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COMPARISON OF SPECIAL GROUP EXPERIENCES IN ESTABLISHING INDEPENDENT MOTOR CARRIER BUSINESSES

Volume II: The Main Text

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FINAL REPORT

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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.

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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.

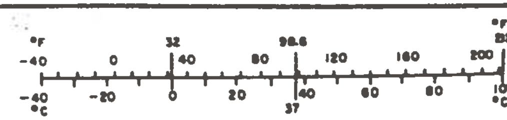
METRIC CONVERSION FACTORS

Approximate Conversions to Metric Measures

Symbol	When You Know	Multiply by	To Find	Symbol
		LENGTH		
in	inches	2.5	centimeters	cm
ft	feet	30	centimeters	cm
yd	yards	0.9	meters	m
mi	miles	1.6	kilometers	km
		AREA		
in^2	square inches	6.5	square centimeters	cm^2
ft^2	square feet	0.09	square meters	m^2
yd^2	square yards	0.8	square meters	m^2
mi^2	square miles	2.6	square kilometers	km^2
	acres	0.4	hectares	ha
		MASS (weight)		
oz	ounces	28	grams	g
lb	pounds	0.45	kilograms	kg
	short tons (2000 lb)	0.9	tonnes	t
		VOLUME		
tsp	teaspoons	5	milliliters	ml
Tbsp	tablespoons	15	milliliters	ml
fl oz	fluid ounces	30	milliliters	ml
c	cups	0.24	liters	l
pt	pints	0.47	liters	l
qt	quarts	0.95	liters	l
gal	gallons	3.8	liters	l
ft^3	cubic feet	0.03	cubic meters	m^3
yd^3	cubic yards	0.76	cubic meters	m^3
		TEMPERATURE (exact)		
°F	Fahrenheit temperature	5/9 (after subtracting 32)	Celsius temperature	°C

Approximate Conversions from Metric Measures

Symbol	When You Know	Multiply by	To Find	Symbol
		LENGTH		
mm	millimeters	0.04	inches	in
cm	centimeters	0.4	inches	in
m	meters	3.3	feet	ft
m	meters	1.1	yards	yd
km	kilometers	0.6	miles	mi
		AREA		
cm^2	square centimeters	0.16	square inches	in^2
m^2	square meters	1.2	square yards	yd^2
km^2	square kilometers	0.4	square miles	mi^2
ha	hectares (10,000 m^2)	2.5	acres	
		MASS (weight)		
g	grams	0.035	ounces	oz
kg	kilograms	2.2	pounds	lb
t	tonnes (1000 kg)	1.1	short tons	
		VOLUME		
ml	milliliters	0.03	fluid ounces	fl oz
l	liters	2.1	pints	pt
l	liters	1.06	quarts	qt
l	liters	0.26	gallons	gal
m^3	cubic meters	35	cubic feet	ft^3
m^3	cubic meters	1.3	cubic yards	yd^3
		TEMPERATURE (exact)		
°C	Celsius temperature	9/5 (then add 32)	Fahrenheit temperature	°F



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1. INTRODUCTION

Background

The Transportation Systems Center (TSC) has the responsibility of providing research support to the Department of Transportation (DOT) on problems facing the trucking industry. The major purposes of this research are to provide data and analyses for the preparation of DOT positions in motor carrier cases before the Interstate Commerce Commission (ICC), and to assist the Office of the Secretary in the identification of areas where new regulatory or legisltive initiatives may be needed.

In support of this effort, TERA was retained by the Department of Transportation to compare the problems of women and minorities to non-minority participants in the trucking industry. This is an area where little hard data exists and as such represents the first attempt to obtain information that would help in understanding the extent to which minorities and women may or may not have greater difficulty in the motor carrier industry either as owner-operators, other unregulated truckers, or ICC regulated carriers.

Objective of the Study

The basic objective of the study is to compare the experience of minorities and women to that of others in dealing with certain problems involved in successfully establishing an independent motor carrier business. Of particular importance is the problem of obtaining authority to enter interstate regulated motor carriage. A key element in this study is its comparative approach. That is, the report does not merely describe the experiences of minorities and women as truckers of one type or another, but compares their experiences with those of non-minorities involved in similar trucking operations.

Scope of the Study

The scope of the study encompasses the following carrier groups:

1) Unregulated Carriers

   a) local truckers who restrict their activities to exempt commercial zones

   b) owner-operators who either haul exempt interstate commodities or lease their equipment and services to authorized interstate carriers; and

2) 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 2 years.

The study approach centered around a survey of 20 minority and 20 non-minority carriers in each group, totaling 120 carriers altogether. Two teams conducted the interviews in five city areas around the country: New York/New Jersey commercial zone; Washington Baltimore; New Orleans; Houston; and San Francisco.

Interviews were structured around question guides prepared specifically to collect information on the carrier's problems in the following broad areas:

Unregulated Truckers

- Requirements to start operations (including equity capital required);
- Difficulty in obtaining, holding, and expanding business;
- Difficulty in meeting government regulations (safety, for example) applicable to operations;
- Awareness of opportunities and problems of obtaining carrier authority; and
- Profitability of operations.

Regulated Truckers

- Status of the owner before award of the first certificate;
- The difficulties, if any, experienced by the carrier in obtaining its first certificate, including consideration of equity capital, equipment, employees, shipper support, application expense and waiting time; and
- Particular difficulties faced by the carrier in seeking to increase and expand carrier operations.

The choice of a question guide over a questionnaire was based on the need for maximum flexibility in the interview process and accommodation of a variety of opinions and views. This was necessary because of the subjective nature of much of the information desired.

The first step in the selection of respondents was the identification of city areas in which the interviews were to be conducted. City areas were selected to represent those with the largest presence of the trucking industry and also the widest spectrum of minorities.

After selection of the city areas in which interviews were to be carried out, TERA investigated numerous sources in order to select a sample. While it was part of the sample design criteria that equal numbers of each carrier group were to be interviewed in each of the city areas, some modifications were necessary.

Because of a lack of identifiable minority trucking firms with ICC rights, appointments had to be scheduled wherever these firms could be found. Since the greatest number of minority ICC regulated trucking firms seem to be located in the Northeast, this is where the majority of them were interviewed. The only available source for identifying the sample of regulated minority truckers was the membership directory of the Minority Trucking and Transportation Development Corporation (MTTDC). 1/ This same source was used to identify and locate local minority trucking firms.

Non-minority ICC regulated carriers were randomly selected from the four volumes of the American Trucking Associations' ICC Carrier Index of February 1978, a computer listing of Class I, II, and III carriers from the ICC's files. Non-minority local trucking companies were selected randomly for each city from the yellow pages section of the city areas' telephone directories. This source was used after an extensive investigation failed to identify any other listing of locally-based trucking firms either on a state or city level.

Owner-operators, both minority and non-minority, were interviewed at selected truck stops around the country. In San Francisco, problems occurred when entry into one truck stop was refused by the owner, and when, at another truck stop, the owner-operators refused to be interviewed. Because of these kinds of difficulties, telephone interviews were conducted with a number of

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1/ Minority Carriers of America, MTTDC, 1978, Washington, D.C.

owner-operators, using the membership list of the Northeast Transport Association, located in New York City, where it was possible to obtain information on the ethnic origin of its members. The telephone interviews were conducted when the interviewing teams returned to Washington.

The rationale for using the variety of above mentioned sources for selecting the sample grew out of the finding that no single source listing of truckers other than the MTTDC directory provides data on a national scale on ethnic origin, size, legal status, etc. Therefore, sample selection procedures were continually modified throughout the course of the project, and interviewees were first screened over the telephone to ensure that the firm was within the scope of the study.

Statistical Considerations

Gathering complete ownership information about all sections of the trucking industry was clearly beyond the scope of this study. It is not necessary to have complete population data to make a decision or to test a hypothesis about the entire universe. However, in order to quantitatively measure the risk of incorrect decision and conclusions, it is necessary that the probability of selecting each respondent be known, i.e., use of a probability sample.

The concept of randomness is basic to probabilistic samples, both simple and stratified. Ideally, a list or frame of all possible respondents is obtained, though often difficult. Partial lists, such as telephone directories, tax lists, vehicle registrations, etc., can be used as "workable" frames with some being less subject to large errors than others. As discussed earlier in this report, the ownership information available about the universe was not "workable" in the statistical sense required to construct a random sample. Also, the sponsor-specified selection plan for respondents suggested that the development of a random sample and, consequently, the statistical ability to draw inferences about the universe were not anticipated.

The scope of this study, as set forth in the RFP, specified that a sample of 20 minority and 20 non-minority carriers be selected in each of three user groups: (1) local truckers operating within a single commercial zone; (2) owner-operators operating interstate on someone else's authority (or hauling exempt merchandise); and (3) regulated interstate common carriers.

In a statistical sense, this approach to selecting respondents is non-random in that each member of the trucking population does not have an equal chance of being selected. Also, minorities clearly are represented far out of proportion to their occurrence in the population. Even if the three categories of truckers mentioned above were considered as strata, the selection of respondents within each stratum would be essentially non-random. Further, the proportion of minority truckers represented by the respondent frame in each strata varies. This would make any inter-strata inferences subject to significantly different levels of confidence even if those levels of confidence could be determined. Lack of reliable ownership information about the universe makes the construction of a random sample impossible from the outset. Therefore, again from a statistical standpoint, no legitimate inferences can be made about the universe from the survey data. However, the interviews constitute a unique and valuable source of information about the subject sector of the trucking industry. This report analyzes the information in a "case study" context.

Relevant Factors Affecting the Small Business Operating Environment

The primary objective of this study is to isolate the problems peculiar to minority truckers from those which are essentially common to small trucking businesses. The work clearly indicates that, for the most part, minority truckers are small businesses and are subject to all of the difficulties characteristic thereof. The following comments provide a brief discussion of some relevant management problems characteristic of the small business. The purpose of this discussion is to provide guidance for putting a respondent's comments into the context of those of an operator of a small business, either minority or non-minority. Where appropriate, the areas in which minorities seem to have particular problems will be identified. This discussion is not intended to be a definitive discussion of small business management, but rather a discussion of those factors which should be considered in properly interpreting the data developed during the study.

Acquisition

Entrants into the small trucking business have essentially two options--start a new business or acquire an existing one. If the option is available, the basic decision is between the cost of a proffered established business and the investment cost needed to equip, stock and man a new business in the same field and, presumably, in competition with the existing firm(s).

There is a strong body of opinion which maintains that the market value of a business is generally less than its duplication cost. The duplication cost includes the value of business relationships with suppliers, a following of customers served by an experienced and familar work force, and immediate earning power.

The last item is particularly important because it may take months to build up enough volume to be profitable. Moreover, starting any new business involves delays, red tape, cost overruns, and high risk. Statistics consistently show that approximately two-thirds of all new businesses do not last more than 5 years, and the mortality rate for minority-owned businesses is even higher.

Another advantage of buying an established business is that the seller will often extend credit by agreeing to have payments spread over a period of years. In that way, the buyer can use the profits of the business to make his payments, and there is a tax advantage to the seller who has a profit and agrees to initial payments in the year of sale being 30 percent or less of the selling price. Such credit is frequently easier and cheaper to obtain from the seller than it is from a bank or a Small Business Investment Corporation (SBIC). Some financial institutions do not like to take chances with new small businesses and are likely to impose onerous requirements and high interest rates on such loans.

On the other hand, buying an existing firm has a number of potential dangers. Careful inquiries as to the true nature of the business can not be overemphasized. This is particularly important for small businesses where capital is scarce and therefore cannot be spared for law suits. Moreover. the law may not be much help. In general, business sales are subject to the principle of caveat emptor,(let the buyer beware).

Even when inquiries are made, a buyer may have difficulty in obtaining information. Sellers are often cautioned not to release information freely to all who claim to be prospective purchasers on the basis that the latter may be a present or future competitor.

Marketing

Marketing problems for the small business are somewhat different depending on whether the business is new or has been in operation awhile. Characteristically, a new small business has difficulty bringing its services to the attention of the buying public. The larger corporations have traditional suppliers of trucking services and are not generally inclined to change suppliers without a compelling reason in terms of both price and service. However, this problem is often reduced somewhat because many owners previously worked for other trucking firms and were able to bring customers with them or, at least, were familiar with the market.

Another common approach to establishing a market useage is to sell "wholesale." This is a particularly common practice among owner-operators who depend, to a large degree, upon large transport companies and brokers to provide a "clearinghouse" for information concerning available loads. This approach is also important to the small operator who simply does not have time or the competitive posture to seek out individual shippers on his own.

The operator, of course, pays a price for this service in the form of lower yields. It should be noted that this situation was largely created and perpetuated by the Federal regulatory system, which precludes carriers without authority from soliciting loads from the shippers they are servicing for someone else's (the certificate holder) account.

For the well-established firm, particularly one with a permanent facility in a community, referrals are of critical importance. This marketing technique has obvious cost advantages. It is the backbone of the longer term marketing strategies of small firms such as small local truckers who cannot justify the expense of a sales force.

Financing

For the purpose of explanation, financing will be broken down into long- and short-term. Long-term financing generally refers to acquiring funds for plant and equipment. From the standpoint of many, if not all, commercial lending institutions, the applicant's cash flow position and compensating balances are of much greater importance than the value of the trucks in assessing credit worthiness. The bank is not interested in being in the used truck business in the event of default. Therefore, it wants assurance that payments will be made. Credit assessment for supplier credit (financing provided directly by the seller) may be somewhat less rigorous, reflecting both a desire to sell the equipment and a more organized and cost-effective mechanism for handling repossessions. The problem with supplier credit is that the small operator is under considerable pressure to buy more expensive equipment than he perhaps needs or can afford, thus putting a heavy overhead burden on the firm. Supplier credits are more commonly available for fleet sales than for individual unit purchases.

Long-term credit for working capital is very difficult for a new firm to obtain for obvious reasons (lack of: credit history, experience, collateral, etc.). Sources of working capital often include personal savings, sale of equity, and loans from family and friends. The Small Business Administration (SBA) has programs to compensate for the small business's lack of normal access to commercial money markets. However, the terms of an SBA loan generally require a senior right to the assets of the company. This proviso, in many cases, makes it difficult for the SBA-borrower to obtain subsequent significant credit from other sources for normally recurring problems such as short-term working capital and re-equipping and/or expansion of fleet and facilities.

