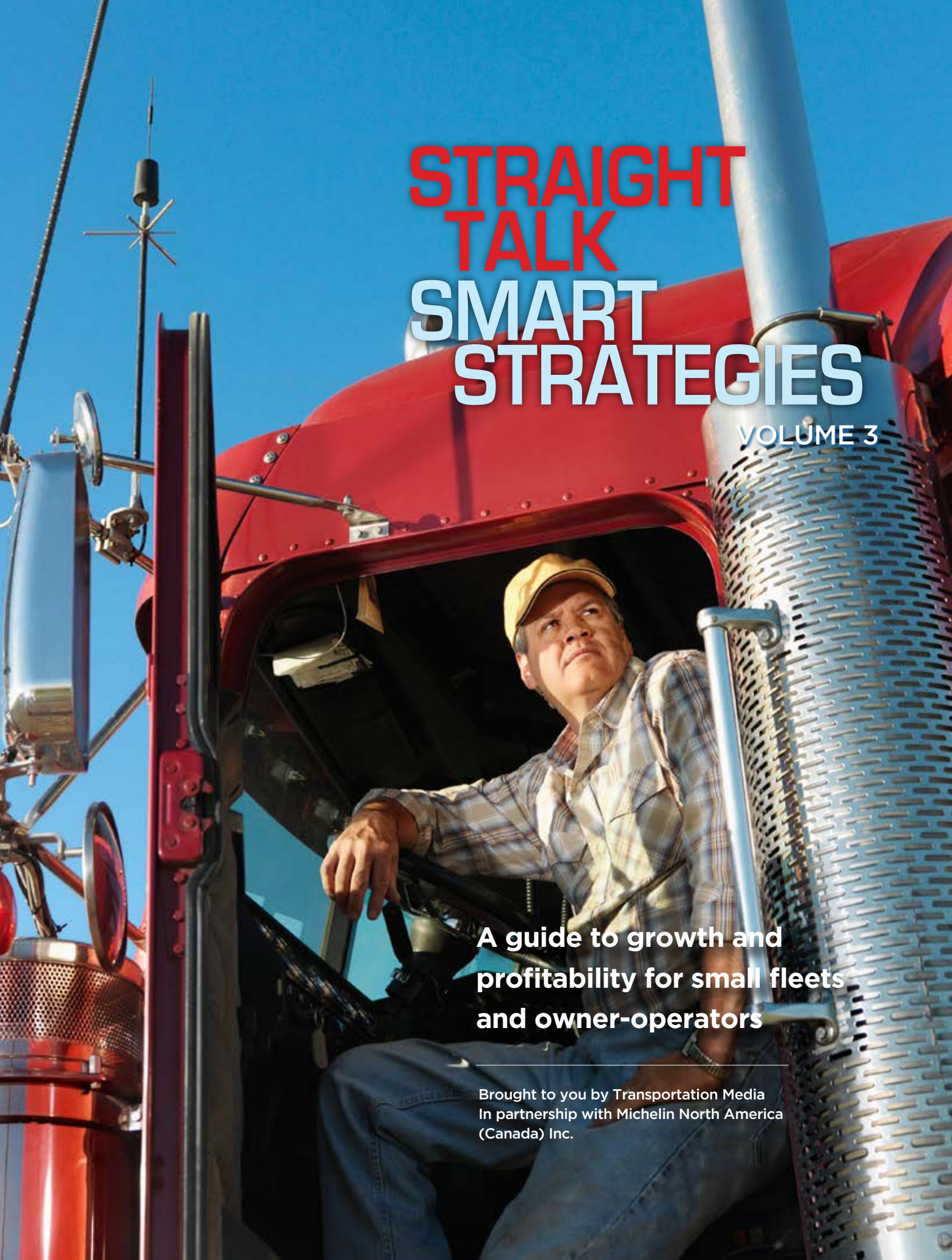

STRAIGHT TALK SMART STRATEGIES

VOLUME 3

A guide to growth and profitability for small fleets and owner-operators

Brought to you by Transportation Media
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Straight Talk; Smart Strategies

Small fleets and owner-operators are the heart of the Canadian trucking industry. Small fleets make up about 60% of the total number of fleets operating in Canada and often service areas and customers larger carriers aren't willing to handle. Owner-operators handle a large percentage of the long haul miles and transborder hauls and are a key element in the growth strategy for many national carriers. Several years beyond the depth of the Great Recession, Canadian fleets and owner-operators are beginning to transition away from just merely surviving towards once again thriving. Our annual Equipment Buying Trends Survey shows that small carriers are once again looking to renew their truck fleet after spending several years on the sidelines.

