



RV Rentals on the Rise

Adding a rental program can be an excellent way to increase cashflow at the dealership and provide an entry point to new customers

BY MIKE HARBOUR

Even if you've already squeezed every penny from parts, service and sales, there's still another profit center you can add to your dealership: rentals. In both good times and bad, dealers across the country have counted on their rental departments to maintain cash flow, create used inventory, promote their stores and provide a service their competitors don't (or won't) offer. Even if



“Some of those renters will turn out to be buyers. It isn’t going to happen all the time, but it only has to happen once or twice,” Alanko says. “It’s also a matter of promoting your business; everybody wants to promote their businesses. Rentals give you one more place to advertise in the Yellow Pages, one more thing to advertise on your Web site, one more reason for people to come by your dealership to do business with you.”

Alanko speaks from years of experience in the field. His Arizona-based agency has offered rental insurance for everything from scooters to motorhomes since 1978. He even created the MBA Rental School, an annual multi-day seminar – now in its ninth year – that’s offered to spread the gospel of rental operations.

“Dealers who are not in the rental business will say to me, ‘I must get 20, 30 calls a week about rentals,’ and they’re replying, ‘You want to bring me \$1,000? No, no, I don’t want that money. I want you to go down the street to the dealer who rents and I want you to give him that money,’” he says.

An Addition Profit Center

For three established dealers, Altmans Winnebago in California, Krenek RV Super Center in Michigan, and M.B. Thomas Winnebago in Missouri, money isn’t sent down the street, as each has offered rentals for at least 20 years. Indeed, Joe Altman and Scott Krenek have been part of the rental school faculty since its inception; both men, along with M.B. Thomas owner Lonnie Hall, say the rental business is vital to their dealerships.

While all three admitted rentals accounted for a small percentage of their gross revenues in any given year, Altman says profits are excellent in the rental business.

“Sales could be considered a giant step, and rentals is a baby step,” says Altman, whose late brother Dave founded the Southern California dealership in 1971, “but our gross profit on a new vehicle may be seven or eight percent of the value. On a rental, it’s 50 percent. I generate a significant amount of gross profit on that small amount of money.”

Situated in an older St. Louis neighborhood south of downtown, Hall’s Winnebago dealership, which rents as many as 40 units in the summer, enjoys a good number of renters who take the next step into RV ownership.

“It’s like anything else: the competition is making it less and less profitable, but we won’t give it up because we see that more and more people are becoming purchasers,” says Hall, who’s worked at M.B. Thomas since 1967. “Years down the road, maybe we will give it up, but today, it’s too uncertain. Will more people rent before they buy as a way to try it out?”

Up in Coloma, Mich., a small town just a few miles from the shores of Lake Michigan, Krenek considers his successful 19-year-old rental operation a badge of honor

you’ve already tried it, now may be the perfect time to reconsider renting.

“What dealers who are in the rental business will tell you is that you get a lot of cash flow out of rental,” says Bert Alanko, chairman of the RV Rental Association (RVRA) and president of MBA Insurance, an RV rental insurance agency. “You get a lot of big cash; when you’ve got a rental vehicle, people are giving you \$1,000 or more a week. If you’ve got 10 vehicles in your fleet, you’re looking at \$10,000. That’s a lot of cash flow.”

Yet that’s just part of the story, he says, as rentals provide a variety of benefits to dealers that other departments such as parts and service simply can’t give them.

for a dealership.

“It’s so rewarding. It seems that I get more acclaim from the rental part. Everybody does sales, but if you can keep both going, you’re much more accomplished,” he says. “I still think it’s crazy for every RV dealer not to be doing it.”

Rental School

So how do you start? For Alanko, Altman and Krenek, the answer is clear: attend MBA Rental School, as its students come away with more than just a brochure and some notes.

“We’re giving them the benefit of years and years of experience,” Krenek says. “It’s more about how not to do it than even how to do it because it’s so easy to make lots of mistakes in the rental business.”

Alanko likens the school to a college education in rental ops that’s worth much more than its \$595 tuition fee.

