



# SECOND-HAND, NOT SECOND-GRADE: **USED EQUIPMENT MARKET IN SA**

By Robyn Grimsley

As the cost of importing new machinery soared in recent years due to the challenging economic conditions and fluctuating exchange rate, more buyers have begun turning to second-hand and refurbished equipment in an effort to cut costs. Some OEMs and distributors of new equipment have also started shifting some of their focus towards the second-hand market.



There's a vast range of second-hand equipment conditions, depending on where the equipment operates. Chrome, for example, is an extremely difficult application that is very hard on the machines, while coal is a very light application that creates far less wear.



The difficulties faced by the construction and mining industries over the past few years, coupled with the fluctuating exchanging rate and challenging economic conditions, have resulted in a shift towards more used equipment in the market. This is the case not only in South Africa, but also throughout Africa, and second-hand equipment dealers have seen a marked upswing in their business.

Whereas in the past companies would often purchase equipment that they needed for a particular project and then keep it on hand in case of future need, more companies are now moving to either hiring equipment as opposed to purchasing it outright, or selling it once the project is complete. This results in a lot more 'newer' used equipment making its way into the market. A significant number of the companies that are

purchasing equipment are picking it up second-hand, rather than new.

This shift has caused many OEMs and distributors to re-examine their business models and focus on innovative ways of dealing with equipment that is obsolete. One company taking a new approach to this movement in the market is SA French, which is re-hiring equipment on behalf of its customers, as outlined in the January 2017 Business feature of *Plant Equipment & Hire*. Other companies are looking more closely at the second-hand market.

HPE Africa, distributor of Hyundai equipment in South Africa, has chosen to focus some of its energy on the country's expanding second-hand market. According to Alex Ackron, managing director of HPE Africa, the company is expanding its business in the second-hand

equipment market. "I would say sales of second-hand equipment have increased by at least 20–25 per cent over the past year," says Ackron. "The general construction markets have seen a significant decrease in the sale of new equipment, and that demand has to be filled somehow; it's not like all the work has disappeared. So a lot of the people are having to choose between keeping their older machines and replacing them with machines that are a little bit newer."

"The used equipment market has been very good for us — it's been one of our focus areas since late in 2015, and it formed part of our strategy last year," he adds. "Like a lot of OEMs, we used to bring in second-hand equipment purely out of necessity, because you can't sell new equipment without bringing in used. So we started to change our view on it and said, well, why can't



we make money off it and trade a little more responsibly? We wanted to be careful of what we were trading, so we decided to do a lot of our refurbishments and the like in our own workshops. We also put guarantees and warranties onto the machines and watched how the market developed.”

Ackron attributes this change in focus partially to the fluctuating exchange rate. “New equipment was becoming so much more expensive. The value of a piece of used equipment is calculated using certain formulae that take into account the hours, the year model, and so forth, and we realised that

the gap between the cost of new and second-hand equipment was increasing. At the same time, the market for used equipment was growing drastically. So we started getting into it and it became a very good side of our business, so much so that we’ve actually started looking at buying in used equipment. Not trading it in, but actually going out and physically looking for equipment on auctions and that type of thing.”

The company has already started purchasing used equipment, primarily from within South Africa, although they do look to neighbouring countries as well. “We’ve brought in five or six units already. Purchased them, refurbished them to a degree, took photographs, and then sent them out into the yard,” says Ackron. They deal in all brands, not just Hyundai, and partner with Fast World Finance to offer financing on selected equipment.

The average age of the second-hand equipment that HPE brings in — both through trade-in and purchase — is around 6 000 hours. “It’s got a lot more life than that, but that’s about halfway through its high production life. As soon as you start going to 12 000, 20 000, 24 000 hours, you start losing your productivity as downtime starts increasing drastically,” Ackron explains. “It’s not like it won’t do the job, but it definitely won’t cope as well. Obviously, a machine that’s only done 12 000 hours in 20 years will be better off than one that’s done that in a much shorter period. So we look at the average annual hours — about 1 800 hours a year on an excavator, for example.”