The economic outlook is also improving but seizing the opportunities of a growing economy will require adopting the right strategies going forward. There are many ways to grow a company; but which are the best ways?

Welcome back to our Straight Talk, Smart Strategies series of digital supplements. This time we focus on the profitability and growth strategies for Canada's small fleets and owner-operators.

This is the first of two in-depth reports on this most crucial part of our industry. Both are brought to you once again in partnership with Michelin North America (Canada) Inc. In the following pages you will learn about how to stay profitable in good times and bad; what to consider before adding to your fleet size; and why buying used may be a smart option.

It doesn't end there, however. There is more to learn. The next installment of our Straight Talk, Smart Strategies supplement on small fleets and owner/operators will include interviews with some of the nation's most successful owner/operators as they share their secrets to success; how to effectively calculate cost per mile and an insightful feature on the kinds of equipment you should be spending money on now to save money later.

I also encourage you to turn to the special Straight Talk, Smart Strategies Knowledge Centre we have created for you on www.trucknews.com for more features and informative videos about small fleets and owner-operators.

We've worked hard to produce a multi-media educational package that allows you to learn and thrive in the years ahead. I hope you enjoy it.

Lou Smyrlis
Publisher & Editorial Director
Transportation Media

PLAN FOR PROFIT

Small fleets can remain in the black, but it's no accident

BY JOHN G. SMITH

Every business faces economic challenges. Contracts are earned and lost. Freight volumes increase and disappear. Costs rise … and rise again.

In the midst of it all, successful small fleets are still able to adopt business strategies which keep ledgers covered in profitable rows of black ink.

The focus begins with a careful look at recurring business cycles. Bill Cameron of Parks Transportation in Owen Sound, Ontario has carefully charted seasonal freight volumes from one year to the next, and knows July always means fewer loads of building materials. It's why he encourages his owner-operators to plan major repairs or book holidays during that month. If a fleet trailer needs to be repainted? This is when that work is scheduled as well.

Admittedly, it can be tougher for a small fleet to absorb the financial hit of an unexpected drop in cash flow, says Roy Craigen of Transcom Fleet Services. "The big guys, they can lay a few people off; park a couple of trucks," he says. "The smaller guy is losing a bigger chunk of his revenue."

A threat like this can only by minimized with a diverse customer base. The successful fleets, says the industry con-

sultant, tend to be those which are open to "non-traditional" business. During slow periods this might mean offering support services to another fleet, taking seasonal work on ice roads, or hauling specialized flatbed and hotshot loads.

Whatever it takes.

"You have to learn to not be so specific in what you do," agrees Jennifer Singer, operations manager of the 25-unit Ron Singer Truck Lines. "You have to broaden your horizons or scope of work ... you can't only do city trucking, or you can't only do highway trucking." Her Calgary-based fleet specializes in dry bulk work, but is also involved in site remediation, excavation, demolition, construction and crane service. The drivers who haul gravel in the spring, summer and fall need to prepare themselves to remove snow in the winter, and embrace the different schedules which come with the task.

Chris Sutherland, president of Sutco Transportation, says his 80-truck fleet in Salmo, BC has protected itself by serving multiple markets, with divisions hauling everything from logs to general freight. If business from the oil and gas sector sags, it can be offset by demand to move other products like building materials or pulp and paper. "There's always one of our sectors that is booming," he says. "Even through the recession."

No matter what business is secured, it also needs to be profitable.

"Whatever your freight rates are, stick to your guns," Cameron says, suggesting a small fleet will likely need to secure margins of 8-10% to support any plans to grow or update equipment. "I don't know how it's done any lower."

Craigen agrees, and warns against those who are willing to accept some business – at any rate – just to help bridge gaps in revenue. "Every truck has to make money," he says.

