The Role of Intermediaries in Unregulated Markets: Transportation Brokers

by

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that many carriers do not distinguish between ICC licensed property brokers and all other intermediaries, thus their responses need to be interpreted accordingly. Analysis of carrier respondents indicates that "heavy" intermediary users (carriers that use intermediaries to generate over 33% of their total business) tend to be newer and smaller motor carriers. "Light" users (intermediaries generate less than 6% of their total business) tend to be older, larger carriers. Thus intermediaries are particularly important and useful to new, small motor carriers.

The most commonly cited disadvantage of using intermediaries was not being paid, according to the carriers interviewed and the Conference survey. However, "low rates" was cited most often by the NPTA survey respondents. Interviews with carriers suggest that thorough credit checking of intermediaries by carriers is a useful way to reduce credit losses; however many carriers have not followed this strategy.

In conclusion, with reduced Federal regulation thousands of new, small brokerage firms were created thus enhancing economic opportunities particularly for small carriers and shippers as well as for brokers themselves. The operation of licensed freight brokerage improves economic efficiency and resource allocation by reducing empty truck miles, providing shippers with lower cost and/or improved service, and by enhancing competition in the trucking market.
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Executive Summary

This report contains results of research on the role of licensed freight brokers in interstate trucking. Brokers are intermediaries in the marketing channel for motor carriage: they typically arrange trucking service (primarily in truckload quantities) for shippers located in the region surrounding the broker's office. Carriers often use brokers as an economical way to market their service on backhauls, particularly in areas where they have no salesforce. Shippers use brokers when offered more attractive prices and services. Licensed and regulated by the Interstate Commerce Commission (ICC) since 1935, few (less than 100) brokers were active until the late 1970's when regulatory changes led to dramatic growth in the industry. In fact, by 1988 there were over 5900 licensed brokers in existence.

A survey of brokers reveals the following:

1. Brokers are typically small, new businesses: half employ 3 or fewer people and report 1987 gross sales (before payments to carriers) of $700,000 or less. Seventy-five percent maintain only one office. Fifty-nine percent started business during or since 1985.

2. The average broker served 95 different shippers in 1987. These customers were generally described as manufacturers that employed fewer than 100 people and shipped small volumes -- twenty or fewer shipments per week. Most brokered shipments moved 500 to 1500 miles.

3. Contract motor carriers were employed most frequently by brokers. The typical broker used an average of 179 carriers in 1987. According to the brokers the most important benefits provided to carriers were filling empty backhauls and reducing empty miles.

4. Broker respondents generally reported steady growth over the past three years and 76% expect continued growth in the future.
5. Based on projections of the survey data, 1988 industry employment is estimated at 23,567 workers. Industry annual sales (in 1987) are estimated to be $5.89 billion or about 15% of Class I and Class II motor carrier revenues. Estimated 1987 shipment volumes include approximately 10.8 million truckloads and 2.8 million less-than-truckload (LTL) shipments.

Interviews with twenty-five (primarily small) shippers indicate they are typically quite satisfied with their brokers. They use brokers in order to obtain lower trucking rates, better service, or both. However, the few larger shippers interviewed used brokers for service reasons only: they believed broker rates were equal to or higher than carrier rates.

Concerning the meaning of "better service," it often referred to the broker's ability to find trucks, or convenience— one call to the broker could arrange for many shipments thus saving time. Some shippers noted the fast, direct trucking (no intermediate stops) provided by brokers, while others mentioned broker help with other shipping matters, good working relationship, good equipment and access to trucks going all over the country. Results from another survey (by the National Private Trucking Association -- NPTA) were consistent with one exception: these shippers said that the most important reason for using brokers was because they were a good "back up" for emergency or unusual shipments.

