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COMPARISON OF SPECIAL GROUP
EXPERIENCES IN ESTABLISHING
INDEPENDENT MOTOR CARRIER BUSINESSES

Volume I: Executive Summary

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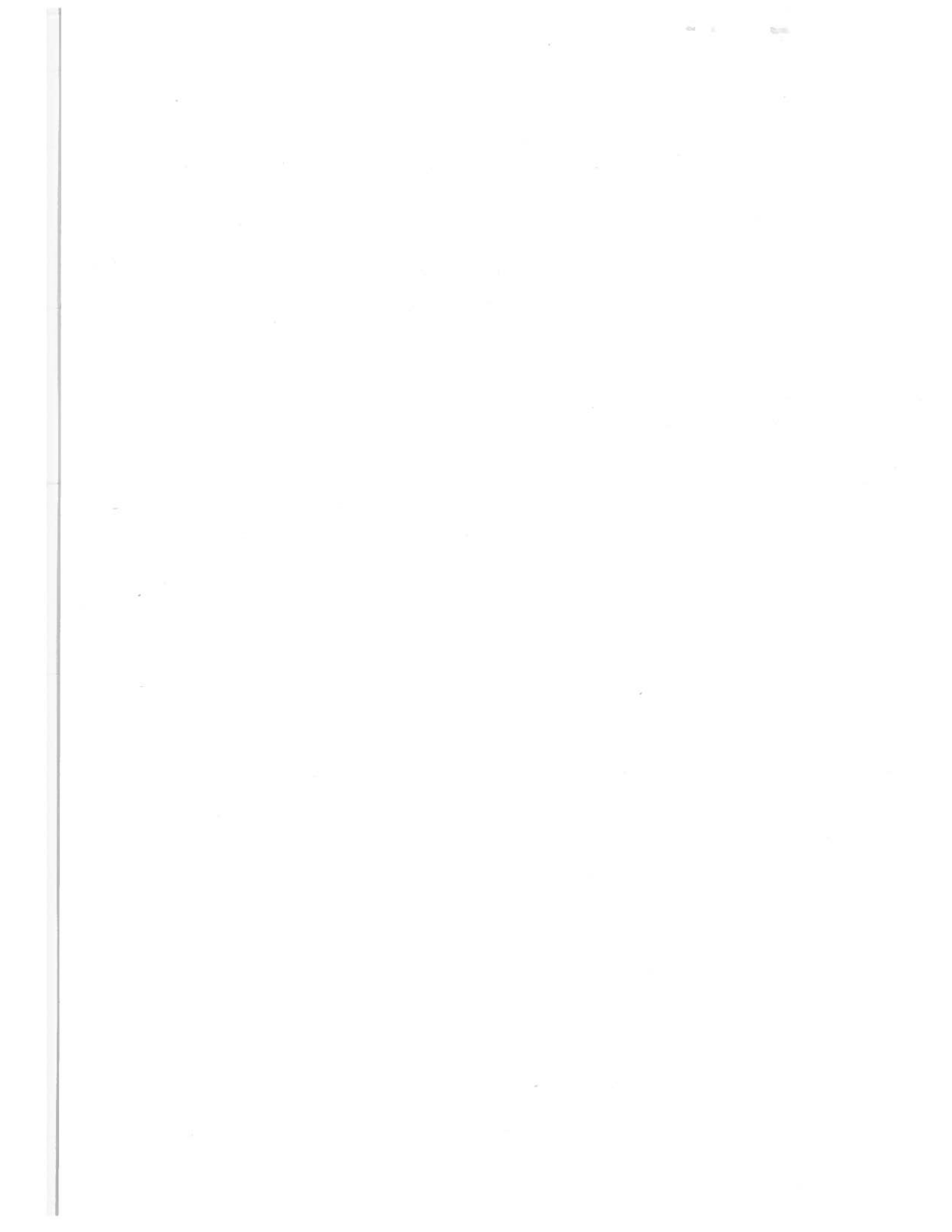
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16. Abstract This report examines the experiences and special problems of minority trucking firms. The firms are classified as unregulated local truckers, unregulated owner-operators, and regulated interstate common carriers. Random samples are developed for minority and non-minority firms in each category, and the selected companies are surveyed. Although the general findings reflect small business problems that affect minorities and non-minorities alike, minority truckers seem to have more trouble developing financial resources. The most important finding is that minority common carriers have found it nearly impossible to acquire operating authority through the regular channels -- generally, they purchase their operating rights. Volume II, The Main Text, contains 118 pages.					
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Preface