The incoming cash flow, of course, is only part of the equation. Any margins can quickly evaporate if costs go unchecked.

"The margins are so tight. We gross millions of dollars. If you get 1% [in profit] to stick at the end of the year, you're happy," Sutherland says.

It is why Sutco monitors underlying costs so carefully. In addition to tracking the overall cost per kilometre, he breaks the calculation down into vehicle payments, wages, insurance and maintenance. Each cost is also tracked per division and industry sector, along with revenue, administration and overhead fees. Advances in software puts detailed information like this within the reach of every fleet, regardless of size.

"If you wait to do quarterly reporting, you've missed the boat," Sutherland says. His fleet learned that lesson the hard way after managers saw some unfavourable results for a quarter in which everyone believed the business was doing fine. The team now generates reports every week, and pays particular attention to the monthly statistics calculated 20 days after the end of each month. "If the manager doesn't have the data, how can he fix things?" he asks.

Fuel costs are certainly another factor to track. "If you're a trucking company and you run without a fuel surcharge you're stupid," Singer says, noting how she sets the fees on the 15th of the preceding month, so customers have a chance to plan their own expenses.

Parks Transportation, meanwhile, monitors its fuel bills every week to ensure that fuel surcharges are adequate, and even bases the surcharges on the fuel prices in specific lanes. The national average may just not be close enough to reality. "There was a time when even changing it once a week wasn't often enough," Cameron says.

Cameron has also been able to control costs by extending equipment life. His own truck is 14 years old, and he continues to rebuild components rather than buying new. "In 2002 we had a 1973 [truck] working here, but it was spotless from bumper to tailgate," he says, noting how regular maintenance can make a difference. There are also deals to be found. He acquired an 11-year-old flatbed trailer once he learned how it was only occasionally used by a heavy equipment business. "Generally the flatbeds are a lot sturdier than dry vans," he says.

> "If you wait to do quarterly reporting, you've missed the boat."
>
> *- Chris Sutherland, Sutco Transportation*

Strategies like these are particularly important to small fleets which will have limited buying power, Craigen says. "Getting the longer life out of the rolling stock and getting the stronger resale at the end ... it offsets that big corporation's ability to buy equipment a lot cheaper."

Singer still believes it's possible to secure fair purchase prices despite the business size. "You've got to work your relationships with everyone," she says.

"Research everything your customers do," Singer adds. "If you can help them to find a way to cut costs, they'll always use you." The support is not limited to trucking, either. If a customer needs to buy lubricants, she is quick to recommend her own trusted supplier. "If you can intertwine everyone together, you're more valuable." She even suggests sharing information about specific costs, so customers understand the true pressures on rates. "Help them understand what you truly need," she says. "Don't be so secretive about everything."

There may also be limits to how quickly a fleet should grow – even if the trucks and freight are available.

"It's not, 'Can I find customers?' or 'Can I find financing to buy or lease the equipment,'" Craigen says. "The biggest issue moving forward is, 'Do I have the effective ability to run it?' Do they have the technical capabilities? Do they have the management capabilities? Do they have the maintenance and compliance capabilities, and the motivational capabilities?"

Sutherland prefers to cap growth at 15% a year, to ensure any change does not outpace business systems which govern everything from human resources to safety. "We've done it over the years and you're not successful if you grow too big, too fast."

Cameron learned this lesson the hard way.

Prior to the 2009 recession, his fleet acquired four pieces of specialized equipment from one of its biggest customers, along with the drivers who came with it. "I thought it was a good way of keeping our foot in the door," he says. But it also came with an unreasonable contract which required the equipment to be available at a moment's notice. This made it next to impossible to schedule other loads. Often, it was parked against the fence. To compound matters, he was suddenly working with company-owned power units and hired drivers, even though his proven business model relied on owner-operators.

"We've tried different times doing the company driver thing," he explains. "Every time I tried it, I remember why I didn't want to do it." No matter what he tried, hired drivers always seemed too willing to turn in the keys after a bad day. Others never seemed to meet the company's strict standards.