Refinancing of equipment is another possible source of mid-term funds (1 - 5 years). This avenue, however, normally requires equity in the equipment, a good market value and, again, a reasonably good credit history. A variation of this is the so-called sale-leaseback whereby the operator would sell his equipment to a leasing company, get a lump sum payment, and agree to lease the equipment back for a period of time at a rate which will assure the purchaser's recovery of his investment plus a market rate of return. This approach is not normally available to new or marginal operators, even if they have a reasonable equity in their equipment, because of the rather stringent credit requirements normally associated with a long-term lease. From a practical standpoint, leasing companies are not normally interested in one- or two-truck deals except under rates and conditions not attractive to the more marginal operator for whom the shelter of the expense write-off is of little practical utility compared to the absolute expense level.

Short-term credit is, for the small firm, often the most practical mechanism for financing receivables. Basically, the operator goes to his local bank and asks for a loan now on accounts he expects to collect in the future. The bank's assessment of this request is based on the quality of the accounts (the government, a national firm, or a substantial customer of the bank are most desirable), the aging of the accounts (more often than not, the longer they are overdue, the harder they are to collect) and, most importantly for a small business, the credit record of the applicant firm itself. Therefore, a small trucking firm could have receivables from the Fortune 500 and still not be able to finance the accounts because of its own poor credit record or lack of credit history. In the best of circumstances, this sort of financing is expensive and often requires agreeing to a payment schedule pegged to levels of receivables and collection rates.

Another way of financing receivables is to sell them to a finance company (e.g., a bank or specialized finance company). This is generally even more expensive than borrowing against receivables. The advantage to the new or financially marginal firm is that its own credit is not as influential a factor. However, discount rates in excess of 25 - 30 percent are not uncommon, and the buyer usually reserves the right to "cull" the accounts, leaving the proprietor with the worst of the lot. Recourse requirements may be imposed on the seller in cases where the seller is in a poor barganing position.

Short-term bank financing is usually 90 days or less. The inclination of the lending institutions to extend one or two periods is a function of their opinion of the continuing or increased likelihood of the borrower repaying the loan at the end of the new period. This type of money is also subject to vagaries of the money supply. Thus, it is very likely that at the precise time the small trucker is experiencing difficulty collecting from his cash-short customers, the demand for short-term money may have exceeded the supply, and funds are not available.

The concept of profitability in a privately held business is more of an accounting principal than a fact of life. If the business is a proprietorship, partnership or a subchapter S (or other form) corporation then the firm's income and expenses essentially comprise the owner's personal account. In any event, the difference between cash operating income less cash operating expenses is generally not enough to justify leaving any earnings in the company to take advantage of non-cash expense shelters and long-term capital gains tax reductions. In most cases, small trucking company owners have a personal tax bracket lower than the corporate tax plus capital gain tax would be if earnings were left in the company and salary was taken as dividends. The concept of depreciation (or other non-cash expense) has little meaning beyond reducing the current year's income tax. Normally, there is no tax-sheltered cash accrual for replacement of equipment.

Unless special (and unusual) provisions are made in long-term agreements, tax accruals characteristically exceed cash available to pay them. To compound the cash flow difficulty, a small firm will put receivables on the books in order to make its financial statements look favorable to potential creditors. This increases the apparent profit and the contingent tax liability without generating any additional cash to pay the tax.

Administration and Supervision

A number of firms interviewed for this study are operated by the owner and/or the owner's family. In small businesses, the need to minimize fixed and variable overhead expenses puts a severe restriction on the ability to hire professional staff. This often results in untrained management and a minimum amount of time available for consideration of administrative matters. There is an equal disincentive to seek outside professional advice. This managerial environment may be adequate for a one-unit operation, but it puts a severe restriction on the opportunities for expansion. These constraints are alleviated only with significant changes in the availability of capital. This, in turn, can only happen through increased profitability or infusion of equity investment. Increased borrowing will not directly improve the situation unless the money is used to increase the unit profit margins enough to offset the increased interest expense.

It is often the case that a small operator, after several years of making a marginal living from one unit, will decide that he can double his income by buying a second unit. If he can achieve the same revenue for the second unit, he has indeed double his cash flow. However, he has incurred, incrementally at least, added interest expense and the salary of at least one more driver. This means that the unit profit margin on the two-truck operation has to be higher than the one-truck operation, plus it has to meet a significantly increased fixed overhead in the form of the driver's salary and the new truck payment (including the cash interest expense). With the characteristic low profit margins in the highly competitive small trucking business, it is unlikely that the tax shelter afforded by the increased depreciation and the write-off of the interest expense will offset the increased fixed cash expense to any significant degree.

<u>Summary</u>

The most common and influential problem of the small business is undercapitalization and lack of access to conventional sources of investment capital--either debt or equity. The market is very competitive, thus holding profit margins to a minimum in spite of minimum administrative overhead. This environment all but precludes the internal generation of capital. Slim profit margins spawn cash flow problems and minimize the operator's access to necessary short-term credit sources. Competitive pressures in terms of vehicle requirements to gain access to more attractive customers put a rising floor on the minimum investment cost. The operator more often than not, is selling in a buyer's market and buying in a seller's market. This squeeze severely limits the opportunities for long-term survival, to say nothing of expansion. Like almost all small businesses, the small trucking firm cannot survive, in the long run, in head-to-head competition with the better capitalized firms. This is the way the marketplace functions for all participants. To the extent it can be established that one group of participants is peculiarly precluded from access to investment capital and short-term financing, it can also be established that that group will have a correspondingly higher failure rate.

The remainder of the report is broken down into major sections, each dealing with one of the categories of trucking operations investigated in this study. Section II presents data collected on owner-operators, and Sections III and IV are devoted to local truckers and regulated ICC carriers, respectively. Section V presents a summary of the major findings for each group studied.

2. OWNER-OPERATORS

Background

Owner-operators, for the purposes of this report, are defined as those who either haul exempt interstate commodities or lease their equipment and services to authorized interstate carriers. This category also includes owners of multiple vehicles who employ drivers, as well as the owner-drivers themselves. Within this category, a further distinction can be made as to whether they are permanently leased or engage in trip-leasing.

The leased trucker is an owner-operator who enters into a lease contract with a carrier and agrees to carry freight at his/her own risk. While lease agreements may differ, they generally require the lessor to pay all costs related to carrying the freight, including fuel, insurance, emergency repairs, tolls, fees, taxes, licenses, vehicle maintenance, and damages.

The owner-operator who hauls exempt goods, on the other hand, deals with a broker for loads, and at the same time incurs all costs previously mentioned. However, since he is carrying unregulated goods (mostly agricultural produce), rates fluctuate according to supply and demand. The system can be "good" or "bad" depending on the percentage of the rate received for the haul, and the varying costs associated with the business. This aspect of the owner-operator's business is addressed more extensively at the end of this section.

As a segment of the trucking industry, independent owner-operators are active in all three sectors of the interstate motor carrier industry (common, private and exempt) and are responsible for moving approximately 40 percent of all inter-city truck freight in the U.S.[2/] In 1974, it is estimated that there were approximately 129,200 owner-operators involved in the trucking industry.[3/] According to the above report, the number is, for unknown reasons, on the decline.

A recent survey of owner-operators around the country includes several key observations which are relevant to this study:

- A large number of permanent leased owner-operators shift from carrier to carrier;
- Half the owner-operator tractors were purchased new;
- Percentage of revenue was the primary basis of pay for permanent trip leases;
- The average unit under permanent lease was empty 26 percent of the time; and
- Many owner-operators expressed dissatisfaction with state regulations, particularly with regard to length and weight restrictions.[4/]

2/ Regulatory Problems of the Independent Owner-Operator in the Nation's Trucking Industry, Subcommittee on Special Small Business Problems of the Committee on Small Business, House of Representatives, December 1978.

3/ Ibid.

4/ The Independent Trucker, Nationwide Survey of Owner-Operators, Interstate Commerce Commission, Bureau of Economics, Washington, D.C., May 1978.

An additional finding was that the overall use of owner-operators by large carriers is so highly concentrated that 150 carriers are responsible for 85 percent of total vehicle miles rented with drivers. It was also found at the same time that carriers who preferred owner-operators to regular employee drivers, did so for reasons such as: greater productivity; more dependable and faster service; no union problems; greater flexibility to meet peak period demands; less capital investment since owner-operators own the vehicles; and, better and safer drivers.

Following are the results of the owner-operator interviews conducted by TERA.

Survey of Owner-Operators

The scope of the survey of owner-operators covers four general areas: respondent characteristics in terms of size, and market, management, and regulatory factors. Each of these areas will be discussed separately in this section.

Respondent Characteristics

To provide a proper background and understanding of the type of owner-operator surveyed in this study, it is necessary to relate several basic characteristics.

Number of Employees. Not all businesses run by owner-operators are one-person operations. In many cases, the business is jointly run by a husband and wife team who share almost all the responsibilities on the road. The wife takes part in the business in other ways when she is at home and her husband is on the road. Usually, in such a situation, the wife receives telephone calls for jobs which she will relay to her husband.

In comparing minority owner-operators to non-minority owner-operators, TERA found that 100 percent of the minority businesses were of the one-person variety, i.e., only one person was out on the road. How many spouses took an active part in the business is unknown. However, in the case of non-minorities 59 percent fell into the one-person category, 29 percent were identified as a two-person business, and 12 percent had more than two.

Equipment. Of the non-minority owner-operator businesses with more than one employee, it was found that they owned more than one truck. For example, one husband and wife team had three refrigerated trucks, all leased to an ICC regulated carrier of refrigerated goods. In addition, they had three drivers working for them. Another non-minority owner-operator business consisted of a husband and wife team, their son and the husband's brother. The husband and his brother worked as drivers, the son as a helper and the wife took care of clerical work. Equipment consisted of two tractors and two refrigerated vans. All minority owner-operators had only one piece of equipment.

Gross Revenues. Another respondent characteristic which is important to note is gross revenues of owner-operators. Table II-1 shows the difference between minority and non-minority respondents, by the amount of reported gross revenues per year.

As shown in Table II-1, 37 percent of the minority owner-operators earn $25,000 or less per year, while none of the non-minority owner-operators reported gross revenues in this range. Twenty-seven percent of the minorities reported gross revenues of between $25,001 and $50,000, as compared to 40 percent of the non-minorities. Twenty-seven percent of the minority owner-operators had gross revenues of between $50,001 and $75,000 as compared to 30 percent of the non-minority owner-operators. No non-minority owner-operators reported earnings of between $75,001 and $100,000, as compared to 9 percent of the minority owner-operators; and only non-minority owner-operators reported earnings of greater than $100,000.

Table II-1

Gross Revenues per Year of Owner-Operators

Amount ($)	Minority (%)	Non-Minority (%)
0 - 25,000	37	0
25,001 - 50,000	27	40
50,001 - 75,000	27	30
75,001 - 100,000	9	0
>100,000	0	30

On the surface, the data shown in Table II-1 seems to indicate that non-minority owner-operators may earn more in gross revenues than minority owner-operators. In an attempt to analyze this data, it is necessary to consider the vast number of marketplace variables which affect the owner-operator's ability to earn. First, the quality of his/her equipment is of prime importance, and it may be specialized depending on the type of commodity carried. Second, the owner-operator's scope of operations may also be a determining factor. That is, if he is permanently leased to a carrier with authority for 48 States, he may be hauling his loads on longer trips which earn more. Third is the percentage of the rate which an owner-operator may be paid for a specific load. It is interesting to note that the non-minority owner-operator who earned the greatest amount in gross revenues ($150,000), was paid 90 percent of the rate and carried household goods and office furniture for a national household goods moving company. The most successful minority owner-operator ($100,000 in gross revenues) was paid, on the average, 52 percent of the rate, plus expenses for gasoline, and also carried household goods and office furniture for a national company. For a further discussion of the owner-operator's market environment, the reader is referred to Section I.

Based on a calculated weighted average, gross revenues for minority owner-operators were $35,200 as compared to $73,000 for non-minority owner-operators.

Background. Another characteristic of owner-operators which is important to consider is their experience and background. Table II-2 below shows the type of background of minority and non-minority owner-operators.

Table II-2

Prior Experience of Owner-Operators

Type of Background	Minority (%)	Non-Minority (%)
Previous related experience	47	24
Family influence	18	25
Desire to own business	29	28
No related experience	6	12
Other	0	12

As shown in Table II-2, more minority owner-operators (47 percent) had previous related experience than non-minority owner-operators. On the other hand, more non-minority owner-operators (25 percent) were influenced by family connections to become owner-operators than minority owner-operators (18 percent), and an equal number of owner-operators in both categories cited a desire to own their businesses as the primary reason for becoming owner-operators. Six percent of the minority owner-operators and 12 percent of the non-minorities had no related experience.

While Table II-2 suggests that more minority owner-operators have related experience in the form of driving for a trucking company or other business, Table II-3 seems to indicate that non-minority owner-operators have more years of experience. The responses seem to indicate that minority owners tended to have had as much as twice as many years of experience in trucking prior to owning their own rigs as did non-minority owners. However, non-minority respondents have been in business for themselves, on the average, 10 years longer than the minority owner-operators.

Table II-3

Number of Years of Experience of Owner-Operators

Years of Experience	Minority (%)	Non-Minority (%)
< 1	0	6
1 - 2	24	6
3 - 5	28	53
6 - 10	24	0
> 10	18	29
2nd generation	6	6

As can be seen from Table II-3, 24 percent of the minority owner-operators had 2 years or less experience as compared to 12 percent of non-minority firms. An equal number of owner-operators in both categories had 3 - 10 years of experience (53 percent), however, more non-minority owner-operators (35 percent) had more than 10 years of experience as compared to 24 percent of minority owner-operators.

The overall profile of the minority owner-operator as compared to the non-minority owner-operator, according to the information collected in this survey, is that businesses owned by minority owner-operators are generally smaller in terms of number of employees, number of pieces of equipment, gross revenues per year, and have fewer years of experience. The influence of these factors on the relative economic posture of the two groups is considerable. However, in and of themselves, they do not indicate anything about the effect of ethnic status on this relative economic posture. It is clear that smaller, less well-equipped and less experienced operators are at a distinct disadvantage in the marketplace. There is nothing in the foregoing data that suggests minorities are more disadvantaged in this posture than are comparably characterized non-minorities. The question that remains to be examined is whether or not minorities are more likely than non-minorities to be in that position and to remain in that position. The following sections will examine operating factors which bear on that assessment.

Market Factors

Another area of investigation was the determination of whether or not minorities find it more difficult than non-minorities to obtain, hold, and expand their businesses. Therefore, the question guide included certain questions designed to gather information on how the truckers presently get their business and what are the pressures of the marketplace. Market pressures for owner-operators in general include such factors as lack of competitive equipment and lack of direct access to shippers. Table II-4 presents owner-operators' responses to specific questions regarding what market pressures they felt.