Results of interviews with twenty-five (generally small) trucking firms, an Interstate Carriers Conference survey, and the NPTA survey are consistent: carriers use brokers primarily to help fill otherwise empty backhauls. However, it is also evident
A. INTRODUCTION

The fundamental purpose of this research is to explore the role of licensed freight brokers in the interstate trucking industry. The project is a timely one in that regulated brokerage has grown dramatically since 1980 (although few predicted this growth) and there has been little systematic research on the most basic questions concerning the industry. Although the Interstate Commerce Commission (ICC) has kept track of the number of broker licenses existing, there is no data on how many brokers are active, their annual sales, or the number of their carrier and shipper clients. In addition there is little evidence on the broker-carrier and broker-shipper relationships. Why do carriers and shippers use brokers? Are small carriers and shippers the primary users of brokerage? How do brokers help shippers and carriers in an economic sense? Does brokerage work to improve or hamper economic efficiency in the trucking industry? All of these questions and others are addressed by this research.

Brokerage Operations

Licensed property brokers function as intermediaries in the marketing channel for trucking services. Although the details of their operations differ, all brokers share the common function of bringing shippers and carriers together to accomplish transportation of freight. A typical broker will have contracts or agreements with many motor carriers and solicit business from shippers in the local or regional area. The carriers normally
use brokers to secure "backhaul" shipments that help return trucks to their base of operations with a revenue producing load. Most carriers turn to brokers when they have an empty truck in an area where they have no salesforce or other marketing ability. Usually the broker will bill the shipper and pay the motor carrier, thus taking the shipper credit risk. However, the broker is not liable to the shipper for freight loss or damage; such claims are the responsibility of the carriers. This lack of liability for freight loss and damage is a major difference between brokers and surface freight forwarders that do take liability for loss and damage.

The broker earns revenue from the difference between the carrier's price to the broker and the price paid by the shipper. These prices are determined by the forces of demand and supply and are often agreed to a short time before the shipment moves. Note that brokers may receive a sizable amount of money from shippers but must pay the vast majority of it (about 90%) to motor carriers for the trucking service provided.

Although this brief description of broker operations is reasonably accurate for most, there are exceptions. Even carriers that have a salesforce in an area may use brokers to supplement their marketing effort and, at times, carriers do take "fronthaul" or outbound loads from brokers. In addition, some firms hold a broker's license and use it in a different way or for a different purpose. For example, customhouse brokers, motor carriers, and manufacturers and distributors have acquired broker
licenses. Customhouse brokers use it to legally earn income for arranging trucking of their customers' imported freight. (See Broker Interview No. 6, Appendix 3) Motor carriers use it to legally give loads they do not want to other carriers without the administrative complexity involved in trip leasing. (See Motor Carrier Interview No. 1) Manufacturers and distributors become brokers to earn a profit, help support a private truck fleet, or reduce their rates by offering balanced, two-way shipments to carriers.¹ Finally, some brokers provide a wide array of logistics services and analysis, and work on a commission basis with carriers (i.e. the carrier does the billing) to provide long term, continuing service (not spot market) for shippers. (See Broker Interview No. 9) In each case, the brokerage is marketing trucking service although the context and methods of operation differ.

From the description above it would be easy to conclude that brokers are simply re-sellers or marketing representatives that provide carriers with economical sales help. While this is partially accurate it is also true that a broker can add value to the trucking service it arranges. Because of its position in the marketing channel and superior market information, a broker may be able to provide services to shippers that no one carrier it uses could provide without the broker. For example, a broker with many carriers can guarantee a shipper reliable, daily 

service even though no one carrier involved could do this since none always have an empty truck available in the area. Here the broker has turned an erratic supply of many carriers into a steady supply for one shipper. Another example involves shipment volumes: some larger shippers may want ten trucks a day but refuse to deal with ten small carriers. Again, the broker can access ten trucks a day and deal with the shipper as one supplier, sending one bill for all ten truckloads. Thus brokers can and do make unique contributions to trucking by creating additional services for shippers.

