

Chapter 1

Introduction

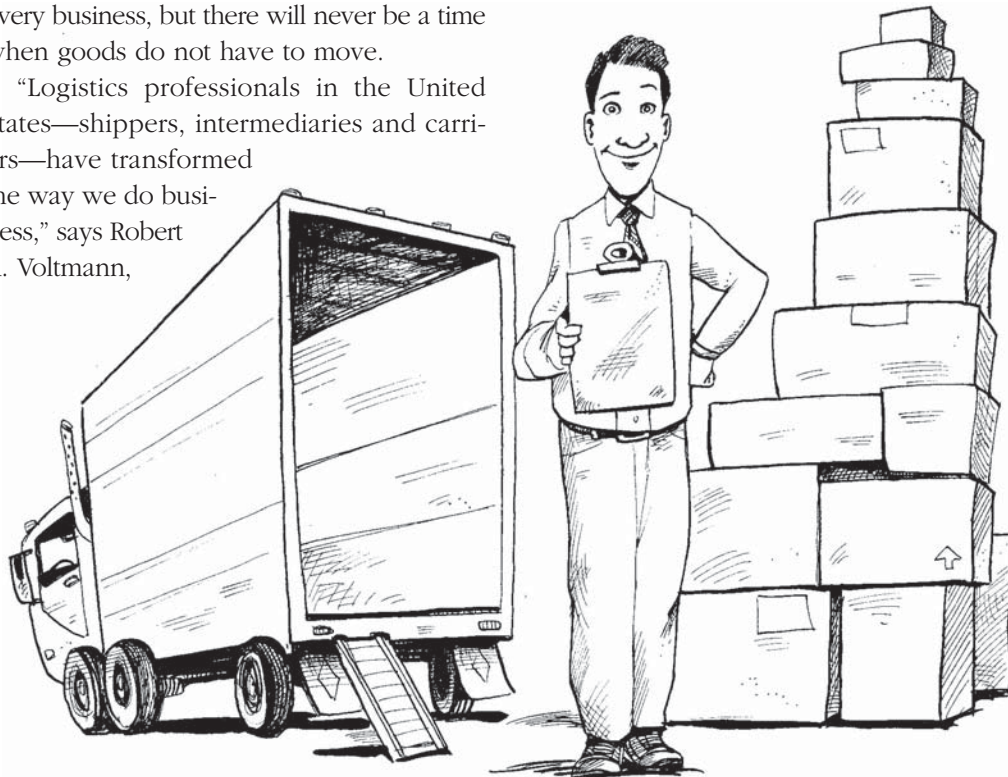
The transportation industry in general and the trucking industry specifically are critical to the economic and social survival of local communities, the country and, indeed, the entire world. Think about the times major transportation systems have failed, either because of mechanical problems, natural disasters or labor conflicts. When cargo can't move, the repercussions are serious and widespread. Store shelves are emptied, perishable goods spoil, factories are shut down, workers are idled—the list goes on.

The United States may be shifting from a manufacturing to an information-based economy, and technology is certainly impacting every business, but there will never be a time when goods do not have to move.

“Logistics professionals in the United States—shippers, intermediaries and carriers—have transformed the way we do business,” says Robert A. Voltmann,

executive director and CEO of the Transportation Intermediaries Association (TIA) in Alexandria, Virginia. “In the process, our national economy has been transformed as well. Transportation has become a strategic asset. Inventory is now stored in motion as we have been able to move to just-in-time delivery. More goods are being moved and with more efficiency and reliability than ever before.”

Take a look around your home or office. It's highly unlikely that you have much—if anything at all—that didn't reach you either entirely or partially by truck. The size and scope of the motor freight industry can be overwhelming. The good news is that there's plenty of room for you



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to start and grow a profitable business serving the industry as a freight broker.

