

# THE ROAD TO BECOMING

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## A SUCCESSFUL OWNER-OPERATOR



trucksuite

# ARE YOU CONSIDERING BECOMING AN OWNER-OPERATOR?

You know how to handle your truck. Do you know how to run a business? That is an important question if you are considering becoming an owner-operator. Becoming an owner-operator requires a serious commitment, and not just from you, but also from your family. Going into business requires keeping your costs in line and understanding how to operate profitably. Here are some ideas and suggestions for you to consider if you want to become an owner-operator.



# PLAN AHEAD

There are four things you should consider when planning to become an owner-operator.

## 1 Get Your CDL and Start Driving

Words of wisdom from experienced owner-operators: Get your CDL before you try to purchase a truck, and whenever possible, drive for someone else for a few years to gain experience before you go out on your own. This initial experience can help you greatly, both in terms of driving experience and knowledge about the trucking industry.

## 2 Build a Credit History

Creditors look at your credit history, your driving experience and your sources of income when you apply for a loan, and being solid in these areas will help you obtain your first truck.

If you currently have no credit history, build one. Instead of always paying in cash, save that cash in your bank account and apply for small, easy-to-get loans. Then, pay back your loans on time or ahead of time. Each time you successfully borrow and pay money back, you strengthen your ability to get your next loan.

## 3 Save for the Down Payment and Initial Expenses

In order to purchase your own truck and be an owner-operator, you will need to have money in the bank, both for the down payment on the truck loan, and for your initial startup expenses.

**Down Payments** – Depending on your credit history and experience, down payments for trucks can be 10% to 30% of the cost of the truck. If the truck you are buying costs \$50,000, the down payment could be as much as \$15,000.

**Initial Expenses** – Start-up costs to get a truck on the road can easily be \$5,000 or more. Costs like sales taxes, insurance, registration fees, IFTA taxes, highway use taxes, inspections and other fees are all required when you begin your trucking business.

## 4 Educate Yourself — Start Getting Help

There are companies and organizations that can help you. The National Minority Trucking Association, for example, offers training and guidance. You can visit their website, [minoritytruckers.com](http://minoritytruckers.com), to learn more. Seek out classes, and begin to educate yourself on running a trucking business. Additional resources include Owner-Operator Independent Drivers Association, Used Truck Association, American Truck Business Services and Team Run Smart. Search the web to find additional ways to learn about the trucking industry.



## **BUILD A HOUSEHOLD BUDGET**

Before you decide how you want to conduct your business, it is a good idea to find out how much money your household needs each month, each year and for expected future expenses. This is a simple concept that everyone, in all professions, should do. If you are going to provide enough money to run your household and your business, you have to do more than hope – you have to plan.

Here is a sample household budget to review.

| HOUSEHOLD BUDGET           |           |          |
|----------------------------|-----------|----------|
| Revenue                    | Per Month | Per Year |
| Personal/Joint Income      | \$3,500   | \$42,000 |
|                            |           |          |
| Fixed Costs                | Per Month | Per Year |
| Home Mortgage/Rent         | \$1,000   | \$12,000 |
| Car Payment                | \$250     | \$3,000  |
| Car Insurance              | \$125     | \$1,500  |
| Health/Life/Home Insurance | \$350     | \$4,200  |
|                            |           |          |
| Variable Costs             | Per Month | Per Year |
| Food                       | \$450     | \$5,400  |
| Electricity                | \$100     | \$1,200  |
| Home Fuel                  | \$100     | \$1,200  |
| Phones                     | \$175     | \$2,100  |
| Medical/Dental             | \$125     | \$1,500  |
| Clothes                    | \$125     | \$1,500  |
| Entertainment              | \$175     | \$2,100  |
| Miscellaneous              | \$275     | \$3,300  |
| Savings                    | \$250     | \$3,000  |
|                            |           |          |
| TOTAL COSTS                | \$3,500   | \$42,000 |

When you build your own budget, make sure to include everything you spend money on – food, medical bills, entertainment – everything. That is the only way to get an accurate picture of what you need for your household.

**Income** – List your personal monthly income at the top of your budget (if both spouses work, include both incomes).

**Fixed Costs** – These are expenses or costs that are the same every month, like your house and car payments.

Multiply those monthly costs by twelve to arrive at your yearly costs in each category.

