Why equipment companies and rental firms need breakthrough business models

The equipment industry continues to experience a proliferation of aftermarket providers, decreasing product differentiation, and a growing number of customers who want to rent instead of own. For equipment companies and rental firms, this means increased pressure on prices and lower profit margins. Technology is often touted as the panacea. Implemented smartly, technology has the power to improve productivity and profitability for both equipment companies and customers. Yet despite this, adoption of new technologies lags.

Why? In a Fast Company article, authors John Elkington and Richard Johnson contend that it’s not the technology itself that can transform business; instead, it’s business models that leverage technology. “Business models are what connects a technology’s potential with real market needs and consumer demand,” the authors claim. The challenge for equipment companies and rental firms is to identify opportunities for business model innovation. Read on to learn more.
Differentiation

According to Mark W. Johnson, author of *Reinvent Your Business Model: How to Seize the White Space for Transformative Growth*, business models have become a key way to differentiate from the competition—more so than product features and benefits. Here are some examples of companies that differentiated themselves in their respective markets via innovative business models:

- **Cemex** created a business model based on responding quicker than any competitors. Instead of just providing ready-mix concrete (a product), they promise cement delivery within 20 minutes of a request.
- Engine manufacturer **Rolls-Royce®** shifted from selling engines to selling engine uptime. This move redefined its operations and created a new industry standard.
- By integrating wireless monitoring throughout its product line, industrial manufacturer **Gardner Denver** was able to identify service opportunities based on real-time feedback and aggregated data from customers.
- By offering motorcycle riding classes throughout its dealerships, **Harley-Davidson®** fostered a sense of community that helped drive product sales and build brand loyalty.

A business model defines how a company creates, delivers, and capture value for customers. According to Elkington and Johnson, breakthrough business models typically satisfy unmet needs or the needs of those who have been ignored. Breakthrough business models may rely on real-time sharing of information to unlock the value of assets by matching “needs” with “haves”—giving a boost to both efficiency and access.

Business model changes can be proactive or motivated by competition. With today’s ever-changing equipment industry, equipment companies and rental firms need to be proactive about evolving their business models. Satisfying unmet needs or sharing information in real time requires a deep understanding of customer needs. A breakthrough business model redefines the value customers receive, how they receive it, and how they pay for it.

Where to look for opportunities

Innovative business models are viewed as a way to protect businesses from disruption. Unlike product innovations, multi-dimensional business models are more difficult for competitors to replicate.

According to **Soren Kaplan**—author of *Leapfrogging and The Invisible Advantage* and co-founder of upBOARD®—an assessment of the current industry is one of the first steps to take when pursuing a new business model. “If new competitors are entering the market, if competition is increasingly based on price, if differentiation is harder, you’re in a mature market,” says Kaplan. “This means you’re likely to see business model innovation happen.”

With digital disruption happening in virtually every industry, equipment companies can take charge and drive it... Or they can become the next Blockbuster or Borders. For a company to push new business models forward, Kaplan describes a process anyone can use to uncover and create new opportunities. Using Kaplan’s **listen, explore, act, persist, and seize (LEAPS)** process, companies can learn to recognize solutions that “leap” beyond the current expectations of customers, partners, employees, the market, and the competition.

In the **listen** phase, companies should try to find “sparks of surprise,” centered on identifying an unmet customer need, problem, or opportunity. “A good business model is one that focuses on a customer need or pain point,” says Kaplan. “Listen to your customers and get very close to them.” At the same time, don’t expect too much. “Customers may tell you what they are struggling with, but they are not going to tell you the next business model they want from you.”

In the **explore** phase, Kaplan suggests companies step outside their comfort zones. “Look at business models in other industries. A good example is ZipCar®, which disrupted the automotive rental industry by allowing users to pay by the hour,” says Kaplan. Others include Metromile’s® pay-per-mile auto insurance and Nextdoor’s® private communications platform for neighborhoods. Equipment companies should consider how they might innovate an experience platform, like Vacation Rentals by Owner (VRBO), or disrupt the market with data and analytics—such as Amazon™ does—that adds value and is difficult for competitors to replicate.
“Changing the economics of how people purchase is another option,” says Kaplan. “Look at what you’re selling and what your customers care about.” Equipment companies should consider service and product bundling, paying by the hour or minute, or providing a subscription or license.