### Refurbishing

One of the difficulties facing the second-hand equipment market, compared to the second-hand vehicle market, for example, is the huge difference that varying operating conditions can make to the age and the state of a machine. Whereas most cars

are driven in roughly the same conditions, with only the skill and the care of the owner differing, job sites and working conditions can significantly impact the condition of the machines, making it difficult to categorise used equipment or to assess it without examining it in person.

According to Ackron, HPE Africa solves this problem by listing not only the age and the hours of a particular machine, but also the specific refurbishment that has been done. “Two machines with 6 000 hours that come back are in vastly different conditions. In our industry, there’s a very, very wide range of equipment conditions that you get back. Some equipment could be used for work in chrome, which is an extremely difficult application that is very hard on the machines, while other equipment could work in coal, which is a very light application. Because of this, all our second-hand equipment is sold under the same category; we just specify any work done. For example, we’ll say this machine has been resprayed and had its undercarriage done; the pins and bushes have been done; and it’s good for another 6 000 hours,” he explains.

This move towards increased second-hand equipment sales has also resulted in some companies focusing more energy on refurbishment, and bringing as much of that refurbishment as possible in-house. “The reality is, people used to buy a lot more equipment than they do now. And this has a knock-on effect beyond sales. Companies have had to reduce the number of mechanics they employ, for example. We’re trying to look for other ways to keep those people busy, so we can keep up capacity and be able to offer immediate assistance to customers who’ve had a breakdown, without having mechanics sitting around the yard with nothing to do.”

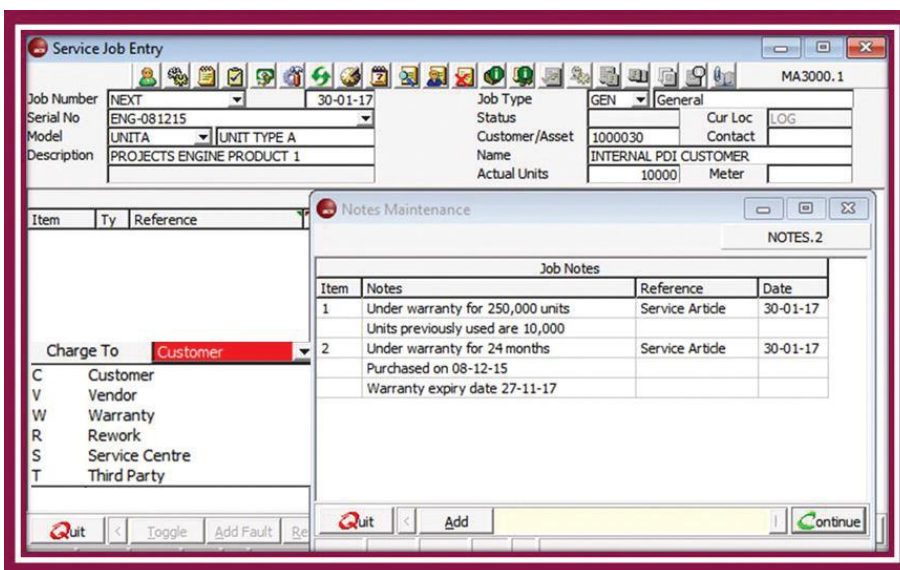
With equipment sales decreasing, HPE Africa realised that this would eventually roll over into the parts section, and workshop jobs are directly related to equipment sold. So at around the same time that it started expanding into the second-hand equipment market, HPE Africa set up a boilermaking shop at its main branch in Jet Park, Boksburg, to handle as much refurbishment as possible in-house. Since the shop is an add-on, the increase in overheads has been negligible and only one additional employee — a welder — was needed. The company is now focused on building capacity with its current services before expanding into other services.