Table II-4

Market Pressures Felt by Owner-Operators

	Minority (%)	Non-Minority (%)
Lack of competitive equipment	41	12
Lack of authority (direct access to shipper)	29	34
Lack of access to back-haul cargo	6	24
Other	12	0
No market pressures	12	30

Equipment. A lack of competitive equipment was the pressure most often cited by minority owner-operators (41 percent) as compared to only 12 percent of the non-minorities. This is perhaps the most important factor in an owner-operator's ability to obtain loads.

Many carriers and shippers will often demand that a rig must not be older than a specified number of years, and that it must be in good condition. If an owner-operator owns a piece of equipment that is older and of poorer quality than that specified by many carriers, his/her market is automatically limited, and it is more than likely that the limited market will be the least lucrative.

Although no data was collected as to the age of the equipment owned by minority owner-operators as compared to non-minorities, the fact that minority operators feel a lack of competitive equipment more suggests that they may have older and poorer equipment. It was also found that due to a lack of available financing, minority owner-operators are sometimes forced to buy old and cheap equipment. This complaint was not voiced by non-minority owner-operators.

In interpreting this apparent difference in competitive opportunity, the facts are that the minority firms, characteristically are smaller in terms of both gross revenues and amount of equipment and have been in business for a shorter period of time In the normal business environment, the presence of these factors (along with similar capitalizations) would indicate a lesser capability of being able to finance more expensive equipment. This phenomena is primarily a function of time and growth rate and can not readily be ascribed to a lack of normal access to opportunity beyond the restrictions inherent in the business environment. Therefore, it is not unexpected that smaller less-experienced operators would be more likely to have to buy less desirable equipment and to feel a competitive disadvantage because of this.

Access to Shippers. Lack of authority was another market pressure felt by both minority (29 percent), and non-minority (34 percent), owner-operators. Lack of authority for the owner-operator is really a lack of direct access to the shippers of interstate goods.

Perhaps, more significantly, the question is one of the truckers' attitude on deregulation. The rate of response for both minority and non-minority owners is essentially the same and of apparently great importance to both groups. The basic source of frustration seems to be that the owner-operator knows the shipper, knows the routine, has the equipment, is normally willing to haul for somewhat less than 100 percent of what the shipper is paying and yet is precluded from directly marketing his services. The element that is lacking in the owner-operator's argument is that the key consideration to the shipper, more often than not, is assurance of availability and scheduled delivery on a regular and continuing basis. These considerations are the basic reasons for shippers' continuing reliance on larger transportation organizations (prime contractors) and/or brokers. These organizations can assure the shipper of availability and variety with regard to vehicle mix and number. They also can set and enforce service standards by a competitive selection of subcontractors. There are well-reasoned differences of opinion on whether granting the owner-operator direct access to the shipper would, in fact, increase the use of individual owner-operators by any but the smallest or highly specialized shippers. In any event, this problem is clearly not specific to either owner group. The slightly less apparent concern on the part of minority operators, if significant at all, was probably reflective of the somewhat greater inclination of smaller operators in general to opt for the lower-yield, lower-risk subcontracting alternatives where lack of authority is not so direct a concern.

Owner-operators, both minority and non-minority, complained of the "middleman" (either ICC carrier or broker) who would often skim off a profit from the rate paid for a load. On the average, however, TERA found no significant difference between the percentage of rates paid to minority owner-operators (64 percent) and non-minority owner-operators (66 percent) interviewed for this study.

Backhaul Cargo. Lack of access to backhaul cargo, on the other hand, seems to be more acutely felt by non-minority owner-operators (24 percent), than minority owner-operators (6 percent).

The "backhaul problem" is a major issue in the trucking industry. Therefore, it is of some interest that the survey respondents did not give it a higher priority. Possibly the most important interpretation of the survey results is that the minority owners were only one-fourth as likely to perceive significant problems in obtaining backhauls. The survey did not specifically shed any light on this large disparity between minority and non-minority owners. Nonetheless, when correlated with other characteristics of the two owner groups it may reasonably be expected that a minority operator is more likely to opt for a round trip lease price at lower yields by which backhaul arrangements are prearranged by the prime contractor (broker). On the other hand, the non-minority group may be more inclined to act in a entrepreneurial role opting for a significantly higher yield one-way lease and accepting the responsibility for obtaining their own return loads.

It is reasonable to expect that the non-minority owner would be more sensitive to backhaul problems. Again, it is difficult to ascribe a difference in opportunity on the basis of the owner's ethnic status. The data does indicate that minority owner-operators were more likely to subcontract. This may be ascribable to the fact that their equipment and experience do not allow them to compete as effectively in the higher-yield "spot" market. There is, however, nothing in the data which points to this being a "minority" problem as differentiated from the normal problems of a small, poorly financed, relatively inexperienced business operation.

"Other" market pressures, which are related actually to general economic conditions cited by 12 percent of the minority owner-operators included the high costs of fuel and insurance. A discussion of these problems is reserved for a later section.

Significantly, 30 percent of the non-minority owner-operators felt that they had no market pressures as compared to 12 percent of the minority owner-operators.

Not unexpectedly, non-minority (e.g., larger, more financially secure and more experienced) operators were three times as likely to feel that they had no significant competitive pressures as compared to the responses of minority (e.g., smaller, less financially secure, and less experienced) operators. The interpretation of these responses, would have been made easier if the term "abnormal", "unusual", or even "unfair" had been used to modify "market pressures." Unfortunately, with the present data the only reasonable inference is that minority owner-operators feel significantly more insecure in regard to their market position than do their non-minority respondent counterparts. It is not possible, however, to say that non-minority owner-operators with the same characteristics as the minority respondent group would feel differently from their minority counterparts.

Marketing Methods. Another important market factor which was explored in the interviews, was the methods that owner-operators use to obtain business. Sixty-five percent of the non-minority owner-operators and 59 percent of the minority owner-operators interviewed operated primarily under a permanent lease type arrangement with large carriers, and therefore, their business was a percentage of the rate. However, it should be noted that others operate on a cents-per-mile basis. That is, they are paid an amount based on the number of miles that the load is carried. The rate is also dependent upon how the truck returns, i.e., empty or loaded. In this area, both minority and non-minority truckers complained of the high percentage that carriers "take off the top" (41 percent of the rate in one case). In addition, one non-minority trucker stated that although there was no real proof, minorities were often given the lowest paying loads (shortest trips), and at times when business was at a low ebb for the carrier, they were the last on the dispatch list.

Truckers also regarded "personal contacts" as an important method to obtain business, stating that references and a reputation for reliability and getting the job done were essential for continued business. Both minorities and non-minorities recognized these as important factors.

Other means of getting business included going to brokers and/or carrying exempt products. In this area, truckers (minority and non-minority) felt that some brokers were unscrupulous in their practices and often did not pay them a fair percentage. Truckers also felt that carrying exempt goods did not provide for stability of income since the most common exempt goods (produce) are generally one-way movements from a supply to a demand area, and that rates for exempt goods are very low. The problem of brokers has been highlighted in other reports concerning owner-operators. A report issued by the Subcommittee on Special Small Business Problems after hearings were held on <u>Regulatory Problems of the Independent Owner-Operator in the Nation's Trucking Industry</u>, states:

> Most of the exempt truckers who spoke to the subcommittee complained of two things: brokers and rates. Time and again we heard of corrupt brokers who would skim a good portion of revenue off the price of a load and then the truckers would get what was left over. We were told the States needed to do something about such people and practices. We also were told how poorly many exempt loads paid--often not enough to meet a trucker's costs. 5/

5/ Op. Cit.

Truckers in the TERA survey expressed similar opinions. One stated that exempt truckers often had to either enter into a trip lease agreement with a carrier or carry "hot loads" to reduce the empty mileage on a backhaul. According to a survey conducted by the Interstate Commerce Commission:

> . . . the biggest factor in a trucker's decision to haul 'hot freight' was the opportunity to reduce empty mileage. Owner-Operators accounting for 65 percent of the trip leases felt this to be a very important reason for hauling 'hot freight.' The chance to get more pay was very important according to the opinion of those representing 60 percent of the leases, while those representing 49 percent thought that the chance to obtain an immediate settlement was very important.6/

While TERA's interviews with owner-operators verified these feelings, no statistical difference was found between minority and non-minority firms.

Management Factors

Another field of investigation with regard to owner-operator was in those areas which fit under the scope and direction of ma agement factors such as the firm's experience in securing initia capital or financial problems encountered in the process of running the business.

Initial Capital Sources. In the area of initial capital investment, minority and non-minority owners utilized the source shown in the Table II-5.

As can be seen from the table, the major source of initial capital for owner-operators was banks, both for minorities

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6/ Op. Cit., Interstate Commerce Commission.

(40 percent), and non-minorities (29 percent). The second most often used source was savings, 24 percent in the case of minority owner-operators. The table also shows that 12 percent of the minority owner-operators utilized the SBA as a guarantor of loans as compared to none of the non-minority owner-operators. More non-minority owner-operators (18 percent), borrowed from family/friends than did minority owner-operators (6 percent), as is the case with supplier credits (12 and 6 percent, respectively). "Other" sources for both categories included a certificated carrier to whom the owner-operator was leased and the prior owner of a company with equipment for sale.

Table II-5

Owner-Operators' Sources for Initial Capital Investment

Source	Minority (%)	Non-Minority (%)
Banks	40	29
SBA	12	0
Family/Friends	6	18
Supplier Credit	6	12
Savings	24	29
Other	12	12

Table II-5 indicates that minority owner-operators used banks more often than non-minorities. However, it is important to analyze this indication in light of the borrower's satisfaction with the financing plan, the amount that was borrowed, and for what purpose. Table II-6 shows the percentage of owner-operators expressing either satisfaction or dissatisfaction with the initial financing plan.

Table II-6

Owner-Operators' Satisfaction
With Initial Financing Plan

	Minority (%)	Non-Minority (%)
Yes	59	76
No	41	24

As can be seen in Table II-6, 76 percent of the non-minority owner-operators were satisfied with their initial financing plan as compared to only 59 percent of the minority owner-operators. Reasons for dissatisfaction on the part of minority owner-operators were varied. One minority trucker stated that he felt his loan application had been turned down by a bank because he was "black and poor." Three minority owner-operators had been turned down by the SBA because, they were told, "trucking is not a successful business." Two of these three minority owner-operators were then forced to invest the limited amount of savings they had, and as a result, could only buy cheap, used vehicles. Anothe minority owner-operator was not satisfied with his initial financing plan because he had to lower the amount applied for and find a co-signer; and another had to have his father mortgage his home in order to get a loan.

Reasons cited for dissatisfaction on the part of non-minorit owner-operators included being forced to buy old, used equipment after being turned down by a bank, and not having enough collatera for a loan.

A majority of the above examples seem to be less related to ethnic origin than to everyday small business problems. Only one minority owner-operator claimed to have been discriminated against by a bank. However, among minority owner-operators there was an undercurrent of feeling that lending institutions discriminate against minorities, although no specifics were volunteered by the interviewees.

Initial Investment. The responses relating to initial investments must be interpreted with careful regard to the circumstances which produced them. It may also be useful to group the response items into three functional categories:

- Banks (including SBA)
- Supplier credits
- Personal sources

The survey indicated that minority operators appeared to use banks more often than did non-minorities. It is likely that this relfects several relative factors including:

- Lack of access to equity or credit sources;
- Lack of collateral other than personal assets; and
- Requirement for a higher initial investment (proportionate to level of disposable income and savings).

These factors required the minority investor to use his home, co-signers, or other collateral to secure a bank loan under whatever terms were made available. It is likely that these terms were difficult with respect to collateral required, amount lent, interest rates, and repayment period. It is also likely that the banks considered these loans to be relatively high risk and put conditions on them accordingly. Similarly, the minority investor found it necessary to rely on restrictive government guarantees, such as those extended by the SBA, to induce the banks to approve the loan. The same problems may have faced the non-minority investor; however there is a higher likelihood that more alternatives were available in the form of personal loans and equity. The data from the survey tends to support these hypotheses in that banks tended to be used by minorities significantly more often than by non-minorities, particularly as compared with personal sources and supplier cre-its. These hypotheses can be continued by citing the fact that, on the average, non-minority firms in the survey were 10 years older than the included minority firms. This would indicate that the non-minority investor entered a less competitive environment and, in turn, became a factor making the financing of a new entry into the market less attractive to a lending institution.

Supplier credits appear to have been a seldom used financial mechanism. This is not surprising in that this tool is primarily used by suppliers in selling fleets rather than individual units. It is also normally restricted to sales of new units, and the basic credit requirements are comparable to bank loans. The difference lies in the extent to which the supplier wants to participate in providing guarantees to the lending institution, because doing so increases the supplier's contingent liabilities. The use of supplier credits, particularly in a tight money market, is largely restricted to sizeable fleet sales.

Personal sources, or perhaps more descriptively, non-institutional sources, include personal savings, loans from friends and relatives, taking back of notes by the seller of the business, and other forms of financing which were not arranged through conventional lending institutions. It will be noted from Table II-5 that there was some difference between minority and non-minority respondents in the share of the frame using personal sources for initial financing. Percentage-wise, it would appear that non-minority groups had significantly greater access to credit from family and friends. This may be an accurate reflection of the socio-economic facts whereby non-minority groups have available greater discretionary individual investment capital. If so, prospective non-minorities may have greater opportunities to reduce their dependence on the generally higher-cost, more restrictive institutional financing. In turn, this could allow a generally more substantial equity position in the financial statement and a material relative reduction in overhead costs. Care should be exercised in making this sort of broad-scale imputation, particularly on the basis of a limited and non-random sample. Unfortunately, there is nothing in the survey which was specific enough to directly support this conclusion.

In addition, Table II-7, shows the amount of initial investment required by owner-operators. It will be noted from Table II-7 that, on the average, the initial investment by non-minority respondents had been approximately 70 percent higher than for minorities. If one assumes that the two operator groups are doing business in essentially the same marketplace, and that the reported initial investments are in constant dollars, then the disparity in investment levels can reasonably be construed to represent a true difference between the minority and non-minority respondents' ability to obtain investment capital. If this is the case, the implications are considerable including but certainly not limited to:

- Less competitive equipment;
- Poorer working capital position; and,
- Restricted operational scope.

These disadvantages tend to result in an operational scenar characterized by a decreasing ability to overcome the disadvantages. Inferior equipment restricts marketing capability. Restricted marketing capability means lower yields. Lower yields result in restricted cash flow. A poor cash flow results in increased inability to meet current obligations. This, in turn, results in reduced credit worthiness at the very time that short term credit is vital. A need to generate cash from operations often leads to bidding services below fully allocated costs in return for immediate cash payment. This results in a lack of cash to pay debts and eventual bankruptcy.

