



BUSINESS PRACTICES FOR SUSTAINABLE CONTRACTORS

Part One—Want vs. Need. Should You Invest In New Equipment?

This year, at the 75th Annual Truck Loggers Association Convention, contractor sustainability was the top-of-mind topic. This isn't a new topic in our industry, but it has evolved over the past few decades as technology and environmental issues have shaped the industry to where we are today. In this four-part series, we will look at what it takes to be a sustainable contractor in this modern logging industry.

Mechanization in the forest industry has always been a big part of how contractors took advantage of efficiencies to enable them to earn more profit. From the first steam donkey to tethered harvesters climbing the faces of steep slopes, these innovations have been driven by the wants and needs of contractors and quite often the question asked is, should I be investing in this new equipment?

Indicators of a need to invest in new equipment:

Repairs and maintenance

One strong indicator is the cost to keep your old gear going. Are you spending more on repair bills than you would be on a new machine payment? Or, have you recently put a new motor into the machine for \$50,000 and it has another 10,000 hours of life left? The flip side of this is if you have a piece of tired equipment needing a major overhaul that, even after the repair, won't be worth anymore than it is currently and will only get you another thousand hours before the next major repair.

Opportunity lost

Another question to ask is, by not investing, what am I missing out on? If you're spending more time wrenching on the equipment than it does logging, then you have a need to reinvest. Also, if as the owner operator you are spending more time under the machine than focusing on running your business, you need to consider your options.

Are your operators complaining about equipment constantly breaking down? Is your production suffering because of machine down time? These factors can hammer your bottom line substantially.

you've had the chance to really consider if there is a true need for the equipment.

But consider what the new equipment is replacing? Will it help you make more money? Does your potential rate per me-

An informed decision should be made based on how much income this equipment can help generate for you and the cost of running it.

Efficiency gained

By investing in new equipment, you are often able to gain significant efficiencies, opening the door to better operational performance and potentially a stronger profit. A new, well-maintained machine can produce volume for some time without any significant down time for repairs. This helps when all of an operator's time at work is primarily production time.

New technology

The recent advancement in technology to harvest steep slopes is one factor contributing to many contractors buying new equipment. While new technology is tempting and will always fill a room full of prospective users, we must ask ourselves how often will we actually require the new technology and is it something that will be adopted as a whole or in specific cases? You don't want to be the last guy using steam power when everyone else has switched to diesel. Your business may not be sustainable if this is the case. However, you also need to be careful and not be the first guy to switch to a new untried technology based on a want not a need.

Want vs. need

One of the most common conversations I have with contractors when purchasing equipment is whether the purchase of a machine is a want or need.

All too often a purchase decision has been made as a result of a stop at the local equipment dealer. Before you know it, the paperwork is signed for the purchase of the latest and greatest model before

tre add up for the equipment? Will this investment improve my business' rate of return? Have you spoken to anyone else who runs similar gear and what is their experience with it? Is there enough work to justify the new technology?

Read through the purchase contract. What are the terms of your purchase agreement? What sort of warranty does the equipment have? Have you financed or leased the equipment? Who ends up owning it at the end of the term?

Overall, buying a new piece of equipment is a business decision that should never be taken lightly. An informed decision should be made based on how much income this equipment can help generate for you and the cost of running it. Do your homework, take your time and enjoy the process. 🌲

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