CHOOSING A CARRIER

IT'S EXPENSIVE TO SWITCH CARRIERS, SO PICK YOUR PARTNER CAREFULLY

The increased revenue that can come from changing carriers is easy to understand, but the cost involved in making that switch often is overlooked. It can be thousands of dollars when you consider all the downtime involved in searching for the new fleet, going through orientation and other interruptions of your routine. When you look closer at revenue and costs instead of just pay per mile, net income might not be any better at a different carrier. First, search for carriers that pull the kind of freight and run in the geographic area that interests you. List as many potential carriers as possible.

Pick a name on the list, and look for a reason not to choose it. Maybe the company requires more experience than you have or requires a newer tractor.

When you find a carrier you can't eliminate, put it on your short list. When you reach five, follow these steps:

CONTACT THE CARRIERS DIRECTLY

Request a copy of their lease agreement. Read each lease fully, and make notes. Lists things you like and don't like and things you don't understand. If a fleet can't or won't send an agreement, scratch it off the list.

CALL EACH CARRIER ABOUT ITS LEASE

You need to make sure you understand everything and how cooperative the carrier is. If you can't get straight answers about the lease now, odds are you'd have the same obstacles later.

SCHEDULE A VISIT TO EACH COMPANY

If there are multiple locations, visit headquarters. It might be expensive and time-consuming, but you are trying to eliminate needless risks as you design your business.

INTERVIEW KEY PEOPLE

Request a visit with someone in each department you would deal with as a leased owner-operator. Prior to your visit, write down questions for each department, such as dispatch, safety and compliance, operations and settlement. If they don't have time to discuss such matters now, do you think they will have time for you after you sign the lease?

QUESTIONS TO ASK OF PROSPECTIVE CARRIERS

PAY

Ask if fuel surcharges are available and if they are packaged with base pay or paid separately. Check whether the fuel surcharge is nationwide or regional and what miles-per gallon rate the surcharge is based on – 6 mpg is common. Confirm that 100% of the surcharge is passed along to owner-operators.

Ask if the carrier offers layover pay, empty mile compensation and pay for loading and unloading, or reimbursement for lumper charges. Do they reimburse for tolls? Do they pay your fuel taxes, or are they charged back to you? When are settlements paid?

Does the carrier impose chargebacks? Ask about paying for liability insurance or onboard fleet management systems such as electronic logging devices or tracking systems.

Hourly pay for detention, the time spent waiting at shipper and receiver locations, is increasingly prevalent. Does the carrier offer detention pay? Is it guaranteed regardless of whether it's collected from the shipper/receiver?

While that increasingly is the case, old practices survive at many carriers. Many of those businesses have moved in the direction of time-based pay systems with hourly detention-pay plans, often billed after one or two free hours. Independent owner-operators running under their own carrier authority bill direct shippers as much as $70-$100 hourly for excessive detention.

HOME TIME

In assessing routes, loads and miles, ask if certain routes or regions are open that would accommodate your desired amount of home time. Make similar inquiries about specialized work such as heavy-haul or high-touch loads. Ask carriers about available miles and routes, and question their operators about the miles they're getting.

CULTURE

Some carriers will want to control everything you do, and others will give you plenty of rein. Some companies provide limited benefits to owner-operators, such as fuel networks and insurance assistance. Don't overlook possibilities at small carriers, particularly if you're looking for more operational freedom.

PHILOSOPHY

Does the carrier's way of doing business match yours? Ask whether company drivers get dispatched before owner-operators, or whether company drivers get better loads. Even owner-operators who work for the same company can get significantly different pay; the difference can be as much as 30 cents per mile. Would you be in the carrier's top tier – or bottom tier? You usually can survive one switch in a year, though it's difficult. Switching twice in a year could put

OTHER QUESTIONS

ASK RECRUITERS AND OWNER-OPERATORS THESE QUESTIONS ABOUT ANY CARRIER:

WHEN WOULD I GET MY SIGN-ON BONUS?

Some carriers pay it when you deliver your first load, others after 90 days, others after six months or even later.

WHAT ARE YOUR STRONGEST LANES?

You need to know where the freight is and where it goes.

DO YOU PAY LUMPER FEES?

Some carriers provide a set amount to pay lumpers, which sometimes might not be enough. Find out what's covered and what your obligations are in all loading and unloading situations.

WHAT FEES MUST I PAY?

Learn about base plates, insurance, equipment, deadhead pay and drug-test fees. Will there be multiple-stop loads? If there are, will you be paid for each stop or a flat fee? Do you have dedicated runs? Companies with dedicated freight, offering added schedule predictability, may require you to qualify for those runs based on where you live or other factors. Learn how it works.

DO YOU HAVE AN OWNER-OPERATOR ADVISORY BOARD?

Carriers with such boards demonstrate an interest in relations with owner-operators.

WHAT IS YOUR OWNER-OPERATOR TURNOVER RATE?

Turnover at larger carriers is nearly always high, but anything near 100% is cause for concern.