Table II-7

Amount of Initial Investment by Owner-Operators

Amount ($)	Minority (%)	Non-Minority (%)
< 5,000	24	12
5,000 - 10,000	40	35
11,000 - 25,000	18	18
26,000 - 50,000	12	29
> 50,000	6	6

<u>Financial Problems.</u> Another area of concern is the financial problems affecting the day-to-day and long-term aspects of operating a business as an owner-operator. Table II-8 shows the response of interviewees to questions in this regard.

Table II-8

Financial Problems Experienced by Owner-Operators

Type of Problem	Minority (%)	Non-Minority (%)
Lack of short-term borrowing capability	29	0
Delays in collecting receivables	24	41
High overhead	18	0
High unit operating costs	47	59
Long-term financing	53	18
No financial problems	23	41

NOTE: Totals add to greater than 100 because of multiple answers.

As can be seen from Table II-8, non-minority owner-operators did not feel a lack of short-term borrowing capability as did 29 percent of the minority owner-operators. This may be interpreted two ways: either that non-minority owner-operators did not feel the same need for short-term borrowing, or that they found it easier to obtain short-term loans. On the other hand, non-minority owner-operators (41 percent) reported delays in collecting receivables more often than did minority owner-operators (24 percent). This may indicate that although non-minority owner-operators are affected financially by delays in collecting receivables, they can offset the problem by short-term borrowing.

As to the cause of non-minority owner-operators experiencing delays in collecting receivables more often, one minority trucker stated that he would not remain with a carrier very long if he experienced delays in payment. While this may be one reason for minority owner-operators to have fewer problems than non-minorities, it is certainly not the only one. Further analyses based upon differences in ethnic origin are not possible from the available data. Further, it is clearly unreasonable to conclude that non-minority operators were any more inclined to accrue aging receivables than were minority operators.

The interesting point here is that the data and the commentary tend to indicate that the former may be more inclined to carry a customer longer. As indicated in the previous section, this may be attributed to two factors. First, the non-minority trucker may have more cash flow capability to carry a higher level of accounts receivable. This capability may be attributed to more profitable operations, more flexible compensating balance policy by the operators' bank, and/or access to short-term credit. Second, the cost of carrying these receivables can be more than offset by the ability to maintain, and even increase, the overall volume of business through this constructive extension of credit to customers. This capability can also have an important effect on the ability to charge higher rates with the rate increment being justified to the customer as a cost of short-term working capital. These considerations are generally more applicable to large operations, but are still significant competitive influences at the owner-operator level.

A comparative lack of access to short-term credit for minority operators, particularly in the initial phases of their operations, could represent a serious competitive disadvantage. However, the survey results are not clear as to whether or not there is a real difference between comparable minority and non-minority firms with regard to access to short-term credit. On the other hand, the results of the survey do indicate that the non-minority owner-operator respondents seem to have had easier access to credit facilities. This observation must be interpreted in light of the fact that the non-minority firms in the survey, in general, also seemed to have a greater equity position and be less burdened with senior institutional debt.

In other related areas, 18 percent of the minority owner-operators felt they had problems caused by high overhead as compared to none of the non-minorities; and 47 percent of the minorities felt their unit-operating costs were high as compared to 29 percent of the non-minorities.

The disparities in perceived direct and indirect cost pressures are difficult to interpret. In total (direct operating costs plus overhead), the response is essentially the same, around 60 percent. However, about one in five minority respondents indicated that high overhead costs were a particular problem. None of the non-minority operators indicated this concern. To some degree, this difference in perception can be explained by the fact that a larger share of the minority owner-operators were in the household goods business. Characteristically, this business has a higher overhead structure than the general freight movers. Such expense items as insurance, helpers, warehouse space, damage claims (not covered by insurance), cargo protection equipment, promotional assessments, and other affiliation expenses are more common in the household goods moving business. Since there is little in the way of indirect personnel costs for owner-operators, virtually all cost perceptions for the general freight hauler can be reasonably attributed to vehicle operating costs. This would help explain the zero response for non-minorities in the "high overhead" category. The difference between owner groups in the remaining portions of the cost structure does not appear to be significant.

Fifty-three percent of the minority owner-operators also had financial problems because of a lack of long-term financing availability as compared to 18 percent of the non-minority owner-operators. Since the only long-term investment on the part of owner-operators is their tractor or truck, long-term financing is a key factor in operating a successful business.

As discussed previously, the survey indicates that minority owner-operators seem to have had more restricted access to capital for their initial investment. This required them to purchase inferior equipment, which is likely to have restricted their opportunity for growth relative to their non-minority counterparts. In consideration of the corporate disevolution cycle described earlier, it is reasonable to conceive that the minority owner-operator finds himself at a significant competitive disadvantage because of inferior equipment. At the same time the lack of competitiveness has adversely affected his financial posture making it more difficult to obtain financing for better equipment. In other words, the reason he needs new equipment is precisely the reason it is difficult for him to get it.

There is another practical element which may well be a significant factor in this syndrome. The operator who is having difficulty making a profit will most likely need short-term credit. Since his corporate financial results are not attractive to the lender, the operator is often forced to mortgage his equipment, thus increasing this debt/equity ratio and making his operation even less attractive to sources of long-term investment capital. Thus, the minority operator's difficulties with long-term financing are another result of the chain reaction to initial undercapitalization. The survey does not directly reveal whether the undercapitalization was the result of lack of access to funds, bad planning, or both.

Interestingly, 41 percent of the non-minority owner-operators interviewed reported no financial problems as compared to 23 percent of the minority owner-operators.

It is not reasonable to interpret these responses literally. At best, this inquiry can elicit a relative perception. Perhaps a more accurate interpretation would be "no abnormal financial problems" with "abnormal" defined as problems which the operator feels somehow adversely affect his operation more than another's, and which are not of his making. Under this interpretation, it is not surprising that the minority owner-operator was twice as likely to feel this sort of problem. However, beyond the possible cause and effect relationships already discussed, there is nothing in the survey results which would support the contention that comparable minority and non-minority firms would feel differently on this question.

Profitability. DOT's concern with establishing a measure of profitability for independent owner-operators was also a part of the survey. However, in the case of owner-operators, TERA found reluctance on the part of many to volunteer specific financial information. Although some truckers did supply information on their gross revenues, there is not enough data to establish any usable guidelines as to the profitability of their operations. It should also be recognized that owner-operators in general are not in the habit of detailed record-keeping; and therefore, even if truckers had been willing to give information, no extensive statistical analyses would have been possible. Some comments on existing conditions for owner-operators are, however, possible.

First, the number of owner-operators is, generally, on the decline. This is one indication that some are not finding it profitable, although it is impossible to estimate what percentage of the total decline would be due to non-profitable operations, let alone trying to differentiate between the profitability of businesses owned by non-minority and minority owner-operators.

Second, profitability may be reduced in the bidding process. To obtain a load, the owner-operator first goes to the carrier's agent and bids. Since there is keen competition, there is often very little or no margin for profit. In addition, in many instances, owner-operators are unaware of the rate being charged the shipper and therefore do not know whether they are receiving the actual amount owed to them. Exempt truckers are also in basically the same situation.

Third, most respondent owner-operators complained that the middleman skims the profitability from the haul. As the Subcommittee Report mentioned earlier indicated, the average owner-operator receives 75 percent of the rate. TERA's study found that minority owner-operators received 64 percent and non-minority owner-operators 66 percent, on the average. An ICC report found the average compensation to all owner-operators was 67 percent. 7/ This percentage of the rate received by the owner-operator must cover emergency truck repair changes, fuel, payment for services such as loading/unloading docks, insurance (he/she carries the loan at his/her own risk), tolls, fees, licenses, truck maintenance, and so forth.

Fourth, owner-operators have to make payments on social security, health insurance, and other "fringe benefits."

Lastly, the owner should also be saving to buy a new truck as needed. Thus, considering the rates and the cost factors, it is highly unlikely that the majority of owner-operators find their self-employment financially profitable. If one can equate "doing one's own thing" with financial profitability then there may be some satisfaction in being an owner-operator.

7/ The Independent Trucker, Nationwide Survey of Owner-Operators, Interstate Commerce Commission, Bureau of Economics, Washington, D.C., May 1978.

The ICC report cited on the preceding page also found evidence of a lack of economic stability in the owner-operator sector. It was estimated that 20 percent of Class I and II carriers using owner-operators had turnover rates of over 75 percent. Carriers and owner-operator leaders generally agreed that this was due to inadequate compensation in the face of sharply rising costs. However, again there is no data available with regard to differences between minority and non-minority owner-operators.

Nonetheless, it may be useful to examine some of the facts of the operating environment discussed earlier in this report for the purpose of drawing reasonable conclusions about the probable relative profitability of minority and non-minority owner-operators. Some evidence indicates that minority operators may have more limited access to initial capital which might result in thei having generally inferior equipment. It also appears reasonable to assume that the operator of inferior equipment will realize a lower ton-mile yield and, perhaps, higher operating costs per ton-mile. It is also likely that his utilization will be lower, thus incurring higher fixed costs per revenue ton-mile.

For the majority of owner-operators, a practical measure of profit is annual operating revenues less operating expenses (not including salary) less taxes. If an operator's yields are comparatively low, and his unit costs are comparatively high, it stands to reason that profitability is going to be relatively low A reasonable minimum standard for profitability is the available return on alternate uses of capital. This standard is the approximate obverse of the cost of capital. Table II-9 gives some representative risk versus rates of return examples which may be considered typical of various types of investment.

Table II-9

Examples of Risk vs. Expected
Rate of Return

Investment Type	Risk	Minimum Acceptable Return
Government Bonds	Amount Invested	9%
Quality Listed Stocks	Amount Invested	6%
Commercial Realty 1/	Amount Invested	18%
Small Business	Total 2/	30%

SOURCE: Adapted from Edward Fenig, "Your Small Business--How to Buy and Build," (Lexington Park Press, 1979).
1/ Non-recourse loans.
2/ Due to the fact that personal guarantees are normally required of small businesses by lending institutions regardless of corporate format.

Profitability is a relative term. The small business ratio of return from the above table on an investment base of $12,000 (the approximate average initial investment of minority owner-operators in this survey) would indicate that $3,600 per year over and above a salary which meets all personal income requirements would be reasonable profit available for optional reinvestment. In the real world of small trucking firms, the concept of profitability, in an accounting sense, is all but irrelevant. The difference between total revenues and total expenses is personal income. Furthermore, it is difficult, if not impossible, for the operator to differentiate between business expenses and personal expenses. Therefore, the $3,600 return figure is more or less automatically merged with the equally irrelevant concept of salary to produce a very relevant figure of personal income. This can, and often does, lead to owner-operators "living off th cash flow," i.e., mingling personal and business funds and spend ing revenues on one or the other, whichever is more pressing.

In summary, profitability may not be the most definitive term in trying to evaluate possible differences in income oppor- tunities between minority and non-minority owner-operators. The enterprises are normally not entered on the basis of a choice be tween alternative investments. Normally, the only operative cho is whether to drive as an employee or as an owner. Although it is reasonable to assume that this decision is generally made on the basis of income consideration, it is not likely to be made : consideration of return on investment as a compensation for risl This appears to be true for both owner groups. However, the mi- nority respondents to the survey appear to be at a distinct dis- advantage in obtaining proper capitalization. Therefore, it is much more difficult for them to achieve an income level comparal to the non-minority respondents.

Regulatory Factors

Another of DOT's concerns was the truckers' awareness of problems and opportunities in applying to the ICC for interstat authority. Of the owner-operators who were interviewed for thi study, not one had ever applied for interstate authority. As a follow-up, when TERA interviewers asked, "Why not?" they found no significant difference between minorities and non-minorities. However, there was a varying degree of awareness within each operator group. Since this was a particularly subjective area of questioning, the comments are open to a wide range of interpretation.

Of the minorities who responded to this question, three said that it was too expensive. One of them stated that he had heard it was almost impossible to get ICC authority unless one had $300,000 to $500,000. Another had discussed it with a lawyer and was told he would need $1,500 initially, which he felt was expensive. The same trucker knew owner-operators who had tried unsuccessfully to obtain rights so he felt it was not worth it. The third trucker stated that from the literature he had read on the ICC, he concluded that a lot of money was needed, in which case it would be easier to buy rights from another carrier.

One minority trucker stated that he had never bothered to apply because if any specific rights were good (profitable), somebody would already have them. He felt that those truckers with rights were in a very tough competitive position, and that he would not be able to survive in that situation. Another mi-ority trucker felt that too much time and effort were involved in applying to the ICC for rights, and he felt that the outcome would be negative. Another felt that one had to know the "right" people to get shipper support, and in his position as an independent and a minority this would be difficult.

Apart from these minority truckers who had some understanding and knowledge of ICC application procedures and the regulated interstate trucking industry, there were others who had not though of applying. Two truckers did not even know the ICC exists or what role it plays.

Among non-minority truckers, four commented that the cost of entry into the regulated interstate industry was too expensive for them. Three felt that applying to the ICC involved too much "red tape" and was a big "hassle." Three truckers also felt that as individual truckers their operations were too small to seriousl consider applying for rights, and another stated he did not know whether or not he wanted his business to grow that much.

While it is difficult, if not impossible, to analyze the responses to this question as to the existence of significant differences between minorities and non-minorities in their awareness and knowledge of motor carrier entry regulations, it is safe to say, however, that there is a great deal of misinformation and cynicism on the part of <u>all</u> owner-operators as to the opportunitie available to them.

Other general comments on the part of both minority and non-minority owner-operators dwelled on the perception of their relationship within the overall trucking industry. The most frequentl offered comment was in regard to brokers and carriers as mere "middlemen" who were taking too high a percentage off the rates "for the use of their name." While this is perhaps a slightly biased point of view (carriers and brokers do have expenses of their own to cover), the percentage of the rate paid did vary a great deal, although not based upon ethnic origin. The average rate of compensation for minority owner-operators was 64 percent as compared to 66 percent for non-minority owner-operators. This is slightly below what the ICC's bureau of economics found to be the average rate of compensation for all owner-operators (67 percent).

TERA also investigated the problems which owner-operators have in meeting government regulations which apply to the operational side of their businesses. Thirty-five percent of the minority truckers and 44 percent of the non-minority truckers said they had problems, and all cited three particular problems: the 55 miles-per-hour speed limit, differing size and weight limits among States, and keeping log books. In the latter two, truckers cited paperwork as a difficulty, as well as having to absorb the cost of tags, licenses, and permits which is often uneconomical for some trips.

