

Under the Post-COVID period: Investigation into Business Performance of the Rental-Equipment Industry -- H&E Equipment

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Abstract. As the economy continuously developing nowadays, industries like rental equipment sector have been continuously growing and developing into a more competitive player in the global market. As the COVID-19 stresses the importance of the supply-chain issue, rental equipment industry is worth to be an industry that investors should have a focus on. As a leading company in the rental equipment industry, H&E Equipment is taking as an example to conduct the SWOT analysis in order to know its internal and external factors that would affect its overall business performance. By conducting the SWOT analysis, we can conclude that H&E Equipment is a healthy company with growing revenues, has a very strong dealership community, is able to attain its vertical integration. Furthermore, by achieving vertical integration through acquisitions of companies, H&E Equipment expands its industrial landscape and obtains a higher bargaining power. However, it also has limitations like its financial performance comparing to its competitors', and the influence that the COVID-19 has on the rental equipment industry. To be more specific, the COVID-19 would cause supply-chain issue to the rental equipment industry which would lead to longer time lengths of deals, and limitations in transportation. The article is to help the audience understand the business model, objectives, advantages, and limitations fully in order to stay objective in the rental equipment market.

Keywords: Rental Equipment Industry, H&E Equipment, Strategy Analysis, SWOT.

1. Introduction

1.1. Background

The rental equipment industry involves a wide range of equipment including construction equipment, and heavy machinery. It serves a variety of customers as individuals, contractors, construction companies, small businesses, government agencies and so on. With a CAGR of around 5% between 2021 and 2026, the global rental equipment market is expected to grow steadily due to the key drivers as the increasing need for cost-effective solutions, the rise and development of the gig economy, and an increasing preference of renting equipment instead of owning equipment [1]. For example, for the construction companies, using rental equipment would help them save a large investment for a specific projects, especially smaller companies, or short-term projects. However, the rental equipment industry is a highly competitive industry with thousands of rental equipment companies providing a wide range of equipment. Some largest players of the industry are United Rentals, Here Rentals, Sunbelt Rentals, and H&E Equipment, which would be the focus of this paper [2]. There are also many factors that are pushing the rental equipment industry to grow and develop continuously in the future.

One key trend is the increasing adoption of the technology, such as telematics and IoT sensors used to track the equipment usage and to optimize the fleet management. By adopting these technologies, it would help the rental companies to improve its equipment uptime, reduce the maintenance costs, and provide better customer support [3]. Another trend is the growing popularity of the connection of rental marketplace and the digital platforms. The online platforms would make it easier for renters to compare prices of SKUs, and to find the equipment they need in a more effective way. It would also enable the rental equipment companies to access to a wider customer base and improve its operation efficiency [4].

The important goal of this paper is to analyze and compare H&E's internal and external factors that would affect its business performance and to help the audience to understand the company better in order to make a wise investment decision and to understand the overall business of H&E Equipment [5].

1.2. Literature Review

SWOT analysis has been widely used nowadays in the modern business world. It is a planning tool used to analyze the Strengths, Weaknesses, Opportunities, and Threats to specify the project or the business's internal or external factors that would affect its objective. The methodology has the advantage of being efficient and easy to use instead of being costly and redundant. In the beginning of the origin of the SWOT analysis, it was called as SOFT analysis. With other factors stay the same, F stands for Fault in the present. However, in a meeting in 1964, Urick and Orr changed a F to a W at a conference.

In order to present a thorough SWOT analysis, several steps are needed. First, the researchers need to collect the necessary information needed from history till now. To collect those information, one-on-one interviews, questionnaires, and group brainstorm can be used as effective tools. Second, categorize all the information collected into four parts. Third, plan the actions after reviewing the SWOT matrix. To fulfill the object, and solve the weaknesses and threats, the business needs to form a thorough plan to make the most use of the SWOT analysis. SWOT analysis can be used in various kinds of scenarios. For example, it can be used for workshop sessions, meetings, planning, competitor evaluation, personal development, and so on. When it comes to as specific as companies which are using the SWOT analysis in the real life, we can see many big names as Amazon, Apple, Dell, Google, and Microsoft are all having SWOT analysis as part of their strategic planning. For example, Google's SWOT analysis shows that it has strength: high revenue, high brand value, and rapid growth; weakness: privacy issue, and overdependence on advertisement; opportunity: remote working, cloud services, and non-advertising revenue; threats: competitors, economic uncertainty, and decline in market share.