What exactly is a freight broker? Very simply, it is an individual or a company that brings together a shipper that needs to transport goods with an authorized motor carrier that wants to provide the service. The legal definitions of “broker” and “brokerage service” are found in the Code of Federal Regulations, 49CFR371.3:

“Broker means a person who, for compensation, arranges or offers to arrange the transportation of property by an authorized motor carrier. Motor carriers, or persons who are employees or bona fide agents of carriers, are not brokers within the meaning of this section when they arrange or offer to arrange the transportation of shipments which they are authorized to transport and which they have accepted and legally bound themselves to transport.

“Brokerage or brokerage service is the arranging of transportation or the physical movement of a motor vehicle or of property. It can be performed on behalf of a motor carrier, consignor or consignee. Non-brokerage service is all other service performed by a broker on behalf of a motor carrier, consignor or consignee.”

A freight broker falls into the category of transportation intermediary, which is a

company that is not a shipper nor an asset-owning carrier, but plays a role in the movement of cargo. “Transportation intermediaries leverage their knowledge, investment in technology and people resources to help both the shipper and carrier succeed,” says Voltmann.

Brokers provide an important and valuable service to both motor carriers and shippers. They help carriers fill their trucks and earn a commission for their efforts. They help shippers find reliable motor carriers that they (the shippers) might not have otherwise known about. In fact, some companies use brokers as their traffic department, allowing the broker to coordinate all their shipping needs.

Brokers are not new to the trucking industry; they’ve been around since the industry itself began in the early part of the 20th century. Prior to the 1970s, however, regulations governing brokers were so restrictive that few firms were willing to even try to gain entry into the industry. But with dramatic changes in federal transportation policy during the 1970s, regulatory restrictions have been eased, creating new entrepreneurial opportunities in the third-party logistics arena.

The Players

An industry so huge and diverse requires a wide range of participants to thrive. Some of these participants’ titles may be a bit confusing, and some of their responsibilities may overlap. But to keep things clear and as simple as possible, let’s look at who the key players are and what they do.

● **Freight broker:** A freight broker is the middleman who connects shippers and carriers. Freight brokers are also known as “truck brokers,” “transportation brokers” and “property brokers.” Though we will consistently use the term “freight broker” in this book, you may see or hear these other titles elsewhere.



Fun Fact

According to a recent survey in *Transportation Journal* magazine, the aspects brokers enjoy most about their work are solving problems for customers and the fast-paced environment. What do they find most frustrating? The lack of trucks and the feeling that brokers are not respected as professionals.

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Smart Tip

Many shippers who have their own fleets (private carriers) occasionally function as contract carriers. Many of their trips are one way, and they often work with brokers to find loads to carry on their return trips. Build relationships with private carriers whenever you can.

● **Shipper:** A shipper is an entity that has products or goods to transport. Technically, shippers can be individuals or companies, but as a broker, you will deal most often with businesses in manufacturing or agriculture industries.

● **Motor carrier:** A motor carrier is a company that provides truck transportation. There are two types of motor carriers: private (a company that provides truck transportation of its own cargo) and for hire (a company that is paid to provide truck transportation of cargo belonging to others). There are two types of for-hire carriers: common and contract. A common carrier

serves the public under two stringent obligations: compulsory service and liability for loss or damage to goods. A contract carrier transports freight under contract with one or a limited number of shippers.

● **Freight forwarder:** Often confused with freight brokers, freight forwarders are significantly different. Forwarders typically take possession of the goods, consolidate numerous smaller shipments into one large shipment, then arrange for transport of that larger shipment. To transport goods, surface freight forwarders use both motor freight and rail carriage; air freight forwarders use cargo and passenger airlines; and ocean freight forwarders use water carriers.

● **Import-export broker:** These people are facilitators for importers and exporters (import brokers are also referred to as customhouse brokers). Import-export brokers interface with U.S. Customs, other government agencies, international carriers, and other companies and organizations that are involved in international freight transportation.

● **Agricultural truck broker:** Generally small and operating in one area of the country, unregulated agricultural truck brokers arrange motor carrier service for exempt agricultural products.