“When you leave there, you have all the tips and suggestions it takes to run a rental business. We give everybody who attends a 300-page rental operations manual that we normally sell for a couple hundred bucks,” he says. “Joe brings about an inch-thick stack of documents, his VIP program, all the little things he does that reduce aggravation. We hand this out to everybody. Scott does the same thing.”

Krenek says attendees will need all that paperwork when they go back home to begin working on their own rental departments.

“The devil is in the details in the rental business. You need to have good policies and procedures and that’s why Bert came up with the school,” he says. “We can’t do it all for you in two days, but it’s

unbelievable what we do. I give away every form I have and so does Joe, and we put them in a nice book for everybody. We also give them CDs so they can print them out and put their own names on them.”

Whether or not you can attend, Altman, who controls a 60-unit fleet that operates from two stores, says every dealer considering a rental business will have lot of homework to do before that first renting customer drives off the lot.

Planning and Resources

“There are some questions you have to have answered before you get in. You need to decide what you’re going to rent, you need to decide what you’re going to charge, and what personnel you’re going to need,” he says. “In operations, you’ve got to deal with the marketing of it. You’ve got to handle reservations. You’ve got to address the vehicle preparation and maintenance issues. You’ve got to figure out your process on departures, your process on returns, and then how to retire your fleet. Finally, you’ve got to measure your success, which is your accounting.”

The answer to the first question is simple, says Alanko: just rent what you sell.

“If everybody’s coming in and they’re looking for 26-foot Class Cs, don’t put 32-foot Class As in your rental fleet. If you’re a trailer dealer, rent trailers,” he says. “In the old days, 10 years ago, we had maybe a handful of trailer rental accounts. Now, we’ve almost as many trailer rental accounts as we have motorhome rental accounts. Trailers are big, big business, and here’s the beauty of it: you can buy three trailers for the price



of one motorhome. You can rent a trailer out for almost as much as a motorhome.”

M.B. Thomas has sold and rented Winnebagos for decades, but three years ago Hall decided to offer trailers in his rental fleet despite having a small lot that would logically call for units with the highest profit margins, i.e., motorhomes.

“Our lot space is limited, so we made the decision to stay strictly motorized and we saw no customers from the neighborhood, so we picked up some lightweight pop-ups by Quicksilver,” he says. “They weigh under 1,200 pounds, so the people who have small SUVs and small cars can pull what we’re offering in the camping trailer. They may not be able to pull a conventional pop-up, but they can tow what we offer.”

Altman’s locations in Colton and Cason, Calif., near pricey Los Angeles, call for a different philosophy.

“The reason we specialize in motorhomes is real estate is ungodly expensive in Los Angeles. It’s like \$2.9 million an acre. The footprint that a 25-foot trailer takes is the same as a 31-foot motorhome,” he says. “Well, I can get more money for that motorhome than for that trailer. My costs are cheaper on that trailer, but you have to look at how much square footage you have to park these things on, so the size of your facility is critical.”

Rotating the Fleet

Alanko and all three dealers recommended selling units after no more than two years in rental service, or quicker if possible, so that will need to be factored into your fleet considerations.

“For eight years in a row, from the late 1990s to the last couple of years, I could turn my fleet every year,” says Krennek, who offers 60 rental units at his Coloma store. “Since Hurricane Katrina, it has not been the same in the motorhome business. Now my towables are turning pretty good. I don’t have any problems getting rid of the towables.”

Once you’ve chosen the types of units you’ll use in your fleet, you’ve got choices in how you acquire them, Altman says.

“A lot of rental companies will consign some, then add a few of their own, so the mix at the beginning may be 90 percent consigned, 10 percent owned, and then that reverses over time,” he says. “We used to consign vehicles. There’s two ways to do it. One is to go out to the general public and get them, and the other is to sell them to somebody and say, ‘You buy this Winnebago, we’re going to rent it

out for you when you’re not using it, we’ll store it, we’ll maintain it, and when you want to use it, you come pick it up then bring it back to us.’ It’s no hassle use. That’s also called lease-back, because we sell it to them and they lease it back to us.”

Not surprisingly, there are pluses and minuses to leasebacks (also known as consignment or managed fleets), he says. While a large credit line isn’t necessary to obtain the units, nor does depreciation need to be accounted for, additional bookkeeping will be needed, scheduling flexibility is reduced and unit commonality could be an issue.

