Spec'ing Your Taxes With Robert D. Scheper

Choosing A Trucking Company: Fuel Costs For Owner Operators?

To effectively discuss fuel costs we have to first agree on a few definitions. In my first book I defined two different types of operators, lease-operators and owner-operators. The definitions have nothing to do with the financing arrangements of the truck, it has to do with the business operating models. Simply put, lease-operators get paid by the mile and owner-operators get paid percentage of the freight rate. The two business models are light years apart in risk and therefore have significantly different fuel cost issues.

Lease-operators are focused primarily on keeping their miles high and their costs low in order to manage their return on investment.

Owner-operators are less concerned with the volume of miles and more concerned with the net rate per mile (loaded/empty miles, freight quote/risks, waiting time etc.). They are exposed to freight rate fluctuations (trying to be at the right place at the right time) and can experience both feasts and famines.

From a business perspective the adage is "the higher the risk the higher the rate of return". Therefore, in theory, owner-operators should make more money than lease-operators because they have much higher operating risks. But theory is just... theory. Good paying loads is not always dependant on being at the right place at the right time. It's also dependant on the trucking company licensed on. Sometimes the company doesn't have access to good paying loads, or you're power is assigned to serve other specific customers. Either way owner-operators are usually married to the trucking company's customer base.

Being exposed to fluctuating freight rates, owner-operators (by principle) should also be exposed to fluctuating fuel prices.

Therefore (by principle) all fuel surcharges should go directly to the operator. None of the fuel surcharge should be portioned off for the trucking company. Trucking companies have no fuel costs in an owner-operator contract. The customer (and industry) understands that the fuel surcharge is indexed to fuel prices. In principle having a load broker or trucking company take a percentage of the fuel surcharge from an owner-operator is "theft" (however, not necessarily theft by Canadian law).

Currently, the industry is split. Some respect the operators fuel surcharge portion and others do not. However, this conflict is not up for debate. The only reason some DO is because some CAN! If more operators refused, less companies would skim. The solution is relatively simple. The trucking company could just retain a higher percentage of the non-fuel-surcharge portion. The net result may be the same but at least the principle wouldn't be violated. Heavy loads, or terrain that increases fuel consumption could then be more accurately compared to freight rates and net fuel costs. It would also accurately assist in comparing different trucking company's fees 8%, 10%, 15%, 25+%.

Freight invoices should always specifically list fuel surcharges so costs can be tracked net of fuel surcharge (subtracting the fuel surcharge from the actual fuel costs).

However, there is more than ten ways to skin an owner-operator. Some customers don't want to see the breakdown, they only want the bottom line (or so the industry says). To further complicate matters, most trucking companies own or use a related load brokering company and can hide a lot of information (if they want to). When no breakdown is provided how do you factor out the fuel surcharge which is obviously included? The answer right now is, you can't!

Add yet another crack in the industry. In a highly competitive environment all bets are off on methods of even calculating rates. Trucking companies have a nasty habit of abandoning sound business models for their own self-delusioned reasons. This industry crack habit will further restrict the owner-operator from any accurate comparisons. It appears the industry has embraced a philosophy of "Keep 'em dumb... Keep 'em hungry!"

This is just one of the many places where scientific business principles stop and blind trust begins. Owner-operators are at the mercy of the Company owner's personal ethics. Without a universal standard its nearly impossible to compare apples to apples scientifically. It enforces "every man (or operator) for themselves" and escalates the industry's "trial and error turnover."

It's not just frustrating for owner-operators but for good companies as well. Ethical owners who are both transparent and supportive of their owner-operators see the "tricks of the trade" every day. They know how the unethical companies skin the industry professionals. In some cases it's the shafting of the operators that kept the unethical companies alive during 2009. It keeps freight prices unjustly low for everyone and clouds the judgement of good drivers from switching to good companies. It's the natural by-product of the "keep 'em dumb... keep 'em hungry" philosophy.

There is a three part solution to this operator dilemma: educating owner-operators, transparency of trucking companies and sound personal ethics. Just as clarification, there is no such thing as business ethics! Everything is personal! Too often the term "business ethics" simply provides verbal justification to flat out screwing someone.

The fuel costs for lease-operators is an entirely different topic. It's much more critical and much more controllable. Let's take that up next month.

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