Staying ahead of

Jason Baynard points out insurance impacts of fleet expansion.

If your company is experiencing inventory shortages to your auto, truck or heavy equipment fleet, you are not alone. Supply chain bottlenecks, skyrocketing prices, and long wait times for new equipment have become commonplace as the pandemic effects ripple through the global economy. While some aspects of life and business return to normal, equipment sourcing issues are still stubbornly hanging on.

Despite the cost and scarcity of new equipment, companies still need to expand their fleets and replace aging equipment, which leads to questions about insurance coverage. Is your risk management plan and insurance coverage prepared for additions to your fleet?

Chain of events

The heavy construction industry is weathering a perfect storm: the economy is recovering, and long-delayed projects are moving forward. The U.S. recently passed an enormous infrastructure bill, allocating billions of dollars to new projects. Emerging markets are spiking end-user demand for equipment as well. An increase in demand is one thing but add to the disrupted supply chains and you get the current state of affairs.

On the one hand, we're seeing encouraging numbers in the industry. Caterpillar, for example, saw a 23 percent increase in sales in Q4 of 2021, while overall construction industry sales rose by 23 percent, according to a survey of industry analysts by Zacks Investment Research. Overall, the U.S. economy grew faster in 2021 than it has since 1984. According to a January report from the Commerce Department, the nation's gross domestic product expanded 5.7 percent in 2021. Clearly, we're seeing a rebound in growth.

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On the other hand, this growth inevitably leads to high demand, and that's where the challenges begin. When the pandemic kicked in and demand dropped, many manufacturing operations had to drastically scale back to stay afloat. Now that the economy is recovering, many businesses are having trouble getting production up to pre-pandemic levels.

It takes manufacturers time to get back up and running after a slowdown as drastic as the early days of Covid-19. Rehiring workers or searching for new ones takes time. The global supply chain has been drastically affected as well, and OEMs are short of key raw materials.

Chip shortage

Several raw materials are feeling the supply squeeze, but the one whose effects are felt across nearly all industries, is the shortage in semiconductor material for microchips. The lack of supply of these critical materials is easily the biggest challenge facing manufacturing across all industries.

It's difficult to overstate the importance of microprocessors and microchips in today's transportation world. Every new vehicle that comes off the assembly line – car, truck, semi, or crane – utilizes microchips. Semiconductor materials are used in nearly all modern electronic devices, from phones to televisions to medical equipment. While microchip suppliers are doing all they can to meet demand, they are falling behind. One CFO of a major chip maker recently stated that their company is already sold out through 2023. The shortage, while being addressed, will likely continue for quite some time.

Ballooning demand and shrinking supply add up to one thing – rising costs. Even as markets are projected to rebound, the cost of doing business makes it difficult for companies to know how to proceed. Increased cost of supplies and wages pushes up inflation, which is passed on to heavy equipment buyers. New equipment harder to come by and it's considerably more expensive.

This trend is making companies take a closer look at maintaining their fleets, keeping existing equipment on the job longer. Skilled labor shortages make it more difficult to service equipment and keep it operational, though there are strong reasons to be optimistic that this labor shortage will subside. The Associated Equipment Distributors Foundation (AED) has recently taken steps to address the labor gap by accrediting several community colleges and high schools across the country to teach an AED-developed curriculum. The goal is to create a strong and robust pipeline of skilled workers across the country.

As another alternative to buying new equipment, many companies have turned to auctions to procure construction and trucking vehicles. But, what was once a reasonably cost-effective way to maintain fleets has also been hit by rising costs.

The used crane market is experiencing similar trends. Ritchie Brothers held an auction in October 2021 that saw some staggering numbers. The auction attracted over 17,700 online bidders from 61 countries, and they sold over 7,700 pieces of equipment for $69 million. Ritchie Brothers' recent page views for its January 2022 auction were over 700,000. Compare that to January 2020, which

shortages

saw only 300,000 page views. Auction values as of January 1, 2022 are a 1.18 ratio, compared historically being under 1.00. Stay informed by following industry associations, such as the SC&RA. Their publications, blogs and social media are a good source of equipment sales, as well as industry auction house news.

The insurance perspective

While fleet shortages are causing some financial challenges for the construction industry, in many ways these are good problems to have. Construction projects are up, and the 10-year timeline of the Infrastructure Investment and Jobs Act indicates that the industry can expect a period of sustained growth. Companies that might be questioning whether now is the time to invest in new or replacement equipment can conservatively estimate that growth will continue.

Adding new equipment increases the marketability of your company to do work, but how does that impact your risk management plan? What about employee training? Crane operators need to be certified and qualified for various equipment, so you may need to update your risk management plan to include nuanced changes, such as equipment check in and check out processes.

All this fluctuation can lead to questions about your insurance coverage. Does your policy have co-insurance provisions that can protect you in the event of a loss? Does your insurance carrier have limitations on total insured values by a piece of equipment or across an entire fleet? As the economic situation continues to evolve, it is more important than ever to consult with your insurance professional to best position your risk management program for success. We at NBIS want to help your business adjust your insurance coverage and risk management plan for the growing needs of your operation. Contact NBIS today at 877-860-7677. ■

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