A Truck By Any Other Name

The term “truck” is an umbrella word covering a wide range of equipment. Among the types of trucks you’ll need to be familiar with are:

- Dry vans (nonrefrigerated semitrailers)
- Refrigerated semitrailers (or “reefers”)
- Flats or flatbeds (flat trailers built to handle heavy loads such as metal and machinery)
- Liquid tankers (trailers designed to carry liquid or fine bulk materials)
- Ragtops (canvas-covered, boxlike trailers)
- Containers (shipping containers used for freight carried on ships or trains)
- Air-ride (trailers built to reduce road shock and designed to carry fragile items)

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● **Shippers associations:** Shippers associations are exempt, nonprofit, cooperative organizations formed by shippers to reduce transportation costs by pooling shipments. Shippers associations operate in a manner very similar to that of freight forwarders, but their service is limited to their members and is not available to the general public. Since trucking deregulation in the 1970s, the number of shippers associations has declined significantly.

In a perfect world, of course, each entity in the industry would handle its traditional role and that's all. However, the transportation industry is changing so rapidly that once-distinctive lines are blurring. Also, it's quite common for a successful freight broker to expand his or her business by creating subsidiaries or additional companies that offer other freight services.



Smart Tip

As a freight broker, you'll build your company on repeat business. If you do a good job, you'll rarely have a one-time customer. Most shippers have routine, repetitive shipments that move around the country on a predictable schedule. As you become familiar with these shipments, they become easier to handle.

A key issue, say industry experts, is that legal definitions have not been challenged recently, so freight forwarders may be acting as brokers and brokers may assume the role of freight forwarders. In the event of a cargo claim or nonpayment of bills, problems can arise when a company holds multiple authorities. The question becomes, Who was wearing what hat and when?

Clearly, pushing the proverbial envelope when it comes to services and oper-

Stat Fact

Trucks carry 94 percent of all furniture, fixtures and appliances for the American home.



ations has some definite risks, and you'll want to carefully consider all your options when setting up your business.

How They Started

Ask a class of first-graders what they want to be when they grow up, and you'll likely hear things like doctor, firefighter, police officer and lawyer; it's highly unlikely any one of them will say "freight broker." So how did the successful freight brokers we talked with get into the business?

Bill Tucker's brokerage in Cherry Hill, New Jersey, has employed three generations of his family. His father founded the firm in 1961 by purchasing one of the few broker's licenses still operating at the time. Years later, Tucker was working in the computer industry when his father passed away unexpectedly. At first, he and his mother decided to sell the business rather than shut it down, so he helped run it while looking for a buyer. But after several months without a realistic offer, Tucker decided that he wanted the company for himself. He worked out a deal to buy the company from his mother, and now his own sons work for him. "I've never regretted it because it has been a great business," he says.

After holding a variety of jobs in the transportation industry, Cathy Davis started MCD Transportation Inc. as a consulting and commissioned sales agency in 1986 and obtained brokerage authority in 1991. After she passed away in 2002, her daughters took over the Smyrna, Tennessee, company.

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Chuck Andrews started his business in Indianapolis in 1993. Having spent his entire professional life working for trucking companies and railroads, he found the brokerage business tremendously appealing. "Out of all the transportation operations, a brokerage operation is very clean," he says. "By that, I mean it's basically a 7:30 a.m. to 5 p.m. operation. Very seldom do you have problems occur after that. Your operation runs Monday through Friday. When you're on the trucking side of it, you have all the problems. If a guy blows a tire, he's calling somebody at one or two o'clock in the morning to get money to fix it. With brokers, it's our concern—we want the freight moving on schedule—but it's not our problem because the driver is going to call his dispatcher or his company."

For 18 years, Ron Williamson worked as a corporate traffic manager and director of distribution for several major corporations. He also had experience with a railroad and a transportation consulting firm. Finally, he could no longer resist the entrepreneurial urge: He started his brokerage firm in 1981

in Bloomingdale, Illinois, and has since founded two trucking companies as well.

Specialist Or Generalist?

As a broker, you have the opportunity to handle many types of freight. You may opt to simply handle general commodity freight—materials that are typically easy to handle and don't require any special attention.

Or you might want to develop some expertise in areas such as heavy equipment, oversized loads, perishable commodities or even hazardous materials.