“We build all our own buckets, and we’re now moving to refurbish buckets for other people. We’re also doing certain modifications for other OEMs within the group that import buckets and other elements, and who don’t have the capacity to do the beefing up, strengthening, new tips, and adaptors themselves — we’re doing it all in-house for them,” says Ackron. “We do full resprays, servicing, and



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Alex Ackron, managing director of HPE Africa, says the company has been expanding its business in the second-hand equipment market since late 2015.



ACS-Embrace

The Embrace software package keeps a full service history both on the equipment and on all parts, together with an online service logbook.

engine rebuilds. We're also looking at starting up pin and bush manufacturing in our fabrication and boilermaking shop. The only thing that we might have to outsource at this point is the electrical and hydraulic work, which is highly specialised. But we are in negotiations to see if we can start introducing those services as well, and I believe we will eventually go there. There's very little that we can't do; it's just a case of putting our minds to it."

While it is still early days, the response to these services has been good, which Ackron attributes partly to the downscaling of some of the larger construction companies. Rather than maintaining a large in-house boilermaking shop, many of them are looking to outsource this work. "It's actually a really good time to get involved in this area," he says.

## Tracking warrantees

One of the considerations when purchasing second-hand equipment is warranties and guarantees. HPE Africa offers three to six-month, 500–1 000-hour warrantees, depending on the age, condition, and manufacturer of the machine. For companies that are both trading in and refurbishing second-hand equipment, it is important to be able to track which parts of a machine are under warranty, as well as the machine as a whole. One way to manage this process is through specialised software, such as that provided by Associated Computer Solutions (ACS) with its comprehensive Embrace software solution.

According to ACS-Embrace marketing executive Jeanette Teles, the Embrace package includes integrated Financial, Parts Distribution, Deal Management, Maintenance Contracts, and

Service modules, and is ideal for companies refurbishing and selling second-hand equipment. The system keeps a full service history both on the equipment and on all parts, together with an online service logbook. "When refurbishing equipment, some parts may need to be replaced and the replacement parts could be brand new or used, and often carry a separate warranty. The Embrace software package encompasses financials, sales, after-sales, maintenance and service support, including keeping comprehensive warranty details for each item," Teles explains.

"These details include serial and sub-serial numbers, and when a service job is opened, this information can be used to determine the type of job and work that may be required for that specific item. Specific parts and fault codes can be excluded from the warranty cover, and warranty tracking can be accessed by unit and by date," she adds.

Embrace's Deal Management module covers the sales and after-sales support and is used for quotations, proposals, pro forma invoices, managing and maintaining the sale, and enabling full visibility into all details relating to the deal, including the deal item, the customer, and the finance house. The Maintenance Contracts module gives full visibility of each service item, including any piece of equipment that requires maintenance, for the lifetime of that item. Flexible contract management allows a company to quote, create tailored contracts, define coverage, and bill timeously and accurately, thereby increasing efficiency and profitability.

The Service module tracks both routine and

unplanned maintenance repair jobs, managing, scheduling and processing service jobs. Cost management is centralised and simplified, with all costs controlled, including labour, parts, buyouts, and outwork by third parties, while actual costs are measured against set standards to determine efficiency and profitability. This is the module that tracks warranties, with warranty types being catered for, including own warranty, vendor warranty, third party warranty and rework warranty.

## The future

OEMs and distributors are not the only parties getting involved in the second-hand market and looking for new business areas. A number of potentially untapped markets are out there for companies looking to get involved in the market. Farmers, for example, are starting to look at alternative income streams to supplement their normal farming activities, particularly with the recent drought. One solution that some farmers have embraced involves roads. The roads in the farming and more rural areas are often in poor condition, and some farmers are purchasing equipment — graders, excavators, and so forth — to maintain their own roads. Once the work is done, they can then hire out or sell this equipment.

As far as the future of the second-hand equipment market goes, Ackron believes that the recovering exchange rate might move purchasing back towards new equipment. "We might see a bit of a swing back towards more new equipment, but it probably won't be all the way back because there are still big advantages to buying second-hand equipment," he says. ■

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