The Federal and state governments have recently shown considerable interest in the encouragement of minority trucking companies. In 1975 and 1976, the Office of Minority Business Enterprise funded a program to study and coordinate Federal efforts in this area. The program revealed that little information was available on the number, size, or special problems of minority trucking companies. In 1977, therefore, the Office of Regulatory Research of the U.S. Department of Transportation requested that the Transportation Systems Center help establish and administer a program to determine the number of minority firms currently in operation and to make a detailed study of their problems as contrasted with those of comparable non-minority firms. The impact of motor carrier regulation on minority operations was to be emphasized.

The work was performed by Transportation and Economic Research Associates (TERA), Inc. under contract to the Transportation Systems Center. Dr. Asil Gezen was the Project Manager, and Dr. Marion Forrester was the Principal Investigator.



Background

The Transportation Systems Center of the U.S. Department of Transportation has retained the services of Transportation and Economic Research Associates (TERA), Inc., to undertake a comparative study of the experiences of minorities and non-minorities in establishing and operating independent motor carrier businesses. The primary focus of the study was to identify those special problems facing minority-owned firms that are different from the problems common to all small trucking firms.

The minority owned-and -operated trucking industry is an area where little hard data exist. No single source listing of truckers can be found which provides data on a national scale for characteristics such as ethnic origin, company size, financial condition, legal status, et cetera. Consequently, it is impossible to draw a truly random statistical sample and to make inferences about the population.

Study Approach

The scope of TERA's study encompasses the following three types of operators:

- o Unregulated local truckers who restrict their activities to exempt commercial zones;
- o Unregulated owner-operators who either haul exempt interstate commodities or lease their equipment and services to certificated interstate carriers;
- o Regulated interstate common carriers -- particularly, but not necessarily limited to, Class III motor carriers of general or specific commodities who have been operating for at least two years.

The study approach centered around a survey of 20 minority and 20 non-minority carriers in each group, totaling 120 respondents altogether. Interviews were structured around question



guides to collect information on the carriers' problems in areas such as: requirements to start operations (including equity capital); difficulties in obtaining, holding, and expanding the business; difficulties in complying with government regulations; awareness of opportunities associated with, and problems in, obtaining carrier authority; and overall profitability of company operations. Since much of the information desired was of a subjective nature, the use of a question guide rather than a questionnaire allowed for maximum flexibility during interviews and accommodated a variety of opinions and views.

Principal Findings

In most cases, the differences between problems experienced by minority and non-minority truckers were more a matter of degree, and directly related to the fact that minority truckers interviewed were involved in smaller-scale companies in terms of number of employees and gross revenue. Their businesses were also more recently established. Perhaps the most critical problem facing minority truckers is lack of capital. The length of time in operation and the size of the borrower's firm directly affect access to the sources of capital. Following is a synopsis of TERA's findings grouped under four areas: respondent characteristics, market factors, management factors, and regulatory factors.

