

Dan's Trucking, Inc.

Sylvanus S. Ogburia
Marshall Chimwedzi
Danielle Ramirez-Barnes
Alabama A & M University

This case describes the development of a small owner-operator trucking company. Most small beginning entrepreneurs sometimes develop inflated expectations of their business and when these expectations are not immediately met they become highly disappointed. Dan's Trucking case illustrates one of those situations.

The case is intended to teach the range of options available to a firm in a declining competitive position.

BRIEF HISTORY

Thirty years ago, Dan McCollum left his childhood home of Jasper, Alabama to make his mark in the world. Initially, after living his life as a child on his father's farm, young Dan spent 3 years serving his country in the Armed Forces. At the end of his 3 year stint, Dan McCollum realized that there was a higher calling in life for him. He soon began to follow that calling and it led him to Wisconsin where he attended Bible School at Milwaukee College. After a short time in Wisconsin, he moved to Ohio where he began ministering full-time at the Collegiate Heights Church of Christ. Accustomed to hard work, Dan had always wanted to know the feeling of owning his own business. Thus, in addition to ministry, he tried his hand at starting several different businesses including beauty salons, clothing stores and clean-up services. He even attempted to raise pigs, but none of these businesses seemed to satisfy the need in his heart. The rigors of overseeing a large congregation began to wear heavy on him and his family. It seemed that there were so many things going on in the world and going on in the lives of his congregation. He quickly began brainstorming and writing ideas down on paper. He wrote down a list of goals and objectives which included starting another business.

ORGANIZATION

After days of thorough evaluation and prayer, Dan began his first trucking company. He and his brother worked together performing hauling services in Ohio and in Memphis,

Tennessee. At the end of his first year in operation, Dan and his family came back to Winfield, Alabama to visit with his wife's family during the holidays. During this visit, Dan had the opportunity to tell his mother-in-law about the ups and downs of the trucking business. He told his family that he felt the only way to really make money in the trucking industry was to lease his hauling services to another company. His mother-in-law thought this was a wonderful idea and encouraged him to contact a man she knew in the community who ran his own trucking business. Reluctant at first, Dan decided to call the man when he and his family returned to Ohio. The phone call to the man went much better than Dan had expected. By the time Dan had concluded the phone call, he was settled on returning home to work for LA Trucking with the promise of enough work to last him for years and years to come. After 10 years in Ohio (1988-1998), Dan and his family were on their way back home to Jasper, Alabama to start Dan's new business entitled, Dan's Trucking.

RELOCATION DECISION

Moving from Ohio back to Jasper, Alabama was a major change. Whereas life had a constant hustle and bustle in the north, life in the south was quiet, serene and slow. Soon after relocating, he started working for the man his mother-in-law had suggested to him. After a few days of work, Dan came to a sudden and startling realization. Most of the work the man had promised him was in Birmingham, Alabama which was over 1 hour away from where Dan was based!! It was at this moment that Dan realized he had made a grave mistake in moving back to Jasper, Alabama. By the time he drove his truck from Jasper to Birmingham, his profit had been eaten up by fuel costs. Dan and his family had managed to save up a nice sum of money as a safety cushion for their move, but most of the savings were being consumed by costs related to owning his own truck as well as commuting daily from Jasper to Birmingham. He realized that he was not going to get ahead if he continued to use his own truck. As usual when adversity presented itself, Dan began to think and pray of ways to make more money. He concluded that the best thing to do was to lease his truck to someone else.

HIGHWAY AND BRIDGE CONSTRUCTION INDUSTRY

Highway and bridge construction is a big business in the state of Alabama. The amount of federal highway dollars that came into the state of Alabama were \$323 million (1999), \$385 million (2000), \$393 million (2001), \$451 million (2002), \$531 million (2003) and \$662 million (2004 projected). Considering the amount of money the federal government spent and spends on highway and bridge construction, it was logical that Dan would want to tap into federally aided construction projects. Further, he wanted to know just how he could participate in this industry. It was clear to him that he was going into the right industry, but he had to figure out how to get his foot in the door.

While looking for ways to make ends meet, he came across an article pertaining to opportunities for Disadvantaged Businesses. From the description in the article, he thought it was worth investigating further. He asked his employer at LA Trucking about the DBE Program and was told that it was something that he really shouldn't get involved in. The owner of LA Trucking further told him that he could do much better just staying in business with him. Sensing that the man's motives were entirely subjective, Dan decided to seek information regarding the Disadvantaged Business Enterprise (DBE) Program.

