KEY PERFORMANCE INDICATORS FOR YOUR CONTRACTING BUSINESS

Historically, many contractors have run their business by a gut feel or measured their success by the balance in their bank account. However, with ever-decreasing margins and increasing costs, it's more important than ever to effectively measure the performance of your business. The following are a few of the areas and key performance indicators that can be used to measure the success of contracting businesses.

Start by reviewing the costs of running your business over a five-year period, which offers a view of the ups and downs through various business cycles. From there you can identify business trends and patterns, and set benchmarks to aspire to, allowing you to react to those patterns and make pre-emptive moves to help increase your bottom line.

Figure out your overhead

To measure performance, you need to understand overhead costs and how much volume you need to produce to break-even. This means you need to be able to separate out your costs by those direct harvest costs and those that are ancillary to the harvesting.

Quite often business owners are shocked to see the costs they incur each year to keep an office going, pay non-harvesting staff and administer the day-to-day business. All of these costs are flexible based on management decisions.

Break-even

Another exercise you should undertake is to determine where the break-even point is for your business. How many cubic metres do you need to harvest at your agreed upon rates to break-even and cover all of your costs? This is one of the areas where contractors have the most difficulty. Gearing up for 80,000 cubic metres of volume when you need 100,000 cubic metres to break-even will be a losing situation year after year.

Harvest cost indicators

The following expense categories should be tracked as a percentage of your total revenue generated. By doing this, you can track where your high-cost areas are and work on minimizing these expenses.

Wages

Employee wages can make or break your business. Pay them too much and you won't have any funds left for yourself; pay them too little and they won't be engaged, or they may leave, leaving you to struggle with being understaffed.

By reviewing wages as a percentage of revenue, you can learn to understand the productivity of your team and whether you are paying too much or too little for the given output in their production.

Fuel

Fuel is another important indicator to review as it can be impacted by older or poorly maintained equipment, which consumes more fuel. It can also be strongly impacted by the arrangements you have with your supplier. Many suppliers will offer discounts for preauthorized debit pulls the day after delivery, or volume discounts by committing to a set amount on an annual basis.

Repairs and maintenance

The cost of repairs and maintenance of equipment can be an indicator of when to consider buying new equipment. You should be able to watch this number rise and fall with your purchases of new equipment. This number is also a good indicator of lost opportunity; the higher the percentage, the more time is spent fixing equipment in the shop and opportunity is lost.

Amortization and depreciation

A business that is not properly showing depreciation can be deceptively profitable, when in reality, it is losing. By including depreciation in your key factors to monitor, you are providing the best representation of the wear and tear on the equipment being used. This is not the actual maintenance and repair costs, these are reflected elsewhere, but the devaluation of the equipment as it is used to log. You should have this cost represented in one form or another; by omitting it, you are only fooling yourself. People are quite often shocked at the large effect depreciation can have on a business.

You should note that a higher percentage can indicate that either newer equipment or an aggressive depreciation policy is required. This percentage is always compared alongside repairs and maintenance, as they both are related.

Interest

By looking at your interest and financing costs you can compare how much you are making versus how much you are paying the financier to run your gear. If you are paying a higher rate on non-traditional vendor take-back financing, they may be making more by financing you their gear than operating themselves.

Conclusion

There are many factors that contribute to the profitability of your contracting business and these are only a few of the costs to keep an eye on. By monitoring these costs and analyzing them over a five-year period, you should be able to get a good idea of where there may be opportunity to be more profitable in your business.

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