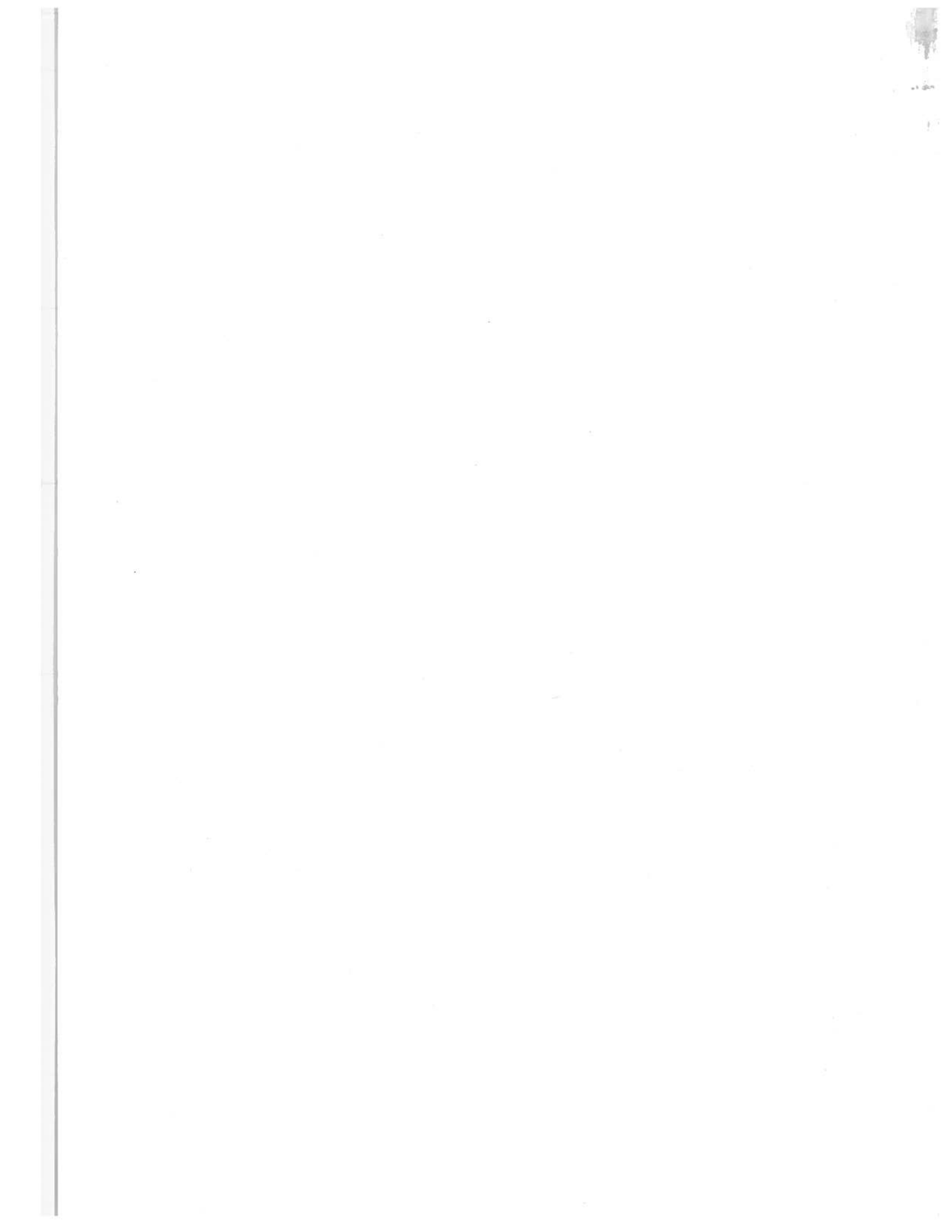
Respondent Characteristics

(1) Owner-Operators:

- o Of the owner-operators surveyed, only the non-minority owner-operators had more than one employee and more than one piece of equipment (41 percent).
- o The number of years that the "typical" minority owner-operator had been in business was 6.4 years as compared with 5.4 years for the non-minority owner-operator.



- o No significant difference was found in the prior experience of minority and non-minority owner-operators.
 - o Based on a calculated weighted average, gross revenues for minority owner-operators were \$35,200 as compared with \$73,000 for non-minority owner-operators.
- (2) Local Truckers:
- o The average number of employees in a minority local trucking firm was approximately 10 as compared with 13 for non-minority local firms.
 - o The average age of a minority local trucking firm was 7.6 years as compared with 11.2 years for non-minority firms.
 - o Non-minority local trucking firms were more likely to be in their second or third generation of business.
 - o Minority local truckers expressed a somewhat greater desire to own their own businesses as a reason for starting their companies.
 - o The average gross revenues for minority local trucking firms as a calculated weighted average was approximately \$247,000 as compared with \$430,000 for non-minorities.
- (3) Regulated Carriers:
- o Non-minority regulated carriers had 60 to 70 percent more employees than minority carriers.
 - o The average age of minority carriers was approximately 22 years as compared with 28 years for non-minority carriers.
 - o The average gross revenue for minority carriers was about \$108,000 as compared with \$204,000 for non-minority carriers.



