GOING INDEPENDENT

GETTING YOUR OWN CARRIER AUTHORITY COMES WITH RISKS AND REWARDS

Two upsides to getting your own carrier authority are the potential to make more money than a leased operator and the almost complete freedom associated with how you run the business. This sounds wonderful, but with freedom come risk and responsibility.

Many owner-operators decline to pursue getting their authority because they realize they are unprepared for that level of responsibility. Or in some cases, industry conditions are not favorable. While many things have changed over the years, preparation still is far more important than shifts in the economy.

In a hot freight market, ambitious truckers see career move risks tilting in their favor. Company drivers consider opportunities as owner-operators, and leased operators think of striking out under their own authority. Just as motivated truckers become more entrepreneurial as the economy strengthens, the opposite also holds. During the 2008-09 recession, many independent owner-operators sought a more secure leased arrangement or, as did some leased operators, signed on as company drivers.

As the recent hot market recedes, among the newer owner-operator fleets, those most equipped to survive will have adopted tools that enhance their awareness of key market metrics. These include regional load-to-truck and inbound-to-outbound load-post ratios, as well as rate fluctuations in specific lanes. They also will have built relationships with a few key players, whether it's shippers, brokers, factors, dispatch services or, if they have more than one truck, reliable drivers.

Those that learn as they prosper also will be more likely to stay profitable when the gravy train has pulled out. The preparation starts with deciding where you'll get your freight. You'll have to locate your own customers or work through load boards and brokers.

FINDING YOUR OWN CUSTOMERS

Soliciting freight from shippers can be a daunting task for an individual, but it results in the highest net income because there is no middleman to take a cut. There are several ways to find small local shippers. You can use business directories online or attend local business functions such as chamber of commerce events. One easy way is to drive around industrial parks and take notes.

List 25 to 50 potential customers, then schedule time off to contact the shipping managers unless you have a spouse or other partner who can handle this. Be ready to hear no many times. If you generate just one customer, consider it a success.

As a one-man show, you may find this task awfully time-consuming and difficult. If you've never worked in sales, prepare yourself. There are hundreds of great audio books on sales and negotiation. Listen to some while working on your plan.

In any bid to secure a contract with a shipper, make sure you can answer this question: Why you? Why should any particular shipper entrust its freight to you? Setting yourself apart from the crowd, however you do it, will help you find customers that can last throughout your career.

Some ways to build a customer base include having special equipment, running a part of the country that many others don't like to go, or finding your way into a niche market such as hauling cattle or cars. Having a specialized trailer that makes you unique in your area can set you apart.

Auto hauling is one of the more difficult trucking segments to enter and master, but it also can be one of the most financially rewarding. It's expensive to get into hauling cars — a new nine- or 10-car trailer can cost upwards of $90,000 — and typically, a certain amount of trucking experience is needed before hauling such high-value items.

Event hauling is another niche that can be lucrative if you can get a foot in the door. One challenge in hauling for concerts and other events is it often means following a tour, so you can be on the road without going home for months at a time.

Find more on a variety of niche hauls at OverdriveOnline.com/tag/niche-hauls.

GETTING HELP. If personal solicitation sounds too overwhelming, consider other options:

- *Hire a freight broker to work as your direct sales agent.*
- *Find a business partner with experience in freight sales. If you choose to follow this path, you may need your broker authority or other drivers employed under you in order to move enough freight to support both partners.*
- *Use an independent dispatch service that acts as a bridge between carriers and brokered spot market freight. Instead of dealing directly with brokers, truckers pay for negotiating prowess and access to relationships any good full-time independent dispatcher has built with brokers. In ideal situations, the additional fees siphoned off to the dispatch service are more than made up for by higher rates.*

You may spend $50 per load, which for a week might be $150 total on $7,000-$8,000 in revenue, or around 2% of revenue.

On the other hand, scouring load boards and building relationships with brokers and freight agents, as the best independent dispatchers do well, ought to be achievable for a owner-operator. Making phone calls and studying the markets could allow an independent to pocket those fees.

If you decide not to acquire your own customers, you'll need a plan for working with brokers or using load boards. Don't make the mistake of looking randomly for freight every time you need to load. In the beginning, focus on good back-and-forth lanes or areas with one point being your home – or use a triangular strategy to find the best rates. Consider fuel prices in all those lanes, weather, traffic, road conditions and, of course, freight rates and availability.

