Acquisition Costs

That's a fancy term for the cost of borrowing money. There are right and wrong ways of buying into this business. **By Jim Park**

One of the elements of your business plan was a cost-per-mile calculation that included your truck payments. A difficult exercise if you don't know what you'll be buying, but you probably used a ballpark figure that seemed manageable. Now we see what you can get for your money.

We haven't even started to spec this truck, so we don't know dollars and cents, yet, but that's not critical for this lesson. This is about the cost of a new truck, and the timeframe in which it has to be paid down.

Trucks are getting more expensive, but the business model remains pretty much the same. Still, you want to run the truck at a predictable cost, pay it off over a particular time (usually by the time your warranties expire), and you want some equity left in it to grow the business or to apply to the purchase of your next truck.

Unfortunately, a lot of owner-ops who try to play the new game by the old rules eventually find themselves upside down – which is to say, they're sitting under a truck owing more on it that it's worth. That's what can happen when you want to buy a truck badly enough that you'll sign anything just to drive the thing off the lot.

Let's look at a typical truck – if there is such a thing – and some financing options.

Let's say the truck costs $130,000 not including tax, all wrapped and ready to roll, and you want it paid off in five years. There are a few ways of approaching the financing (assuming an annual interest rate of 8%, for example):

1. Make a big downpayment with modest monthly payments. Example: $40,000 down, 60 payments of $1,824.88.

2. Make a modest downpayment with modest monthly payments and modest buy-out after 60 months. Example: $13,000 down (10%), 60 payments of $2,237.14, with a $10,000 buy-out.

3. Make a small downpayment with modest monthly payments and a big buy-out. Example: $6,500 down (5%), 60 payments of $1,969.77, with a $25,000 buy-out.

4. Make a small downpayment with 72 monthly payments instead of 60, and a modest buy-out. Example: $8,000 down (5%), 72 payments of $2131.31, with a $10,000 buy-out.

I should say here that we're talking only about interest and principle. I haven't looked at the cost of mortgage insurance, fees, penalties, etc.

With rates and truck prices being what they are, it's becoming increasingly difficult to strike a healthy balance between a realistic downpayment, a manageable monthly payment, and achievable buy-out options.

High monthly payments hurt cash flow. High down-payments are difficult to come by, and big buy-outs (being a devil you won't have to face for five years) often leave you in a difficult equity position – upside down, to be precise.

How does that compare with where you predicted you'd be 48 months after launching your business? I bet you didn't think the cost of financing would add up like that.

A shorter amortization period and a smaller buy-out would reduce the probability that you'll finish upside down. The reason most owner-operators extend the terms of their loans further than they should is to reduce their downpayment and monthly payments.

Yes, it's hard to scrape up a significant downpayment these days, and yes, a big buy-out can sink you in the end. And yes, it's getting very hard to find financing outside the trucking industry specialty firms. And that should tell you something, too.

Next month we'll look at used trucks and lease options. ★

At the end of the fourth year (48 months), here's how much will remain owing on the truck from our example – principal and interest only:

Example 1:	Overall cost – $149,492	Balance at 48 mos. – $20,978
Example 2:	Overall cost – $167,228	Balance at 48 mos. – $34,890
Example 3:	Overall cost – $156,500	Balance at 48 mos. – $72,832
Example 4:	Overall cost – $176,033	Balance at 48 mos. – $63,959

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