Companies might even already have some of the infrastructure in place to leverage a new business model. Equipment companies should consider how the aggregation of data across the enterprise might add customer value. For instance, making business systems and software more compatible with what customers are using can vastly improve the customer experience.

In Kaplan’s act phase, companies should take steps to learn what works and doesn’t by testing out early ideas directly with customers. “It’s hard to predict the success of a business model. You have to try a bunch of stuff out and iterate,” says Kaplan.

In the persist phase, businesses need to move through what Kaplan calls “The Failure Zone.” According to Kaplan, “when you’re going for breakthrough success, you’ll never get there by relying on all safe steps to get you there.” Kaplan continues, “failure is part of the process and you need to know how to respond to it.”

In the last phase, companies are able to finally seize the fruits of their labor. Bigger wins occur in this stage as a business scales up the new opportunity.

According to Kaplan, it’s important for companies to develop a culture that supports innovation. “You need to be constantly trying to understand the pain points and issues with your customer in a holistic way,” says Kaplan. “You need fast learning, trial and error, and iteration, so you take risks by thinking about the possibilities and sharing with customers.”

An outside perspective, money, and time are also required. Time may be the biggest challenge to finding opportunities in the equipment market, but the risk could be substantial for equipment companies and rental firms who choose to wait. If they want a sustainable competitive advantage, they need to leap into innovative business models now.

### Asset sharing

One industry business model that seems to be growing is peer-to-peer (P2P) or contractor-to-contractor equipment-sharing. But is P2P equipment sharing “the elephant in the room” that traditional dealers and rental firms don’t want to talk about? That’s the view of Frank Manfredi, industry consultant and president of Manfredi & Associates, a consulting firm and publisher of Machinery Outlook.

“People just don’t understand what it could do to them,” says Manfredi. He likens the impact of the equipment-sharing model to that of equipment rental, which was once a small sector of the industry, but now accounts for more than half of the machine inventory. “People were in denial about that, too,” he says.

“There’s excess capacity in the system,” says Manfredi. “Eventually, no one is going to care who owns the equipment; all they want is the hole dug in the ground.”

While P2P rentals are still a small fraction of the heavy equipment rental market, demand is growing. For instance, in January 2017, DOZR™, an online heavy equipment platform in Canada began operating in the US—first in Florida, New York, and New Jersey, and then in Illinois, Ohio, Pennsylvania, and Texas.

Contractors type in the heavy equipment they have short-term needs for and then receive rental package offers with prices ranging from retail rates to a 40-50% discount. Kevin Forestell, CEO and co-founder of DOZR, sees a trend toward longer term rentals, with equipment potentially moving as far as from Ontario to Miami. “The economics make sense when a piece of equipment would otherwise sit idle,” he says. Another emerging trend is that smaller contractors are now often the equipment owners, while larger, enterprise multinational companies are doing the renting.

Unlike Manfredi, Forestell views P2P equipment sharing companies as partners to professional equipment dealers and rental firms, not as competitors. “[Dealers and rental firms] are completely in control of the pricing and availability,” says Forestell. “DOZR is helping them find new markets for what might have been underutilized equipment.”
In a recent five-year forecast, the American Rental Association expects equipment rental industry revenue in the US to grow from $53 billion in 2018 to $65.4 billion in revenue in 2022. Using technology to share equipment brings additional rental inventory to the market without increasing the amount of risk on rental companies and dealers.

In America's Upper Midwest, Never Idle™ has carved out a niche in equipment sharing. Launched in January 2018, Never Idle is designed to be more than a way for contractors to rent from each other, but also as a way to buy and sell to each other. Operating in Wisconsin, Minnesota, Iowa, and Illinois, the company recently purchased FleetRight, further growing its operating region to Nebraska.

“Contractors have to identify projects, bid complex projects, and manage and execute those projects to on-time and on-budget completion,” says Terry Dolan, Never Idle’s president and founder. “Anything else they do outside of that is a distraction.” To make transactions as easy as possible, Never Idle manages nearly everything from insurance to transportation and inspection. All contractors need to do is let Never Idle know what equipment they have available and when. Contracts are between asset owners and Never Idle, and equipment renters and Never Idle, providing additional peace of mind for contractors.

