Market Report

Booming North American Rental Market Offers Opportunity

By Joe Zirnhelt

If you didn't hike through the nearly 3 million square feet of exhibit space at CONEXPO-CON/AGG in Las Vegas in March, you missed an opportunity to explore several new markets for lubricants.

And even if you were in Las Vegas, you might have missed two of the most promising growth opportunities for lubricants. One is the booming North American commercial equipment rental market. The second involves the changing outlook for emissions regulations, which will affect the demands for engine lubricants on commercial vehicles and off-highway equipment.

CONEXPO-CON/AGG is a huge international event held every three years for the construction industries, with a focus on construction, aggregates and ready-mix concrete. This year, nearly 128,000 attendees to the five-day show visited more than 2,800 exhibits.

TWO MAJOR OPPORTUNITIES: RENTAL, EMISSIONS

One noteworthy event at CONEXPO this year was *Diesel Progress* magazine's International Markets & Mobility Forum, a Q&A panel discussion sponsored by **ZF Friedrichshafen AG** that addressed future off-highway regulatory issues and changing technical and market trends.

The panel was moderated by Mike Brezonick, *Diesel Progress* magazine's executive vice president and associate publisher and editor-in-chief. Panelists included Dennis Huibregtse, CEO of Power Systems Research; Frank Manfredi, president of Manfredi & Associates; and Charles Yengst, president of Yengst & Associates Inc.

Key takeaways from the 45-minute program included:

- **More than 50 percent** of all the new construction equipment built today goes to the rental market. This is up from 35 percent from just five years ago. Rental has become a major revenue stream for original equipment manufacturers (OEMs) and could reach 70 percent by 2020.
- **Diesel remains** the primary power source for equipment in this segment and will continue to be the leader in the medium-term, even though electric-powered equipment is increasing. Electric-powered components will continue to increase, but batteries still are a bottleneck to a more widespread adoption rate.
- **Tier 4F compliance** has gone up dramatically. In the past, companies were using emission credits or pre-bought engines to get around the Tier 4F ruling. However, the credits and older engines are starting to run out, and manufacturers are being forced to upgrade to true Tier 4F engines.

RENTAL EQUIPMENT CHANGES LANDSCAPE

Perhaps the least discussed of these points among lubricant manufacturers related to the growth of rental equipment companies. What does this mean if you're producing lubricants? There are several questions to answer in the short-term and the mid-term.

First, consider the way the growing equipment rental market in North America is shifting equipment ownership and the way this trend is changing equipment use and maintenance requirements.

In his comments, Manfredi frequently referred to an article he wrote for *Diesel Progress* last year in which he estimated that the North American off-highway equipment industry had reached the tipping point regarding new equipment sales to rental companies versus sales to contractors and other users.

Noting that more than 50 percent of new equipment sales today goes to rental companies, up from 35 percent five years ago, he forecast that equipment sales to rental fleets would reach 60 percent to 70 percent of total new equipment sales in North America by 2020.

A piece of equipment that goes to a rental company rather than to the end user/contractor normally gets used much more extensively; it might be used 80 percent of the time, for example, instead of 15 percent.

> **"50 percent of new equipment sales today goes to rental companies, up from 35 percent five years ago …"**

Manfredi argues that the availability of equipment rentals in the U.S. has forever changed contractors' equipment purchase decisions. "In the past," he said, "contractors bought machinery with little regard for how much they would use it, simply to have it available."

Machinery sitting in a contractor's fleet doesn't need lubricants. But rental equipment moved between job sites requires maintenance, including oil changes, more frequently.

The service life of rental equipment gets compressed and the equipment requires increased maintenance within a shorter period. This means a higher upfront demand for lubricants by the rental company owner than would have been the case if the same equipment were purchased by an end user/contractor.

Rental owners also are more likely to spend more money on equipment maintenance than end users/contractors.

According to Manfredi's research, sales of rental companies have nearly doubled from 2009 to 2014, climbing from $15 billion to $27.7 billion.

RENTAL TRENDS RAISE LUBRICANT QUESTIONS

This trend, of course, prompts questions about total equipment sales and how changes in these sales affect demand for lubricants. If in-service equipment is used more efficiently, will fewer pieces be required by the market? If so, will the total demand for lubricants be lower than it would be without the rental activity?

Hopefully, these types of questions will be valuable when you're developing forecasts for lubricant demand, production and distribution. The landscape of the industry is shifting toward a slightly different demand and use model. Keeping abreast of these key questions might help those involved in the value chain for lubricants to stay ahead of the game:

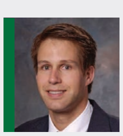
Question 1: How much will lubricant demand change in the short-term, since rental equipment is used more intensely by rental companies than by contractors?

Question 2: How will this increased equipment use affect equipment sales over the longer term, and how might this change in sales affect the demand for lubricants? Will the shift to increased rental ownership reduce the number of units in the field, since sales to contractors will decrease? If so, what will this do for lubricant demand, considering the increased use of equipment?

Question 3: How does the potential of increased use of shared equipment among contractors affect equipment use and lubricant demand? Since rental equipment will be used more frequently in a shorter time than if it's owned by one contractor, how much more will it be used, and how much will the demand for lubricants increase?

Question 4: If the OEMs are selling more to rental companies and less to individual contractors, how does it change their distribution channel? If the OEM channel changes, how does that affect the distribution channel for a lubricant manufacturer?

The bottom line here is that the growth of equipment rental companies in North America has changed dramatically over the last five years, and these changes are likely to continue at least through 2020.



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