new markets or satisfying customer needs on a short-term or possibly a long-term basis, says Fry. Initially, a rental may provide verification of demand for a specific crane or market a company may wish to expand into. A short-term crane rental might be good to see what the market potential is before investing in that larger machine. "We've seen where a company's largest-capacity crane was a 100-ton. They go out and rent a 200-ton crane. The next thing you know they're getting jobs for the higher-capacity machine and decide they have to purchase the crane," he says.

Assessing Your Investment

It all boils down to asset management, says Dineen of Heartland Wisconsin. "Primarily, it goes back to usage. It all depends on how often you need and use a particular piece of equipment," he emphasizes.

Cranes are a fantastic asset, according to Fry. Despite fluctuating markets, as a long-term investment a crane is solid choice. There are tax advantages to ownership from an asset and depreciation aspect on the balance sheet. A crane rental can have tax advantages as well and a direct impact on profit and loss, he says.

The bottom line is, whether renting a crane on a short-term or long-term basis, or deciding to purchase a crane, you have to know your market and the risk associated with any fleet addition, says Fry. "When you purchase/own the crane you take on the financial risk associated with it, but you control the asset. When you rent, you do not own or control the asset, which could possibly impact your company's future as well. Choose wisely and your company will be all the better for it." ■



When considering a crane rental versus a purchase, a crane owner has to look at his or her current financial situation; cash on hand; incoming revenue; and primary business, to analyze how often the equipment will be used and the revenue it will potentially generate, says Brian Dineen, with Heartland Wisconsin Corp., Milwaukee, Wis.