

Making Your Miles Count: Successful Operators know their Business

There are four major things as an operator that causes success or failure: fuel consumption, maintenance, carrier contract and income taxes. Blame for the failure of an operator is usually not in that order. Both Maintenance and income taxes get the highest blame while fuel and carrier contract carries the lowest blame.

Just because someone blames something for a failure does not necessarily mean it was the cause. Fuel consumption can fluctuate \$10-30,000+ on your bottom line easily if circumstances are ripe for it. Maintenance can fluctuate \$10-30,000 as well, except they are generally predictable and easily budgeted for. Carrier Contracts are also very predictable, they should be charted out before even signing to make sure you have adequate cash flow. Taxes, of all things business are the most easily managed. The two systems available produces differing results to the amounts of \$10-12,000. Using on-taxable benefits requires the operator to follow rules that make tax surprises nearly impossible.

The real reason operators fail are usually not the voiced reason. The voiced (or public) reason is almost always a very short sighted view of their business. Simply put, failure comes from a negative business cash flow. The important question will always be "How come the cash flow is low?". Upon analyzing nearly all failures I have come to five conclusions:

1. Operators begin their business under capitalized. They simply borrow way too much money and use expensive credit to carry the operations of their business. Assumptions about what they can afford erodes available cash for the necessary business expenses.
2. Fuel consumption is an afterthought on too many truck purchases (a guess). When the pollution control devices worked its way through the market, fuel consumption rates dropped an estimated 1 mile per gallon. It made a difference of \$700-1200 per month in cash flow. It devastated most operator's businesses. It remains the biggest impacting feature on trucks because its the one with the most variations in it.
3. Maintenance is rarely set aside. In a 2014 poll I found that 70% of operators drive pre-emission trucks. That means that maintenance is much more predictable than the rest of the industry. Predictable maintenance requires regular contributions to a savings account when things are good, and yet too many don't run with a savings account at all. Every operator must put aside a predictable amount that is reasonable for their future maintenance program.
4. Carrier Contracts are not adequately analyzed. There are too many assumptions made about performance, volume and its impact on cash flow. Most operators switch to a different carrier based on a friends recommendation. Since no two trucks or two drivers perform the same, the outcomes in cash flow can vary significantly. It is very important to have a cash reserve for unexpected changes. If an operator has less than \$10,000 in their savings they should be in panic mode until they get that set aside. Trailing too close behind your revenue causes financial fender benders.
4. Taxes are a NON-ISSUE if properly set up. As stated before if operators do not use the most effective tax planning available (non-taxable benefits) they are simply paying too much taxes.

Taxes are probably the easiest to accommodate and budget for. Follow the rules and have it done by someone who knows how to defend it to CRA. If you worry at all about your taxes, your not doing it right.

5. Personal financial requirements place unrealistic burdens on the business. Too many operators think that owning your own truck produces huge financial rewards. They think it will pull them out of debt. That is a dangerous half truth. It can and will pull people out of debt provided heir lifestyle dosn't respond with an automatic increase. The problem is that when most people have access to cash (or increased credit) they tend to use it. It's a sad fact but I have found that to be true even in my life. I am a big fan of Dave Ramsey "Total money Makeover", getting out of debt is one of the most important things we can do for our families. If you read last months article you may realize you don't have much time left to do so.

Operators financial success is what I have focused my 20+ year carrier on. I have written two books on the subject: one on taxes, and the other on carrier contracts. I have counseled hundred of operators on how to set up their business efficiently and tax wise. There is only so much an accountant can do to help. The rest is up to you, your drive to succeed, your passion to build a financial future for your family. Without that drive and passion we can all get very very lazy financially. If we don't commit ourselves to financial freedom now we may not have a chance in the future.

About the Author:

Robert D. Scheper is a leading Accountant and Consultant exclusively serving the Lease/Owner operator industry in Canada. His first book in the Making Your Miles Count series "taxes, taxes, taxes" was released in 2007. His second book "Choosing a Trucking company" is the most in-depth analysis of the independent operator industry today. He has a Master degree (MBA) in financial management and has been serving the industry since he and his wife came off the road in 1993. His dedication, commitment and strong opinions can be read and heard in many articles and seminars. You can find him at www.makingyourmilescount.com or 1-877-987-9787.