He sold the specialized equipment before the downturn. And today he remains comfortable with his truck and five owner-operators. It may mean less revenue in his pocket, but the approach makes it easier to grow without sinking into debt. Even if business is slow, it is easier to cover the $600 to $700 cost of a parked trailer than it is to absorb the financing costs of a parked tractor, he says.

One of the biggest threats to a small fleet in an economic downturn is the debt load, Craigen says, supporting slower growth. "The sooner you get it paid off, the sooner you can weather the storm."

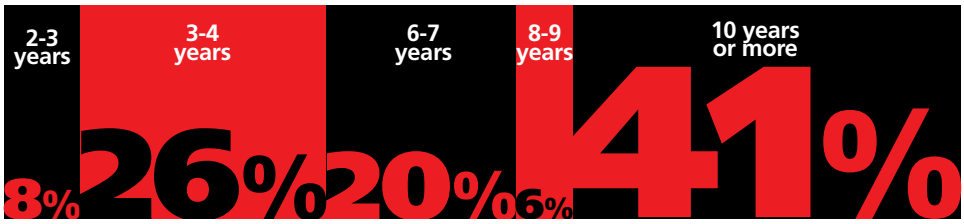
There may even be opportunities for small fleets to join together and meet surging demands without growing the business too quickly. "Group with other people in your industry," Singer says. "Help other companies out where they need help."

It can be a profitable mindset. ■

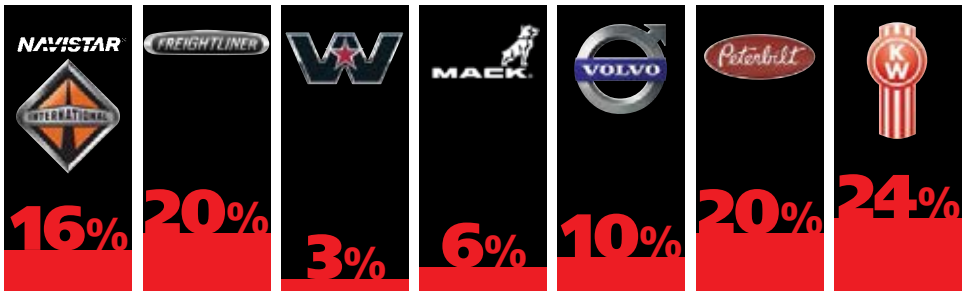
RENEWAL PLAN

More than two-thirds of Canadian owner-operators are now on trade-in cycles for their heavy duty vehicles that stretch beyond 6 years. More than 40% are actually on replacement cycles that are 10 years or longer. Our Equipment Buying Trends research, however, shows that owner-operators are getting back in the game with 37% of them looking to purchase a heavy duty truck in 2015, the strongest buying intentions shown in years. The increasing costs of repair or the stark reality that their current truck is beyond repair is what is forcing the majority to get into a new rig. For many, buying a newer used truck will be an option.