- o Minority regulated carriers were more likely to have been involved in the trucking industry before receiving their first certificate. Non-minorities, on the other hand, were somewhat more likely to have bought a share of an ongoing business.

Market Factors

(1) Owner-Operators:

- o The most significant market pressure felt by minority owner-operators was a lack of competitive equipment (41 percent as compared with 12 percent for non-minority owner-operators).
- o Thirty percent of the non-minority owner-operators felt no abnormal market pressures as compared with 12 percent of the minority owner-operators.
- o Both minority and non-minority owner-operators felt that a lack of direct access to shippers was a serious market pressure.
- o No significant difference was found between the percentage of rate paid to permanently leased minority owner-operators (64 percent), and non-minority owner-operators (66 percent).
- o Both groups considered "personal contacts" to be the most effective means of marketing.

(2) Local Truckers:

- o Minority local truckers were three times as likely to cite "lack of authority" as a market pressure.
- o An equal percentage of minority and non-minority truckers felt a lack of competitive equipment.



- o The average number of trucks owned by minority local truckers was 15 as compared with 23 trucks for non-minority local truckers.
 - o The average revenue per unit for minority local truckers was approximately 12 percent less than for non-minority truckers.
 - o Non-minority local truckers were three times as likely to say that they had no abnormal market pressures.
 - o Minority local truckers were six times as likely as non-minority local truckers to be engaged in subcontracting and four times as likely to consider this an effective marketing method.
 - o Non-minority local truckers were four times as likely to employ a sales force and twice as likely to consider this an effective marketing method.
- (3) Regulated Carriers:
- o The most acutely felt competitive pressure of minority carriers was lack of sufficient authority.
 - o Non-minority carriers were three times as likely to say that they had suffered from no abnormal market pressures.
 - o Minority carriers found it more difficult to raise performance bonds than did non-minority carriers.

Management Factors

- (1) Owner-Operators:
- o The most frequently used sources of initial capital investment for minority owner-operators were banks,

