

Responsible Renting

Water treatment is a natural for the rental business model, but a business has to be well-prepared to venture into this space because it requires a serious commitment to support a growing rental fleet and provide top-notch service. Rental customers also tend to be more demanding in some ways than outright purchasers, expecting quick service appointments and minimal downtime.

By Bob Boerner

Positive Cash Flow—Eventually

A well-conceived and well-executed rental plan can produce substantial positive cash flow, but not without first seriously taxing that cash flow and consuming a good deal of resources, time and effort.

Besides the cost of the equipment itself, which must be purchased and installed (often at a minimal cost to the consumer, especially compared to what a plumber would likely charge), there also are financial considerations such as additional insurance; additional service personnel to hire and train; extra vehicles; and even office infrastructure.

In addition, some jurisdictions charge property tax on the rentals placed in the field, though these can be fairly rapidly depreciated in value. This is not a get-rich-quick scheme—it takes real financial fortitude up front and a long-term outlook before any rewards become evident.

Buying Peace of Mind

The water conditioning field is a great venue for offering consumers rental plans. The advantage to the end user is reasonable monthly charges that ensure a continuous supply of high-quality water, plus the peace of mind in knowing that if there is a problem someone will get them back in business at no (or very minimal) cost.

Businesses especially are attracted to the fact that there are no up-front capital costs to set up on depreciation and the rental can be expensed monthly. Homeowners do not have the same concerns, but paying a reasonable monthly fee over time can buy

them peace of mind and save a large up-front cost that also would require additional ongoing costs.

One way to make rentals even more attractive is to offer discounted or free installation, but this can have the disadvantage of not really “vesting” customers in their equipment as they would be if they paid good money for the installation. Whenever a discount is offered, it extends the time period required to cover costs and start a positive cash flow. Ongoing costs need to be considered to determine a fair rental price to the consumer with a good return to the dealership over time.

Some dealers calculate their average rental times with individual customers, and those with no contracts or time commitments can show a lower lifespan as customers, but many people like that they do not have a specific obligation in terms of how long they rent the equipment.

One advantage of offering rentals is that they can be an easy way for potential customers to try services at a low cost before they either buy equipment or decide to continue with the rental once they find out how easy it can be. Some companies apply a certain portion of their rent paid either toward the purchase price of the initial rental unit or toward a newly installed system. A plan on how to handle this will need to be relayed to your sales force, as customers will ask about it.

In the early days of rentals, few companies offered a truly all-inclusive monthly price because most charged separately for salt. A recent trend now is to include salt or other chemicals in the monthly price, based on average usage for certain size families on known water quality supplies.

An advantage of this to dealers is that they can keep a closer eye on their equipment with deliveries every few months and they can have more control over the quality of the salt and chemicals that go into their rentals. There are a few caveats with the “salt-included” rate, including instances of salt being used for other purposes,

such as to thaw ice in the driveway or to “help” the neighbors or relatives with salt expenses. This is rare, but should be watched for and the monthly rate adjusted to cover “shrinkage.”

Another challenge is how to handle slow or bad pays. It can be difficult to get into a home to get the equipment back, so some dealerships employ tactics such as a weekend work crew to catch folks at home or a salt delivery person with knowledge on how to “semi-permanently” bypass a non-pay system. A well-written rental contract is essential in asserting rights when it comes time to repossess equipment. One strategy that helps ensure customers make payments on time is to set up an AutoDraft with the bank, which takes the responsibility for paying the bill out of their hands. A credit check will help avoid payment problems down the line.

One advantage of building a rental base is that much of the value of a dealership resides in its recurring income when others are looking to buy. Keep in mind, however, that a serious buyer will likely do due diligence that includes checking the condition of the rentals in the field to assess how much additional capital, if any, will be required to get them into good shape. Considerations such as ease of serviceability and expected life of the equipment also are important in building a strong rental base that will keep its value over the long term and ultimately be attractive to a buyer.

Water conditioning rentals are a natural for the committed quality water dealer, but it is essential to do some homework before venturing into this space. *wqp*

Bob Boerner is president of Culligan Southwest Inc. Boerner can be reached at 210.226.5344.

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