DO YOU HAVE A PURCHASE PROGRAM FOR TIRES, PARTS AND OTHER ITEMS?

Discounts offered by fleets, such as those set up with truck stop chains, can save you money. What is your policy on cash advances, money services and fuel cards? You should avoid asking for advances, but it's good to know a company's policy, as well as arrangements regarding money services such as Comchek and fuel cards.

HOW DO YOUR ESCROW ACCOUNTS WORK?

By law, the lease clearly must define all fees and reimbursements carriers can take from owner-operator escrows.

How much of that would you get back if you left, and how long would it take? What is your policy on major breakdowns? Find out if the carrier will stand behind you in such an emergency. Ask the terms of repayment. What are your rider and pet policies? If you like to take along your spouse, significant other, child or Fido, then don't forget to ask.

KNOW THE LAW ON LEASES

Whatever's in a lease contract must agree with federal law. Not sure what the law says? Go to www.fmcsa.dot.gov, and type 376.12 into the search box. That will give you the truth-in-leasing regulations, which specify what a written lease must contain, including complete specification of compensation, responsibilities of each party for costs, chargeback items and how they are computed and more.

you out of business. If you have a good relationship with your driver manager, enjoy the company's culture and have opportunities to get the miles and pay that you need, then chances are you won't be better off anywhere else.

EVALUATING CARRIER COMPENSATION

While comparing pay packages is a time-consuming endeavor, the key is to start with an understanding of how much you need to make each month to cover expenses. Only then will you know whether a pay package is a good deal for you.

Figure your total cost per mile by adding fixed and variable costs for the year and dividing by 12 to get the average per month. Divide that by average monthly miles to determine your cost per mile. This is your break-even point.

Be sure to include non-revenue miles, such as deadhead or a trip to the shop, in your monthly estimate. Those miles also cost money.

Profit margin (net income as a percentage of total revenue) for independent owner-operators without a carrier partner hovers at about 40% for owner-operators who do not include pay to themselves as a business expense, such as in an S Corp arrangement.

In your evaluation of compensation, you ideally want to beat the averages. Overdrive research in 2016 showed that more than 40% of owner-operators try to hit a profit margin target above 40%. For some elements of a pay package, such as detention pay, it's also helpful to know your revenue per hour of driving. To determine this, multiply your per-mile rate by your average driving speed. For example:

Pay rate per mile $1.10
Average speed x 59 mph
GROSS REVENUE PER HOUR = $64.90

Knowing your hourly rate helps you determine whether the detention pay you're offered adequately compensates you for the revenue you lose sitting on a load.

Use your break-even point and your hourly revenue estimate as you begin to gather information about pay packages. Ask carriers detailed questions about all revenue items and any cost items they cover or help cover. Chart those numbers on a spreadsheet to begin your evaluation. To make your comparisons as accurate as possible, make sure you understand some of the more confusing aspects of pay packages:

LEARN HOW MILEAGE IS CALCULATED

If a carrier pays by the mile, ask which system is used. Short miles give the shortest route, so they are the least desirable to you.

Practical route miles average 3-to-5% more. Hub miles average 3-to-5% more than practical route miles, but few carriers use that system.

Many fleets have switched from short to practical miles, which amounts to an across-the board raise. Practical miles systems use measurements based on actual addresses or ZIP codes and account for commonsense alternate routing.

CHANGING CARRIERS ISN'T SEAMLESS

You can't leave one carrier and expect to be up and running at the new carrier the next day. It can take three weeks between winding things down at your old carrier and getting up to speed at the new carrier. It takes time to turn in the trailer, company-provided electronic logging device or other dispatching equipment, base plate, permit book, etc.

You then have to bobtail to the new carrier and attend orientation. Then you have to get all your paperwork filled out and wait to get a load. It can take longer than three weeks before a settlement check is received.

That's three weeks of lost revenue. True, you avoid the variable costs, such as fuel, that would have gone with earning that revenue, but it's a net loss to you. Your fixed costs don't stop. Your truck payment and your insurance payments still are due. And you still have your personal bills. If the transition drags out, costs could total as much as $12,000 or more.

This loss doesn't include the cost of learning a new system and new routes at the new carrier, likewise building a working relationship with dispatch to prove your credibility. And remember, what recruiters tell you might be a best-case scenario, and it may be some time before you'll be in that situation. Before switching, ask yourself some hard questions. Have you done all you could at your current carrier? Unless you're an obvious problem, your carrier wants to keep you. If you're thinking of leaving in anger, as often is the case, cool off first. Could you analyze your own costs and manage your business better to succeed where you are? How will a switch affect your reputation? No matter how good a driver you are, job hopping paints you as a malcontent.

COUNTING THE COSTS

The many costs involved in changing carriers can total thousands of dollars:

Downtime. You've been earning $50,000 a year and working 300 days a year; that's $167 a day. Multiply your income by the days you'll be down.

Initial Escrow Funding.
Even if you eventually get it back, it's often due before you get any income. Some carriers build it over time via settlement deductions.

