

Succeeding as an Owner/Operator

Best Practices of the Small Trucking Business

The purpose of this paper is to walk the prospective owner-operator through the basic process of starting a small trucking business.

INITIAL CONSIDERATIONS

Owning your own business is part of the American Dream. The allure of working for one's self is a subject discussed by many, yet few take on the challenge. Do you think you have what it takes to start a successful owner-operator business?

Don't kid yourself, being an owner-operator is a business and successful owner-operators work their business very hard to be prosperous. Before you ever make the decision to purchase a truck for commercial purposes, you should consider your own personality, experience and knowledge to decide if you really want all the responsibilities of being your own boss. If you haven't already done so, now is the perfect time to take a personal assessment as starting and running an owner-operator business takes common sense, devotion, dedication, discipline, perseverance, planning, financial planning and management, mechanical skills, bookkeeping talent and disciplined decision-making abilities. Do you have these qualities?

Being your own boss means that you are not only responsible for getting the load delivered, but you now have taken on all the back office responsibilities of managing yourself along with your truck, insurance, expenses, truck payments and cash flow from your haul or haul sources. For many owner-operators, this means that their truck is a traveling office - something to consider when the open road calls and your office goes along for the ride.

Two other important considerations in deciding whether or not you have what it takes to be a successful owner-operator are: 1) Can you and your family accept the long hours and days away from home that are necessary in this business?, and 2) What area of trucking do you know and - more importantly - like? An understanding here will help you determine what to haul.

WHAT TO HAUL

Companies to haul for are as diverse in location as they are in the products they specialize in moving. Various kinds of hauls are agricultural produce, machinery and equipment, aggregates, raw materials, vehicles, food products, livestock, household goods, electronics, etc. You, the prospective owner-operator, are at a huge advantage if you can work out an arrangement with a company you have had previous experience with, know and like. Realize that the cultures of companies are diverse. So, knowing the company and them knowing you can help you effectively manage

the hurdles you will encounter as an owner-operator.

Should circumstances present themselves that you need to find a new haul source, approach the situation like a good business person. Research the company. Determine the carrier's compensation structure, settlement timing, deductions for expenses, areas of haul, deadhead (unloaded) miles, time-out expectations, charge-backs, equipment insurance requirements, whether they provide benefits such as reduced cost fuel and insurance, and most importantly, how the company otherwise supports its owner-operators.

Talk with other owner-operators to learn their experiences with various carriers. Interviewing several current owner-operators for a company you are interested in will give you a wealth of information. But, only you can decide which company to haul for.

In the event that you choose to contract to haul for a company you don't have previous experience with, understand that as with any new employment relationship, there will be a period of time where you will be proving yourself to the company. Perseverance is a must in these situations. Successful owner-operators hold up their end of the haul relationship by being prepared, professional, on-time and willing to take the less than glamorous loads. There are never any guarantees in any business, but generally, if you have done your homework, chosen a quality carrier to work with, established a relationship with your dispatchers and do what you say you will do, you will be treated fairly.

CHOOSING EQUIPMENT

Purchasing the proper equipment is critical to a successful owner-operator business. According to successful veteran owner-operators, quality used trucks with a warranty are generally the equipment of choice. Used equipment is typically easier to fit within cash flow constraints and more readily sold should you decide after a period of time that the owner-operator life doesn't work for you. Top priorities when choosing your equipment are:

- 1) Know the requirements for your haul: required truck specifications, type of terrain, any unusual operating conditions, your expectation for fuel economy, etc.
- 2) Determine your expected gross income, and be real about the true numbers.
- 3) Pick a quality truck dealership to work with; one that is as concerned about your success as you are.
- 4) Look for a comfortable, serviceable truck.
- 5) Check out the truck completely and take a test drive to see how it "fits" you. If buying used, get the truck's maintenance history if it is available.
- 6) Learn the truck's maintenance requirements.
- 7) Live within your budget.

Carriers, depending on the products

they specialize in, may have very specific requirements of the equipment they allow to be leased on. Your research into your prospective haul should uncover their equipment expectations.

Used truck dealerships, like any business, range in quality. Our suggestion is to seek out a dealer that is a member of the Used Truck Association (UTA), a not-for-profit, service-oriented association dedicated to being the leader in promoting professionalism in the used truck industry. Association members subscribe to the UTA's Code of Ethics which promotes nine key business principles: honesty, integrity, professionalism, value, excellence, continuous improvement, keeping promises, complete satisfaction and relationships. (Ask these dealers to see the UTA Code of Ethics.)

The dealership you choose should assist you in making the best choice of equipment to meet your needs, your budget and haul requirements. You want a dealership that will work with you to help you be a successful owner-operator to ensure that you can be a long-term dealership customer.

