

The rise of the invisible carrier

Brokerage carriers have existed for years. But only recently have they had unprecedented success. Not surprisingly, this is largely due to the growing value they create and their transformation in industry.

By Tom Nightingale

This is a story about an invisible carrier that operates without tractors, trailers, trains, containers ships, and aircraft. Yet, everyday this carrier creates value for its customers, stability for the industry and wealth for its shareholders. These freight brokers, however, are not your fathers' freight brokers. Today's marketplace has transformed them.

When the economy plummeted in 2001, companies accelerated their plans to reduce their workforces. inevitably they targeted "non-essential" functions, including transportation and distribution. Annual productivity gains of more than four percent were achieved during these years. During the economic slowdown freight moved with increased efficiency and reduced budgets were met. Now, however, the economy has recovered, and there's a view that the piper must be paid. Companies are not restoring staffing to the late-1990s level. Moreover, an unprecedented freight market has created unforeseen difficulties in securing capacity and controlling costs. The exponential rate of demand on transportation and logistics professionals' time and skill mirrors the realities of today's marketplace.

Traditionally, the term "broker" has often had negative connotations. After all, why would a transportation and logistics professional worth their salt use a broker to do what he or she could accomplish? The reality is that brokers' capabilities have surpassed the capabilities of many transportation and logistics professionals. In summary, brokers' growth can be attributed to four primary factors:

1. Brokers can buy better than some traffic managers
2. Brokers create value for carriers
3. Brokers will cross the "T's" and dot the "i's" more than some traffic managers
4. Brokers have legitimized their practices by becoming "logistics companies"

Brokers can buy better than some traffic managers

Brokers have at least one and sometimes two competitive transportation purchasing advantages. First, buying large quantities of transportation enables them to work with the carriers who haul their freight at rates that are often lower than those individual shippers might attain. Payment terms, the cost of sales, and technology interfaces are more favorable for the transportation company in these circumstances when compared to those that might be reached when dealing directly with customers. Second, the broker has the incentive to find the lowest rate, because the spread between the actual freight rate and the customer quote is what puts food on the table for the broker. If a broker is unable to find freight rates less than the quoted rate, they should absorb the cost and move product at a loss. In short, they have 'skin in the game'. Undoubtedly, traffic managers will work hard to negotiate the best rates, but it is unlikely they have a rate in place for every lane. Therefore,

when a new lane arises, there is only so much time that a traffic manager can put into getting the best rate given competing priorities. Brokers fill that gap admirably.

Brokers create value for carriers

Historically, carriers resisted dealing with brokers. The common misconception was that with a good sales force, the trucks would never be empty and carriers would never have to relinquish margin to a third party. The reality is operating costs have reached unprecedented highs and the cost of deploying a nationwide sales force continues to rise. Brokers reduce operating and SG&A costs to a point where nearly every carrier is now in the market. A small carrier can now log onto a website or provide their broker with their lane preferences and find freight moving without a sales force and with minimal empty miles

Brokers will cross the "T's" and dot the "i's" more than some traffic managers

When a broker tenders a load to a carrier, they should confirm that the carrier has the proper operating authority, insurance, and an acceptable safety record. Most traffic managers adeptly handle these administrative details for their core carriers. However, in today's lean-staffing environment, it is nearly impossible to accomplish these essential tasks for the 80 percent of the carriers who typically handle 20 percent of a company's shipments. In the litigious world that we live in, the stakes associated with not handling this administrative burden are high. (see Appendix B) Additionally, the rate at which small carriers enter and exit the industry makes that task more daunting. Brokers act as the clearinghouse for carriers to ensure that the necessary paperwork has been submitted.

Brokers have evolved by becoming "logistics companies"

While the number of companies in the brokerage industry has not dwindled, the number of companies who refer to themselves as "brokers" has never been lower. In a recent U.S. audit of brokerage carriers, as defined by their self-declared Standard Industrial Code (SIC), it was found that only 2.9 percent of industry participants have the word "Brokerage" or "Broker" anywhere in their name. They are now more commonly referred to as "Logistics" providers. And, many are now truly providing services previously only thought to reside within third party logistics providers. It is common for brokers to now handle all of a company's freight movements and act as a sole-source in logistics by providing a shipper with on-site personnel, one bill, and a single interface to thousands of qualified carriers. More importantly, brokers are now delivering value-added services such as Just-In-Time (JIT), direct-to-store coordination, cross-docking, and even warehousing.

Summary

Brokers, or logistics providers, if you prefer, are here to stay and will continue to become an integral part of the transportation landscape. Carriers who once ran empty are now loaded, as a result and SG&A is dropping for carriers. Shippers are also safeguarded to a greater extent against uninsured or underinsured carriers handling their freight without proper operating authority. Irrespective of whether you call these businesses a broker or a logistics provider, traffic managers will continue to enjoy some relief in their work even as business puts an unmatched value on the importance of their time.