

Death Of The Small Freight Broker?

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Freight brokerage has always been tough. Anyone that has ever brokered a load or owned a freight brokerage operation knows the all too common stresses. As one contributor to this article told me; *“Well, it certainly ain’t what it used to be”*. I agree.

In early 2013 there were approximately 21,000 active freight brokers in the United States according to the Department Of Transportation. That number fell by over 8,100 by the beginning of 2014, primarily due to the increase in the statutory bond requirement being raised from \$10,000 to \$75,000. However, there are additional things boiling under the surface that are threatening the small freight broker’s existence, which used to be a relatively low cost and simple business to start and operate for both blue collar and white collar workers alike.

In a nutshell, the biggest pressures have arisen from increased regulation, tight lending to small service businesses, industry consolidation, large brokerage competition, and lack of technology access and expertise by small brokers. Moreover, shippers are increasingly asking for their service providers to leverage technology in order to lower costs and provide more freight visibility. The typical small freight broker has been pressured in each of these areas over the past decade.

At a conference recently, I heard the CEO of a large publically traded freight brokerage say that the demise of the small broker was a good thing. In a large room full of peers and shippers, he spouted on about how small brokers were financially weak and put shippers in danger. He went on to tell the attendees that small freight brokers just didn’t have the technology available to them to *“do the job right”*. Inside, I was boiling. He was wrong.

As Mark Twain said; *“Reports of my death have been greatly exaggerated”*. I will boldly say the same about small freight brokers. While their role is changing, and the weakest are closing, at InMotion Global we have found that the success of the small freight broker is alive and well as long as they follow a few very simple rules.

To begin, small freight brokers need to leverage the technology available to them. The basics are a good transportation management system (TMS) like AscendTMS (www.TheFreeTMS.com) which, for the basic plan, is available at no charge, forever! The large brokerages spend lavishly on technology to both organize their business and to set the increasing expectations of shippers – which include *your* customers. If you’re a small freight broker, and your aren’t using a good TMS system, you are simply bringing a knife to a gun fight.

Next, we find that the most successful small freight brokers tend to specialize. It may be in a type of freight or type of equipment. However, if you are small, specializing pays dividends. Not only do you gain expertise (and thus the confidence of your customers), but also, you can ask for client referrals

and use your specialist knowledge to close deals with new customers. Remember, the large national brokers typically employ an army of twenty-something newbie freight brokers using a “*smile and dial*” mentality to get new customers (*your* current customers). The likelihood of them sounding like they know more than you is remote if you have specialized in one particular area of expertise.

Finally, we have found that the most successful small freight brokers (and asset based carriers, too) are good at money management and are being smart with financing choices. It is common for a small broker or carrier to run out of liquid funds quickly. Even \$100,000 in liquid capital can get swallowed up quickly when an average load may run \$1,500 or more and clients take 45 to 60 days to pay – even longer if it takes another week or two for you to get valid POD’s in from the drivers. The solution is to simply factor your loads and to use the factoring company as your back-office accounting department. The cost is small if you use a factoring relationship smartly; you pay a few percentage points but you get paid in 24 hours and let them wait 60 days to get paid from your customer. Better still, let them be your back-office for you and get even more value by not needing to hire an additional person chasing money.

My forecast is that small freight brokers will be alive and well as long as they take heed with the simple things; technology, knowledge, and money. Bigger is not always better and large national freight brokerage operations are losing business all the time because their customers want a more personal touch from a freight broker that actually cares. However, they simply want to feel comfortable that you are solid in three key areas; technology, knowledge, and money. Sound familiar?

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