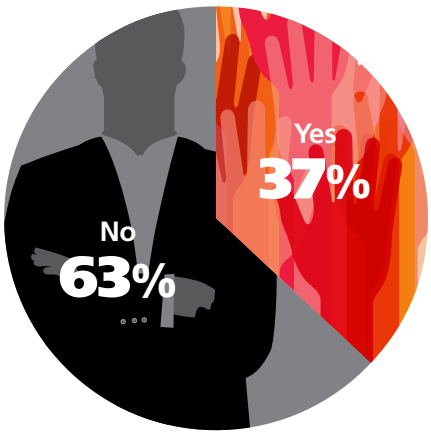
CURRENT TRADE IN CYCLE FOR CANADIAN OWNER-OPERATORS



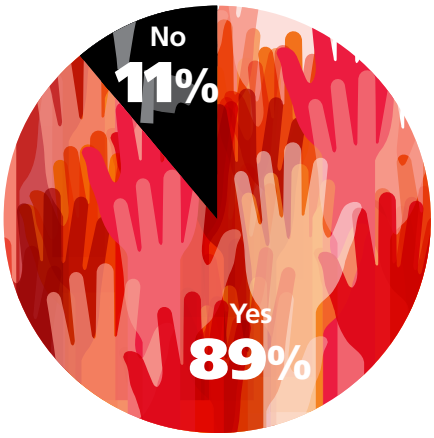
TRUCK BRANDS CANADIAN OWNER-OPERATORS CURRENTLY DRIVING



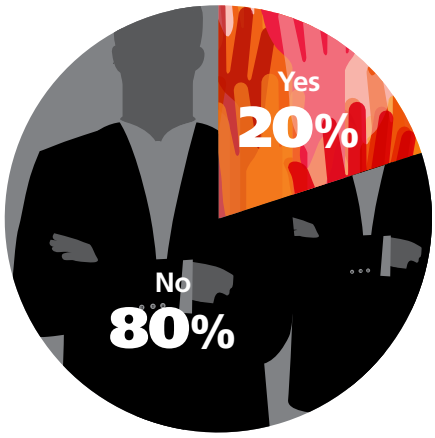
CANADIAN OWNER-OPERATOR PLANS TO PURCHASE HEAVY DUTY TRUCK(S) IN 2015



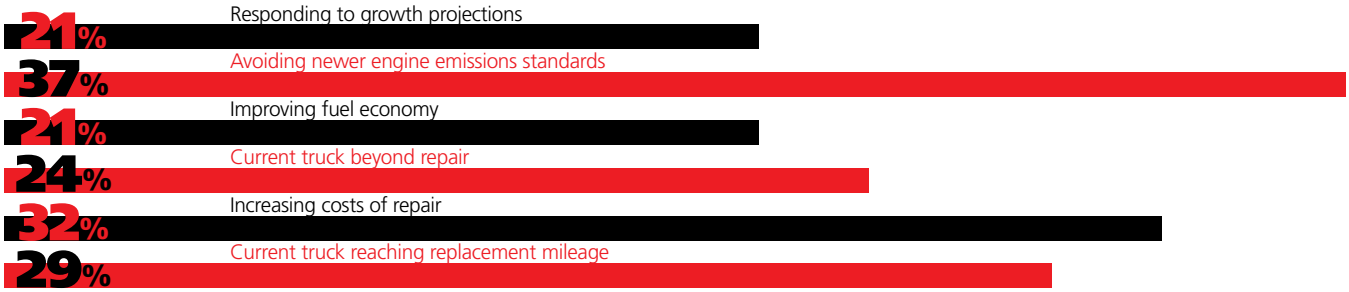
CANADIAN OWNER-OPERATORS PURCHASED USED TRUCK BEFORE



CANADIAN OWNER-OPERATORS PLANS TO PURCHASE USED TRUCK(S) IN 2015



CANADIAN OWNER-OPERATOR MAIN REASONS FOR PURCHASING USED



GROWING PAINS

BY HARRY RUDOLFS

When is it time to add another truck, and how to go about it

Nav Kanwar of Windsor, Ont., might be considered a small fleet success model. The 33-year-old man arrived in Canada in 2010, started trucking in 2011 and became an owner-operator shortly after that. He currently has a fleet of four trucks and is on the verge of adding another one.

Kanwar's units run dedicated lanes for an auto parts carrier and his strategy is fairly simple: "I ask my carrier to tell me in advance if any good lanes are coming up," he says. "Then I'll try out the run and find out what it's all about. I want to know exactly how much money the run is going to make and exactly what is involved. If the math looks good I'll go out and get a truck and hire a driver."

Kanwar always buys used trucks, and budgets $20,000-$30,000 for each purchase. He's tried both leasing and buying tractors outright, but thinks the most important thing is to aggressively pay off the unit as quickly as possible before buying another one. "That way I've only got one truck at a time that I'm making payments on," he says. "If things go bad, I can always park the other tractors and drive that one myself until it's paid off."

Kanwar currently has four drivers and he admits finding good qualified operators is difficult. However, he can offer his drivers steady work and they can count on getting home every night or every other night. As well he provides a bit of a dividend program with cash bonus payments after six months and a year. "I always tell them the truth," he says. "Some contractors make big promises they can't keep, but I show them exactly what they are going to be making and what is expected of them."

Fifty five-year-old Roger Chapman has four trucks on with a couple of eastern Ontario carriers. "People think adding another truck is going to double your income," he says. "But the reality is that it's going to increase your expenses by 150%. And it's always the unforeseen stuff that gets you.