Earthmoving equipment is the sole focus of Never Idle, providing machines that it believes the current rental market is lacking. The company’s current focus is on building up inventory to meet growing demand. Never Idle provides a mechanism for contractors to sell a piece of equipment on a rental purchase agreement. “This allows contractors to sell their equipment at a higher retail price, and is an option that hasn’t been available to them before,” says Dolan.

A number of OEM dealers are service providers for Never Idle. “Some dealers view us as a competitor, but others say, ‘you are helping my customer,’” adds Dolan. The platform is designed to help contractors lower their costs and provide them with some additional revenue.

DOZR and Never Idle are just two of several equipment-sharing concepts that are bringing new possibilities to the market. It may be time to discuss what “the elephant in the room” means for your business.

**Servitization**

While dealers have always been focused on service, today’s competitive landscape has manufacturers and dealers increasingly relying on services as their differentiators. Services provided by dealer and manufacturer have become as important to brand loyalty as the equipment itself. This name for this trend is called servitization and it simply means applying a service to a product in order to create additional value or a new offering to customers.

The servitization of the heavy equipment industry has been evolving for many years. While telematics initially helped to enhance the performance of single machines, the data it produced was rarely accessed for other purposes. In contrast, today’s low-cost sensors and near-ubiquitous wireless technology allow for real-time analysis of data of entire equipment fleets. This allows dealers to extend their offerings to include fleet management and other services. Still emerging as a trend is the use of analytics and artificial intelligence (AI) to provide additional customer insights, such as **prescriptive maintenance**.

Finning Caterpillar is an example of an equipment dealership that’s expanding its digital expertise and service offerings. The company offers five levels of **equipment management services**, with the highest level including a fixed-price repair and maintenance agreement. Finning also offers a drone-based surveying and analysis service for construction and mining customers that capture site data in minutes, rather than days. Finning also taps into technology to help manage project data, such as quantities, cycle times, and load counts to improve productivity.

As the number of connected machines increases, Finning sees its opportunities growing. President and CEO Scott Thomson reported that the percentage of the company’s connected machine population has grown from 20% in 2015 to 40% in 2017. “We expect to have 60% of our machines connected by the end of this year, and we are on track to hit our target of 80% connected machines by the end of 2019,” he said in an **investor call on May 10, 2018**.
On the same call, Dave Cummings, EVP, Digital and Technology for Finning, reported that performance solutions revenue was up 50% since 2015. Performance solutions is the company’s term for a knowledge-based solution that helps customers run their equipment more effectively and efficiently—and it’s typically fueled by data or digital technologies. Cummings sees a shift toward a “network of optimization with an outcome focus.”

As servitization evolves, a dealer may sell a contractor the ability to move $X$ amount of dirt for $Y$ per ton. This scenario is about the end result and not which piece of equipment will do the work or how many hours it takes. By focusing on the outcome, the customer meets their objectives without worrying about how the dealer will make it happen. The dealer assumes the responsibilities—and risk.

Finning Caterpillar is not the only equipment company embracing data provided by digital technologies. For instance, Rolls-Royce’s Power-by-the-hour engine maintenance program uses smart devices to monitor engine health and performance. Customers pay only when engines are in active operation, while Rolls-Royce ensures the engines remain operational by being responsible for maintenance and repairs. Rolls-Royce was one of the first large-scale companies to implement outcome-based billing, and it set the stage for many other companies to follow suit.

The assumption is that once customers are connected with the equipment company, it will be more difficult for the customers to take their business elsewhere. But in order to have a successful servitization strategy, equipment companies must be able to take aggregated data from customers and leverage the insights into superior service and maintenance at a reduced cost.

Equipment companies will be entering new territory as they learn to manage and deliver multi-year partnerships to control long-term risk and exposure. Their marketing efforts need to change from focusing on transactions to focusing on relationships. Above all, equipment companies are going to have to work with customers to better understand new ways they can deliver value to the customer. This will create the new revenue streams and usage-based pricing models of the future.

**Transforming business with technology**

Technology can help equipment companies improve productivity, create new opportunities for differentiation, and increase profitability. But implementing technology for technology’s sake is never a smart approach. Instead, equipment companies need to consider how technology can help transform business through innovative business models that meet customer demand. Building a business model from market needs—whether it’s P2P equipment sharing, outcome-based billing, or some other customer-based service—is how successful equipment companies will thrive in the coming years.