The Subcommittee report previously mentioned in this study also addressed the problem of state laws and regulations which an owner-operator must contend with:

> The cumulative effect of the multiplicity of State requirements poses an overwhelming burden for truckers. The problem is not unique to the independent, but it undoubtedly burdens him to a greater extent. Trucking firms hire staffs to keep up with the variations in State laws and regulations and complete the myriad of forms which they face. The independent owner-operator, on the other hand, must fight his way through the forms, licenses, permits, decals, taxes, . . . (and) errors often make the paper jungle an expensive process.
>
> Witnesses indicated that motor fuel taxes, trip permits, utility commission requirements, licenses, size and weight permits, and ton/mile taxes were the most burdensome State problems. 8/

8/ Op. Cit., Regulatory Problems of the Independent Owner-Operator in the Nation's Trucking Industry.

The TERA study does not reveal any significant differences between minority and non-minority owner-operators with regard to their problems in meeting government regulations.

3. LOCAL TRUCKERS

Background

The second group of carriers which TERA investigated was local truckers who restrict their trucking operations to exempt commercial zones. Exempt commercial zones are areas in which an unregulated competitive market exists. These zones were established in the early days of regulation to serve the heavy traffic in metropolitan areas on a daily basis. In April 1977, the ICC expanded the boundaries of commercial zones; and after the expansion, there were complaints from small carriers that it would have an adverse impact on their businesses. Subsequently, a report by the General Accounting Office (GAO) has established that:

> For most responding carriers the commercial zone expansion has had little or no effect. However, some did experience slight changes as a result of the expansion in areas such as rate and service competition, operations, and tonnage hauled.
>
> Increased competition and reduced transfer of shipments between carriers appear to have resulted in a shift of business from the Commission-regulated short-haul carriers to nonregulated local and Commission-regulated long-haul carriers. However, no major rate reductions followed. 9/

Thus, the GAO report concludes that the market has expanded for local truckers operating within commercial zones. This conclusion has an important bearing on the local trucker's responses

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9/ ICC's Expansion of Unregulated Motor-Carrier Commercial Zones Has Little or No Effect on Carriers and Shipper's, General Accounting Office, CED-78-124, June 26, 1978.

to TERA's questions on the subject of applying for operating authority to expand operations and will be discussed later in this section.

The areas covered in this section on local truckers are similar to those in the previous section. These are: requirements to start operations (financing); difficulty in obtaining, holding, and expanding carrier business; difficulty in meeting government regulations applicable to operations; awareness of opportunities and problems of obtaining carrier authority; and profitability of operations.

Survey of Local Truckers

This section is broken down into four subsections on respondent characteristics, market factors, management factors, and regulatory factors.

Respondent Characteristics

Before going further into an analysis of the data directly related to the above areas, it would be useful to describe, in terms of number of employees, experience and gross resources, the local trucking companies involved in the survey.

Sixty-two percent of the minority local truckers have less than 5 employees, while only 30 percent of the non-minority fir fall into this category. As can be seen in Table III-1, 17 percent of the local minority firms have 5 to 14 employees, whi 52 percent of local non-minority respondent firms are of this size. Twenty-one percent of the minority local trucking firms have more than 15 employees as compared to 18 percent of the n minority local trucking firms.

Table III-1

Number of Employees in Local Trucking Firms

Employees	Minority (%)	Non-Minority (%)
< 5	62	30
5 - 14	17	52
15 - 25	17	9
26 - 100	4	9
> 100	0	0

The relative age of the local trucking firms surveyed is shown in Table III-2.

Table III-2

Age of Local Trucking Firms Surveyed

Number of Years	Minority (%)	Non-Minority (%)
< 1	9	4
1 - 2	0	4
3 - 5	17	26
6 - 10	30	26
> 10	44	20
2nd or 3rd generation	0	20

As can be seen from the above table, 9 percent of the minority local trucking firms surveyed had been in business for less than 1 year, as compared to 4 percent of the non-minority local trucking firms. None of the minority firms were in the 1 - 2 year category, 17 percent were in the 3 - 5 year category, 30 percent in the 6 - 10 year category, and nearly half (44 percent) had been in business for more than 10 years. In contrast, 4 percent of the non-minority firms were in the 1 - 2 year category, 26 percent were in both the 3 - 5 and 6 - 10 year categories, and 20 percent had been in business for over 10 years. In addition, 20 percent of the non-minority local trucking firms were identified as second or third generation companies. However, it should be mentioned that two of the minority firms in the 3 - 5 year category do not reflect the true historical background of the owner. One owner had formed his own company when he decided to branch out of the family business which was in its second generation. The other firm grew out of a family's sugar cane farm with its own trucks that were used to haul the cane. Although hauling one's own cane to market cannot be considered to be a part of the trucking industry marketplace, this family did have four generations of related experience. The average number of years in business for minority local truckers in this survey was 9.76 years as compared to 20.34 years for non-minority local truckers.

Other interesting background information about the firms was the kind of prior experience the owners had and what had influenced them to start their own local trucking firms. As can be seen in Table III-3, 45 percent of the minority local truckers and 49 percent of the non-minority firms indicated related experience (e.g., owner-operators, drivers for other companies or managers in local trucking firms) prior to starting their present operations.

This factor was often combined with the owner's desire to run his/her own business. Thirty-two percent of the minority local trucking firms cited a desire to own their businesses as the primary reason for starting their firm as compared to 10 percent of the non-minority local trucking firms. It is significant that fewer of the minority local truckers had experience in a family trucking company (14 percent) than non-minority truckers (36 percent), because experience with a family firm can be more significant prior work experience than merely working as an employee. This is due to family members generally having greater exposure to management problems. Minority owners of local trucking firms were twice as likely to have had no prior related experience.

Table III-3

Experience of Owners of
Local Trucking Firms

Type of Background	Minority (%)	Non-Minority (%)
Previous related experience	45	49
Experience in family firm	14	36
Desire to own business	32	10
No related experience	9	5

TERA obtained information on the gross revenues of most of the local truckers in both categories. As can be seen in Table III-4, 80 percent of the local minority truckers earned gross revenues of $250,000 or less as compared to 58 percent of the non-minority truckers; and 34 percent of the non-minorities earned gross revenues between $251,000 - $1 million as compared to only 14 percent in the minority category. Approximately the same percentage of local truckers in both categories earned gross revenues of between $1.1 million and $3 million.

Table III-4

Gross Revenues per Year of Local Trucking Firms

Amount ($)	Minority (%)	Non-Minority (%)
0 - 250,000	80	58
251,000 - 500,000	0	17
501,000 - 1 million	14	17
1.1 million - 3 million	6	8
Weighted average	$247,800	$430,800

In summary, minority local trucking firms are generally smaller, have had less corporate experience and only earned approximately one-half the gross revenues of non-minority local trucking firms. These observations are supported by the facts that 61 percent of the minority companies in this survey had few than 5 employees as compared to 30 percent of the non-minority firms; 36 percent of the non-minority local trucking company owners had experience in family-run trucking firms as compared to 14 percent of the minorities, and 80 percent of the minority local trucking firms earned $250,000 or less per annum as compared to 58 percent of the non-minority firms.

Market Factors

One section of the interview guide dealt with the market pressures felt by minority and non-minority local trucking firms. Included was information on competitive standing and various marketing techniques used by them. Market pressures are to a great extent related to each other and to the financial strength of the company. One problem may be either the symptom or result of another. Poor equipment, for example, may be a result of not being able to secure adequate financing. This in turn results in less lucrative business, less shipper support, and therefore less chance to strengthen the firm's financial posture and to obtain authority from the ICC.

Competitive Pressures. Several factors should be taken into account in analyzing the data in Table III-5. First, some of the local trucking firms, in both ownership categories, did not consider a lack of authority to be a market pressure, because they felt that operating in a large commercial zone presented enough opportunities for expansion and growth. Second, not all local truckers want to become interstate truckers. Those local truckers, both minority and non-minority, who felt no market pressures may represent those who are satisfied with being local truckers and/or those content with the present size and condition of their operations.

Table III-5

Market Pressures Felt by
Local Trucking Firms

	Minority (%)	Non-Minority (%)
Lack of competitive equipment	30	30
Lack of authority (direct access to shipper)	48	17
Inability to raise performance bond	9	0
Lack of access to backhaul cargo	0	4
No market pressures	13	39
Not available	0	10

Third is the equipment factor. As Table III-5 shows, 30 percent of both minority and non-minority local truckers felt competitively disadvantaged because of poor equipment. This is very important when competing in the trucking industry. Those with better equipment are generally more likely to win contracts over those with comparatively poor equipment. Usually, lowering the price will not compensate for second-rate equipment.

Fourth, lack of direct access to interstate shippers (lack of authority) was mentioned as a problem three times as often by minority local truckers as by non-minority local truckers.

Fifth is the problem of empty backhauls, which are typically not a problem for local truckers. Only 4 percent of the non-minority local truckers and none of the minority local truckers mentioned this as a competitive pressure.

Last was the difficulty in raising a performance bond for shipments with such a requirement. This was felt to be a competitive problem by 9 percent of the minority local truckers, while none of the non-minority local truckers felt this was a difficulty. This may be as a result of minority firms having greater problems in obtaining short-term credit. This problem is elaborated upon further on in this section in the discussion related to Table III-11.

Marketing Methods. Next, TERA asked questions to determine what primary marketing methods were employed by local truckers.

Table III-6

Primary Marketing Methods Used by Local Trucking Firms

Activity	Minority (%)	Non-Minority (%)
Personal contacts and referrals	75	82
Subcontracting	52	9
Sales force	4	17
Advertising (other than yellow pages)	30	48

NOTE: Totals add to more than 100 because of multiple answers.

As can be seen from Table III-6, the development and utilization of personal contacts is considered to be the primary marketing approach by a vast majority of both minority and non-minority local truckers. The importance of personal contacts and references, as well as the establishment of a reputation for quality service by word-of-mouth was continuously voiced by both minority and non-minority firms.

Subcontracting (obtaining business through a prime contractor) was a method used more than five times as often by minority local truckers as by non-minority firms. This result may indicate that primary business is harder to obtain for minority firms. This factor may be attributed, in part, to the fact that non-minority truckers were four times as likely to employ an outside sales force. The main reason for a minority of both types of local truckers to use a sales force, as expressed by both minority and non-minority firms, was their inability to finance such a component of their companies.

Advertising in the yellow pages was used by all non-minority local truckers and most of the minority truckers. Other forms of advertising by both minority and non-minority truckers included statements of support from regular customers, and one-page flyers on services provided.

Effectiveness of Marketing Methods. As a follow-up to the question of what primary marketing methods were employed by local trucking firms, they were also asked which was thought to be the most effective.

Table III-7, on the following page, shows the effectiveness of various marketing methods.

Table III-7

Effectiveness of
Marketing Methods

Activity	Minority (%)	Non-Minority (%)
Personal contacts and referrals	72	80
Subcontracting	16	4
Sales force	4	8
Advertising	4	8
Other	4	0

As shown in the above table, approximately three-fourths of both minority and non-minority local truckers felt that personal contacts and referrals were the most effective means of obtaining business. Minority local truckers were four times as likely as non-minorities to answer that subcontracting was the most effective method of marketing. Interestingly, this frequency distribution is almost exactly the same as that for use of an outside sales force. Non-minority firms appear to be twice as likely to feel that an outside sales force and media advertising are effective. The overall implication of the data seems to be that while most minority and non-minority local truckers feel that personal contacts and referrals are the most effective means of getting business, there is a difference of opinion regarding other methods, especially subcontracting. As stated earlier in this section, since it is possible that minority local truckers may find it harder to obtain primary business (or easier to obtain secondary business), they may, as a result of this, regard subcontracting as a more effective means of obtaining business or quite possibly the "path of least resistance." This is not to imply that minority firms would rather not subcontract. It is more likely that their competitive posture precludes effective access to primary markets.

Management Factors

A second field of investigation with regard to local trucking firms was those areas which could broadly fit into the category of management factors. These include the firm's experience in securing initial capital, financial problems encountered in the process of running the firm, and/or internal organizational problems such as lack of qualified personnel.

In the area of initial capital investment, the minority and non-minority trucking firms utilized the sources shown in the table below.

Table III-8

Local Truckers' Sources for Initial Capital Investment

Source	Minority (%)	Non-Minority (%)
Banks	17	26
SBA	13	0
Family/friends	27	4
Supplier credit	8	0
Savings	27	70
Other	8	0

As can be seen from the preceding table, non-minority firms were more than twice as likely as minorities to have used personal savings as a major component of their initial commitment. Only one in six minority firms used bank financing in their initial capitalization. Government guarantees, loans from families, and supplier credits together accounted for the remaining initial investment for more than half of the minority firms. These sources were used by less than 1 in 20 of the non-minority local truckers. The "other" sources for minority local truckers were equity financing and a community finance company which, it was claimed, charged 36 percent interest on the loan.

Subsequent to identifying the sources used by minority and non-minority local truckers for initial capital investment, the truckers were asked whether or not they were satisfied with the initial financing plan.

Table III-9

Local Truckers' Satisfaction With Initial Financing Plan

	Minority (%)	Non-Minority (%)
Yes	57	94
No	43	6

As can be seen from the preceding table, non-minority local truckers were almost twice as likely to express satisfaction with their initial financing plan as were minority truckers. Reasons for dissatisfaction expressed by minority local truckers included the following:

- Unable to keep up with high payments on a note taken from family/friends;
- Unable to obtain the full amount requested from the SBA and/or banks;
- Paying an interest rate of 36 percent to a community finance company after being turned down by other lending institutions;
- The length of time that SBA took to process and approve a loan application (10 months), at which time it was too late to use it; and
- Being turned down by the SBA after having sunk $30,000 in owner funds and suffering losses.

The only reason cited for dissatisfaction with the initial financing plan by non-minority local truckers was the inability to borrow enough to buy more than one truck. It seems, therefore, that minority local truckers tended to have greater problems in financing the start-up of their trucking firms than did non-minority local truckers. A proportion of these difficulties seemed to relate to problems with the SBA.

Initial Capital Requirements. Another related area of investigation was the determination of the amount of capital required to start operations. Answers to this query were difficult to interpret in some cases, especially with the long-established non-minority carriers. One owner stated that the firm had been started in 1916 by his grandfather, and his investment has been in a horse and cart. In such cases it was impossible to obtain full information on initial investment costs. The table below shows the total amount of funds initially invested by those local truckers able to supply the information.