2. Data and Method

2.1. Data

H&E Equipment Services is a leading company in the rental equipment industry that provides equipment rental, sales, and repair services to the construction, industrial, and governmental sectors. The company's revenue has grown from \$305 million in 2010 to over \$1.3 billion in 2020, representing a compound annual growth rate (CAGR) of approximately 17%. The company would offer a wide range of equipment including cranes, earthmoving equipment, material handling equipment, and air compressors. The company was founded in 1961, and now it has grown into one of the largest and most diversified equipment rental companies in the United States. H&E Equipment's market share has also expanded over the years. The company is currently one of the largest and most diversified equipment rental companies in the United States, with more than 50 locations across 10 states and a fleet of over 47,000 pieces of equipment. H&E Equipment's market share in the industry is estimated to be around 3-4%, which puts it among the top players in the industry. By providing high-quality products, services, and customer support, H&E Equipment establishes a strong reputation in the industry. The company does not only provide the customers with the most updated, and well-maintained equipment, its technicians are also very well-trained to handle complex repair requests and after-sale maintenance services. In addition of equipment rental and repair services, H&E Equipment also provides a wide range of value-added services. For example, it provides, training equipment financing, and online-support platform. The company has a customer-focused approach and a wide-range variety of services which makes it popular among individual contractors, businesses, and government agencies. [6]

However, even though H&E Equipment is a leading firm in its local service area, it is still less competitive when compared with global leading companies like United Rentals, Here Rentals, and Sunbelt Rentals within the industry.

2.2. Methodology: SWOT Analysis

SWOT Analysis, also known as SWOT Matrix, has always been widely applied among major business organizations for research purposes. It is a methodology that was invented in the 1960s by a management consultant called Albert Humphrey at the Stanford Research Institute. Before the origin of the SWOT analysis, corporations to produce a tool to analyze long-term planning in an executable and efficient manner. However, ever since the introduction of the SWOT analysis, its popularity and recognition among corporations has been constantly increasing throughout these 60 years. Businesses can perform SWOT analysis on specific criteria like customers, business structure, distributions, administration, finance performance and so on. Furthermore, the four parts of matrix provide thorough analysis of the overall performance of the criteria [7].

The SWOT stands for “Strengths, Weaknesses, Opportunities, and Threats”, which presents both internal and external factors that can affect the business performance when analyzing a specific company. In the strengths section, it identifies the internal advantages of the company and the achievements that makes it excellent at serving their customers in an efficient and effect way. For the weaknesses, this part includes the company’s internal constraints which hinders its development and efficiency. Thus, the strengths and weaknesses are used to analyze internal factors of the company. In the opportunity section, it states the related factors outside the business that facilitate the company’s achievements. For the threat section, it includes negative external factors to the company that hinders that firm to achieve its goal. Subsequently, we can see that the opportunity and threat sections are considered as external factors of the company. In the next part of the paper, the SWOT analysis will be implemented to analyze the performance of H&E Equipment in the four parts to observe both the internal and external factors that impact the performance of the company [8].

3. Results and Discussion

3.1. Strengths

To be the leading company in the manufacturing industry, H&E has numerous strengths compared to its competitors to allow the company to grow in the industry and attract customers from the new market.

First, H&E was able to attain its vertical integration by applying mergers & acquisitions to 8 companies, including one of the country’s largest rental equipment companies, One Source Equipment Rental, and serves in many high-growth markets in 110 locations in Pacific Northwest, West Coast, Southwest, Southeast, Midwest, and Mid-Atlantic region. Thus, H&E now has a reliable and integrated supply chain which improves it efficiency and productivity.

Second, H&E has very strong brand portfolio. With its brand and the brands of the acquired companies, H&E can easily enter a new market with a new brand category, which allows the brand to gain exposure and help raise customers ’awareness.

Third, H&E has relatively high level of customer satisfaction, with a mature customer support management team, H&E is able to provide high-quality after-sale services.

Fourth, H&E has a healthy financial performance. Its gross margin improves from 37% in 2020 to 39% in 2021. With a current ratio of over 2.6x and a quick ratio of 2x, the company is having relatively healthy current assets. The total revenue increased 5.1% YOY and the adjusted EBITDA increased by 18.4% YOY. In addition, the net income increases from (\$21.3) million in Q4 2020, to \$21.7 million in Q4 2021, which proves the company’s profitability and healthy financial performance.

Fifth, it has a very strong dealership community. H&E would invest and train the sales team to help them not only promote the products but explain to the customers by showing them ways to benefit them with using the product.

In addition, H&E would always keep developing new products and strategies to be innovative by entering new markets and developing new strategies as increasing rental intensity branch expansion.

3.2. Weaknesses

Even though H&E has numerous strengths, it does have weaknesses that can cause limitations to its business structure, profitability, and productivity, reflecting on its financial performance.

For example, since H&E already has a mature business structure, it becomes difficult for it to develop outside its core business and move to new product segments because more than 70% of its total revenue is rental revenue.

Second, its inventory turnover is relatively high comparing with its competitors, which leads H&E to increasingly invest into the sector to maintain the inventory for longer time. Thus, H&E invest less in its long-term growth and expansion.

Third, according to the fourth quarter overview of 2021, H&E has a higher attrition rate in its work force compared to its competitors, which leads it to spend \$9.2 million more in employee salaries, wages, incentive compensation fees and payroll taxes and \$0.7 million more in professional fees.

Fourth, since H&E has relatively healthy quick ratio and current ratio as previously mentioned, it underlines that the firm might not be utilizing the assets fully. Thus, the efficiency can be further improved. In addition of its financial issues, even though H&E has numerous products, its positioning strategy is still not unique enough to provide itself from being attacked by the competitors.