Research load boards daily to see what is available in your preferred areas. You'll get an idea of types of freight, average rates and which brokers have the freight.

Once satisfied with an area or lanes, contact brokers who control freight there and explain what you have to offer. Your goal is to create a strong relationship and provide outstanding customer service.

Always be sure to double check mileage quoted from a broker or load board. Sometimes the mileage you see is from city-to-city rather than address-to-address. Additionally, watch out for double-brokered and co-brokered loads, which add more middlemen to the equation.

Once your business model is established, you'll be ready to jump through the administrative and regulatory hoops for going independent. The financial and technical preparations for going independent are not easy.

ANCHOR PRICING SKEPTICISM

"Price anchoring" describes preconceived ideas of a normal price for something. Many believe the price per mile should equal the per-gallon cost of fuel. Others say their goal is $1,000 gross for the day. Both are examples of price anchoring.

But assuming profit springs eternal from an anchor price can be risky.

If you know your cost, you easily can assess whether a load is going to generate the profit you need to pay yourself and then have a healthy 20% left over to bank as profit. If you're not accounting for payment to yourself in your overall cost per mile, that margin needs to be more in the area of 40%.

Once you establish an anchor, it begins influencing your freight rates and your buying habits.

Adjust your pricing formula based on attainable profit, variable costs, day of the week or month, weather, freight lanes, weight, hazmat considerations, load assistance and the time needed to service the customer.

HOW TO FILE FOR YOUR AUTHORITY

After establishing your business entity, follow these filing steps to obtain your authority. Federal filing information and forms are available via FMCSA.DOT.gov.

Get USDOT number. Traditionally, there has been no fee to register for your U.S. Department of Transportation number. As of Sept. 30, 2016, when MC numbers were phased out as part of FMCSA's new Unified Registration System, the $300 filing fee previously associated with MC numbers transferred to the DOT number. For this filing, FMCSA's online system will guide you through the process. For those filing paper, use the MCS-150 form. Several companies offer assistance in getting authority, including TBS, which does it for free aside from FMCSA's $300 fee.

Get insurance. Pricing primary liability insurance can be done at any point. After filing your business type with your state, a general rule of thumb is to get quotes from different insurance companies to assess affordability.

Owner-operators who've made the move relatively recently toward their own authority report wildly varying quotes — from $8,000 to $20,000 annually. Regardless of your driving record, as a new business you're viewed as risky, and you'll pay accordingly. Operators have reported primary liability rates falling to between $5,000 and $7,000 annually as their businesses became established. Once insurance is secured, have the agent file the appropriate BMC-91 form with FMCSA as proof of insurance.

Designate process agent. The process agent you select will be the entity upon whom court papers may be served in any proceeding against your business. Use FMCSA's form BOC-3 to designate your process agent. Make certain the agent is authorized to cover you in every state in which you operate.

OOIDA functions as the process agent for many of its members; some factoring companies, such as TBS (866-913-9892), also offer this service. Process agents may charge a startup fee and cost around $100 annually. FMCSA maintains a list of process agent on the Registration and Licensing portion of its website.

Complete UCR. Complete your Unified Carrier Registration via the central hub at UCR.in.gov. The fee is $76 annually for carriers with one or two trucks, rising from there for more power units.

Do truck signage. Federal regulations require any truck to have the following on both sides in a highly contrasting color: 1) The legal name of the motor carrier operating the truck as listed on form MCS-150. 2) The DOT number issued by FMCSA, preceded by the letters "USDOT."

If you want to include your name or any other name that differs from the exact business name, the words "operated by" must precede the legal name and identifying DOT number.

OTHER NEEDED FILINGS

Heavy Highway Vehicle Use Tax (Form 2290) and International Registration Plan (IRP). If you are obtaining plates in your base state, you'll need proof of payment of the annual federal HHVUT, which varies according to weight under load.

State fuel taxes. See Chapter 5 for more on the IFTA program.