Table III-10

Amount of Initial Investment by Local Trucking Firms

Amount ($)	Minority (%)	Non-Minority (%)
< 5,000	16	36
5,000 - 10,000	21	29
11,000 - 25,000	21	7
26,000 - 50,000	16	7
51,000 - 75,000	16	14
76,000 - 100,000	5	0
> 100,000	5	7

As can be seen from Table III-10, the amount of initial investment (constant dollars) required for minority local trucking firms in this survey is higher than was required for non-minority firms. A computation of the weighted average initial investment shows the minority local trucking firms invested nearly twice as much ($44,365), as non-minority local truckers ($25,465).

It should be noted, however, that minority local trucking firms on the average have been in business for approximately

10 years as compared to approximately 20 years for non-minority firms. This fact may substantially explain the difference in start-up costs. The non-minority local truckers entered a less competitive market at a lower point on the industy growth curve. As their operations grew, the firms generated funds which were reinvested in the operation. Ten years later, the minority firms entered the market in competition with the existing non-minority operators. At this point, at a normal rate of return of approximately 7 percent, the non-minority local trucker had doubled his operation. The minority entrant would have been under pressure to meet the competition's scope of services, as well as face absolute (incremental to inflationary) increases in equipment prices.

Financial Problems. Another area of concern in the management factors category is what financial problems are encountered by local trucking firms. Financial problems, for purposes of this analysis, are categorized as long- or short-term. Long-term financing is typically for the purchase of plant and equipment and short-term borrowing, usually for less than 1 year, is for a purpose such as financing receivables. Table III-11 shows the response to questions asked in this regard.

Table III-11

Financial Problems Experienced by Local Truckers

Type of Problem	Minority (%)	Non-Minority (%)
Lack of short-term borrowing capability	22	9
Delays in collecting receivables	57	39
High overhead	13	9
High unit operating costs	13	9
Long-term financing	?	?
Other	9	0
No financial problems	35	56

NOTE: Totals add to more than 100 because of multiple answers.

As shown in Table III-11, 35 percent of the minority-owned local trucking firms claimed they had no financial problems as compared to 56 percent of the non-minority local truckers. Minority local truckers cited long-term financing as the major problem, while this was not expressed as a problem by any of the non-minority truckers. The underlying reasons for and effects of this problem are similar to those discussed in the owner-operator section. Of those truckers who said they did have various financial problems, delays in collecting receivables also seemed to be a major problem, according to both minority and non-minority local trucking firms. The numbers also seem to indicate, however, that this problem may be more acutely felt by minority local truckers. This is evidenced by their citing the combination of the difficulty in collecting receivables and lack of short-term credit as a problem almost twice as often as other types of financially-related problems, which seemed to be felt equally by both owner categories.

As might have been expected, the classic undercapitalization syndrome is even more in evidence for minority local truckers than it is for minority owner-operators. This is attributed to the fact that the local truckers will typically have a somewhat higher overhead burden. This, in turn, puts a greater pressure on unit profit margins reducing the capability to accept business which only made a minimum margin over direct operating costs. As a result, cash flow crises can be expected more often and with greater severity.

Table III-11 also shows that minority local truckers seem to have a somewhat greater problem with unit operating costs. This may reasonably be attributed, in large part, to the generally inferior equipment they operate, which is more subject to mechanical failure and lack of expert maintenance.

"Other" financial problems for minority local truckers included unexpected costs related to damaged merchandise and seasonal variations in business (i.e., cash flow). Non-minority local truckers did not offer any additional information on what "other" financial problems they might have.

Organizational Problems. Another management factor considered within the scope of the interviews was what internal organizational problems had been encountered by local truckers. Table III-12 shows the response of minority as compared with non-minority local truckers in this regard.

Table III-12

Occurrence of Internal Organizational Problems in Local Trucking Firms

	Minority (%)	Non-Minority (%)
Yes	26	35
No	74	65

The response to this question seems to indicate that minority local trucking firms have less internal organizational problems than their non-minority counterparts. This apparent discrepancy in the data (when compared to responses in other areas) may be explained, in part, by the difference in number of employees and operational complexity between minority and non-minority local trucking firms. As shown in Table III-1, approximately twice as many minority firms had fewer than five employees as firms in the non-minority category. In firms of this size, problems in the company often are not recognized as stemming from the organizational structure or from personnel deficiencies. Typically, such companies are also of the "Mom and Pop" variety in which other family members may also be part of the work force. As a result, perceptions of personnel or organizational problems may be less than objective. Another important factor may be that professional slots such as a bookkeeper or dispatcher may be overlooked because of the expense involved and may not be considered so much a problem as an impossibility. Often, a variety of functions are performed by one person. A look at gross revenues (Table III-4) as a rough measure of ability to absorb overhead expenses indicates that the share of less capable firms, particularly at the lower end of the scale, was significantly higher for minority respondents. Normally, within a given line of business, the amount of money available for overhead expense can be expected to increase exponentially as a function of increases in non-revenues. Therefore, the disparity between large and small firms in ability to solve staff problems can be expected to be even greater than the ratio of their respective revenues. As an example, one minority local trucking firm had gross revenues of $200,000 and ten out of the twelve employees were family members. In another minority firm, the owner's three sons constituted the company's workforce.

Of those firms who did admit to internal organizational problems, all were related to personnel. Minority local trucking firms cited the following problems:

- Finding qualified drivers and helpers (especially among household goods movers);
- Improving field coordination/matching of jobs with capabilities of qualified staff members; and
- Having to hire inexperienced, untrained personnel and train them on the job.

Non-minority firms also complained of being unable to find qualified and reliable workers. In both cases, minority and non-minority local trucking firms also tended to regard the problem of finding qualified labor as an industry-wide phenomenon, not particularly affected by the ethnic origin of the owner in any way. As a matter of fact, at the helper level, where a large share of the labor shortage exists, both minority and non-minority firms are competing to live in a common and almost completely minority labor pool.

Regulatory Factors

A major area of concern to DOT, vis-à-vis local truckers, is their experience in applying to the ICC and their awareness of opportunities and problems in this regard. Table III-13 shows the number of minority and non-minority local trucking firms who had applied to the ICC for interstate authority.

Table III-13

Number of Local Truckers Who Had Applied to ICC

	Minority (%)	Non-Minority (%)
Yes	22	13
No	78	87

As can be seen in the above table, more minority local trucking firms had applied to the ICC than had non-minority local truckers. Various factors emerged as to why the percentages in both categories are relatively low. First, in the largest commercial zone in which TERA interviewed local truckers (New York/New Jersey), some of them (both minority and non-minority), felt that ICC authority was not needed because of the large market that the zone represented. This opinion has been somewhat validated in the GAO report previously cited in this section which states that due to an expansion of commercial zone boundaries in April 1977, there has been a shift of business from federally-regulated short-haul carriers to nonregulated local and federally-regulated long-haul carriers.

It is also interesting to note that while only 22 percent of the minority local truckers applied to the ICC, 52 percent stated that their lack of authority was a competitive pressure. (See Table III-5.) Similarly, but with less of a difference, 30 percent of the non-minority local truckers felt that a lack of authority was a market pressure, and yet only 13 percent had applied for authority.

These apparent anomalies in the responses of the two groups can be explained, in part, by their comments as to why they had not applied to the ICC for interstate rights.

For the most part, both minority and non-minority local truckers felt that applying to the ICC for rights involved a great deal of effort and expense with far from certain results.

In the case of non-minority local truckers, three of them stated that they had given up their rights because either they did not use them anymore or because the ICC had demanded too much from them in terms of paperwork. Another non-minority trucker stated that his route restrictions and the need to file for minimum tariff changes had proved to be too inflexible for his firm.

Although minority local truckers had not had previous experience as ICC carriers, they were more vocal in their opinions on the influence of large carriers on the policies of the Commission. One minority local household goods carrier said that it was his understanding that ICC rights for household goods had been "frozen." Other minority local truckers stated that it was very difficult to get needed shipper support, and that industry opposition was often insurmountable. These problems, however, could apply equally to truckers across ethnic lines.

In the case of those local truckers who had applied to the ICC and been denied, both minorities and non-minorities cited lack of shipper support and industry opposition as the main reasons for denial. One minority local trucker stated that when he had applied for contract carrier rights, there were 23 protesters. Later, during the hearings, he got letters from some of the protesters stating they had relinquished their services in area, and thus, there was a need to be filled. The owner of the minority firm stated that subsequently he had been denied rights as a common carrier, even though he had initially applied for contract carrier rights. He further stated that subsequent inquiries and letters had not cleared up the "mess," and that the costs of pursuing the effort had gotten too high so he gave up. The same trucker also claimed that large truckers often hire ICC personnel to keep minorities out of the Commission-regulated market. This, however, was the stated opinion of one minority trucker only.

As in the case of owner-operators, there is a great deal of misinformation and cynicism on the part of all local truckers as to the opportunities available to them in joining the interstate trucking market. However, in the comments of the minority local truckers there is also an underlying complaint about what they perceive as racial discrimination by the ICC, a policy they feel is supported by the large "white" carriers.

As a final question, TERA asked if there were any government regulations with which local truckers found compliance difficult. Ten percent of the minority firms and 15 percent of the non-minority firms answered in the affirmative. In both categories, the reasons cited included highway-use taxes, extensive paperwork for licenses, problems with state weight and size limitations on their trucks, and very high insurance payments. Insurance was cited by one non-minority trucker as accounting for 32 percent of his overall costs. The high cost of insurance is not a problem caused by government regulation. It is determined, to a large degree, by the area in which the company is located and the insurance companies' assessment of the risk. For many small local truckers, both minority and non-minority, this is a problem because they can only afford rents in the lower-income areas which insurance companies generally consider to be high-risk. Thus, costs can be prohibitive, and at times insurance can be simply denied. Since there was no section in the interview guide which dealt with insurance costs separately, there is no data to compare the experience of minorities to non-minorities.

4. REGULATED CARRIERS

Background

The regulated motor carrier industry (primarily but not necessarily limited to Class III carriers) was also included as a part of this study. Several factors were of interest to DOT, including the status of the owner before award of the first interstate certificate; the differences, if any, experienced by the carrier in obtaining its first certificate, including consideration of equity capital, equipment, employees, shipper support, application expense, waiting time, etc.; and particular difficulties faced by the carrier in seeking to increase and expand operations.

Several estimates of the number of regulated minority carriers have been made. A report by the Subcommittee on Special Small Business Problems states: "It is estimated that only about 50 of all ICC-certificated carriers are owned by blacks, and that there are only a couple of dozen other certificated carriers owned by other minorities."[10/] The report does not give any information as to the basis of the estimate.

Another recently completed study estimates the number to be 133.[11/] This estimate was arrived at by cross-checking several different lists of minority carriers, including: the new 1979 membership directory of the MTTDC; the ICC's records; a list of

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10/ Op. Cit., p. 18.

11/ Economic Impact of New Motor Carrier Entry for the Transportation of Government Traffic, Office of Policy and Analysis, Interstate Commerce Commission, Washington, D.C., March 1979.

131 minority household goods carriers supplied by the Military Traffic Management Command; the General Services Administration; and the ICC's Small Business Assistance Office. Thus, the 20 minority carriers interviewed for this study may represent up to 15 percent of the universe. Further investigation by TERA on the validity of the above estimate included querying the staff of the Minority Trucking and Transportation Development Corporation (MTTDC), the Small Business Assistance Office of the ICC, and the minority owners of regulated carriers. While no definitive source was found to be in existence, the above estimate is generally acceptable to the organizations and persons who were contacted. The estimate seems to indicate that minorities have not in the past been successful in entering the regulated trucking industry in large numbers. The existence of the MTTDC is based on an attempt to improve the opportunities for minorities to enter into the interstate trucking industry and to enable them to compete successfully in the marketplace. The underlying assumption for the funding of the MTTDC by the Office of Minority Business Enterprise is a lack of participation on the part of minorities in the trucking industry. There are also programs in the private sector such as the National Minority Purchasing Council, which are dedicated to improving minority participation in the large corporate market, including trucking.

This section of the report attempts to analyze the data collected so as to show the differences, if any, between minorities and non-minorities in establishing and successfully operating trucking firms in the regulated motor carrier industry.

Survey of Regulated Carriers

The format of this section follows that of the previous two, including a general description of respondent characteristics, and a discussion of market factors, management factors, and regulatory factors as they relate to regulated minority and non-minority carriers.

Respondent Characteristics

Respondent characteristics include the number of employees, gross revenues, number of years in business, number of years in business before receiving first certificate, and status of the firm before becoming a regulated carrier. Table IV-1, below, shows the size of minority and non-minority regulated carriers by the number of employees.

Table IV-1

Number of Employees in Regulated Carriers

Employees	Minority (%)	Non-Minority (%)
< 5	0	11
5 - 14	40	32
15 - 25	30	5
26 - 100	25	36
> 100	5	16

As can be seen from the table, none of the minority regulated carriers have less than five employees as compared to 11 percent of the non-minority regulated carriers. On the other hand, 40 percent of the minority regulated carriers have between 5 and 14 employees as compared to 32 percent of the minority. The table shows that as the number of employees increases, the number of minority regulated carriers in each grouping decreases, while the percentages are somewhat uneven for the non-minority regulated carriers. Perhaps, one indicator of the difference in size is that only 30 percent of the minority regulated carriers have more than 26 employees as compared with 52 percent of the non-minority regulated carriers. Caution is advised, however, in interpreting the data or concluding certain differences based on groupings. For example, if one is to calculate the percentage of minority and non-minority regulated carriers with 15 employees or more, the percentage is approximately equal (60 percent and 57 percent, respectively). On the basis of a weighted average however, TERA's calculations show that the average minority regulated carrier interviewed for this study had approximately 34 employees as compared to 56 for non-minority regulated carriers. In other words, non-minority regulated carriers were 60-70 percent larger than minority firms in terms of number of employees.

Another characteristic of the respondents which is important to consider is the age of the firms. Table IV-2 shows the relative ages of minority and non-minority regulated carriers.

As shown in Table IV-2, 27 percent of the minority regulated carriers were between 6 and 10 years old, 39 percent between 11 and 20, 11 percent between 21 and 40, 17 percent between 41 and 60, and 6 percent between 61 and 100 years. In contrast, 7 percent of the non-minority regulated carriers were between 6 and 10 years old, 29 percent between 11 and 20, 29 percent between 21 and 40, 21 percent between 41 and 60, and 7 percent between

61 and 100 years old. The oldest minority firm was 65 years old and the oldest non-minority firm, 89 years old. On the basis of a weighted average, TERA's calculations show that the "typical" non-minority regulated carrier was approximately 28 years old as compared to 22 years for minority regulated carriers.