If buying used, have your prospective equipment mechanically inspected for soundness. The dealership you have chosen may have this capability, or you can coordinate with the dealer to have a certified shop complete a thorough inspection. A small investment into the inspection can potentially save you thousands. Also note that aftermarket warranties are readily available and those that cover components for wear-out can be worth the pricetag, as even with an inspection, things happen.

MAINTAINING EQUIPMENT

The importance of good maintenance cannot be overemphasized. Only a truck that is in good operating condition can make you money.

The fact is, preventive maintenance can be expensive, but lack of it is even more costly. Learn the maintenance requirements for your specific equipment and keep to your maintenance schedule. In the long run, doing so will save you excessive downtime and make you more money.

The ideal time to plan your maintenance program is while you are making your deal to purchase your equipment. Dealerships know their equipment and are usually happy when asked to offer advice and guidance on maintenance practices.

Record keeping is an important part of any equipment maintenance program. This enables you to keep track of how much you are spending for maintenance and can help identify problem areas.

FINANCE

Another consideration of being an owner-operator is how you plan on paying for your equipment. Financing is commonly a viable option. The UTA dealership you are working

with normally will have financing relationships that can help you reach your goal, however you will need to be prepared. Ask if the finance company the dealership works with is a member of the UTA, as these finance companies are familiar with the financing needs of commercial truck buyers.

Be aware, however, that commercial truck financing is not the same as financing an automobile. Commercial truck financing is based on transaction risk and not credit strength. As with any new business, a first-time owner-operator is considered a new business and is reviewed thoroughly by finance companies to be sure that factors exist that indicate a high probability for success.

Prior to making your decision to become an owner-operator you should assess your credit situation. Do you have a reasonable down payment saved? A good rule of thumb is 20% to 25% of your intended purchase price.

Are you current on all your bills? If you have experienced credit problems in the past, are they all cleaned up and do you have a reasonable explanation for the occurrence of the problem? Do you have back up material prepared on your financial stability? Such material would include tax returns and an accurate personal financial statement.

Being prepared for financing can mean the difference in obtaining your dream or being turned down.

CASH FLOW

Operating your truck and living within your budget is an absolute requirement for a successful owner-operator. As with any small business, it takes time to build up comfortable reserves and these reserves are essential to your success.

Good, bad or indifferent, unforeseen problems and challenges frequently happen in the trucking industry: family issues, equipment failure, delayed loads, freight levels that trend up and down, and so on. Therefore, it pays to be prepared.

A simple cash flow analysis has been provided in this article that any UTA truck dealership can help you complete. The information provided in the analysis will give you what your expectation should be for your truck payment (if you are not paying cash); the amount of money you will need to hold in reserve for maintenance, repairs and other expenses; and your take home pay.

SUMMARY

Owning and operating your own truck is considerably different than driving for someone else. As an owner-operator you do it all: you own the equipment, you drive the equipment, you maintain the equipment, you handle the invoicing, you obtain the loads, you make the choices and you make the profits.

You can be a part of the American Dream by being an owner-operator; having your own business. While any business start-up can be

overwhelming, you can assure your success as an owner-operator by not being afraid to ask questions, seeking advice and assistance from others, staying abreast of developments in business and trucking, developing good business practices, making informed decisions and changing with the times.

Disclaimer: Material contained in this white paper has been compiled for reference use only. The Used Truck Association (UTA) is not responsible for any errors, omissions or damages arising out of the use of this information.

Owner-Operator Cash Flow Analysis

1. Gross Monthly Income	_____
(The amount you earn per mile times the average number of paid miles per month, or an estimate of your monthly income if you are paid on a % of the load.)	
Less (-)	
2. Fuel (_____)	
(Current fuel cost times average miles per month divided by achieved miles/gallon. Miles per gallon target should be 6 or more)	Example: $2.60 \times 10,000 \div 6 = \$4,333.00$

Reserves

a. Insurance *	_____	440.00 (Assumes \$50,000 truck value)
(Includes Physical Damage (3.5%), Bobtail (\$40), Workman's Comp (\$250), add \$500 for liability coverage if under "own authority" or haul passes charge through.)		
b. Maintenance Costs *	_____	
(12¢ per mile to cover tires, lube, fluids, oil servicing, etc.)		
c. Catastrophic Loss	_____	400.00
(\$400/month for first 30 months then review.)		
d. Income Tax *	_____	
(Usually 18%-25% of your gross monthly income.)		
3. Total Monthly Reserved Costs (a+b+c+d)	(_____)	
(Possibly placed in a separate bank account.)		
4. Your Current Debt Service	(_____)	
(Your current payments for housing, autos, credit cards, etc.)		
5. Net Income (1-2-3-4)	_____	
6. Estimated Truck Payment	(_____)	
7. Disposable Income (5-6)	=====	
(Money available for other living expenses or savings.)		

*Information provided by American Truck Business Services (ATBS)