State use taxes. Oregon, Kentucky, New Mexico and New York also levy separate use taxes you'll need to track. Oregon requires monthly in-state mileage reporting, Kentucky

MANAGING CASH FLOW. It's not unusual for a carrier to wait 30, 60 or even 90 days to get paid in traditional pay structures. Work in a broker with bad credit, and you might never get paid. An initial cash flow lull can make it extremely difficult to launch your business.

- **Cash and credit:** *Your ultimate goal should be to have enough cash in reserve to operate without borrowing. This may take months to accrue. If you don't have that kind of money, consider a revolving line of credit with your bank. You also can use a home equity line of credit, but understand that if you've borrowed too much and your business goes belly-up, you could lose your home.*
- **Broker quick-pay:** *The rise of smartphones and other new communications technologies has opened payment options to brokers that have offered quick-pay services to carriers for years.*

Those rates, as with factoring prices, are coming down. They often beat factoring rates, particularly the nonrecourse arrangements popular with independent owner-operators working load boards.

More traditional brokers also are migrating to mobile systems that are speeding up the payment delivery process.

- **Factoring loads:** *The ability to control cash flow will make or break a trucking business. Using factoring companies such as TBS to handle your receivables gives quick access to cash to fund day-to-day operations.*

GETTING INSURANCE. A carrier by law must have liability insurance. Most freight partners will require cargo insurance. A $1 million liability policy and a $100,000 cargo policy is recommended. Obtain insurance within the first two weeks of the DOT number being filed to avoid delays in authority processing or having it dismissed.

PLAN COMPLIANCE DUTIES BEFORE GOING INDEPENDENT

One major mistake many owner-operators make when considering the move to run under their own authority is to underestimate the total cost of operations. It's easy to look at a load board and dream about getting those rates posted and not sharing them with any carrier. It's another matter entirely to end up making less than you do now because of all the additional costs.

Consider these areas and decide if you are going to handle them yourself or pay somebody else to do them:

- *Rates and lanes*
- *Compliance*
- *Safety*
- *Drug testing*
- *Hours of service*
- *Accounting*
- *Fuel tax*
- *Mileage tax*

Compliance, safety, drug testing and hours of service fall under FMCSA regulations. Addressing these can cause a lot of stress and confusion. Also under Federal Motor Carrier Safety Administration is the new entrant safety audit. New entrants to trucking face a shortened deadline for correcting problems in their applications.

Applicants must submit a corrective action plan within 15 days of the audit or, in some cases, 10 days.

Have in place a drug and alcohol testing program, as well as one for keeping hours of service and vehicle maintenance records.

A carrier often handles tax filings for its leased owner-operators, but now you are the carrier. You are responsible for accounting for income and revenue for federal and state tax purposes, fuel tax, mileage tax and heavy vehicle use tax.

DO-OR-DIE PREPARATIONS FOR THE NEW ENTRANT AUDIT

After filing for authority successfully, you are responsible for buttoning up your business. FMCSA audits most new entrants within the carrier's first 18 months of business. It's critical you put into place evidence of your attention to compliance and safety management.

Critical areas of focus for new entrant audits include driver qualifications, logs, maintenance programs, a filed and up-to-date accident register and written drug and alcohol policies and procedures.

Any of the following violations will result in an automatic failure of the audit:

- *Failing to implement an alcohol and/or controlled substances testing program.*
- *Failing to implement a random controlled substance testing program.*
- *Driving or using a driver with an alcohol content of 0.04 or greater.*
- *Using a driver who has refused to submit to an alcohol or controlled substances test.*
- *Using a driver known to have tested positive for a controlled substance.*
- *Driving or using a driver without a CDL.*
- *Driving or using a driver with a suspended, revoked or canceled license or a federal disqualification.*
- *Allowing a disqualified driver to drive.*
- *Not carrying appropriate insurance, including minimum cargo ($5,000 per vehicle and $10,000 per occurrence) and $750,000 primary liability.*
- *Knowingly using a physically unqualified driver.*
- *Failing to require a driver to keep record of duty status current.*
- *Running a vehicle declared out of service before repairs are made.*
- *Failing to correct outof-service defects listed on vehicle inspection reports before further operation.*
- *Running a truck not inspected periodically. TBS Factoring Service (866- 913-9892) is a good resource for audit preparation.*

SMALL FLEET EXPANSION

The long-term goal of many independent owner-operators with their own authority is to expand beyond one truck. Often, the prime focus is to raise capital to invest in additional trucks, but some veterans have discovered that such an approach could be faulty in that it puts the equipment before the most important part of the equation — the driver.

