October 18, 2011

Fewer Truckers Using Brokers

I have been challenged a few times over the last several months as to why Melton Truck Lines does not participate more with freight brokers. We do indeed have very good relationships with a few, select brokers and 3PL/4PLs. But generally we do relatively little business with smaller, transaction-oriented brokers. The reason we do not do more business with these brokers is three-fold: 1) Risk, 2) Control, 3) Administration.

1) **Risk**- As a large asset-based carrier, our experience is that broker loads can pose greater risk in some areas. When working directly with a shipper, especially with ongoing business, we know exactly what the cargo is, it's value, it's residual value in the event of damage, how it has to be loaded, and it's propensity to damage. As a percentage of loads, we experience more cargo damage, securement issues, padding and tarping challenges, and delays on brokered freight than direct shipper freight. We also experience more delays in getting paid via small brokers than with direct shippers. This is understandable as freight brokers have a cash-flow challenge in which sometimes they must get paid by the shipper before they have the funds to pay the carrier.

2) **Control** - With direct shipper freight, we have greater control of load selection and also of the communication process. Generally, the broker acts as the intermediary between the shipper and the carrier. When there are problems i.e. incorrect BOL or cross-border paperwork, wrong address, incorrect directions, load is different dimensions or weight than originally stated, etc. this can delay problem resolution.....and if you have read very many of my previous updates you know how adamant we are about keeping our drivers rolling with a minimum of delay!

3) **Administration** - Because each load offered by a broker is individually quoted/negotiated, requires a manual one-time agreement, approval from Credit Dept, billing set up, etc, brokered loads have a higher transaction cost than contract business with direct shippers - especially when EDI and direct billing/payment is set up.

Certainly, there are many very, very good freight brokers in the marketplace. And, it is important to distinguish those brokers who are more "transactional" or "load-by-load" versus the entities that provide a comprehensive transportation management (3PL or 4PL) function for shippers. We have ongoing contracts and business relationships with a select few of these companies who do an outstanding job.

Brokers do indeed fill an important need in the transportation industry. As the article below indicates, much of the brokers capacity is provided by smaller carrier fleets or independent owner-operators. For these smaller fleets and O/O who do not have their own sales representatives or terminals near shippers, brokerage serves as their sales representation. With 10 regional sales representatives serving defined geographic areas around the country along with 6 terminals, and Sales, Operations, & Customer Service personnel in Mexico, our approach at Melton is to have sales and problem resolution resources as close to the customer as possible. We simply have a different business model than those carriers who use brokerage as their primary sales approach.

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Fewer Truckers Using Brokers: TCP National Survey

Transport Capital Partners Q3 2011 Business Expectations Survey finds that 81% of carriers have become less reliant on load brokers over the past three months. Only 15% have used them more.

This contrasts to the first quarter of 2009 when 65% of carriers reported using brokers more frequently. Overall, smaller carriers report having used brokers more often than have larger carriers.

Lana Batts, TCP Partner, notes that "the preference of the public markets is for asset light firms, but in a capacity-tight environment, having the direct control of the trucks may finally result in truck owners receiving the rates they expect for the investment risk they incur."

Richard Mikes, TCP Partner, further notes that "the future of non-asset based brokers is being debated in the transportation industry as more carriers are also offering brokerage services in an environment of tight capacity."

Forty percent of all carriers surveyed said they get less than 5% of their freight from spot market loads - a number that has increased only slightly since the second quarter of 2010. However, half of larger carriers (over $25 million in revenue) get less than 5% of their revenues from spot loads compared to less than 20% of the smaller carriers. Furthermore, two-thirds of smaller carriers depend upon 6-25% of their revenue share from spot loads.

"The plethora of readily available sites via the web is enabling smaller carriers to compete in the spot load market for its scarce equipment," Mikes notes.

TCP believes the current economic environment is dampening freight outlook resulting in less new investment in truck capacity.

Dan Taylor

Dan Taylor
Senior Vice President - Sales & Marketing
Melton Truck Lines, Inc.
918-234-8000 x600
taylor@meltontruck.com

Melton
Truck Lines, Inc.

www.meltontruck.com