**Variable Costs** – These are costs that vary from month to month, like your electric and phone bills. You can use your checkbook to find an “average” to plan for each month. Add your 12-month costs to arrive at your yearly costs in each category.



## BUILD A BUSINESS BUDGET

The first months of starting a business are often when unexpected costs arise. Compiling a business budget will help you determine how many miles you need to drive to be profitable. Even if you are just in the planning stages of becoming an owner-operator, building a business budget can help you begin to understand and plan ahead for how much money you will need to be successful.

If you are an experienced driver who is considering becoming an owner-operator, you have a good idea of how to estimate the miles you can drive in a week, a month and a year. If you have never personally handled some of these expenses, talk with successful owner-operators who have. They can give you ideas on what to budget for tires, maintenance, insurance, plates, permits, taxes and everything else you will need in your business.

**Miles** – List the actual miles (the total miles you expect to put on your truck) at the top of your budget, and then include the revenue miles (the miles you will get paid for hauling freight) below that.

**Fixed Costs** – List the fixed business costs, such as your truck payment.

**Variable Costs** – List the variable costs, such as fuel and oil, maintenance, repairs and lubrication, tires, truck washing, toll, office supplies, phone, etc.

## Here is a sample business budget to review.

| BUSINESS BUDGET                                    |                |                 |               |
|--|----------------|-----------------|---------------|
| Revenue  | Per Month      | Per Year        | Cents/Mile    |
| Actual Miles                                       | 10,833         | 129,996         |               |
| Revenue Miles                                      | 9,966          | 119,592         |               |
| Personal/Joint Income                              | \$11,959       | \$143,510       | \$1.20        |
|  |                |                 |               |
| Fixed Costs  | Per Month      | Per Year        | Cost per mile |
| Truck Payment                                      | \$1,925        | \$23,100        | \$0.19        |
| Insurance  | \$505          | \$6,060         | \$0.05        |
| Accounting/Tax service                             | \$225          | \$2,700         | \$0.02        |
| Plates and Permits                                 | \$165          | \$1,980         | \$0.02        |
| Highway Use Tax                                    | \$125          | \$1,500         | \$0.01        |
| Federal and State Income and Self-employment Taxes | \$400          | \$4,800         | \$0.04        |
| Satellite Communications                           | \$195          | \$2,340         | \$0.02        |
| Total Fixed Costs                                  | \$3,540        | \$42,480        |               |
|  |                |                 |               |
| Variable Costs                                     | Per Month      | Per Year        | Cost per mile |
| Fuel & oil   | \$3,350        | \$40,200        | \$0.34        |
| Maintenance/Repairs/Lube                           | \$500          | \$6,000         | \$0.05        |
| Tires  | \$92           | \$1,104         | \$0.01        |
| Truck washing                                      | \$46           | \$552           | \$0.00        |
| Tolls/Scales                                       | \$37           | \$444           | \$0.00        |
| Office supplies                                    | \$46           | \$552           | \$0.00        |
| Legal  | \$9            | \$108           | \$0.00        |
| Phone  | \$92           | \$1,104         | \$0.01        |
| Personal Costs/Food                                | \$250          | \$3,000         | \$0.03        |
| Misc. Reserve                                      | \$150          | \$1,800         | \$0.02        |
|  |                |                 |               |
| <b>Total Variable Costs</b>                        | <b>\$4,572</b> | <b>\$54,864</b> |               |
| TOTAL COSTS  | \$8,112        | \$97,344        |               |
| NET INCOME   | \$3,847        | \$46,166        |               |

\* The numbers contained in our budget are just examples and do not necessarily include all of the costs owner-operators incur.

To get started, you can either estimate your budget yourself, or talk with other drivers and get their help in determining costs.

Be sure to account for slow months. There will be times when your business will slow down, whether based on the weather or the economy. You need to be able to make it through these slow times so you'll be ready for the good times once again.



## YOUR BUSINESS STRUCTURE

Another decision that affects your business budget is how you are going to structure your business. There are a number of ways, such as whether or not you should incorporate, or whether you should operate under your own authority or hire on with a carrier.

