# CRACKING THE RATE MODEL

**Part Four: Putting it All Together**

In this four-part series—Cracking the Rate Model—I've outlined the key parts of the rate model: depreciation and amortization, overhead, labour costs, and profit. I've also explained where a focused effort can bring results. Contractors who understand the intricacies of a rate model can reap the benefits with a model they understand and trust. In this fourth and final article of this series, I will discuss putting it all together.

## Where Can I Get a Rate Model?

Unfortunately, you can't buy a rate model with your morning coffee. If you're a strong Excel user, you could build one yourself. But most people don't have that kind of know-how. The best place to start is your accountant. Not every accountant has this skill set. But it's worth asking. If they do, they should be able to help you put your data together into a rate model that accurately reflects your business.

So what will all this cost? Rate model costs vary depending on the equipment and complexities involved. A basic model will start at around $1,000. Costs will rise if you have new and untried equipment with unknown variables. The better you know your data, the less the model will cost.

## Who Can Help Me Collect My Data?

When building a rate model there are experts out there you can draw on for expert advice:

**Equipment Manufacturer / Dealers**

These guys know the equipment better than anyone else. You should be able to get realistic figures for maintenance schedules, fuel consumption, major overhaul costs and resale values for your equipment from them.

**Fellow Contractors**

Sometimes the hardest thing to do is ask a buddy for advice. While most contractors will keep tight lipped about their rates, most are willing to share their experiences around running equipment, breakdowns, and the extra unforeseen costs involved in the industry. This hands-on experience can sometimes be the most valuable part of your model.

**Banker**

Your banker is always a good source of information when it comes to bringing new equipment into your business. The banker can help you come up with a plan and outline the costs associated with financing or leasing equipment which needs to be built into your model.

## Tax Considerations

Income tax is a piece of information we usually leave out of the model because tax is an unavoidable part of your profit that must be paid at year end. However, you still need to plan ahead. If your business is incorporated and eligible for the small business deduction, you would pay 13 per cent corporate tax on any eligible profits, so you need to ensure this is reflected in your cash flow.

## Reacting to Rate Model Results

Once you have entered all your costs into your rate model, step back with your accountant and consider what it all means. A rate much higher than your current negotiated rate means you're likely losing money every day you head to work and need to renegotiate immediately or consider if you can get a better rate elsewhere.

A rate lower than your current rate means either you have missed some costs or your profit is higher than expected. If your profit is higher than expected, pat yourself on the back for being a good negotiator with a strong relationship with the licensees you work for.

## Benefits of a Rate Model

Building a rate model can be intimidating and it does take some time and money. That said, there are many benefits to having a rate model for your equipment. For a contractor, it is worth the effort. The more you understand your costs, the more knowledge and ammunition you take to the rate negotiations table. There will be no more second guessing yourself and wondering if you have taken on a poor contract.

By knowing your costs, you know when to stay home rather than work yourself into a loss position. Working 1,000 hours in a loss position will not get you any further ahead than declining the contract. In fact, it will move you further behind. By knowing your rates, you can make sure you are logging sustainably and will be able to reinvest in new gear and innovations.

## Conclusion

It's important to use the many resources that are available to you to create a model based on sound financial, practical and logical information. By being armed with the most reliable end information, you will be in the best position to make the most informed decisions possible for your business.

---

*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*