CRACKING THE RATE MODEL

Part Three: Labour Costs and Profit

In part three of this four-part series I will talk about your labour costs and profit—two critical parts to the rate model.

Labour costs are variable and dependent on both internal and external factors. Some of the internal factors can be adjusted to run a more profitable model, others are externally driven by the market and leave little room to adjust.

Location

The location of your work can be a factor in the cost of labour. Employers with camps will generally have to pay a premium to bring quality workers in. If you are home at the end of the day and have time to spend with your family, you will generally accept a lesser paying job for these benefits.

Even if your operations are closer to town, what does that town have to offer your employees? Does it have the amenities a prospective employee wants? Can they find a school for their kids? Small isn't always bad. You can promote a lifestyle that will draw the skilled workers you need—getting out of the hustle and bustle of the big cities and enjoying the fresh air.

Supply and Demand for Your Employees

How much demand is there for employees with the same skill set? If there is an excess of people you have more flexibility to set the rate. In times of skills shortages, the employee has more leverage to set their wage. An example of this was the oil and gas industry in Alberta five years ago. Again, looking to our Alberta experience, is there another industry competing for your employees? As we know, this can cause higher than expected wages in good times and a glut of skilled workers in slow times.

There are other factors to consider as well. Is the labour rate likely to change over the term of the work due to union agreements or labour contract renegotiations? What skill level is required for the position? The more skill required, the higher the cost. Does the terrain you will be working require extra crew to be safe or can you adopt a technology that will save wage costs by reducing the number of people required to operate?

Labour Efficiency / Downtime

How much time do your employees spend not doing what they're paid to do? For example: dealing with mechanical breakdowns, attending meetings or addressing co-worker dynamics. What can you change to optimize your employees' time so their wages are paying for the work you need done?

Supervision is another consideration. What kind of supervisor are you going to have? A two-hat supervisor who is responsible for crew management and filling an active role on the production line. Or a one-hat supervisor who is just responsible for crew management. Supervisors responsibilities are ever-increasing and their time may need to be accounted for as overhead if your crews are so large supervising and safety is a full-time job.

Another potential non-labour cost to consider is the amount of time your in-house mechanics will spend working on the equipment. This can vary by equipment type as some need more mechanical work than others depending on the nature of the task they perform.

Profit

Profit is a controversial part of the model. Once you figure out all of your costs to operate you then need to consider what amount of profit you're willing to go to work for.

Fair Profit

What is fair profit? Fair profit is when all parties involved share a chunk of the profit based on their risks of doing business. This will mean something different for each stakeholder involved. You need to have enough profit after taxes so you can re-invest in your business. This is particularly critical for logging given the wear and tear on expensive machinery.

Maximization vs. Optimization

One thing to note when considering profit is that you can try to maximize it or optimize it. When maximizing profit, you choose to run as lean of an operation as possible to maintain the same volume of production. This eventually leads to loss because of the unsustainability of the measures taken to create a lean operation.

Optimizing your profit on the other hand is focusing on removing unnecessary costs and creating efficiencies to better your business without hurting its future investment and growth potential.

When considering your rate model you should always have profit optimization in mind and not maximization. Make sure the measures you take to earn more profit won't hurt your business when the effects hit your labour force. A dissatisfied employee can be one of the hardest hitting blows on a business.

Stay tuned for Part Four: Putting it All Together in the Spring 2017 issue of *Truck LoggerBC*.

Chris Duncan, CPA, CA, is a Business Advisor with MNP's Private Enterprise group who specializes in real estate, construction and forestry businesses. Working out of the Duncan office and serving clients across Vancouver Island, Chris draws on his unique background to deliver industry-specific advice to help business owners stay in compliance, make informed decisions and achieve their goals. Chris can be reached at 250.748.3761 or chris.duncan@mnp.ca.