Talk with a trucking tax adviser/accountant who can advise you on structuring your business and on the tax benefits of incorporating. They can also help you make the decisions that will best help you get started down the road to success. Here are some additional ideas to consider

### Operating Under Your Own Authority

Some owner-operators choose to operate under their own authority. Generally, these individuals have most of the following traits:

- › Good at communicating, problem solving and interacting with people – you'll need positive references to get started
- › Have adequate cash flow with six months operating expenses set aside (enough money to keep you rolling until you get paid for the loads you hauled)
- › Able to find loads on their own
- › Have enough cash flow to purchase your own license plates and pay your own cargo insurance (anywhere from \$4,000 to \$6,000 per year), taxes, truck and personal insurance, etc.
- › Able to manage paperwork and file their own fuel taxes and permits and know and understand how to be in compliance with Federal Motor Carrier Safety Regulations
- › Self-motivated and successful at collecting money that is owed to them

## Hiring on with a Carrier:

Some owner-operators prefer to contract with a carrier for the benefits the carriers can provide them. Here are some considerations to think about:

- › Regular pay periods (usually weekly settlement checks)
- › Carrier provides the loads you haul
- › Many offer health insurance
- › Carrier files your fuel taxes, cargo insurance, toll tickets and a portion of your various licenses and permits

## Here some common requirements carriers look for when hiring owner-operators:

- › Pass all company driver requirements
- › At least one year of driving experience (some require one to two years over-the-road experience in the last three-to-five years)
- › Meet all DOT (Department of Transportation) requirements, including passing the physical and alcohol screen
- › No DUI (driving under the influence) convictions in the last three-to-five years, no more than two moving violations in the past three years
- › No felony convictions or probation
- › No major preventable accidents in last two-to-three years
- › Possess a CDL
- › Some have minimum age requirements
- › Good references
- › Truck title (original or notarized certified copy is accepted)
- › Form #2290 showing proof of payment of Federal Highway Use Tax for current year
- › Certified unladen weigh ticket
- › Insurance certificates for Bobtail and Physical Damage Insurance (if not purchasing insurance through the carrier)
- › Social security or federal tax ID number
- › Some require recent model equipment with specific axle, wheelbase and height requirements, while others request that your tractor comply with their company colors (can require money set-aside for paint job on your existing truck if needed to hire-on)
- › Must pass visual inspection
- › Some require satellite communications (often offer a rental package for a monthly fee)

## Here are some common considerations you should think about when hiring on with a carrier:

- › Is this company financially strong with a good reputation and stable customer base?
- › Can they provide year-round miles? Talk with owner-operators who currently work for this carrier and get the inside scoop on how they operate.
- › How much and how do they pay, by the mile or by the load? Is what they pay going to be enough to cover your household expenses and your business expenses? Do they pay a signing bonus and if so, does it require you to sign a longer contract than normal?
- › Do they offer group health and life insurance?
- › Are they easy to work with, and do they treat their drivers with respect? You can get a sense for this right down to the people who answer the phones. If it's unpleasant just trying to get a job there, it could be a sign of things to come.
- › Make sure you are a good fit and that this carrier handles the types of loads you want to haul.
- › Does this carrier pay dead-head miles?

## Finally, before signing a carrier contract, but sure to review the following:

- › Read the fine print and have a professional (such as your lawyer or accountant) read the signing contract.
- › Make sure charge-backs, or "fines," are clearly outlined and that you understand them.
- › Understand what will be deducted from your settlement checks and for which expenses you or your carrier are responsible.
- › Make sure you understand any bonuses the carrier offers. Are they so hard to attain that you will never benefit from them?
- › Check into their seniority practices when assigning loads. Are there enough loads that their drivers with seniority and their new-hires can both make a living?
- › Does this company require you to pay money up front (up to \$2,000) toward an escrow account (in case you incur damages or unpaid expenses)? If so, make sure it is clearly defined and that you know how soon this money is reimbursed, should you leave the company.
- › Ask one (or more) of their drivers if they are getting as many miles as they want; if the carrier pays on time;
- › If they have had any problems with the carrier regarding pay-backs, penalties or hidden costs; if the insurance is good; if the carrier keeps their promises; if the dispatchers are nice to work with; and if they had it to do over if they would sign with this carrier again.