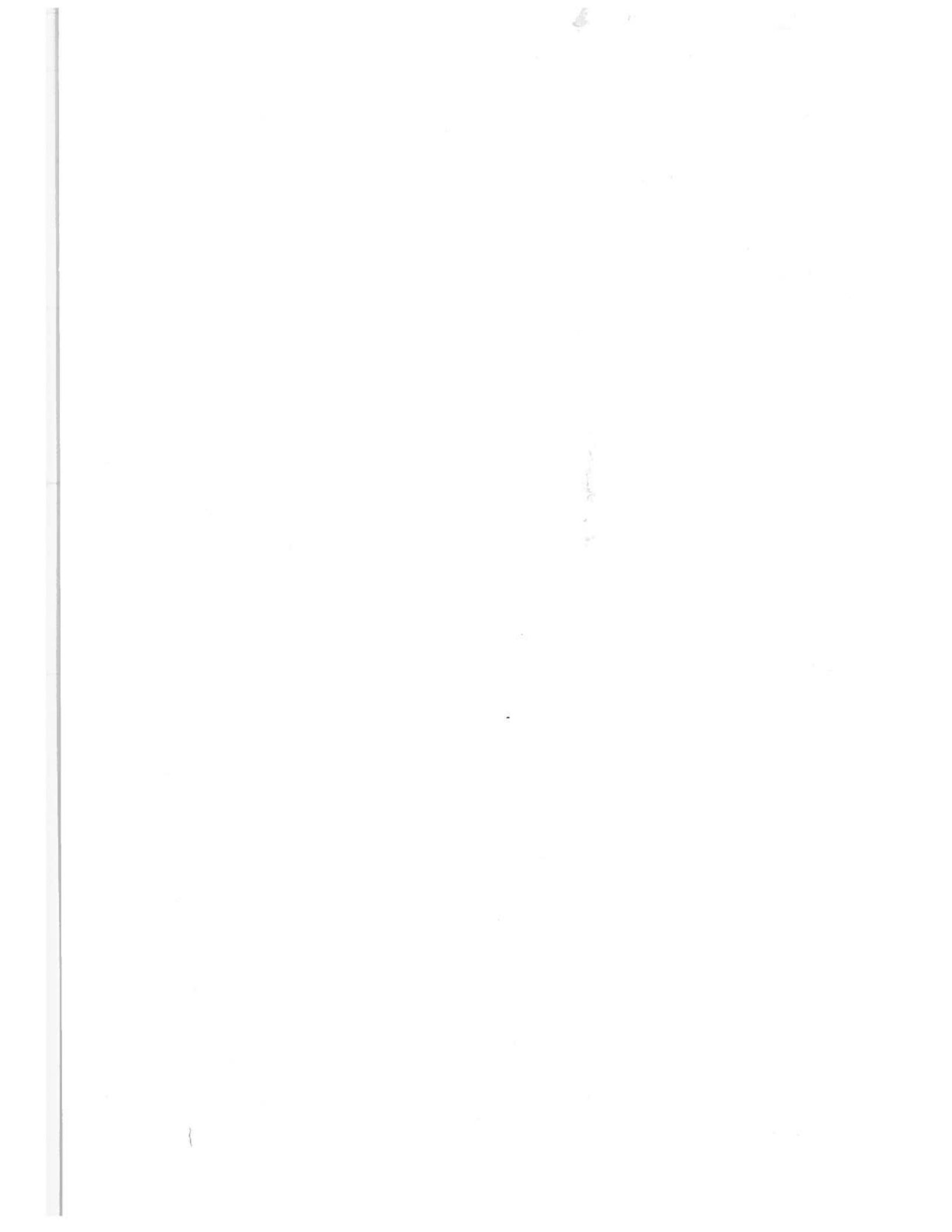


personal savings, and the SBA. Non-minority owner-operators also used banks and their personal savings, as well as family and friends. None, however, used the SBA.

- o Minority owner-operators were twice as likely as non-minority owner-operators to be dissatisfied with their initial financing plans.
- o Based on a weighted average, non-minority owner-operators initially invested nearly twice as much (\$20,505), as did minority owner-operators (\$12,120).
- o In the area of financial problems, minority owner-operators complained most about lack of long-term financing, high direct operating costs, and a lack of short-term borrowing capabilities. Non-minority owner-operators complained most about delays in collecting receivables and high direct operating costs.
- o Non-minority owner-operators were nearly twice as likely as minority owner-operators to feel that they had no unusual financial problems.

(2) Local Truckers:

