



CRACKING THE RATE MODEL

Part Two: Equipment Overhead and Input Costs

In part two of this four-part series, I am focusing on overhead and input costs. These are the parts of the model we commonly see when a client brings a rate model to us they have prepared. These are the hard costs of operating your equipment and the real costs you pay out of your pocket to keep the machine moving. These costs are essential to the day-to-day operation of your equipment and cannot be cut completely. As a result, the focus for these costs should be on increasing efficiency.

Overhead and Input Costs 101

These costs will vary depending on the type of equipment you are including in your model. For example, a steep slope harvester will have a far different set of unique costs than a rock drill or a grapple yarder. However, the base underly-

ing model and input costs remain the same—fuel, maintenance, major overhauls, etc.

In part one, we discussed depreciation and amortization and the effect it can have on your rate model. We also spoke about the useful life of the equipment. The useful life of equipment is required when figuring out your overhead and input costs. Some costs, such as fuel, may be extended over the life of the equipment as a consumable expense. While others, such as major overhauls, may be only triggered at a certain stage of the equipment's use.

Items to Consider

The list of expenses to consider in a rate model is endless; but here are some of the common costs to consider:

Rigging and Wire Rope

Applies to: Steep slope harvesters, grapple yarders, and any other line based equipment.

Factors to consider: When it comes to rigging and wire, you need to know how many feet and what additional rigging is required. You also need to consider how often the wire and rigging will need to be replaced.

Fuel

Applies to: All equipment

Factors to consider: When it comes to fuel, you need to know the fuel consumption of the equipment and what your cost for fuel is going to be on the job site. You also need to be mindful of the volatility of fuel prices and factor in a cushion or negotiate a surcharge or rate change clause based on fuel price.

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Maintenance Lube and Oil

Applies to: All equipment

Factors to consider: With maintenance you need to consider how often and what types of maintenance are required as well as the effects of a poor maintenance schedule. Poor maintenance could increase costs to run the equipment down the road, decreasing overall profitability.

Major Overhaul Parts

Applies to: All equipment

Factors to consider: With major overhauls, a business owner needs to consider the wear and tear on equipment. How rough are their operators on the equipment? Can processes be put into place that reduce strain and increase the lifespan of major components? Break the equipment apart and consider the life of each major part without an overhaul. How does this compare to the useful life of the equipment? This allows you to factor in how many times this type of major overhaul will occur. Is it every

5,000 hours? Or every 10,000 hours? Each part will have a different lifespan which can be decreased or increased based on maintenance and operating habits. You will need to factor into your rate model the costs of each major overhaul required to get the full useful life from the equipment.

Maintenance and Major Overhaul Labour / Shop Time

Applies to: All equipment

Factors to consider: Who's doing the major overhauls and maintenance? Do you have a company mechanic working for you? What are their costs? Or will you send it back to the equipment dealer for work? What is their hourly rate? Think about these questions when you're building your model.

Other Costs to Consider

Other costs commonly seen in the rate model or costs that almost all equipment require would include costs such

as low bedding, accessories to outfit the equipment such as fire protection, first aid and other safety gear. These costs would normally be prorated over the course of the equipment's useful life.

These expenses are but a starting point for a generic rate model and do not encompass all the expenses of operating equipment in the industry. However by including them in your model you will have a great starting point and can further customise your model from there.

Stay tuned for "Part Three: Labour and Profit" in the winter edition of *Truck LoggerBC*. ▲

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