Table IV-2

Age of Regulated Carriers Surveyed

Number of Years	Minority (%)	Non-Minority (%)
< 5	0	0
6 - 10	27	7
11 - 20	39	29
21 - 40	11	29
41 - 60	17	21
61 - 100	6	7

NOTE: Actually one carrier, who was not using his ICC rights, had been in business for less than 5 years. For comparative purposes this carrier has been omitted from the table but not from the question frame.

Another characteristic of regulated carriers considered in the interview process was how many years each carrier had been in operation before receiving its first certificate. It was hoped that this data would reflect whatever differences there may have been in minority and non-minority regulated carriers' experiences in obtaining ICC rights for the first time. Table IV-3 shows the number of years that minority and non-minority regulated carriers were in existence before obtaining their first certificates.

Table IV-3

Number of Years Before Receiving First Certificate

Number of Years	Minority (%)	Non-Minority (%)
< 5	35	36
5 - 10	32	46
11 - 15	27	0
16 - 20	6	0
21 - 25	0	0
> 25	0	18

As shown in Table IV-3, 18 percent of the non-minority regulated carriers were in operation for more than 25 years before recieving their first certificate. The overall implication of the data in Table IV-3 suggests a conclusion that minority regulated carriers obtained their first certificate "sooner" than non-minority regulated carriers. However, such a conclusion would have failed to take into account the firm's "need" for a certificate. For example, owners of either minority or non-minority regulated carriers may not have wanted a certificate until the company had reached a certain stage. The data also does not reflect the fact that 27 percent of the non-minority regulated carriers had always had certificates which were awarded under the grandfather clause of the Interstate Commerce Act. On the other hand, only 5 percent of the minority regulated carriers had grandfather rights.

Another respondent characteristic to be considered was the status of each regulated carrier prior to obtaining his/her first certificate. Table IV-4 below shows the difference between minority and non-minority regulated carriers in this regard.

Table IV-4

Status of Regulated Carriers Prior to Obtaining First Certificate

	Minority (%)	Non-Minority (%)
Exempt carrier	5	0
Local hauling	50	37
Intrastate	0	10
Agent	5	0
Owner-Operator	20	5
More than one of above	15	10
Other	5	38

As shown above, 5 percent of the minority firms were exempt carriers, 50 percent were involved in local hauling operations, 5 percent as agents, 20 percent as owner-operators, 15 percent were involved in more than one type of operation and 5 percent in an "other" category (interstate, with grandfather rights). In contrast, none of the non-minority firms were exempt carriers, 37 percent were involved in local hauling, 10 percent in intrastate operations, none as agents, 5 percent as owner-operators, 10 percent in more than one type of activity and 38 percent in "other." As mentioned earlier in this section, 27 percent of the non-minority regulated carriers had "rights" from the beginning of regulation of the trucking industry. Of the remaining 11 percent in the "other" category, one was an employee of a trucking firm, and another had bought part of a trucking firm, without any prior experience in the industry.

It is interesting to note that 50 percent of the minority regulated carriers were in local hauling as compared to 37 percent of the non-minority regulated carriers. This may indicate a somewhat stronger tendency on the part of minority regulated carriers to "come up through the ranks." In the non-minority sector there seems to be a greater likelihood for someone to buy into an existing trucking firm. This may also relate back to the relative lack of capital availability to minorities.

As another indication of differences between minority and non-minority firms in this category, TERA also collected data on the gross revenues earned. Table IV-5 shows that 57 percent of the minority firms interviewed earned $500,000 or less as compared to 42 percent of the non-minority firms. On the other hand, only 31 percent of the minority firms earned more than $1 million as compared to 50 percent of the non-minority firms.

Table IV-5

1978 Gross Revenues of Regulated Carriers

Dollars ($)	Minority (%)	Non-Minority (%)
0 - 250,000	32	42
251,000 - 500,000	25	0
501,000 - 1 million	12	8
1 million - 3 million	19	17
> 3 million	12	33

The overall indication from the data on respondent characteristics seems to indicate that non-minority regulated carriers are:

- Larger than minority regulated carriers in terms of gross revenues and employees;
- Older in age as companies; and
- Less likely to have "come up from the ranks."

The survey does show that there was a significant difference between minority and non-minority regulated carriers in the number of years that the firms had been in operation prior to receiving a first certificate.

Market Factors

Another field of investigation in this study was the determination of the differences between minority and non-minority regulated carriers in areas which affect the company's ability to compete effectively and to show a profit at the end of the year. Table IV-6, below, shows the response of regulated carriers to this question.

Table IV-6

Market Pressures Felt by Regulated Carriers

Type of Problem	Minority (%)	Non-Minority (%)
Lack of competitive equipment	5	21
Lack of authority (direct access to shipper)	30	5
Inability to raise a performance bond	10	0
Lack of access to backhaul cargo	25	26
No market pressures	10	32
Not available	20	16

Significantly, Table IV-6 indicates that more minority regulated carriers (30 percent) felt a lack of sufficient authority than did non-minority regulated carriers. In addition, 32 percent of the non-minority regulated carriers also felt no abnormal market pressures at all, as compared to 10 percent of the minority regulated carriers.

It would seem that non-minority regulated carriers had route structures with which they were happy, and that the real question may be the quality of authority. Since the scope of this study was limited, data on the qualitative aspects of the authorities held by minority and non-minority regulated carriers was not collected in the survey. However, the data in Table IV-6 would seem to indicate that some minority regulated carriers were not satisfied with the quality of rights they hold.

The questions of lack of authority and direct access to shippers with large accounts were of particular concern to most of the minority regulated carriers interviewed. While realizing the importance of quality equipment and dependability of service, they also felt that private corporations with whom minorities tried to do business had policies which were biased against them. In short, the charge was that private industry discriminates in awarding trucking jobs to minority firms. One regulated minority trucker went so far as to say that having bought a trucking company from a non-minority owner, he did not change the name or "advertise" the fact that the new owner was a minority or that management had changed hands. He felt that he would have lost quite a few of the company's regular customers if he had done so.

In addition, 10 percent of the minority regulated carriers experienced problems in raising a performance bond (which is actually a credit problem). No non-minority regulated carriers cited performance bonds as presenting difficulties.

Both minority and non-minority regulated carriers complained of the problem of empty backhauls. For the smaller regulated carriers this problem is somewhat akin to that of the owner-operator. Without a large network of agents like the larger interstate carriers, it often becomes difficult for the smaller carrier to obtain return loads. It is usually necessary for the smaller carrier to either return home empty or to lease out the truck for a trip, either back to the home base or at least nearby, so that costs are covered as much as possible. This problem was found to have affected minority and non-minority regulated carriers on an essentially equal basis, as shown in Table IV-6.

Management Factors

Management factors which affected minority and non-minority regulated carriers were also investigated in the interviews conducted for this study. The primary areas were sources of financing, initial capital investment required, financial problems, and internal organizational problems.

Initial Capital Investment. In the area of initial capital investment, Table IV-7 shows the sources utilized by minority and non-minority regulated carriers.

As shown in Table IV-7, both minority and non-minority regulated carriers utilized the same sources for capital investment and in much the same numbers from each source. For example, 37 percent of the minority carriers depended upon banks as a source for initial capital investment as compared to 33 percent of the non-minority carriers.

Table IV-7

Regulated Carriers' Sources for Initial Capital Investment

Source	Minority (%)	Non-Minority (%)
Banks	37	33
SBA	5	0
Family/friends	0	0
Savings	48	54
Other	10	13

The only variation is that 5 percent of the minority regulated carriers went to the SBA for support, but this is not a very significant number. In the "other" category, minority regulated carriers utilized a community financing corporation and also supplier credit. Non-minority regulated carriers tended to borrow from more than one source.

A follow-up question asked the carriers whether or not they had been satisfied with the initial financing plan. Table IV-8, shows the response.

As can be seen from Table IV-8, all non-minority regulated carriers seemed to be satisfied with their initial financing plan. In contrast, 25 percent of the minority regulated carriers expressed dissatisfaction. The reasons for dissatisfaction included a perception of discriminatory practices on the part of banks, and other general business problems such as lack of collateral. Although no concrete examples were given by respondents, they often expressed a general feeling that banking practices were discriminatory. Another minority carrier stated that for subsequent credit needs he always tried to get his shippers to underwrite the financing of new equipment, and that this method had worked out well. He felt that because he was black, no bank would seriously consider lending him any money.

Table IV-8

Regulated Carriers' Satisfaction With Initial Financing Plan

	Minority (%)	Non-Minority (%)
Yes	75	100
No	25	0

The amount of initial investment required was also considered to be of importance. Since there was a wide variance in the age of the companies, all amounts have been changed to 1978 dollars. For the purpose of calculating present dollar values, an 8 percent per annum inflation figure was used. Table IV-9 presents the amount of initial investment by regulated carriers.

Table IV-9 shows that minority regulated carriers seemed to require a much higher initial capital investment than did non-minority regulated carriers. As can be seen, nearly half (47 percent) of the responding minority regulated carriers required more than $100,000 as compared to none of the non-minority regulated carriers.

Table IV-9

Amount of Initial Investment
by Regulated Carriers

1978 Dollars	Minority (%)	Non-Minority (%)
< 5,000	16	14
5,000 - 10,000	7	0
11,000 - 25,000	7	58
26,000 - 50,000	0	14
51,000 - 75,000	16	14
75,000 - 100,000	7	0
> 100,000	47	0

The survey data would indicate that the minority carriers, on the average, invested four times as much initially as did the non-minority firms. Unfortunately, there is some doubt as to the significance of this data. Only 13 out of 20 minority interviewees and 7 out of 20 non-minority interviewees chose to respond to questions about their initial investment. The interviewers felt that several of the minority firms may have overstated their investment by choosing to reflect more the total present investment base rather than the initial investment. On the other hand, the non-minority respondents were reticent about volunteering any information. What information was obtained is hard to evaluate, but almost certainly is not comparable to the information obtained from the minority firms. There is nothing in the information about scope of operations, size, or years in business which would reasonably support the indicated difference in initial investment.

Financial Problems. Another area of concern which falls under the broad purview of management factors is what financial problems affected minority and non-minority regulated carriers.

Table IV-10

Financial Problems Experienced by Regulated Carriers

Type of Problem	Minority (%)	Non-Minority (%)
Lack of short-term borrowing capability	30	16
Delays in collecting receivables	60	26
High overhead costs	15	11
High direct operating costs	20	5
Long-term financing	38	0
Other	0	0
No financial problems	30	53

NOTE: Totals add to more than 100 because of multiple answers.

Table IV-10 seems to indicate that minority regulated carriers had greater difficulty in securing short-term credit. This may have been due to a variety of reasons. As mentioned earlier, minority regulated carriers are generally smaller than non-minority regulated carriers in terms of gross revenues. As discussed in a prior section this may have created reasons why banks or other commercial lending institutions were reluctant to extend credit. Since the study did not attempt cash flow analyses of individual companies, there is no data to support the conclusion that minority regulated carriers may have less cash throw-off. However, minority regulated carriers also cited high overhead costs and high direct operating costs as financial problems more often than non-minority regulated carriers. This would point to the possibility of a margin squeeze and would indicate that cash flow was a greater problem for minorities. This conclusions is further supported by the response of minority regulated carriers with regard to delays in collecting receivables. Monority carriers cited problems in collecting receivables more than twice as often as the non-minority regulated carriers.

Organizational Problems. Another management factor considered within the scope of the interviews was internal organizational problems encountered by regulated truckers. Table IV-11 shows the response of minority versus non-minority regulated carriers in this regard.

Table IV-11

Occurrence of Internal Organizational Problems in Regulated Carriers

	Minority (%)	Non-Minority (%)
Yes	30	26
No	70	74

Table IV-11 shows no significant difference between internal organizational problems encountered by minority regulated carriers as compared to non-minority carriers. As in the case of local truckers, both minority and non-minority firms felt that there was a lack of experienced and reliable labor available to them.

Regulatory Factors

A further area of concern with regard to regulated carriers was their experience in applying to the ICC and the "value" of their certificates.

First, it was determined how regulated carriers had obtained their first certificate. Table IV-12 shows the methods by which minority and non-minority regulated carriers obtained their first certificates.

Table IV-12

Method of Obtaining First Certificate by Regulated Carriers

Method	Minority (%)	Non-Minority (%)
Bought	55	20
Successfully applied to ICC	20	30
Grandfather rights	5	25
Not available	20	25

As shown in the above table, more than half of the minority regulated carriers bought their rights as compared to 20 percent of the non-minority carriers. In addition, more non-minority regulated carriers applied successfully than did minority regulated carriers. On the other hand, 25 percent of the non-minority regulated carriers obtained their rights through the grandfather clause, as compared to only 5 percent of the minority regulated carriers.

Table IV-12 would seem to indicate either that minority regulated carriers had a more "difficult" time in obtaining rights or that they were less inclined to apply. A large number of minority regulated carriers felt it was much simpler and easier, albeit possibly more expensive in some cases, to purchase authority than to apply to the ICC.

In addition, 15 percent of the minority regulated carriers stated that they had been denied authority before receiving their first certificate as compared to none of the non-minority regulated carriers. This would seem to indicate that minorities either had a harder time in applying for rights or that their applications were less meritorious. It should be noted that reasons for denial were a combination of a lack of shipper support and industry opposition, neither of which could be cited as peculiarly prejudicial. On the other hand, it may have been more difficult for minority truckers to solicit adequate shipper support. In addition to these formal reasons for denial of applications reported by minority truckers, they often expressed the feeling that the ICC was unduly influenced by the interests of the large carriers, and that industry opposition was often a concerted effort to keep out minorities and further competition.
Here again, there is nothing in the survey data which can support the contention that minorities were treated differently from comparable non-minority firms.

Interestingly enough, minority firms as well as non-minority firms felt that deregulation would either harm their businesses considerably or completely destroy some of them. In the area of regulatory reform, however, most felt that easing entry regulations somewhat would be a valid policy for the ICC to pursue. This was in direct contrast to the views of owner-operators and local truckers, both minority and non-minority, that deregulation would be a boon. Thus, it would seem that regardless of ethnic origin, these truckers, to a large degree, reflected the opinion of the particular segment of the industry to which they belong. In general, however, ICC regulated carriers, both minority and non-minority were not very well informed on the recent policy changes being implemented or studied by the ICC.

Another question asked of the ICC regulated carriers was whether or not an application for an extension of their authority had ever been denied. Twenty-five percent of the minority firms and 16 percent of the non-minority firms answered "yes." The reasons stated by both groups were the same as for denials of applications for first certificates, namely, lack of shipper support and/or opposition from established carriers.