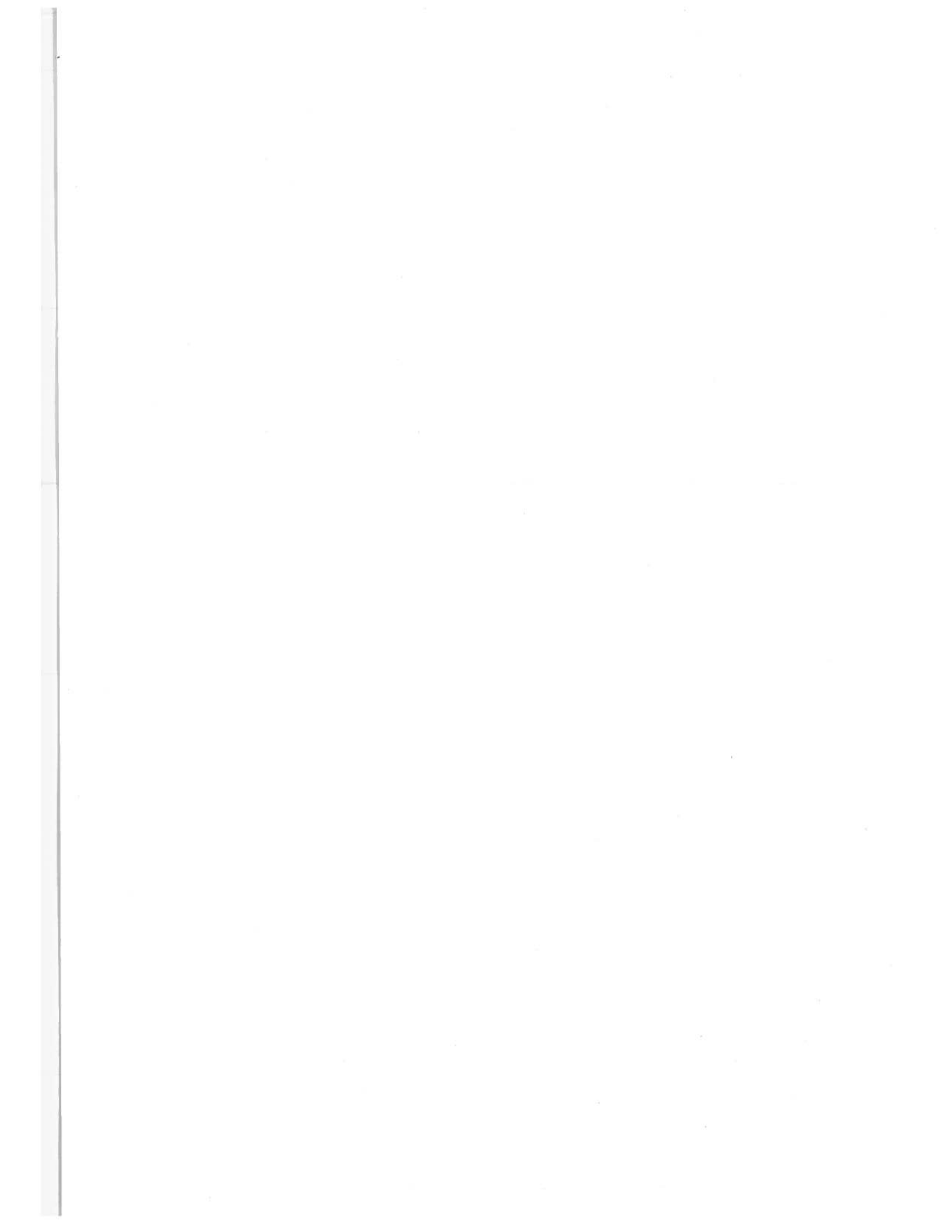
- o Non-minority local truckers were twice as likely to use their own credit resources (banks and savings) as minority local truckers.
- o Minority local truckers were seven times as likely to be dissatisfied with their initial financing plans as were non-minority local truckers.
- o The average initial investment (in constant dollars), on the part of minority local truckers, was approximately \$44,000 as compared with \$25,000 for non-minority local truckers.



- o The most acutely felt financial pressure of minority local truckers was a lack of long-term capital availability.
- o The second most acutely felt financial pressure of minority local truckers was delay in collection of receivables.
- o Minority local truckers were twice as likely to complain of a lack of short-term availability of capital.

(3) Regulated Carriers:

- o Sources of initial capital investment did not differ between minority and non-minority carriers. A majority of both groups used banks and savings as their primary sources of investment.
- o Twenty-five percent of minority regulated carriers expressed dissatisfaction with their initial financing plans while none of the non-minority carriers did so.
- o Minority regulated carriers were twice as likely to have a problem with short-term capital availability.
- o Minority regulated carriers were more than twice as likely to experience delays in the collection of receivables.
- o Minority carriers were four times more likely than non-minority carriers to cite high direct operating costs as a cause of their financial problems.
- o Thirty-eight percent of the minority carriers cited a lack of long-term capital availability as a major financial problem, while none of the non-minority carriers did.



