

Analyze total cost when buying equipment

The key to efficient fleet management is to keep costs and numbers low while maximizing use and revenues. Using lease/purchase or purchase with guaranteed maximum repair cost and buy-back can help you get the most out of your equipment budget, says Tom Walther, Eau Claire County highway commissioner.

The traditional approach, outright purchase, is good when you plan to keep the unit for a long time or you don't know how long you'll keep it and there is limited resale demand or little remaining value when you dispose of it.

Lease/purchase is like outright purchase with some added advantages. You can spread out payments which evens out your cash flow. In addition, if you find during the lease period that you don't really need the machine, you can usually end the contract. This means you have only invested the lease payments and not the full cost of the machine.

Purchase with guaranteed maximum cost of repairs and guaranteed buy-back price works well if:

- you can accurately estimate how much you will use the unit over a given time period
- you can project the wear and tear on the unit
- the unit has a good resale value

Repair maximum and buy-back advantages

A guaranteed maximum cost for major repairs can save a lot of money if you get the occasional lemon. If an engine, transmission or major hydraulic motor goes down after the normal warranty ends, you only pay up to the limit set in the initial bid.



On some five- or six-year buy-backs, manufacturers sometimes offer extended warranties for the entire time you own the machine. This means that the vendor pays for anything that breaks beyond the normal wear and tear items. You specify those items in the bid document.

At the end of the buy-back period you may choose to sell the unit back for the guaranteed price, keep it, or dispose of it by some other method.

"We commonly list the buy-back unit as a possible trade-in on the next round of bids," says Walther. "That way we may get a return value from some other vendor that is even higher than the guaranteed buy-back price."

Selling or trading a unit after a relatively short period has two advantages:

- the machine is gone before it needs costly repairs
- your fleet keeps up with rapid technology changes

Most major vendors will participate in bidding on maximum repair costs and guaranteed buy-back prices.

"If they don't want to do this, ask why," says Walther. "I contend that if a vendor is not willing to protect us in these ways, then I must question the quality of their unit."

For a copy of Eau Claire County's specifications for maximum repair cost and guaranteed buy-back, contact Tom Walther, 715/839-2952.

Walther's top 10 purchasing tips

- 1. Determine what tasks the unit will perform**
Make equipment do several tasks. For example, Walther mounts oil distributors on trailers and uses plastic slip-in water tanks to minimize the number of expensive trucks chassis in the fleet.
- 2. Consult with equipment operators on their needs and desires**
- 3. Evaluate leasing or renting. It may be more economical than buying**
Carefully consider such specialized equipment as truck mounted snow blowers, all-wheel drive trucks with V-plows, rock crushers, cranes
- 4. Spec in detail, but be generic for maximum number of bids**
Use performance specific items to ensure the unit will do the job; standardize features of multiple units to streamline repair operations
- 5. Don't assume anything is standard equipment**
- 6. Buy the smallest size or capacity unit that will do the job**
If your patrol truck weighs only 22,500 lbs./axle fully equipped and loaded, don't pay extra for a 26,000 lb. axle
- 7. Require 5% or more bid security if you don't know potential vendors well**
- 8. Require a performance bond that covers at least 50% of the buy-back bid amounts**
- 9. Check the delivered unit against every item in the specs**
- 10. Withhold final payment until parts books and repair manuals are delivered**



Total cost bid variations for rough terrain forklift (Eau Claire County)

Limits on maximum repair costs and guaranteed repurchase price can significantly reduce the 5-year total cost of a piece of equipment.

Bid item	Vendor A	Vendor B	Vendor C	Vendor D	Vendor E
1. Net price with trade-in (County pays this amt.)	\$49,515	\$50,835	\$66,761	\$68,371	\$58,000
2. Repair expense maximum (5 yrs. or 2000 hours)	\$8,152	\$8,800	—	\$0	\$7500
3. Interest cost @ 0.3382	\$16,746	\$17,192	—	\$19,741	\$19,615
4. Guaranteed buyback price (at 5 yrs. or 2000 hrs.)	\$21,350	\$26,200	—	\$41,000	\$25,000
Total cost bid (1+2+3-4)	\$54,063	\$51,627	\$66,761	\$37,112	\$60,115