Also, even though H&E integrates certain number of small companies, it fails to acquire companies that have different work cultures, which might limit its further development. Therefore, H&E might need to learn more marketing strategies to clearly define the product in the market to stand out.

Last but not the least, the business structure of H&E is still relatively simple and can only adapt to its current business model, which means that the company might face a problem when entering a new product segment. Consequently, the company would diverse its product line and hire new teams to be compatible with launching new products. In general, H&E should take factors that affect its growth and expansion in the future into consideration to become a stronger market decision maker.

3.3. Opportunities

As big as a company like H&E, it still has many opportunities in growth and expansion. Firstly, as the market expands, the concentration of the firms in the industry will be diluted, which makes less competitors in the market and enable H&E's competitiveness.

Secondly, beneficial government policies are launched which allow H&E to open new markets. For example, the US has been freely trading with 20 countries including Singapore, Australia and etc., this benefits the export and the entry of H&E in the foreign market.

Thirdly, the government green drive allows H&E to maintain several government contracts to improve its cash flow and public recognition. For example, H&E has LCC/E-One contract with the government in the City of Mesa by providing Electric Fire Truck.

Fourthly, the impact of the new tax reform on the technology industry would significantly improve the profitability of H&E. For example, the proposals of lowering the corporate tax to 20% would be beneficial to H&E's net income. Also, since H&E is already a successful player in the rental equipment sector, it would be able to leverage these competencies in new products and enter in other fields. Besides, as more new advanced technology has been introduced to help analyze data like SQL, and Python. Thus, it helps the company to understand the users' portraits better. So, the company would be able to apply more specific pricing strategy to promote and price its products.

3.4. Threats

Even though that H&E is a leading company in the industry, it is still facing various kinds of threats in the industry.

First, since the rental equipment sector has relative less cost, it naturally generates more profit. Thus, increasing competition in the industry would be a big threat for H&E, which would put more pressure on both sales and profitability of H&E.

Second, supply chain issue has been a heated topic since the outbreak of COVID-19. This raises the price of raw materials and production, which would also cause a negative effect on H&E's profitability.

Third, since the industry is very competitive, the competitors would also have access to innovative technologies to improve their products, services, operation system, pricing strategies or even marketing strategies. This problem can affect the development, growth, and its market share.

Fourth, since the COVID-19 period, customers' behaviors start to switch from more traditional physical on-site infrastructure to on-line MRO platforms like ST Engineering, HAECO Group, Lufthansa Technik, AAR, and Aviation Technical Services. These companies can be a potential threat that would break the traditional supply chain model.

Fifth, H&E is facing serious competition in the industry right now. Looking at H&E's sales growth of 2018-2019, and that of 2019-2020, the sales growth is -9.30% and -10.39%, which are negatively increasing. However, H&E's competitors' sales growth is at the same time robustly increasing. For example, Gencor Industries. Inc's sales growth increases from 15.17% to 22.34%, which puts pressure on H&E's negative sales in this competitive market. Competitive players like United Rentals Inc., Alamo Group Inc., McGrath RentCorp, Herc Holdings Inc., Manitex International Inc., and Caterpillar Inc. all have increasing sales growths from 2018-2020. Since the competitors have higher sales, H&E can be described as very underperforming comparing to its competitors, which would affect its percentage of market share, profitability, loyal customers, and reputations. Therefore, H&E need to improve its sales in strengthening its uniqueness and solving the threats.

Sixth, since the company is operating internationally, its income would be tightly affected by the fluctuations of currencies. Thus, when the market is underperforming or a trade war happens, H&E's overseas income would be heavily affected.

Finally, as the launch of new government's regulations in regards of ESG in a global scale, it might also have a potential to limit the SKUs of H&E, which can negatively affect the sales number.

4. Conclusion

In conclusion, the article has H&E Equipment company as its object of study to have more knowledge of the rental equipment industry. By applying the SWOT analysis, with analyzing the internal and external factors that would affect H&E's objective and performance, the article can be used as a tool for the audience to understand the H&E Equipment's overall performance better in order to stay calm and wise in the market. Overall speaking, H&E Equipment is a company that is earning positive income, having healthy cash flows, and great potential in growth. Its performance and development might be at this moment less competitive to the leading firm in the rental equipment industry [9]. However, as it continuously grows in improving its financial performance, operation efficiency, market landscape, having access to more innovative technologies, while keeps its healthy liquidity, it would be a company that has great potential to grow into a market leader in the future. At the same time, H&E Equipment needs to provide solutions to solve its weaknesses and threats. For the weaknesses, H&E Equipment needs to seek for new business and market strategies to develop and renew its business structure, improve its financial performance by utilizing the assets fully. Also, H&E Equipment can also try to acquire more companies with different working cultures to expand its scope. To avoid the potential threats, H&E Equipment should try its best to get recovered from the effect from the supply-chain issue and the pandemic. In addition, to avoid being outcompeted by its competitors, H&E Equipment should put more attention on developing and investing in innovative technologies to improve its efficiency and productivity. Last but not the least, H&E Equipment would need to hedge its risk facing new ESG related policies to maintain its current business performance and range of SKUs. [10]

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