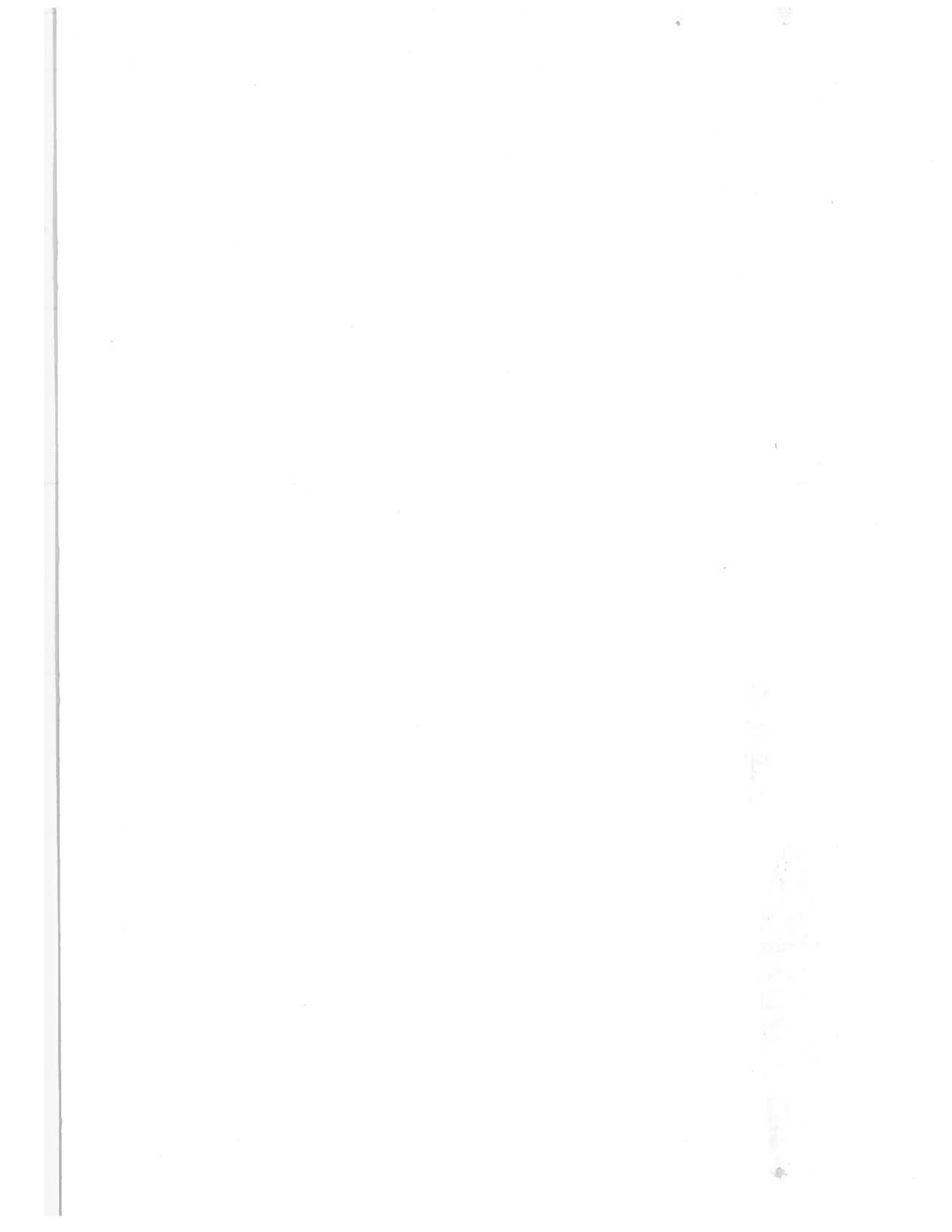
Regulatory Factors

(1) Owner-Operators:

- o None of the owner-operators (either minority or non-minority) had ever applied to the ICC for authority.
- o There was a great deal of misinformation and cynicism on the part of both groups in their awareness of the problems and opportunities of obtaining carrier authority.
- o The most commonly voiced complaints by both groups were about government regulations in relation to differing state size and weight limitations on trucks.

(2) Local Truckers:

- o Minority local truckers were almost twice as likely to have applied to the ICC for rights.
- o The most common reason for minorities to have been denied authority was their inability to continue to finance the application in the face of inadequate shipper support and industry opposition.
- o Some minority local truckers felt that the ICC's entry policies are biased against minorities. However, no specific examples were reported.
- o As in the case of owner-operators, most local truckers (in both groups) were generally misinformed about the problems and opportunities in obtaining ICC authority.



(3) Regulated Carriers:

- o Nearly three times as many minority regulated carriers acquired their first certificates by buying them from another carrier as did non-minority carriers.
- o Thirty percent of the non-minority regulated carriers applied for and received their first certificates as compared with 20 percent of the minority carriers.
- o Five times as many non-minority carriers acquired their certificates through "grandfather rights" as compared with minority carriers.
- o Fifteen percent of the minority regulated carriers stated the their previous applications for certificates had been denied before they received their first certificates as compared with none of the non-minority carriers.
- o Nearly twice as many minority carriers were denied an application for an extension of authority as were non-minority carriers.
- o In general, both minority and non-minority carriers were ill informed on the current proposals for regulatory reform. Most saw the issue in terms of continued regulation versus total deregulation.

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