MBE AND DBE CERTIFICATIONS

Firstly, Dan contacted the Alabama Department of Transportation's (ALDOT) District office in Montgomery, Alabama. While speaking with the ALDOT officials, Dan learned that his company would have to be certified as a minority before he could participate in any DBE Programs.

The Disadvantaged Business Enterprise (DBE) means a for-profit small business concern:

- Which is at least 51 percent owned by one or more socially disadvantaged individuals, or in the case of any publicly owned business, at least 51 percent of the stock of which is owned by one or more socially disadvantaged individuals; and
- Whose management and daily business operation is controlled by one or more of the socially and economically disadvantaged individuals who own it.

Socially and economically disadvantaged individuals means those individuals who are citizens of the United States (or lawfully admitted permanent residents) and who are individuals in the following groups, which are presumed to be socially and economically disadvantaged. These groups include:

- Black Americans which includes persons having origin in any of the Black racial groups of Africa;
- Hispanic Americans which includes persons of Mexican, Puerto Rican, Cuban, Central or South American, or other Spanish or Portuguese culture or origin, regardless of race;
- Native Americans which includes persons who are American Indians, Eskimos, Aleuts, or Native Hawaiians;
- Asian Pacific Americans which includes persons whose origins are from Japan, China, Taiwan, Korea, Vietnam, Laos, Cambodia, the Philippines, Samoa, Guam, and the U.S. Territories of the Pacific;
- Asian Indian Americans which includes persons whose origins are from India, Pakistan, and Bangladesh;
- Women; and

- Any additional groups whose members are designated as economically and socially disadvantaged by the Small Business Administration (SBA) under section 8(a) of the Small Business Act; or
- Individuals, not members of one of these groups, found by the Department of Transportation to be socially and economically disadvantaged individuals on a case by case basis.

Dan knew from the description of the DBE Program that his company would qualify as a Disadvantaged Business Enterprise because it was African-American owned. Within a matter of weeks, Dan's Trucking received its' Minority Business Enterprise (MBE) certification with the state of Alabama. Next, Dan's research led him to Alabama Power to investigate their minority contractor's program. A contact person at Alabama Power gave him a list of names to call but still, Dan had no new contract opportunities come his way. After several months of searching for contract opportunities to no avail, Dan finally called the Alabama Department of Transportation again and spoke with a man who proved to be the best source of information he had come across in his months of searching for information. This man was both encouraging and knowledgeable and he gave him step-by-step instructions as to how he should go about becoming a certified Disadvantaged Business Enterprise. Dan began the application process and after several months, was certified as a DBE in the great state of Alabama. During this process he also became registered as a contractor with the Alabama Contractor's Association and received a hauling license from the Alabama Secretary of State's office.

THE DILEMMA

The whole process of being certified proved to be very expensive. However, Dan soon began to see one or two contracts trickle in. These first few contracts were by no means without difficulties. Contractors continuously told Dan that his operation was too small and didn't offer enough trucks. Dan felt that this was just a ploy to get him to back down from making his business successful but he was determined to see Dan's Trucking succeed. Instead of giving up, he began to search for other minority truckers and haulers to assist him so that he could have a large number of trucks under his company's name. Most of the other truckers told him they weren't interested in partnering. All except one company told him they preferred to work alone. The one company that accepted his proposal of working together was a wonderful relationship at first, until it came down to getting paid. This company would not pay until several months after the job had been completed. Fearing that this would definitely be his demise, Dan severed the relationship between him and this contractor just after a few jobs.

Finally, Dan's Trucking secured a contract worth \$50,000 with a construction company. Dan felt sure that he had hit pay dirt, so to speak. Soon after winning the contract, the

construction company demanded that Dan come up with additional trucks. Dan began feverishly searching for other truckers to once again help him but no one would accept his offer. Finally, Dan made the decision to purchase another truck, however, two trucks were still not enough. The construction company made a crude habit of calling after 4:00 p.m. and telling Dan that they needed him to have five to seven additional trucks at the job site the next morning. Dan would struggle and scrape to get the additional trucks to the job site only to find that would sit idly waiting for work. This practice cut deeply into Dan's profits and soon it became evident that the contracts were not what Dan had envisioned. Each of Dan's trucks cost approximately \$100,010. Fuel costs for just one truck ran in the neighborhood of \$100 to \$150 a day. With these kinds of expenditures, Dan needed to find sufficient jobs that would enable him to recover the cost of the truck, pay for fuel, pay other truckers and still have money for him and his family to live on. Soon after this contract ended, Dan purchased a third truck which resulted in additional liability. Dan received a few more contracts however these contracts did not improve his cash flow situation.

