

Rental Operations Improvements At Heavy Equipment Rental Company: Identifying EBITDA Improvement Opportunities At Branch-Based Business

The Challenge: Our client, a heavy equipment rental company, had recently acquired a west coast-based company to expand its geographic footprint and diversify its product offering. Due to a time-compressed purchase process, our client was unable to thoroughly evaluate the company's operations. Compounding the situation was the subsequent departure of the acquired company's management team. With EBITDA performance significantly below expectations, management identified underperforming branches and business segments using the top-level financial reporting from the legacy ERP system. However, management was unable to determine operational root causes of performance gaps in the company's complex branch and business line structure and asked Gotham to develop a solid fact base of historical performance and identify opportunities to improve EBITDA.

Untangling Operational Data To Drive EBITDA Improvement: The acquired company collected and maintained comprehensive operational data through a legacy ERP system that tracked most external and internal transactions, including equipment contracts, sales history, and labor activity. However, due to the non-standard nature of the ERP system set up, the data structure was disjointed, disintegrated, and exceptionally complex. Gotham undertook a methodical and analytical 3-phased approach to pin down and quantify opportunities in this complex and challenging situation:

- In the first 3 weeks, we extracted, deciphered, and validated/cleansed 5 years of operational data to create a comprehensive and organized reliable performance database
- In the following 3 weeks, we analyzed the company's revenue drivers, cost structure, and equipment utilization and visited select branches to understand practices driving poor performance and identify EBITDA improvement opportunities
- In the final 2 weeks, we worked with management to lay out a detailed implementation plan for EBITDA improvement capture and to establish long-term strategic initiatives to achieve the next level of top- and bottom-line growth.

5-Year Performance Fact Base Enabled Management To Understand Drivers Of Poor Performance

Despite the complexity of the acquired company's data, using our rigorous analytical methodology, Gotham was able to validate and clean operational data. To confirm the validity of the information and understand how processes were related to the data (e.g., internal invoice records were generated for internal costs), every entry had to be traced back to its record on the GL and impact on the P&L. In addition, the team had to integrate the company's contract history with its equipment information and accurately assign cost and revenue transactions to each piece of equipment in the rental fleet. The resulting database was used to scrutinize the company's financial performance by year, branch, business line, equipment type, and rental contract, drilling into underperforming branches and business lines. Gotham's robust analysis allowed the client to tie performance gaps to concrete operational drivers.

\$6.4MM In Quick-Win EBITDA Improvements Identified In Rental, Parts, And Service Businesses

In the acquired company's rental business, Gotham identified \$3.6MM of EBITDA opportunities due to undercharged rental rates and variable transportation policies. In the parts and services businesses, Gotham identified a number of fact-based opportunities – increase the billability of parts and services used for rental fleet maintenance, reduce non-billable maintenance costs, impose target margins for parts sales, and increase labor efficiency – that collectively would capture an additional \$2.8MM in EBITDA.

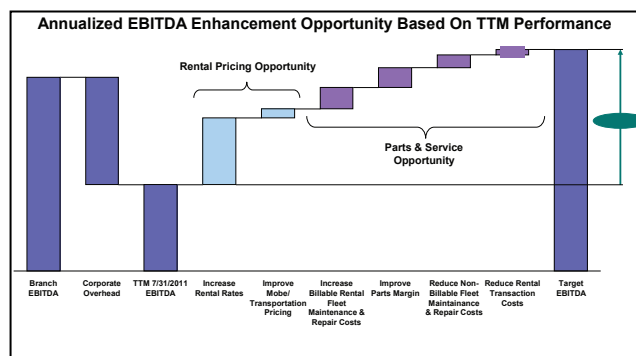
Implementation Plan Developed To Capture Quick-Wins In A 6-Month Time Frame

Gotham recognized that the acquired company's organizational structure promoted branch-level decision-making but lacked the feedback, knowledge sharing, and monitoring mechanisms needed to standardize best practices. Working with the management team, Gotham developed a 6-month plan to:

- Introduce best practice corporate policies, performance metrics, and performance targets to guide management decisions
- Improve rental rates, rental fleet utilization, and parts, service, and accessorial charge billing
- Standardize branch roles and optimize corporate roles to capture synergies between our client and the acquired company.

Roll Out Of Further Strategic Initiatives Will Drive Growth Moving Forward

Gotham suggested that our client pilot new sales roles for the parts and service businesses, noting that the acquired company's compensation structure encouraged branch managers to focus on making equipment sales at the expense of growing the company's rental, service, and parts businesses. Gotham proposed a new branch expansion model in which the company would select new branch locations based on demand for its service business. Gotham also identified further revenue opportunity via adopting a centralized fleet management policy to optimize assets across the company's network, rather than only within specific branches.



The Outcome: Our client now had a solid understanding of the key drivers behind the acquired company's profitability and a clear roadmap to capture \$6.4MM in EBITDA opportunities. In addition, we provided fact-based profiles to serve as valuable reference documents to guide management in implementing strategic initiatives moving forward. Management got board approval to launch the plan and, in only 3 months, has already captured \$3MM in EBITDA improvement over the same quarter a year earlier.