**Driver Labor Cost… Don't Be Left Scratching Your Head**

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If you own a fleet of tractors then you understand the cost of hiring a Class A driver.  Or….. Maybe you don't ?

You might be shocked as to how many fleet managers are left at the end of the year scratching their head wondering why their driver labor expenses skyrocketed when they thought their budgeted driver wages would give them a good ROI. Or why their operating expenses increased disproportional to business growth causing EBITDA results to decline.  Let's look at the scenario below and maybe you will find one possible answer to the dilemma.

The biggest misconception is that driver labor costs are defined by the wages.

You want to save money for your transportation department so you decide that you only want to pay $15/hr. and work a driver 40 hours/wk. Total cost per driver will be $600/wk. Sounds pretty good compared to your rival competitor down the street who is paying their drivers $20/hr. or $800/wk. You are saving the company $10,400 a year for every driver!

Now let's factor in a few real costs that will leave you scratching your head. First, to hire a $15/hr. driver you will likely need to advertise a long time before you find a driver willing to accept a below market rate. Especially considering the industry is short 40,000 drivers according to the American Trucking Association.  Furthermore, 48% of over-the-road drivers and 33% of the short haul and private fleet drivers are receiving sign-on bonuses today. The ATA also reports that driver pay is increasing by 15% each year and it is predicted that the industry will need 96,000 new drivers per year over the next 10 years.   So if your company is on the low end of the competitive wage scale, you will wait a long time before finding a driver. Your anticipated $10,400 annual savings could be spent on advertising before you hire your first driver.

But since you are an incredibly effective hiring manager, you are able to hire a driver in less than one week. Remarkable but then again you are really good.  However, just remember that driver turnover rates for OTR drivers are at 95% with LTL and private fleet driver turnover rates increasing each year at 12%. Here today could be gone tomorrow causing more unexpected advertising and training dollars. But you are an optimist and all these costly expenses and statistics only happen to somebody else. And why worry about that because your new driver already started working on Monday and they like the job. They would never leave for a 33% pay raise and $10,000 more money.

By Thursday, you notice that your new driver is not as fast as your competitor's driver and your new driver requires much more training. Not a problem… you have a surplus of $10,400 to play with. But four weeks later you realize that you are now forced to hire a second driver because you can't keep up with servicing the customer orders in a timely manner. Customers are complaining, internal sales reps are asking questions and the CEO is not happy. You could fire that slow driver and hire another $15/hr. driver but you have already tried that with no success. So you quickly hire a second driver to solve the problem. Add in… another $31,200 just in wages. Not too bad since you get two drivers vs. your competitors one driver. BUT then you realize…. you need another tractor, more fuel, another trailer, more insurance, more maintenance, more taxes, more equipment registrations and licensing, more back-office administrative expenses to process double the paperwork, added weeks of paid vacation, increased health & welfare, etc etc. etc. And because there is not enough productive work for two full time drivers they both slow down to get their 40 hours in. So now you are paying $1200 a week for wages relative to only 50 hours of productive work.

Even if you decide not to hire a second driver and instead pay overtime to cover the remaining workload, your costs will still increase above your competition. You now pay $825/wk. and your competitor is only paying $800/wk. Plus you are still dealing with a poor quality driver increasing the risk of vehicle accidents, injuries, sick days, cargo claims, DOT fines, equipment abuse- vehicle maintenance expenses, reduced fuel economy etc etc.

The point here is that although it looks like on the surface that you are saving a ton of money by offering a significantly lower driver wage than your competitor, the total cost of managing your fleet operation can become much greater. Deciding on a fair and equitable driver wage that will support your budget needs, satisfy your customers and keep you from scratching your head requires a detailed analysis to study every variable. You need to take the time to analyze the numbers and truly understand the industry forecasts so you can achieve the desired EBITDA results and better prepare for the future.

Driver Shortage Short video (American Trucking Association)
http://www.trucking.org/News_and_Information_Reports_Driver_Shortage.aspx