Insurance. Some carriers charge it to the owner-operator; some don't.

Base Plates. Unless you bring your own.

Permit Fees. Some carriers pay them; some don't.

Drug Tests. Most carriers pay for these.

Equipment. You might need to invest in tiedowns for flatbed work, chains for northern hauls, pumps and compressors for tank operations — or a tractor paint job.

Empty Miles. Unless you're switching to a hometown carrier, multiply your cost per mile times the miles you have to deadhead to the new carrier.

Fleets won't pay drivers the practical rate unless they know their customers also will pay the practical rate. Ask a prospective fleet whether its rate paid to drivers matches its rate charged to customers. Also ask what routing system the fleet uses.

Some fleets also offer mileage pay that varies according to the haul's length, generally paying more per mile for shorter hauls. Ask prospective carriers about their particular variations.

A number of fleets also are moving to a guaranteed minimum pay structure for company drivers. While this pay structure isn't common with owner-operators yet, moves in this direction may develop in the form of a monthly retainer of sorts.

LEARN HOW PERCENTAGE OF REVENUE IS CALCULATED

If a carrier pays by percentage, understand the calculations. Some carriers may pay 78% of 100% of the load's all-in revenue. Others pay 78% of 96% of the revenue, or 90% of 100% with added cost responsibility for the operators. Such distinctions can account for hundreds of dollars' difference over 10,000 miles.

LEARN THE POLICY AND PRACTICE OF FUEL SURCHARGES

Many carriers pay a surcharge when the national average price for a gallon of diesel, as reported weekly by the U.S. Department of Energy, exceeds a certain price. The surcharge increases incrementally with diesel prices, either on a cents-per-mile basis or on a percentage of what the customer pays the carrier for the load. Carriers often structure their surcharge scale by assuming a certain fuel efficiency, such as 6 miles per gallon.

Some owner-operators make a healthy per-mile profit from their carriers' surcharge because good fuel economy practices allow them to average better than 6 mpg. For independents with authority, develop your own surcharges for contract rates quoted to shippers, and know that most brokers negotiate all-in rates irrespective of any added surcharge.

Surcharge figured as per-mile: Suppose a surcharge is designed to cover increases above $1.25, and fuel costs $3. Ideally, you'll receive a surcharge covering that $1.75 spread. If your truck gets 6 miles per gallon, divide $1.75 per gallon by 6 mpg. That equals 29 cents per mile. A surcharge at that level allows you to break even.

Now assume you actually get 7 mpg. Dividing the $1.75 by 7 means a surcharge of only 25 cents per mile is needed to break even. If you're driving for a fleet that has a surcharge based on its company trucks' 6 mpg average, you come out 4 cents per mile ahead.

PAY SYSTEMS' PROS AND CONS

Many carriers have bucked tradition by offering owner-operators a choice of pay packages. It's typically either a company-dispatched mileage-pay program or a percentage-pay program in which owner-operator self-dispatch offers greater operational latitude.

An owner-operator running on percentage shares the brunt of market conditions with the carrier, earning less money in bad times, whereas a mileage program in such times is an attractive safety net. In an environment with rates rising steadily, operators on a percentage program can benefit with a sort of built-in pay raise without running more miles. Operators who excel in percentage pay shift their focus from weekly mileage targets to revenue targets, ideally achieved on the fewest possible miles. Research conducted during 2017, as freight rates improved, showed most preferring such operational latitude to maximize income.

MILEAGE PAY

- *Rate to the truck inherently stable with miles*
- *Often little self-dispatch freedom*
- *Fuel surcharge often averaged among fleet accounts/diesel prices*
- *Niche specialization possible but not in operator's control*
- *Home time in control of dispatcher*

PERCENTAGE PAY

- *Rate per loaded mile variable by lane/market conditions*
- *Self-dispatch often available*
- *Fuel surcharge paid in lump amount according to individual negotiated accounts*
- *Niche specialization by lane/freight within reach with self-dispatch*
- *Home time a function of operator's ability to customize schedule*

Surcharge figured as percentage: When a surcharge is a percentage of gross revenue, the calculation is similar. Take the same situation – you get 6 miles to the gallon and diesel is $3 a gallon, so you need a surcharge of 29 cents per mile to cover your costs. Assume you're offered a 1,000- mile haul for $1,100 in gross revenue. Start with your surcharge target of 29 cents per mile, and multiply by miles.

Now see what your $290 surcharge would be as a percentage of the gross. Divide it by $1,100 to get 26%. That's the level you need to cover your extra fuel costs.

LEARN THE REAL COST OF ANY CO-OP PROGRAM.
If you plan to make use of a carrier's cooperative buying program, ask what the markup is on things such as tires. Ask how quickly the purchase has to be repaid. Make sure you're getting a good deal. Some carriers with fuel programs charge owner-operators $1 to $3 every time they use the fleet's fuel card. On the flipside, buying fuel at a cheaper rate could more than make up for those fees. Crunch the numbers to find out.