Don't limit your specialization plan to the commonly accepted areas; instead, find your own niche. Tucker, for example, does some interesting work for retailers. One major national chain hires his company to handle the distribution of point-of-sale promotion displays that have to be delivered to hundreds of stores on the same day. It's a move that's important but not frequent enough for the retailer to maintain the required expertise in-house. Other big businesses use Tucker's company to manage shipments related to store openings and closings.

Working 9 To 5

While it's certainly possible to start a freight brokerage as a part-time business and gradually work into a full-time operation, it's not recommended. This is not a business where problems or issues can wait. You need to be accessible to your customers during regular business hours. If you're not available to answer a question or quote a rate when they need the information, they may take their business elsewhere.

There's also the image issue to consider. Whether it's a valid perception or not, many people view part-time businesses as hobbies and their operators as less than professional. Those people are not going to trust their shipments to a part-time freight broker.

If you need more income than your business will generate in its early days, consider a full-time brokerage with a part-time job on the side—but be sure the hours you work at the other job won't interfere with your brokerage; try to schedule that work for nights and weekends.

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Beware!

If you're working with a carrier or broker now and are planning to quit to start your own brokerage, don't assume the customers you have a good relationship with will automatically follow you. It often happens, but if you're counting on that customer for early revenue, you could be in for a rude awakening.

Who's Minding The Store?

Even following deregulation, the transportation industry comes under the regulation of a number of different agencies. The least-regulated cargo is intrastate freight—shipments moving within the borders of a single state. That freight is regulated under the laws of the particular state and is also typically regulated by the state's department of transportation, department of business and professional regulation, and/or the department of revenue and taxation.

For interstate shipments—shipments moving between states—the key regulatory agency prior to 1995 was the Interstate Commerce Commission (ICC), an independent agency created by Congress in 1887 to regulate commercial activity crossing state lines. The ICC was created in response to turmoil within the railroad industry and came about after an 1886 Supreme Court ruling that said states could not regulate interstate railroads, which effectively shifted the burden of regulation to the federal government.

The commission initially possessed limited regulatory powers, but by the early 1950s its jurisdiction extended to all types of surface transportation vehicles and

channels. The agency was criticized for regulatory excess and setting artificially high transportation and shipping rates. By the early 1980s, deregulation of transportation industries had stripped the ICC of most of its authority to set rates. In 1995, Congress abolished the ICC and created a Surface Transportation Board (STB) within the Department of Transportation (DOT) to perform the small number of regulatory tasks that had remained with the ICC. Today, the primary agencies that oversee motor freight transportation are the STB, the DOT and the Federal Highway Administration.

Do You Have What It Takes?

This is not a business for the faint of heart or the shy person who is happiest shuffling papers behind a closed office door. But courage and an extroverted personality alone won't guarantee you a successful freight brokerage, either.

According to Cathy Davis, "Anyone involved in operations needs to be able to handle stress, make quick decisions, handle multiple tasks, have a good phone voice and communication skills, and possess some general business knowledge." You not only need to understand the freight industry, but you must also appreciate the business demands your customers face.

Stat Fact

Trucking accounts for 78 percent of the nation's freight bill and 5 percent of the gross national product.



Chuck Andrews agrees that communication skills and a solid foundation in the industry are important for brokers. You need

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to be able to speak industry jargon to demonstrate your knowledge. “The worst thing you could do is call a shipper and start fumbling on the phone,” he says. “He’s never going to give you any freight because he’s going to know right away that you have no knowledge of the business, and he would not trust his goods being moved with you.”

Ron Williamson says you’ve got to be “a good all-around person.” That means being comfortable with the financial side, the sales side and the operations side.

The TIA’s Voltmann says, “The future for intermediaries is very bright as asset-owning carriers concentrate on what they do best and shippers concentrate on their core competencies. Shippers and carriers need the innovation and expertise intermediaries provide. The result will be continued improvements, which will mean more choices for consumers and lower costs.”

So where do you start? Chapter 2 will tell you what you need to know to lay the foundation for your freight brokerage.