MARKETING EFFORTS

Dan began to reevaluate everything he had done over the past year. He had done the research, he had done extensive study on how to bid all of his jobs and he had come up with what he called the "five load formula". Dan figured that in order to cover all the expenses associated with hauling and operating trucks, he would have to move at least 5 loads per day with each truck. Anything less than 5 loads would not help him to break even. Dan also figured that if he could convince the Prime Contractors to pay him by the hour, this would absorb the costs of having some of his trucks sitting idly at the job sites. The Prime Contractors would not buy this proposition and blamed the Federal Authorities for making them pay Subcontractors on tonnage. Dan also had other troubles. The case of inclement weather had to be accounted for as well as the State Troopers who loved to pounce on any opportunity to write big fines to truckers. In addition, Dan felt that some Prime Contractors did not want to see a new minority owned firm get ahead in the trucking business. Moreover, Dan felt that there were some minority subcontractors who were content with being bought off by some of the larger majority owned Contractors and Subcontractors. Dan felt that many of these minority companies would show up to the job site as if they were performing the contracts knowing too well that the majority company who had paid them off was getting most of the money and doing all of the work. Unethical practices like this infuriated Dan and he refused to participate in these types of deals.

Over the next few years, Dan received contracts in spasmodic streaks. During this time, Dan managed to make some new contacts at the Bessemer, Alabama Better Business Bureau which was located right outside of Birmingham, Alabama. This organization was interested in establishing and assisting small businesses in the Bessemer, Alabama area.

They offered Dan a small and inexpensive office space in a business incubator and found a place for Dan to park his trucks that would be nearer to where Dan was doing most of his work. Although Dan did most of his work in and around the Birmingham area, his office and his shop were located at his home in Jasper, Alabama. Dan's wife and brothers helped to run his operation and he was extremely reluctant to uproot them and move to Bessemer. It would also be an added expense to purchase the location the Bessemer Better Business Bureau had secured for him to park his trucks. Considering all of these issues, Dan decided to continue operating from his home in Jasper, Alabama. Within that same year, Dan also began to make contact and work with a few of the other DBE firms to form the Alabama DBE Association. The DBE's would use the Association as a platform to resolve differences between Prime Contractors and DBEs as well as a lobbying effort to promote change and improve the treatment of DBEs by the Alabama Department of Transportation.

Over the last year, Dan had been offered the opportunity to pastor a Church on a part-time basis in Tupelo, Mississippi which was approximately 60 miles from Dan's home in Jasper. Dan decided to put all his energy, zest and love he had for the ministry into his new position as Pastor of the Church. During this time, Dan also won one of the biggest contracts of his career. The contract was worth over \$100,000. The state of Alabama had agreed to assist in the construction of a new highway called Highway 78 which ran from Memphis, Tennessee to Birmingham. Dan ended up working on three different phases of the Highway 78 project which included a considerable amount of difficulties and uphill battles. The Prime Contractor on the Highway 78 project just could not seem to get the asphalt mix portion of the project done correctly. Jobs that should have taken only 2-3 weeks ended up dragging out for over a month due to the Prime Contractors ordeal with the asphalt mix. Another pitfall of the project was the business practices of the head foreman. Instead of ordering only enough trucks to do the job, the foreman knowingly ordered more trucks than were needed. Of course with only three trucks, Dan could not fill the foreman's request for more trucks. Thus, the foreman called in another majority company who had more trucks to do the work. Disgruntled and feeling betrayed, Dan placed a phone call to the ALDOT main office and told them of his concerns. To pacify Dan, the officials at the agency told him that they would fix the situation by allowing him to work on another portion of the Highway 78 project and they would pay him hourly instead of by tonnage. Dan thought this sounded too good to be true. When Dan began to do the work on the additional part of the Highway 78 project, the foreman would only let him work two or three hours and then he would send his trucks back to Jasper. Dan began to realize that in the trucking industry, the Prime Contractor holds the keys to your future and ultimately, if you aren't playing by his or her rules, then you will not be able to play the game at all. (Please refer to exhibits 1, 2, and 3 for Dan's Trucking Profit and Loss Statements for periods ending December 1999 through 2001. These exhibits are in the Appendix.)