"In my opinion, the only way to make money with multiple units is to have your own running rights and going on your own rather than working for a carrier," says Chapman. "That way you can fix your own rates, get paid three or four dollars a mile rather than the $1.13 and fuel surcharge you make as a broker. As an owner-operator I haven't had a raise in seven years."

Jack Zehr, owner of Zehr Transport Ltd., knows a thing or two about operating a small fleet. He started young. At 21 years of age he bought a trucking company comprised of two trucks "and one of them wasn't any good," he says. Thirty years later he's got nine trucks, (one of them is a standby spare), about 100 customers, and a 40,000 sq ft warehouse in Ingersol, Ont.

"I was buying trucks when the interest rates were 21%," he says. "I must have been crazy but I made it work."

Zehr's main business is transshipping agricultural products between a rail head in Ingersol, Ont and customers in Ontario and Quebec. He keeps his drivers working locally and regionally while giving the longer hauls to outside carriers.

Before adding another power unit, Zehr thinks you

should have a pretty good idea of what your customer base is doing. Otherwise you could get stuck with hefty truck payments and an employee to look after if the work dries up.

"I'm in a position right now where I either get another truck and another driver, or hire a broker," he says. "The advantage to hiring a broker is that you get the truck and driver, but it's also a disadvantage. If the broker decides to up and leave I'm stuck without a truck and driver, but if a driver quits on me I can hop in the truck myself for one or two weeks until I find someone."

Zehr admits to getting a few years behind on new truck purchases, but he has been shopping around lately and running the numbers. "I didn't want to take on any new truck purchases in 2008, 2009, 2010, because of the problems they were having.

"If you're doing a trade-in it's easier, in a sense, because you're just swapping one truck for the other," he says. "But when you add another truck, your down payment is out of pocket, and it's 60 days before you show any return on your investment. The reason I keep some of the older trucks around is to help pay for the new ones," he says.

When Zehr does buy another truck he applies a formula to each vehicle that's served him well. "I discovered this long ago and always kept it in the back of my mind. Twenty five percent goes to payroll, 25% goes to fuel, and 50% goes towards the truck, because you never know when you're going to need it." Zehr explains that he takes his profit point out of the 50% that goes back into the truck. He suggests that you should be looking at profit margins of 15-20%, on the work you're doing "If you can do that you can make a pretty good living."

He also has some advice for would-be small fleet owners – don't bite off more than you can chew! "Make sure you're capable of doing the work that you're bidding on. You're not doing yourself or your customer any good by promising more than you can deliver. And once you commit to buying a truck and hiring a driver you've got to make it work for you. That can include eight day weeks and 28 hour days."

Vince Macmillan of Acton, Ont., has a small fleet that specializes in service-oriented flat bed work. He advises caution when jumping from owner-operator status to fleet owner. However, staying small and adding another truck or two has its advantages. "Nothing is cheaper than working out of your own garage or basement. Once you add a shop and office and have to pay overhead and meet a payroll – everything changes," he says.

But finding someone to drive that additional truck can be a challenge as well. Macmillan still has the first driver he hired, 22 years ago, but he admits finding personnel to fill driver vacancies in his service-oriented business can be a daunting task. "It's a shrinking pool at best, My business is based on personal relationships and you need a driver that will be able to work with the customers and not ruin your equipment."

Macmillan has even put a few drivers through the Humber College program. "It's still 6 months until they're half-way to learning the job. Six months and a winter," he says. "You're not a truck driver until you've driven through a winter."

Roger Chapman concurs with Macmillan that finding good drivers is extremely difficult. "You might get a driver who likes to run lots of miles but doesn't take care of the equipment, never checks the oil. And keeping the good ones is an ongoing problem, because they usually want to go on their own and get their own truck."

Another aspect to consider is maintenance and repairs. If you're adding one or two or three trucks, you'll have to abide by a maintenance schedule, and soon discover that it's

Vincent Macmillan owner of Vincent Macmillan Transport

much better to fix something yourself than send it to an outside shop for repairs. At some point in the growth cycle, thought has to be given to getting a shop and hiring a mechanic.