## CHOOSE YOUR TRUCK

**An important part of your start-up plan is deciding what type of truck you need to purchase.**

When investigating the type of truck they want to purchase, many operators analyze Total Cost of Ownership (TCO). TCO consists of examining the costs of the truck throughout its life cycle, and includes purchase price, fuel, maintenance, warranty, downtime and resale value. An understanding of TCO analysis is vital to purchasers of used commercial trucks. Freightliner Trucks takes this concept a step further with Real Cost of Ownership (RCO). RCO expands the traditional TCO analysis by considering both the hard and soft costs incurred over the lifetime of running a commercial truck. Hard costs are the hard numbers you get by using a calculator, like monthly diesel expenses. This is typically what is found in Total Cost of Ownership calculations. Other factors - like comfort, safety and connectivity options- are more difficult to express in dollars and cents; these are the “soft” costs. And these real-life soft costs factor into the real cost of owning used trucks, as much as an increase in the price of tires.

So, what used truck should you be looking at in order to minimize your total or real cost of ownership? If your business is a long haul, highway operation, then a used, Freightliner Cascadia sleeper truck might fit your bill perfectly. The Cascadia stands on six pillars of ownership: Driver Experience, Quality, Uptime, Connectivity, Fuel Efficiency and Safety. As an example, with the Cascadia's aerodynamic design coupled with a Detroit engine, used truck owners can save thousands of dollars in fuel expenses over the life of the truck. And if the Detroit DT12 transmission is part of the drivetrain, owners can expect to vastly improve their driving experience, along with more fuel savings, reducing their Real Cost of Ownership compared to other used truck options.

**TruckSuite Relationship Manager can help you find the right truck for you.**



## FINANCING YOUR TRUCK

When you purchase your truck, you will mostly likely need a vehicle loan, just like when you purchase a car and finance it. When you finance a truck, you end up owning it when the loan is paid off. This can be a benefit if you have maintained your truck well and it is in good condition at the time of trade-in.

### Down Payments and Monthly Payments

Average drivers spend approximately \$1,200 to \$1,900 per month on their truck payments. Down payments for a truck usually range from \$6,000 to \$15,000. Some lending companies have special programs with low down payments to help drivers get behind the wheel. Even so, careful budgeting will help you set aside money for your down payment.

### Pre-Approvals

More and more lenders offer a pre-approval process for truck financing. Just like pre-approvals when buying a house, obtaining a pre-approval from your financial institution for a truck loan helps set the stage for the truck and payment expectations. Your SelecTrucks sales professional can help you with this. Once you have a pre-approval, you'll know the price range of the truck that you can finance, and you can search for it with confidence.

### Lease / Purchase Programs



# ARE YOU READY TO PURCHASE YOUR TRUCK?

Here are five key elements you need to consider when you are ready to purchase your truck.

- 1 Do you have two years of verifiable driving experience?
- 2 Have you set aside funds for your down payment (10% to 30%)?
- 3 Have you set aside funds for your start-up costs (\$5,000 to \$7,000)?
- 4 Have you obtained finance pre-approval before you shop for your truck?
- 5 Do you either have your own trucking authority documented and in place, or a full-term agreement in place with the company you're hiring on with?

Once you can answer “yes” to these five questions, you are ready to purchase your truck.



## WORK WITH PEOPLE WHO CAN HELP

It's difficult to become a successful owner-operator without the help of some key individuals. Here are some ideas to consider when surrounding yourself with people who can help you.

**Your Family** – The support of your spouse/family is essential. Starting a new business is tough. The moral support and other assistance family can provide will definitely help you down the road.

**Bookkeeper** – You need a good record keeper who takes every receipt and ledgers the money that is coming in and going out. This person should be the one who gets your income statements ready and files them in monthly envelopes to give to your accountant at tax time. Many spouses assist drivers with bookkeeping. It's a great way to "share the load" of your business.

**Trucking Tax Accountant** – A tax accountant who specializes in trucking can help you get set up to pay your taxes and organize your business. Build money into your budget for accounting assistance and advice, because it will pay for itself time and time again.

**TruckSuite Professional** – We do more than just "sell" you a truck. They will be a great help in walking you through the entire process of becoming an owner-operator. They can help with titles, insurance, paperwork, finding good financing, and of course, getting you into the right truck and best financing options for your budget.

**Whatever you do, remember that you are preparing to run a business and preparing for success. Best wishes from your friends at TruckSuite.**

