Choosing a Trucking Company: The First Step to Leveling the Playing Field

I've been asked many times what's the most controversial term in a lease operator contract? What is the one term that, if changed or corrected, would make the company to company comparisons more accurate and provide the most dramatic leverage to the plight of lease operators? Would it be: licensing? Insurance? Mileage rate? Load/unload consideration, or maybe wait times? Which contract term, if universally accepted by all companies would truly level the playing field in the trucking industry?

The answer is: providing a consistent and realistic fuel surcharge system.

If every company provided a fuel cap comparing companies would be as easy as a restaurant napkin and would insulate operator fuel costs from market fuel price fluctuations (the way they should be). However, most companies use a fuel surcharge system.

In the 1990's the industry had neither cap nor surcharge because the price of oil had been $15-20 a barrel for over a decade. Shipper/receivers rejected any notion of a fuel surcharge. It was irrelevant in the atmosphere of stable prices (out of sight out of mind). But then oil demand started to rise as supply started to squeeze. All eyes started turning to oil as Operation Desert Storm liberated Kuwait from Saddam Hussein.

Even then, it took nearly a decade for shippers to finally accept fuel surcharges as the norm and is firmly embedded in all freight rates today.

But, what happened within lease operator contracts? What happened to operators as fuel prices road a roller coaster?

Though some companies started with a fuel cap, most ended up using a cent per mile surcharge. Over the years companies changed their contracts to work out their specific bugs or find out which various formulas suited their operations best without loosing too many operators in the process.

However, the unfortunate fact is that companies use inconsistent or illogical methods of calculating lease operators fuel surcharge.

For example, some operators had to get 12.5 mpg in order to keep their fuel costs level. This means that any jump in fuel costs resulted in an over dramatic increase in operator fuel costs. Still, far too many companies don't have their surcharge even linked to market fuel indexes. Management seems to only raise their surcharge when enough operators complain, forcing operators to loose cash flow while companies either harvest profit or fail to pass on the costs to shippers (or a combination of both).

Some companies justifications for their insufficient surcharges is that "not every shipper/receiver pays a surcharge". That answer is both true and false. It is true because not all freight invoices show a separate fuel surcharge amount. The statement is also false because inherent in every bottom line freight invoice is an assumed fuel surcharge which may be accompanied by either a positive or negative market allowance for backhaul/empty miles consideration.

However, whether the company charges fuel surcharge to shippers or not is irrelevant to lease operator contracts. One has nothing to do with the other. Lease operators contracts are stand-alone. They are not dependent on market freight rates.

Trucking companies must view their lease operator contracts as an independent cost structure. They may use fleet numbers to assist in designing it but that's as far as the

comparison can go. Lease operators are different than company drivers in productivity, availability and freight management efficiency (truck fuel and maintenance). They will always be different. Their differences should have little or nothing to do with their compensation package. If lease operators get 6.5 miles to the gallon while company drivers get 6.0 mpg the trucking company cannot (or at least should not) lower operator compensation just because operators are more efficient.

If operators are 25% more productive with customer satisfaction or "difficult freight issues" it should not factor into the compensation package unless the company wishes to voluntarily pay a surplus for those services. But unfortunately, too many company contracts still try and compensate operators according to company cost structures.

Fuel surcharge is the primary example of this conflict. What determines the fuel consumption rate used in calculating lease operator fuel surcharge? Is it the company consumption rate? Is it the fuel tax consumption rate used to charge fuel tax to operators? Or is it the average operator consumption rate?

The argument by trucking companies that fuel surcharge to lease operators are subsidized by the company is just not an accurate portrayal of the business activity.

Companies may argue that lease operators would become too expensive, to which should be replied… then don't hire them.

If every company used the same evaluation system to compensate Lease operators, things would dramatically change. Many companies margins would fall till they would either: go bankrupt, settle for lower profit, or be forced to charge more for their freight (or some combination of the last two).

Lease operators, those who should never be exposed to fuel market price fluctuations other than through consumption differences, are a flat cost per mile expense for trucking companies. They are an independent business within an independent business. They should never be used as a financial cushion when things go bad.

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