

INNOVATORS

**BAY & BAY
TRANSPORTATION**
Minneapolis



A plan for success

Bay & Bay's new lease-purchase program helps owner-operators get off the ground BY JEFF CRISSEY

As freight conditions improve and driver demand increases, many fleets have tapped into the owner-operator market to add capacity. Fierce competition for owner-operators has led many companies to ramp up lease-purchase programs to convert drivers into independent contractors.

However, high initial startup costs associated with conventional lease-purchase programs can put the lessee in a financial hole. Most lease-purchase programs require upfront and monthly lease payments made on time and trucks maintained and operated at the lessee's expense.

Often, a lessee can't make ends meet, so they quit the lease-purchase program early, and the carrier leases the truck to the next lessee. A bad lease-purchase experience usually sours a lessee's relationship with the carrier, and they move to another company or leave the industry altogether.

The time it takes for a lessee to break even in a lease-purchase program varies, but ultimately a successful lease depends on their business acumen and work ethic. Unfortunately, most drivers have become wary of lease-purchase programs, and the prevailing sentiment is that they're better off walking away from such offers.

Looking for a better way

Bay & Bay Transportation is among the fleets looking to "grow their own" owner-operators with lease-purchase programs, doing so through various leasing companies. After analyzing Bay & Bay turnover data, the

Minneapolis-based company found that the majority was occurring in its lease-purchase program and realized it would have to take a fresh look at an old system.

"We were seeing too much turnover in the first 90 days of a lease program," says Zach Little, vice president of operations. "Lessees would come in after a couple weeks without a check and throw their keys on the desk and walk away."

While studying why lessees were failing on the front end of their lease-purchase agreements, Bay & Bay realized that if it could help them manage recurring business expenses – including monthly lease payments, insurance, fuel and licensing fees – it could better develop and retain successful owner-operators.

Making it work

In May of last year, Bay & Bay created the Predictable Pay Program to flatten out the early business and truck lease expenses to help lessees become successful. Essentially, the program holds back some of the startup costs and provides the lessee with a weekly settlement based on a specific rate per mile. The settlement isn't typical driver pay; rather, it's an advance on a lessee's earnings. The holding company then is able to recoup these costs over the first

several months of the lease-purchase term as the lessee's business becomes profitable.

Assume a conventional program where a lessee runs 800 miles from Minneapolis to Chicago and back at a typical

**Bay & Bay
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owner-operator rate of \$1 per mile. After fuel costs and other expenses, the lessee's earnings only might be enough to cover costs. Bay & Bay's Predictable Pay Program allows that lessee to generate take-home pay for that run based on how many miles they run, not what is left over after expenses. "It doesn't matter about the expenses associated with the truck," says Little. "They are getting paid an advance for the work they did."

Bay & Bay provides lessees with a spreadsheet that contains monthly expenses, revenues and driver pay, as well as a week-by-week look at where their business should be, assuming an average of 10,000 miles per month. Large monthly and annual expenses such as lease payments, insurance costs and licensing fees are broken down by week

Bay & Bay's Predictable Pay Program offers lessees a clear look at where their business should be on a weekly basis to better manage their finances.

and withheld by Bay & Bay for the leasing companies to make it easier for the lessee to become profitable as

Bay & Bay's Predictable Pay Program expenses withheld weekly:

- **Truck payment**
- **License fee**
- **Fuel costs**
- **Maintenance costs**
- **Security deposit**
- **Fuel and mileage**
- **Insurance**

soon as possible. "We break the payments down so that they aren't getting socked right out of the gate," says Little. "With other lease-purchase programs, there is probably not enough money left over to send home." Whereas conventional arrangements typically don't begin collecting security deposits until the lessee has caught up on his lease payments and other expenses, Bay & Bay's Predictable Pay Program divides the security deposit over 52 weeks, changing a variable expense into a fixed weekly cost.

The company's analysis has shown that lessees that make it over a year have a high success rate. "Putting titles in their hands is what it's all about," says Little. Year over year, about 20 percent of Bay & Bay lessees are paying off their trucks.

"It's a conservative program, but we tell everybody, 'You can do better – we're willing to take a risk on your business, so we'll be conservative and make sure you can be profitable,'" says Little.

Bay & Bay currently has half of its leased trucks in the Predictable Pay Program. Since the program's inception, the company is experiencing notable

successes with a number of lessees that were struggling to make ends meet with conventional lease-purchase programs. "We had one driver that didn't have any money going home for three straight weeks due to over-advancing his business and lack of production," says Little. "We put him on the program, and now he's happy as a lark and has money going home every week."

Seven months after launching its Predictable Pay Program, Bay & Bay already is experiencing lower turnover for participating lessees.

"Reduced turnover is key to all parts of the operation, including customer satisfaction, production, equipment utilization and cost involved in getting the

"With this program, we're helping new owner-operators stick it out through the startup of their businesses and keep money going home to their families."

– Zach Little, vice president of operations

lease trucks ready to lease out again," says Little. "Lessees' satisfaction is up, as they can predict what their pay will be at the end of the week without calling and asking."

Bay & Bay's goal is to remove lessees from the Predictable Pay Program once they are profitable, but the company allows participants to remain in the program and increase their weekly take-home pay to help them manage their business over the long term. "We don't want lessees' Predictable Pay Program withholdings to be big – we want it to balance out so they're taking home as much money as they can," says Little. **ccj**

CCJ INNOVATORS profiles carriers and fleets that have found innovative ways to overcome trucking's challenges. If you know a carrier that has displayed innovation, contact Jeff Crissey at jcrissey@ccjmagazine.com or 800-633-5953.