"You don't want to pay someone $100 an hour to change wiper blades, which is what you're doing when you go to a dealer," he says. "I have three and half guys working for me and they're always busy. Safety inspections, on trailers alone, takes up most of their time."

When it comes to financing, Macmillan thinks the low interest rates offered by dealers are deceptive, especially if you're a novice starting a trucking business. "You're going to end up having to pay 10% in interest, anyway. And a lot of stuff is leased these days which can be even more," he says. "Ours is considered a high risk business at the banks, and you're unlikely to find any cheap money."

Macmillan doesn't like to see guys put their house up as collateral, "You do what you have to do, but make sure your business plan is viable," he says. "I think it's absolutely necessary to have a niche or something you specialize in and do well.

"Most of the successful owner-operators I know are about my age (60 years old) and they've been with one company for a long time," says Macmillan. "They might have a few trucks on with the carrier, but they've picked a good company and stayed with it. That might be the key to success."

20 THINGS NEED TO KNOW ABOUT OWNER-OPERA SPEC'ING USED

"For a guy to make it these days, let's face it, it's tough," says Don Lee, used truck manager for Tallman truck Centre, Mississauga, Ont. You can't get more honest about the realities of becoming an owner-operator – a business owner. It's a risk, but the freedom and the possible financial returns make it a worthwhile risk. And most of that risk can be said to be in the equipment you're running.

Purchasing a used truck to get into the owner-operator game can be a relatively cheap way to get started. Spec'd correctly, a used truck can get the job done and put you on the highway to a better truck down the line.

But there are a few things you should know before you buy used.

1. Before we get started

Think about it for a second: When would somebody get rid of their iron? When they are sick of the colour? When it's dirty? Maybe, just maybe, the truck is in decent shape and the owner simply wanted to upgrade. But maybe they offloaded it when they had to start pouring money into it.

2. Application, application, application

"You have to understand what the application is going to be," advises Lee McArthur, used truck manager with Carrier Centres, Woodstock, Ont. In fact, this point was stressed by everyone we spoke with. Over and over again. And then one more time.

Do you haul reefer, flatbed, freight? Where do you haul? Are you looking for a truck that's fairly recent or older? Those are the questions to ask, says Lee. From his perspective, if a customer knows what he wants, "you don't want to underpower the guy but you don't want to overpower him because he'll be wasting fuel and that's what will make you or break you."

"You have to look at the company you're working for," says B.C.-based owner-operator Dan Dickey, who's been in the game for 23 years. "If the company is running Freightliners, you're going to have an easier time if you get a Freightliner." That not only helps with narrowing down what you need, but it also makes it easier for when you have to take advantage of the company's shop for any repairs.

3. It is what it is. Sort of.

"There are just so many different variables," says Lee. "To change a rear ratio on a used truck is very expensive," he warns. "You can sometimes change it a little bit, but you have to make sure if you lose the horsepower you have enough transmission because there are different grades of transmission for strength. In a 13-speed, you have 11-9-13, you can have 13-9-13, 15-9-13, 18-9-13 – there's a lot of different spec'ing you can do." Generally, however, you can't really change a used truck that much.

4. Plainer and newer, not fancier

That was probably the best advice we got, courtesy of Dickey. "Some of these guys say 'My buddy's got a 550 Cummins and I want to pass him,'" explains Lee. "Well, you have to know what you're doing freight-wise.

ATORS D TRUCKS

AND OTHER DARN GOOD ADVICE ON BUYING USED

BY JASON RHYNOS.

Something that's fuel efficient should be one of your major concerns. I've had customers where I tell them to de-rate the horsepower and it's going to give you better fuel economy and they don't want to listen. Well, I paid for 475 horse, why would I drop it to 450?" To save money. And make money. Which is what this is about. In fact…

5. Your #1 concern should be...

Fuel economy.

6. Your #2 concern should be...

Fuel economy.

7. Special apps

"When you get into specialized application and you're thinking you can just jump into a regular 13-litre, we have to do a bit more homework," explains McArthur. "We have to shy them away from getting into a generic highway tractor. We want to make sure that it is going to be able to do the job, so if it's outside of the norm, we have to look for a truck that's outside of the norm." McArthur says that they keep track of any specialized used trucks and keep a list of the customers looking for those configurations. "It's kind of like a pre-sale," he says. So if you need something a bit more specialized, it's best to build a dealer network so they can keep an eye out for you.

