Sleek Technologies™

Whitepaper

Why Shippers Should Think Twice Before Using Brokers

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Nextgen Software Makes The Unthinkable Now Possible.

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Introduction

Historically, brokers have been an essential ingredient in how shippers move freight. When market conditions flip, or unforeseen circumstances arise, preferred carriers begin to pass on freight. Brokers are there to pick-up the pieces. **This paper will examine how freight brokers work, why they should be eliminated, and how to go about it.**

Current Market Conditions

2020, and the Covid pandemic, have disrupted supply chains across the world. Uncertainty remains as the global pandemic still looms. Freight metrics such as: tender volume, tender rejection, freight rates, etc, have seen peaks and valleys throughout the year making it difficult to predict routing guides, let alone effectively manage the company's transportation budget.

Seasoned transportation and logistics veterans know that when tender rejection grows, freight cost grows, and so does the need to leverage brokers to move freight. Beginning mid-November, the rejection rate climbed over 20%, and it has stayed there.* Shippers have been forced into the spot market to move freight. Unlike the beginning of 2020, average spot rates have been higher than expected and experts predict this will not change anytime soon. Thanksgiving week, brokers seized the opportunity to widen the spread between spot and contracted rates to a new national average high of $2.45 per mile.**

A Broker's Secret

A freight broker is a middleman who serves as a liaison between large shippers and small carriers. Picture a large roadblock sitting in the middle of the road; that's the broker sitting in between shippers and carriers. The broker's main purpose is to help the shipper move freight. In a perfect world, the broker would thoroughly investigate and identify the most efficient carrier for each load, and then manage the carrier from pickup to delivery to ensure operational excellence so the shipper's load arrives safely and on-time. Unfortunately, shippers know all too well that this is not always the case. Many brokers have been taught to cut corners and generate the highest commission possible, and now sadly sit at the same table as used car sales people and insurance agents.

The big question is...

why?

#1 Brokers accept loads without assets. Risk is one of the many reasons why brokers do not provide visibility back to shippers. Not having a carrier lined up puts the shipper's load at risk, and places the broker in a difficult spot to do anything in his or her power to move the load, even working with unsatisfactory carriers when needed.

#3 Brokers make money by moving freight for less than the shipper is willing to pay. The delta between shipper spend and carrier cost is the freight broker's profit known as spread. Let's say the broker is paid $1,000 by the shipper to haul a load, and the broker finds a carrier who is willing to haul the load for $800, the broker makes $200. To generate the highest spread, brokers will accept the lowest-priced carrier regardless of experience or reputation. Spread is another reason why brokers do not provide visibility back to shippers. Brokers do not want shippers to know how much money they are making. Without rate transparency, shippers lose sight of the true market cost to move the load because they have no idea how much carriers are taking home versus brokers.

#5 Brokers post single loads across multiple boards causing artificial load volume inflation. Load volume inflation makes demand appear higher than it actually is, and can impact freight rates especially when carrier supply is low.

#4 Brokers who have not invested in proper tracking technology grow silent, and are not proactive in communications especially when problems arise. Less experienced brokers don't set carrier expectations upfront, such as how often carriers should check-in to ensure 100% shipper satisfaction, and do not make themselves available to pass along critical information to ensure world-class service levels.

#5 Brokers block 60% of America's capacity by coveting small, independent carriers. Chances are when a shipper has continued success with a broker, the broker is using the same small carrier to haul the load. Without transparency, the shipper can not build a direct relationship with the carrier. For obvious reasons, the broker needs to block the best small carriers to stay alive.

Why Small Carriers Matter

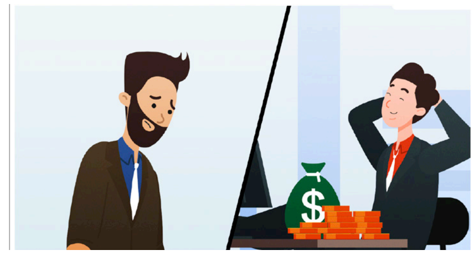
As mentioned above, shipper access to small carriers (defined as 50 trucks or less) is restricted by brokers. This subset of carriers represents over 900,000 plus carriers on the road today. Compared to truckers working for a large carrier, independent truckers are usually more qualified with average numbers of 18+ years behind the wheel, and 115 thousand miles hauled per year. Plus, they are more motivated to exceed shipper expectations because driving is not just a job, it is his or her livelihood.

How to Eliminate The Broker

Knowing brokers can be considered a shipper's safety net in extreme times, it may be difficult to think about a world where brokers do not exist. But rest assured, eliminating the broker middleman, is eliminating waste from the freight tender process. For decades, shippers have used a static tender waterfall process to secure carriers. Shippers start the process with contacted freight, and then move onto secondary and tertiary markets that demand a 10-20% markup. Hours later the load is picked up by a broker, but now holds a 25% hidden-- markup. Now the shipper is at the broker's mercy. To effectively manage freight cost, every shipper must consider how much time and money is wasted using brokers.

A nextgen software solution, **Optimal Transportation Spend (OTS)**, eliminates the need for brokers and automates the static tender process by building a virtual bridge between shippers and small carriers. With OTS, shippers get increased acceptance rates, on-time delivery, truckload savings, and 100% pricing transparency. Shippers now understand the true market cost for every load, and have the ability to build a direct carrier relationship if they choose to do so.

Let us revisit the earlier example on how the broker makes money. In the original example, the shipper paid the broker $1,000, and the broker paid the carrier $800, so the broker profited $200. With OTS, there is no broker so the $200 in truckload savings would go back to the shipper-- not the broker.



Conclusion

Brokers are no longer the only option when it comes to securing freight that has passed through the top half of the traditional tender waterfall. New software advancements make it possible to eliminate the broker altogether. Without brokers, shippers avoid unnecessary risk, increase truckload savings, and gain pricing and carrier transparency.

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