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Don't Follow the Crowd

So, company driver... are you thinking of giving up that cushy company job and becoming an owner operator? If so, here are some things to take into consideration before you make your move.

Do your homework; when I consider the large number of owner operators in North America I am amazed at how few quality sources of information are available on this subject. CTHRC has a decent program which is lengthy and demanding. Kevin Rutherford has a good one-day crash course called "Changing Lanes" that is very informative also. I attended Kevin's CMC (Certified Master Contractor) seminar a few weeks ago in Scranton, PA. and suggest that this is a first rate course for both the beginner and the experienced owner operator.

As human beings we tend to follow the crowd and owner operators are no exception to this rule. I suggest that unlike many owner operators, who simply make their truck payments and hope there's enough money left over at the end of the month to pay the rest of your bills or vise versa, look at becoming an owner operator as a franchising opportunity where basic business principles apply. This includes having a business plan which includes a proposed cash flow statement and a contingency plan for the unexpected.

I suggest that you strongly consider the realities of what can happen if you are not fully flush with cash going into this endeavour. If you have only a half-decent down payment saved, you should be prepared to live a more simple lifestyle in the beginning; a good plan of success will have anywhere from two to six months of operating capital sacked away in a money market account (a rainy day stash, so to speak). I mention this first because it is a necessity; if you're not prepared for the unexpected it will get you when you least expect it and behind the eight ball you will be. You may need to sacrifice a certain level of lifestyle if you plan on running a solid business.

Many owner operators are afraid to seek professional accounting advice. An industry-focused accounting firm might be of assistance if you can find one you can trust; a few screening questions might determine whether they specialize in owner operator affairs. A quick test is to ask them to explain depreciation/amortization of equipment to you. If they suggest that you might want to replace your equipment over its lifetime because you have used up your amortization, leave immediately and don't look back. You are in business to make money...not only to minimize taxes; selling a truck prematurely when there is plenty of life left in it is a common mistake usually propagated by poor accounting advice. Tax savings should never be the primary reason one replaces their power unit! Ask them about the per diem meal allowance and how it works and ask about allowances for home office expenses also. You should know the correct answers first of course, to verify their credibility.

I suggest that if working as an owner operator will be your sole source of revenue that you do not incorporate; sole proprietor status is sufficient. I have heard some so-called expert owner operator accounting firms suggest that becoming incorporated is a necessity but I see no reason for this. It is costly to do and then costly to maintain and offers no real advantage that will offset the additional cost. Protection from creditors is the common rationale for this poor advice, but since most of you have already signed a personal guarantee to secure your truck loans in the first place, it therefore provides no protection.

If you are unsure of which company to work with, please read last month's article "Decision Time" for some tips (the article is still available on the Over the Road home page www.overtheroad.ca under the Speaking From Experience heading). Since most companies pay on a per-mile basis I suggest that you track all of your expenses in the same fashion, also known as Cost Per Mile. Simply divide your cost by the miles you perform and the answer is your CPM. Operators, this is the best way to see when things are trending off track. Every trucking company in the free world does it this way, why don't most owner operators?

Many owner operators go overboard when purchasing a truck. I strongly suggest you purchase the most aerodynamic tractor you can find, that suits your needs. Today's 600-plus power plants might be inviting but for most 80,000 lb. applications 370 – 430 horse-power is all you really need. Why throw dollars out the stack for the only purpose of being the first one to the top of the hill? It takes more fuel to produce 600 horse-power than it does to produce 400. Physics laws cannot be broken...no matter how strong the argument!

Remember that when you're on the highway, every extra mile of speed equals one tenth of a mile per gallon of fuel, so driving 10 mile an hour faster than you need to will cost you. One mile per gallon based on today's fuel cost can easily equal 10 to 12 thousand dollars per year. The old way of thinking that by flying down the road faster than the rest you could run an extra trip or two each month is still followed by many owner operators. I can assure you that this thinking is flawed and that the tortoise will always win this race...as long as the race is based on what's left in your pocket!

What do you think?

Please feel free to drop me a line on this idea.

Safe trucking!
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