



FREIGHT DECISIONS FOR OWNER-OPERATORS

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How many times have you heard an owner-operator say, "That freight is too cheap for me to haul"? From a business standpoint, there are times when it's understandable for an owner-operator to think this way. However, we often find that the rationale for owner-operators turning down freight can come from them misunderstanding the true cost of operating their business on a daily basis.

If an owner-operator believes the freight they are offered is "too cheap", many times they will opt to deadhead or skip a day on the road all together rather than take the load. We often hear them say they won't run for anything less than a predetermined amount of money per mile. We don't believe this is the correct way to look at freight rates. Rather than choosing loads based on revenue per mile, drivers need to look at revenue per day on

a round trip or weekly basis. This is because whether or not a driver is hauling freight, fixed costs don't stop.

In order to have a better understanding of what a driver needs their revenue per day to be, they need to truly know what a day off will cost them. For our clients, the average fixed cost is around \$140 per day. Once they know their fixed costs per day, as well as their break-even point to cover variable expenses, rather than saying "I won't run for anything less than \$2.50 per mile", they should be saying **"I know my breakeven point is \$.80 per mile, plus \$140 per day, so this is what I need to cover."**

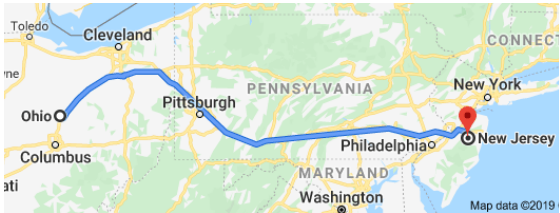
Let's look at an example of the things a driver needs to consider when deciding whether or not to wait an extra day to get a better paying load. In this example, we will look at a common designated route

between Ohio and New Jersey. The route from Ohio to New Jersey is considered a headhaul. A *headhaul shipment is from a high volume area in a dedicated lane that usually pays well.* The route back from New Jersey to Ohio is considered a backhaul. A *backhaul shipment is the opposite of a headhaul. When a driver is in a backhaul, they want to look for a load that will get them out of there quickly and back into a headhaul lane.* Think of it this way; the headhaul is subsidizing the backhaul. When leaving a backhaul market, a driver can't afford to be super picky or they'll force a layover on themselves that will cost them more money in the end. When hauling headhaul and backhaul loads it's important to always remember to manage the average of the backhaul/headhaul revenue instead of each load individually.

In our example, we will look at Driver A and Driver B. Both drivers are taking the same 1,000 mile round trip from Ohio to New Jersey and back. Let's see what happens when Driver B - who has the same amount of variable & fixed expenses as Driver A - waits a day for higher per mile freight to get back in the headhaul market. This example will show why a driver really has to look at revenue per day and consider loads on a round trip basis rather than just one way.

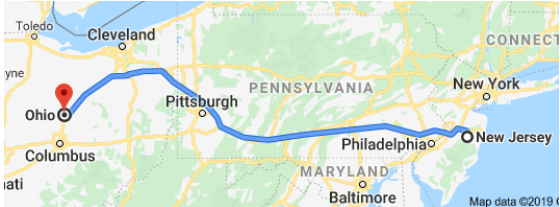
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Ohio to New Jersey	Driver A	Driver B
Miles	500	500
Revenue per Mile	\$2.50	\$2.50
Trip Revenue	\$1,250	\$1,250
Fixed Cost	\$140	\$140
Variable Cost	\$.80 per mile	\$.80 per mile
Total Cost	\$540	\$540
Profit	\$710	\$710



Driver A and B are taking a 500-mile load from Ohio to New Jersey while earning \$2.50 per mile. This means the trip revenue is \$1,250. Let's say both drivers have \$140 in fixed costs per day plus an additional \$.80 per mile in variable costs. This means their trip cost is \$540 which also means their profit for the one way trip is \$710.

New Jersey to Ohio	Driver A	Driver B (waited a day)
Miles	500	500
Revenue per Mile	\$1.50	\$1.75
Trip Revenue	\$750	\$875
Fixed Cost	\$140	\$280
Variable Cost	\$.80 per mile	\$.80 per mile
Total Cost	\$540	\$680
Profit	\$210	\$195



The next day, Driver A takes a load that pays \$1.50 per mile and receives a profit of \$210. Driver B turns down the \$1.50 per mile load and waits an extra day to get a higher paying load at \$1.75 per mile. With this load, Driver B earns \$875 in revenue but with an extra day of waiting he has \$680 in expenses which means his profit is also \$195.

Over 3 Days		
Daily Profit	Driver A	Driver B
Day 1	\$710	\$710
Day 2	\$210	N/A
Day 3	\$710	\$195
Total Profit	\$1,630	\$905
Profit per Day	\$543	\$302

On top of this, Driver A was able to get back into the headhaul lane a day early. This means he earned an extra \$710 in profit over the same three day period. So Driver A, over three days, earned \$1,630 in profit which is \$543 per day while Driver B earned \$905 in profit which is \$302 per day. Obviously, it's not always going to work out perfectly, but a lot of the time it's beneficial to get into the headhaul lane quicker.