8. There's no one answer. Everybody is different.

"If a guy is hauling 80,000 lbs. from here to Montreal and back, that's simple to spec for him. But if a guy is going to B.C. and he's hauling through the mountains, he's going to need a different spec than the guy going between Montreal and Toronto," says Lee.

9. Warning #1

"You are going to find that there are used truck dealers that sell stuff to people that won't do the job and that's frustrating," says McArthur. "I don't know why they would allow that to happen but I hear about that all the time."

10. Truck stories

"Every used truck is a different story whereas every new truck is the same story," says Lee. You need to find out what that story is. "Mileage counts. If it's got service records, you can tell what maintenance has been done. Say if you buy a Penske truck or you buy something out of my lease fleet, I can provide you records. Some fleets will pass that on."

11. Read between the lines

Dickey says he's cautious when he sees a used truck with a new paint job. "If they do a paint job, you don't get to see where the normal wear is," he explains. Or the unusual wear. He advises looking at every inch of the truck for signs that something may be wrong.

12. Research

Dickey says that finding out what the common problems are with the truck model you're looking at and either having them fixed yourself or seeing if they've already been ad-

dressed via the service record. "Some truck models seem to be harder on the alternator than others," he says as an example. "Fix them before they break." Or take a look at the service record to see if the previous owner or current dealer has already addressed the known issues.

13. Put that down. You don't know where it's been.

"A guy may have blown an engine and put in an older engine," Dickey warns. "It might not be compatible." That's why it's important to get all the serial numbers on the truck and see if they match, he says. You can do that through the dealer.

14. Stem to stern maintenance

"Pre-emission units are still pretty popular," says McArthur. "Now, as time goes on, the owner-operators are being forced into post-emission trucks, getting into the 08s and 09s and up. But that's just a fact of life because you're getting a lot of companies that are requesting trucks that are newer."

You need to have a good eye for what you are looking for, he says. "What kind of reconditioning has the truck gone through? We do an extensive program of reconditioning up into a Diamond Regeneration Program where we go through and do an extremely comprehensive overlook of the truck, stem to stern. We do frame painting, we always send the DPFs out to be cleaned if it's a post-emission unit. A lot of times we find when doing the cleaning that they need to be replaced. So we replace them." Most reputable dealers will give you same level maintenance.

15. All lit up

McArthur says that they take time to explain to the owner-operators that are running units with DPF on "why there are lights coming on, temperature thermometers coming on the dash, so they know what that's all about as far as the exhaust system heating up.

16. WTF, DPF?

Not familiar with DPF? Only heard scary stories? "It's really not as bad as everyone makes it out to be – it could be a maintenance type issue, if you're doing an in-town type of run and not out on the highway getting the thing warmed up, it's going to be a problem."

He says that they like their customers to feel comfortable with the newer trucks, "so we have to teach all of our sales folks to be able to speak to that, especially if it's a newer owner-operator who isn't familiar with it."

17. Warning #2

If your used truck dealer can't explain DPF, you may want to hightail it out of there.

18. Yes, get a warranty

A good one. But be smart about it. "On a newer truck, there are certain warranties that can be transferred, give or take a couple of hundred dollars," Lee explains. "But some of these extended warranties can be up to $10,000." You have to know what you'll be doing in miles. "You can buy too much miles and not enough time. If you're hauling local, you should be going for more time, less miles."

"If they get hit with a $10,000 bill or more, that could bankrupt some of these guys that are starting out," McArthur says. "They could've purchased a $3000 extended warranty and not be facing that bill."

19. All used truck dealers are not created equal

Do we really need to go into this? Know what the shops are like around your area, find out who has a good reputation, who will go to bat for you on warranty. When you find a good used truck dealer, stick with them. "When it comes time that they want to trade up for something else, it makes it easier for us to be able to put a good solid value on that unit for a trade-in. It's been maintained here and we know the history," McArthur says.

20. Always remember

It's about making a living driving. ■

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