In good economic times, expansion is a commonly explored option for naturally entrepreneurial owner-operators.

Only one in four Overdrive readers report never having considered it. Of the three in four who considered that leap, fewer than half of them remain a small fleet today.

Among the basic challenges of growth are increased liability insurance costs, new dispatch and freight management responsibilities, increased opportunity for inspections and the associated fallout when things go wrong and more.

For an owner-operator wellequipped to manage himself, his drivers and his equipment, though, there is opportunity for greater income.

For a small fleet operator who still drives, finding a self-starter with a passion for trucking is key. Absent employed dispatch and in-house maintenance personnel, and given the time constraint placed on a small fleet operator who still drives, the employed driver will need to be able to manage his time, loads and truck maintenance. These considerations could be critical to profitability.

In 2019 polling of Overdrive readers, the largest share of respondents (62%) reported belief that the driver was the most important part of the expansion equation.

Three principle areas of focus can help an owner-operator expand into a multi-truck business:

Pay. The average income for company drivers is between $40,000 and $60,000, depending on which statistics you're studying. By finding a solid customer base and having good relationships with brokers, you can keep rates higher than average. Offering safety bonuses and other performance-based pay boosts can help attract drivers to your operation— and keep them there.

Percentage compensation for employee drivers and leased owner-operators is common in new small fleets.

Incentives such as vacation and holiday pay also can help keep drivers around. Guaranteed minimums for compensation to backstop miles or percentage pay are becoming more common.

Overdrive research found in 2018 that 20% of small-fleet readers have such a guarantee in place, often structured as a certain amount per week the driver is available to work ($1,000 weekly is common).

Equipment. The opportunity to operate top-shelf equipment encourages longevity with your company. Give drivers with tenured seniority the first choice when it comes time to buy new equipment.

Home time. It's a common smallfleet practice to hire out of the area in which the company is headquartered. Many operate on an out-and-back model that gets drivers home for the weekend, if not even more frequently. A system like this also can help you get equipment back in one place for routine maintenance. Drivers' needs should take precedence over equipment decisions.

HIRING QUALIFIED DRIVERS

Overdrive research has found that small fleets have had success in advertising on their own equipment — giving would-be drivers an idea of the equipment they can expect before they ever make a phone call.

Leveraging social media, such as Facebook and Twitter, to reach out to trucking friends is another option.

Some things small fleets have tried with some success include:

- *Putting company contact information on the back of a trailer. This can put the idea in another driver's head to reach out and inquire about your company.*
- *Avoiding restrictive qualifications. If you're having trouble finding a pool of drivers, and if you have a certain requirement, such as a hazmat endorsement or the ability to drive into Canada, consider rethinking that as a requirement. That may not be an option for your business, but if it is, it can expand the pool of candidates.*
- *Ramping up social media and other online efforts. If you haven't already, create a Facebook page and a website for your company, and begin to advertise with both. Interacting on social media may require more of a weeding-out process than you want, but it can garner a lot of attention. Drivers can message you from your company's page, which can begin a conversation.*

Also, it's possible that you would be better off forming a limited liability company (LLC) or an S Corp for tax reasons before getting your own operating authority. Explore the question of tax structure with your business services provider or accountant before starting the application process.

When you are operating as a carrier, you won't always receive 1099s for the revenue you generate. You'll need an accounting system that tracks all income and expenses.

Other crucial preparations include developing a system for invoicing, accounts receivable and tracking fuel and mileage taxes. The latter two require filing the appropriate forms. You or a third-party specialist in this area will need to track all miles and gallons of fuel purchased in each state in order to file your IFTA forms. You also may need to file mileage tax forms in New York, Kentucky, New Mexico and Oregon if you travel in those states in any given quarter.

This may sound like a lot of work, and it is. Don't make this decision lightly. It can be a great opportunity if done right, but it can be your worst nightmare if you fail to plan and execute properly. If your goal is go independent, create your plan, figure out the costs, create your budget, and follow through.