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Brokers May Finally Move Mount Fuji

How Today's Capacity Constraints Have Brokerage Industry on Important Precipice

By: Jeff Tucker, CTB
Ceo, Tucker Company

Freight Brokers and their partner carriers are coming to the rescue of corporate America in this exceptionally tight capacity freight market. Most will agree that market penetration for the brokerage industry has likely set new record highs every week this year. The reasons for this make perfect sense to any economist (and freight broker!).

While nearly every front page story in the trade mentions the price increases resulting from high demand and short capacity (see June 7 *Traffic World Cover: Pricing's Upward Spiral*), there is another fascinating story going on that isn't being told anywhere—except here. Brokers are in the best position to minimize price and service issues that the market is experiencing and keep pricing from spiraling out of control.

So how and why is brokerage saving the day? Let's first review the underlying market elements that got us here.

The FMCSA's new hours of service (HOS) rules for commercial drivers stand out as perhaps the top contributor to the shortage. Prior to implementing the new rules, FMCSA commissioned an impact study. Their study estimated that an additional 82,000+ trucks (5 times Schneider National's fleet!) would be needed in 2004 to move the same freight as in 2003. Other studies estimate the truck shortages to be much higher, especially when you consider 2004's hot economy.

There has been a large and steady loss of carriers and drivers from the industry. For over two years preceding 2003's third quarter, over 10,000 carriers left the industry or went out of business. During the same time there was a large exodus of drivers. Last fall, most of the largest companies announced driver pay increases in efforts to retain drivers from fleeing because of decreased earning potential under the restrictive new HOS. Many experts continue to predict an increased rate of driver loss. At NASSTRAC's Spring meeting, five CEOs from major LTL carriers seemed to agree that driver pay needed to increase in the area of 30-40 percent to stop the bleeding.

On the economic front, the U.S. economy picked up in the 3rd quarter 2003, to the tune of an 8.2 percent annualized GDP growth rate. Though that rate has not been sustained, the economy continues solid growth. If anyone still even remembers the third and fourth quarters of 2003, you might recall thinking that capacity was pretty tight then (yeah, right!). Most attendees of TIA's Fall meeting at 2003's TransComp described those months as the worst in years for finding capacity in memory—and that was pre-HOS.

Very few predicted the significant railroad and West Coast port problems that are draining truck supply in the West. Our insatiable increasing demand for products imported from China and the Far East has stressed ports like Long Beach to the brink with no relief in sight. Some of these problems contributed to The Union Pacific Railroad having to give up their once coveted and prestigious UPS bullet train service. Their service issues redirected much of that rail freight to the road, and crunched trucking capacity that much more. The 2004 holiday season has yet to occur. A full 50 percent of the retail holiday imports sold on the East Coast come through these West Coast ports.

So while the nation is experiencing quite possibly the worst and longest sustained equipment shortage in decades, why is it that some of corporate America's shippers are being harmed by capacity issues much worse than others? Much of that answer lies in their approach to their "core carrier" programs.

Years ago corporate America embraced a "core carrier" system for managing its carrier base. The theory was: reduce the group of carriers as low as possible, get better pricing, improve service and lower administrative overhead. Unfortunately, many of these programs had inherent problems in three key areas.

The first problem was that there are about a dozen or so nationally known truckload carriers, large enough to "handle the nation." Every large shipper tended to contract with the same group of carriers, which often left smaller and medium sized carriers excluded. So, every time the economy picked up, or a bigger shipper got busy, the supply of trucks dried up fast.

Secondly, truckload economics don't work the same as in other services or products. All carriers are great in certain lanes, but no carrier is great in all lanes. Volume alone will not change this fact. Many of today's largest shippers are suffering badly from trimming back too far on the number of carriers they use and on in-house human resources.

The third and most important problem with most core carrier programs is that they did not include a significant reliance on brokerage and smaller, medium sized and niche carriers. For some shippers, the total exclusion of brokers from their core carrier programs was seen as one of the primary or secondary goals.

In contrast, the shippers who embraced brokerage recognized the need for their organizations to scale up, down, flex or recover at a moment's notice. These firms put brokers and some smaller or niche carriers on an even footing with their large national carriers, allowing each to compete for and win primary spots on significant portions of their business.

Today, these shippers are reaping the rewards of their foresight by receiving steady waves of equipment from their carrier and broker providers. More importantly, they are managing to keep pricing in check. By this effective and broad use of brokerage, these shippers are using the right carriers on the right lanes. Since smaller and medium sized carriers often do not have

access to large and/or remote shippers, brokers provide them this necessary access. In turn, the broker's shipper customer avails itself to capacity that still exists, albeit much harder to find. Any time carriers get freight in the lanes that work best for their operation, the shipper wins too.

Brokerage has made amazing strides in the past three decades, but never before has it stared into the face of 100 percent market penetration. Some of the TIA founders like my dad Bill Tucker and Bob Walters who wrote, spoke, taught and preached endlessly about the important market making role we brokers play in a natural market, are living to actually see their visions for the industry play out in today's marketplace.

Today's brokers have a rare, limited time opportunity. Right now, nearly every American shipper has opened its doors to brokerage. Today, our biggest challenge is first to take great care of our current customer and carrier partners who have taken such good care of us. Great relationships will get each of us through these next two years.

Secondly, today's brokers must choose only the right opportunities for your firm. Examine your strengths and know their limitations. New opportunities exist

everywhere you look today. Exercise discretion and do not burn your limited time and resources trying to cover every new opportunity. Choose only the right opportunities.

Every dispatcher needs more hours in the day, but the brokers who spend quality time coaching their sales force will put themselves into position to take full advantage of the right opportunities, and develop deeper, long term relationships with your selected new shippers. Brokers who don't make good use of this time selling might find themselves on the outside looking in a year or two from now. The continual education of existing and new shipper customers to the real benefits of active broker participation in their programs will pay dividends to brokerage, our carriers and our shippers when this market finally finds its new equilibrium.

Capacity is tougher to find today, but it does exist and brokers are showing their abilities and their mettle to a whole new audience of shippers.