5. SUMMARY OF FINDINGS

Introduction

This section of the report is intended as a summary of the major findings and conclusions of the study as they relate to the apparent differences in opportunity between minorities and non-minorities in the trucking industry. Each segment of the trucking industry (owner-operators, local truckers and regulated carriers), is treated separately and is further broken down into subsections under the headings: respondent characteristics; market factors; management factors; and regulatory factors.

The summary does not include extensive analyses of discussion of the findings, but is intended to highlight special problems as distinct from usual business problems which minority truckers experienced. In most cases, the differences between problems experienced by minority truckers and non-minority truckers were more a matter of degree, and directly related to the fact that minority truckers interviewed for this study were involved in smaller-scale companies in terms of number of employees and gross revenues. Their businesses were also more recently established

It is not unlikely that this situation would occur in the universe of the strata of operators. Unfortunately, the lack of a priori quantitative knowledge of these probable differences in mean age and dollar volume precluded definitive initial sampling constraints to improve comparability in these critical characteristics. The study clearly brings out the fact that perhaps the most critical problem of minority truckers is lack of capital. Access to capital is greatly affected by the size of the borrower's firm and the length of time he has been in business. The non-minority sample frame turned out to have a distinct relative upward bias in both of these critical characteristics. Therefore, an analysis of differences in opportunities and risks between otherwise comparable minority and non-minority firms is all but precluded at the outset. This is certainly a major limitation of the study. However, the information gained does adequately support some reasoned speculation on probable differences between owner groups in risks and opportunities and therefore can be considered a worthwhile improvement in the understanding of the subject.

Table V-1, at the end of this section, presents a summary of the data collected on all three of the groups interviewed for this study.

Following are the major findings related to owner-operators, followed by local truckers and regulated carriers.

Owner-Operators

Respondent Characteristics

The major findings in this area relate to the number of employees, age of the companies, experience of owners, and gross revenues.

- 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).
- The number of years that the "typical" minority owner-operator had been in business was 6.4 years as compared to 5.4 years for the non-minority owner-operator. 12/

12/ Calculated as a weighted average. An ICC Study entitled The Independent Trucker, Nationwide Survey of Owner-Operators (May 1978) found that the average permanently leased independent had been in business for 7 years, and the average trip-lease trucker for 5 years.

- No significant difference was found in the prior experience of minority and non-minority owner-operators.

- Based on a calculated weighted average, gross revenues for minority owner-operators were $35,200 as compared to $73,000 for non-minority owner-operators.

Market Factors

- The most significant market pressure felt by minority owner-operators was a lack of competitive equipment (41 percent as compared to 12 percent for non-minority owner-operators). This factor is also related to the previous finding that, of the owner-operators interviewed for this study, all minority businesses were one-truck operations, while 41 percent of the non-minority businesses had more than one truck.

- 30 percent of the non-minority owner-operators felt no abnormal market pressures as compared to 12 percent of the minority owner-operators.

- Both minority and non-minority owner-operators felt that a lack of direct access to shippers was a serious market pressure.

- 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). 13/

- Both groups considered "personal contacts" to be the most effective means of marketing.

Management Factors

- The most frequently-used sources of initial capital investment for minority owner-operators were banks, savings, and the SBA. Non-minority owner-operators also used banks and their savings as well as family and friends. None, however, used the SBA.

13/ A recent nationwide survey of owner-operators found the average percentage of rate received to be 67 percent. The Independent Trucker, Nationwide Survey of Owner-Operators, Interstate Commerce Commission, Bureau of Economics, Washington, D.C., May 1978.

- Minority owner-operators were twice as likely as non-minority owner-operators to be dissatisfied with their initial financing plans.

- Based on a weighted average, non-minority owner-operators initially invested nearly twice as much ($20,505), as did minority owner-operators ($12,120).

- 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.

- Non-minority owner-operators were nearly twice as likely as minority owner-operators to feel that they had no unusual financial problems.

Regulatory Factors

- None of the owner-operators (either minority or non-minority), had ever applied to the ICC for authority.

- 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.

- The most commonly-voiced complaints by both groups were about government regulations in relation to differing state size and weight limitations on trucks.

Local Truckers

Respondent Characteristics

- The average number of employees in a minority local trucking firm was approximately 10 as compared to 13 for non-minority local firms.

- The average age of a minority local trucking firm was 7.6 years as compared to 11.2 years for non-minority firms.

- Non-minority local trucking firms were more likely to be in their second or third generation of business.
- Minority local truckers expressed a somewhat greater desire to own their own businesses as a reason for starting their companies.
- The average gross revenues for minority local trucking firms as a calculated weighted average was approximately $247,000 as compared to $430,000 for non-minorities.

Market Factors

- Minority local truckers were three times as likely to cite "lack of authority" as a market pressure.
- An equal percentage of minority and non-minority truckers felt a lack of competitive equipment.
- The (weighted) average number of trucks owned by minority local truckers was 15 as compared to 23 trucks for non-minority local truckers.
- The average revenue per unit for minority local truckers was approximately 12 percent less than for non-minority truckers.
- Non-minority local truckers were three times as likely to say that they had no abnormal market pressures.
- 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.
- 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.

Management Factors

- Non-minority local truckers were twice as likely to use their own credit resources (banks and savings) as minority local truckers.

- Minority local truckers were seven times as likely to be dissatisfied with their initial financing plans as were non-minority local truckers.

- The average initial investment (in constant dollars), on the part of minority local truckers was approximately $44,000 as compared to $25,000 for non-minority local truckers.

- The most acutely felt financial pressure of minority local truckers was a lack of long-term capital availability.

- The second most acutely felt financial pressure of minority local truckers was delay in collection of receivables.

- Minority local truckers were twice as likely to complain of a lack of short-term availability of capital.

<u>Regulatory Factors</u>

- Minority local truckers were almost twice as likely to have applied to the ICC for rights.

- The most common reason for minorities to have been denied authority was their inability to continue to finance the application in the face of lack of shipper support and industry opposition.

- Some minority local truckers felt that the ICC's entry policies are biased against minorities. However, no specific examples were reported.

- 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.

Regulated Carriers

<u>Respondent Characteristics</u>

- Non-minority regulated carriers had 60 - 70 percent more employees than minority carriers.

- The (weighted) average age of minority carriers was approximately 22 years as compared to 28 years for non-minority carriers.

- The (weighted) average gross revenues for minority carriers was about $108,000 as compared to $204,000 for non-minority owner-operators.

- 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 on-going business.

Market Factors

- The most acutely felt competitive pressure of minority carriers was lack of sufficient authority.

- Non-minority carriers were three times as likely to say that they had suffered from no abnormal market pressures.

- Minority carriers found it more difficult to raise performance bonds than did non-minority carriers.

Management Factors

- 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.

- Twenty-five percent of minority regulated carriers expressed dissatisfaction with their initial financing plans while none of the non-minority carriers did so.

- Minority regulated carriers were twice as likely to have a problem with short-term capital availability.

- Minority regulated carriers were more than twice as likely to experience delays in the collection of receivables.

- Minority carriers were four times more likely than non-minority carriers to cite high direct operating costs as a cause of financial problems.

- 38 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 so.

Regulatory Factors

- Nearly three times as many minority regulated carriers acquired their first certificates by buying them from another carrier as did non-minority carriers.

- 30 percent of the non-minority regulated carriers successfully applied for their first certificates as compared to 20 percent of the minority carriers.

- Five times as many non-minority carriers acquired their certificates through "grandfather rights" as compared to minority carriers.

- Fifteen percent of the minority regulated carriers stated that their applications for certificates had been denied before receiving their first certificates as compared to none of the non-minority carriers.

- Nearly twice as many minority carriers were denied an application for an extension of authority as were non-minority carriers.

- In general, both minority and non-minority carriers were ill-informed on the ICC's proposals for regulatory reform. Most saw the issue in terms of regulation versus total deregulation.

Table V-1

Summary of Responses for Owner-Operators, Local Truckers and Regulated Carriers

	Owner-Operators		Local Truckers		Regulated Carriers	
	Minority %	Non-Minority %	Minority %	Non-Minority %	Minority %	Non-Minority %
1. Number of Employees?	*	*				
< 5			62	30	0	11
5 - 14			17	52	40	32
15 - 25			17	9	30	5
26 - 100			4	9	25	36
> 100			0	10	5	16
2. Age of Present Business? (years)						
< 1	0	6	9	4	*	*
1 - 2	24	6	0	4		
3 - 5	28	53	17	26		
6 - 10	24	0	30	26		
> 10	18	29	44	20		
2nd or 3rd generation	6	6	0	20		
< 5	*	*	*	*	0	0
6 - 10					27	7
11 - 20					39	29
21 - 40					11	29
41 - 60					17	21
61 - 100					6	7

* Not Applicable

Table V-I (Continued)

	Owner-Operators		Local Truckers		Regulated Carriers	
	Minority %	Non-Minority %	Minority %	Non-Minority %	Minority %	Non-Minority %
3. Experience & Background of Owners					*	*
related experience	47	24	45	48		
experience in family firm	18	25	14	36		
desire to own business	29	28	32	10		
other	6	12	9	5		
no related experience	0	12	0	0		
4. Gross Revenues ($000's)			*	*	*	*
0 - 24	37	0				
25 - 49	27	40				
50 - 74	27	30				
75 - 100	9	0				
> 100	0	30				
0 - 250	*	*	80	58	32	42
251 - 500			0	17	25	0
501 - 1,000			14	17	12	8
1,001 - 3,000			6	8	19	17
> 3,000			0	0	12	33
5. Market Pressures						
lack of competitive equipment	41	12	30	30	5	21
lack of authority (direct access to shipper)	29	34	48	17	30	5
inability to raise performance bond	0	0	9	0	10	0
lack of access to backhaul cargo	6	24	0	4	25	26
other	12	0	0	0	0	0
no market pressures	12	30	13	39	10	32
not available	0	0	0	10	20	16

* Not Applicable

Table V-I (Continued)

	Owner-Operators		Local Truckers		Regulated Carriers	
	Minority %	Non-Minority %	Minority %	Non-Minority %	Minority %	Non-Minority %
6. Marketing Methods Used	*	*			*	*
personal contacts and referrals			75	82		
subcontracting			52	9		
sales force			4	17		
advertising (other than yellow pages)			30	48		
7. Effectiveness of Marketing Methods	*	*			*	*
personal contacts and referrals			72	80		
subcontracting			16	4		
sales force			4	8		
advertising			4	8		
other			4	0		
8. Sources of Initial Capital Investment						
banks	40	29	17	26	37	33
SBA	12	0	13	0	5	0
family/friends	6	18	27	4	0	0
supplier credit	6	12	8	0	5	0
savings	24	29	27	70	48	54
other	12	12	8	0	5	13
9. Satisfaction with Initial Financing Plan						
yes	59	76	57	94	75	100
no	41	24	43	6	25	0

* Not Applicable

Table V-I (Continued)

	Owner-Operators		Local Truckers		Regulated Carriers	
	Minority %	Non-Minority %	Minority %	Non-Minority %	Minority %	Non-Minority %
10. Amount of Initial Investment ($000's)						
0 - 5	24	12	16	36	16	14
5 - 10	40	35	21	29	7	0
11 - 25	18	18	21	7	7	58
26 - 50	12	29	16	7	0	14
51 - 75	6	6	16	14	16	14
75 - 100	0	0	5	0	7	0
> 100	0	0	5	7	47	0
11. Financial Problems						
lack of short-term borrowing capability	29	0	22	9	30	16
delays in collecting receivables	24	41	57	39	60	26
high overhead costs	18	0	13	9	15	11
high direct operating costs	47	59	13	9	20	5
lack of long-term capital financing	53	18	59	0	38	0
other	0	0	9	0	0	0
no financial problems	23	41	35	56	30	53
12. Internal Organization Problems	*	*				
yes			26	35	30	26
no			74	65	70	74

* Not Applicable

Table V-I (Continued)

	Owner-Operators		Local Truckers		Regulated Carriers	
	Minority %	Non-Minority %	Minority %	Non-Minority %	Minority %	Non-Minority %
13. Applied for Rights Before ICC?					*	*
yes	0	0	22	13		
no	100	100	78	87		
14. Reasons for Denial	*	*			*	*
lack of shipper/consumer support			20	0		
industry opposition			20	0		
inability to obtain legal advice			0	0		
unable to finance application			40	0		
inability to prove fitness			0	0		
other			0	100		
15. Methods of Obtaining First Certificate	*	*	*	*		
bought					55	20
successfully applied to ICC					20	30
grandfather rights					5	25
not available					20	25
16. Problems with Government Regulations?					*	*
yes	35	44	10	15		
no	65	56	85	80		
no response	0	0	5	5		

* Not Applicable

Table V-I (Continued)

	Owner-Operators		Local Truckers		Regulated Carriers	
	Minority %	Non-Minority %	Minority %	Non-Minority %	Minority %	Non-Minority %
17. Status Prior to Receiving Authority?	*	*	*	*		
exempt carrier					5	0
local hauling					50	37
intrastate					0	10
agent					5	0
owner-operator					20	5
more than one of above					15	10
other					5	38
18. Years in Business Before Receiving First Certificate?	*	*	*	*		
< 5					35	36
5 - 10					32	46
11 - 15					27	0
16 - 20					6	0
21 - 25					0	0
> 25					0	18
19. Was an Application Denied Before Receiving First Certificate?	*	*	*	*		
yes					15	0
no					85	100

* Not Applicable

Table V-I (Continued)

	Owner-Operators		Local Truckers		Regulated Carriers	
	Minority %	Non-Minority %	Minority %	Non-Minority %	Minority %	Non-Minority %
20. Reason for Denial?	*	*	*	*		
lack of shipper/consumer support					50	0
industry opposition					50	0
lack of procedural guidance					0	0
inability to obtain legal advice					0	0
unable to finance application					0	0
inability to prove fitness					0	0
other					0	0
21. Has Application for Extention of Authority Been Denied?	*	*	*	*		
yes					25	16
no					75	84
22. Reason for Denial?	*	*	*	*		
lack of shipper support					40	100
lack of adequate legal assistance					20	0
industry opposition					20	0

* Not Applicable

APPENDIX - REPORT OF NEW TECHNOLOGY

The nature of this report, socio-economic and business analysis, precludes the development of inventions or patentable items. The report is of importance, however, because it presents new evidence on the problems of minority truckers, carefully differentiating among the general problems of small businesses, the special problems caused by regulation, and the particular areas where minority firms seem to suffer most acutely. This material provides support for the U.S. Department of Transportation's efforts to replace regulation with competition in freight transportation.

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