“I think leasebacks make sense if you don’t mind partners in your business, and you don’t mind the owners telling you how to run your business,” Krennek says. “There’s a lot of pluses, but there’s a lot of minuses.”

Another item to consider is fleet size, says Altman, and it’s a key factor in determining whether or not the rental department is profitable.

“There’s a bad saying, but, unfortunately, there’s a lot of truth to it: ‘It takes 20 to make money,’” he says. “When you have a fleet smaller than 20, it’s very difficult for it to be a stand-alone money maker. It can generate business and it can generate a used vehicle, and it probably won’t be a big money drain, but all the departments here have to stand on their own.”

Size doesn’t matter, Alanko says, so regardless of how big your dealership might be, kicking off your rental offerings with a 20-unit fleet is foolish.

“If you start with 20 units, you going to be out of the rental business in three months,” he says. “Start off with five and have them all rented, then people will knock on your door asking if you have any more rental units. All of a sudden, you’ll see that you’re maximizing your revenues on your vehicles.”

Charging the Right Price

Once you’ve obtained a fleet, then there’s the matter of knowing what to charge, and Hall says those numbers are really determined by the Wal-Mart of the rental business, Cruise America, a 128-location chain whose fleet in the U.S. and Canada will reach more than 4,000 vehicles this summer.

“Cruise America is the one that sets the standards and the rates; everyone knows what they charge before they call us,” he says. “We’re providing maybe a newer motorhome, maybe it’s been serviced better, but we can’t charge so much more than they do out there on the Web.”

It’s not an exact science, Hall professes, as there are a few variables that enter into the equation. He should know, as he cut his teeth in M.B. Thomas’ automotive leasing divi-



sion until transferring to the RV dealership in 1975.

“For the years that I’ve been working with rates, we try to project the market value of that unit at time of disposal, whether it be 12 months or 20 months, we then find out what our cost is, and we work into our rates in that manner,” he says. “We have an educated guess, because there’s nothing that is going to be guaranteed anywhere along the line. Interest rates could go up, insurance could go up, and maintenance could increase.”

Then there are staffing issues to consider, says Altman, and that’s a critical issue because the very nature of rentals demands the units be kept ready for use.

“You have to figure out how many you can prepare and maintain,” he says. “For our fleet of 40, I have a full-time technician who does nothing but work on rentals, I have a full-time detail person who cleans the outsides, and I contract to a company who comes and cleans the insides every night.”

Yet, even Altman, located in heavily populated L.A., where the pool of potential employees is large, is occasionally challenged.

“In 2004, our revenues were hampered because I couldn’t get cleaning people in the high season, so that’s why I went to a janitorial firm,” he says. “How many you can prepare and maintain is a limiting factor.”

There’s also the matter of the front desk, as you’ll eventually need someone to handle reservations, check-in and check-out, and other administrative duties as your fleet grows, says Alanko.

“You don’t want your salesman selling rentals because they’re not going to do it. They make their money trying to sell that big unit. It’s too hard to go from ‘I’m going to sell it,’ getting two objections, then saying, ‘OK, this guy’s not going to buy, I’m going to make him a renter,’” Alanko says. “You want the guy in the rental department who says, ‘You know what? I’m going to be judged on how the rental department performs.’”

Krenek, who has a full-time rental coordinator, agrees, but says, “Unless you’re doing high volume, there’s no way you can justify a full-time year-round person. You just can’t take in enough money to carry him year-round,” he says. “The problem with the RV rental business is it’s so seasonal. Here it is in a nutshell: it’s in the summertime when the weather’s nice and the kids are out of school, period. That’s what you can bank on every year, every weekend. There’s just tons of demand out there.”

Despite the challenges, Krenek remains an unabashed cheerleader for rentals, as it provides the perfect way for a struggling industry to introduce itself to new audiences.

“There are so many people who don’t have a clue you can rent an RV,” he says. “There’s probably 80 to 90 percent of the people in this country we haven’t even reached. They don’t even have a clue.”

For more information on starting a rental fleet, visit www.rvra.org. To learn more about the MBA Rental School, visit www.rentalschool.org. For insurance needs, visit www.mbainsurance.net. ■