THE FUTURE

Dan began to seriously question his decision to have his own trucking business. Although he loved the hard work and the opportunity to meet and oversee people, he could not tolerate the bureaucracy, underhandedness and unfairness the industry had shown him in the past few years. Previously, Dan had entertained the idea of selling Dan's Trucking to another DBE firm, but the deal never came to fruition. Now, Dan knew that his heart and his pockets were truly telling him that it was time to get out of the business any way he could. Dan advertised the business for sale and he actually had a few calls from other Prime Contractors and Subcontractors that were interested. However, no one ever presented Dan with any offers. Dan began to sell his trucks one by one and eventually, Dan shut the doors of Dan's Trucking in 2002.

Dan went back to ministering at his Church in Tupelo on a full-time basis. Dan used his extra time and energy to attend to all of the needs of his growing congregation. Even after closing Dan's Trucking, Dan still couldn't get the trucking industry completely out of his mind or his heart. He began to investigate the business of Over-the-Road trucking. After doing even more extensive research, Dan finally settled on doing hot-shot trucking. He already had a 30 foot trailer, so he traded it in for a 40 foot trailer and began the search for a company to be employed with. Finally, he settled on one of the best known Over-the-Road tracking companies in America. Instead of bringing home barely enough to make ends meet, Dan found that 76% of his gross income belonged to him in this new business. He also saved money in other ways. Whereas his gas mileage with his hauling trucks had been five or six miles to a gallon, his new truck afforded him the luxury of getting thirteen to fourteen miles to a gallon.

At this point in his career, Dan has more hot-shot jobs than he can handle. He has had the opportunity to drive all over the United States delivering loads to a variety different locations. Job security and happiness is not as elusive as Dan once saw it to be when he was owner and operator of Dan's Trucking. Each day with his new career and with his growing Church congregation brings new challenges and new horizons to overcome.

EXHIBIT 1

Dan's Trucking, Inc.

Income Statement FYE December 31, 1999

<u>Sales</u>		\$ 3,802,803
<u>Cost of Goods Sold</u>		2,686,042
<u>Gross Profit</u>		\$ 1,116,761
<u>Expenses</u>		
Insurance	\$ 30625	
Contract Hauling	300,444	
Lease Expense	168,528	
Depreciation	106597	
Salaries	115,149	
Taxes	108,179	
Fuel and Tires	68,766	
Repairs	85,050	
Other Expense	<u>120,972</u>	
Total Expenses		<u>1,104,310</u>
<u>Net Income</u>		\$ <u>12,451</u>

EXHIBIT 2

Dan's Trucking, Inc.

Income Statement FYE December 31, 2000

<u>Sales</u>		\$ 1,529,610
<u>Cost of Goods Sold</u>		<u>533,433</u>
<u>Gross Profit</u>		\$ 996,177
<u>Expenses</u>		
Insurance	\$ 65,094	
Contract Hauling	338,992	
Lease Expense	3,500	
Depreciation	183,253	
Salaries	167,619	
Taxes	38,913	
Fuel and Tires	115,403	
Repairs	50,897	
Other Expense	<u>73,046</u>	
Total Expenses		<u>1,036,717</u>
Net Income (Loss)		<u>(\$ 40,540)</u>

EXHIBIT 3

Dan's Trucking, Inc.

Income Statement FYE December 31, 2001

<u>Sales</u>		\$878,539
<u>Cost of Goods Sold</u>		<u>25,092</u>
<u>Gross Profit</u>		\$ 853,447
<u>Expenses</u>		
Insurance	\$ 73,025	
Contract Hauling	235,056	
Lease Expense	22,349	
Depreciation	157,643	
Salaries	142,819	
Taxes	48,109	
Fuel and Tires	147,420	
Repairs	36,873	
Other Expense	<u>46,611</u>	
Total Expenses		<u>909,905</u>
Net Income (Loss)		<u>(\$ 56,458)</u>