Other Intermediaries

Although the focus of this research is on ICC licensed property brokers, there are other intermediaries that should be recognized. The ICC also regulates brokers of household goods, although there are comparatively few of these firms in operation today. Bus passenger brokers were regulated by the Commission at one time but are now exempt. (Their numbers are unknown.) Also unregulated -- but numerous and important -- are truck brokers of exempt commodities. These firms arrange trucking service of exempt (unregulated) commodities including unprocessed agricultural products, fish and newsprint. Surface freight forwarders arrange transportation by motor and rail but take cargo loss and damage liability with respect to the shipper. Finally, shipper's agents are exempt intermediaries that arrange trailer-on-flatcar or "piggyback" rail service for shippers. (Further discussion of these intermediaries is found in Appendix
2.) For the remainder of this report the terms broker or property broker or freight broker will refer only to ICC licensed property brokers and will exclude household goods brokers and all other intermediaries.

Research Methods

Information on brokerage has been gathered in a variety of ways including a literature review (see Appendix 2), interviews with ten brokers (Appendix 3), interviews of twenty-five shippers and twenty-five carriers that use brokers (Appendix 4 and Appendix 5) and surveys of carriers, shippers and brokers (Appendix 6, Appendix 7 and Appendix 8). The broker interviews were personal interviews and were helpful in describing broker operations and in pretesting the broker survey questions. Most of the shippers and carriers were interviewed by telephone, although some personal interviews were also conducted.

The Interstate Carriers Conference (hereinafter referred to as the Conference) survey was designed and carried out by the Conference in an attempt to develop information on member experience with brokers. The Conference represents truckload carriers and is affiliated with the American Trucking Associations.

A survey of members by the National Private Trucking Association (NPTA) was conducted in cooperation with this research. The NPTA members are private firms that own private truck fleets, thus the survey results are doubly useful since members may use brokers as carriers, as shippers, or both.
Finally, the mail survey of licensed brokers is particularly important in describing broker operations, relations with shippers and carriers, and industry size. The survey consisted of a 25% random sample of 5908 brokers (1477 firms) included on a July, 1988 list provided by the ICC. The initial mailing was accomplished on August 10, 1988 with a follow-up letter to non-respondents on August 24 and telephone calls to half the remaining non-respondents (551) three weeks later. In response, 548 surveys were returned (another 136 were undeliverable) thus the return rate equaled 37% of the original 1477 firms in the sample, or 40.8% of the 1341 that apparently received the survey in the mail.

An Advisory Committee was formed at the beginning of the project to help guide the research and provide different perspectives on the issues. Advisory Committee members donated their time and effort to help improve the research and ensure useful results. However, Committee membership does not imply agreement with any of the study findings or conclusions. In addition any errors or omissions are the sole responsibility of the author. Committee members include:

Mr. Dan Carro
General Services Administration
Washington, DC

Mr. E. Herman Granberry
West Point Pepperell Corporation (retired)
West Point, Georgia

Mr. Edward Rastatter
U.S. Department of Transportation
Washington, DC
Mr. Henry Seaton  
Ad Hoc Committee to End Broker Abuse  
Washington, DC

In addition, Mr. C. Jack Pearce, Esq., Pearce and Associates, Washington, DC was consultant to the study.
B. LEGAL HISTORY AND MARKET DEVELOPMENT

The history of Interstate Commerce Commission (ICC) regulation of property brokers may be segmented into three periods: the formative years from 1934 to 1938, market and regulatory stasis from 1939 to 1974, and regulatory liberalization and market growth since 1975. Although the dates chosen are somewhat arbitrary -- trends initiated in one period may continue into another -- the three periods are useful in describing the major regulatory and industry changes in property brokerage.

Formative Period, 1934-1938

Property brokerage was first regulated ancillary to the regulation of trucking by the Motor Carrier Act of 1935. In fact, there is little evidence in the record concerning freight broker operations although there is discussion of "unreliable" passenger brokers and agents. However, in 1934 the Federal Coordinator of Transportation proposed a system of broker regulation including licensing, (which required a showing of fitness, public interest or need and financial responsibility) rules of operation, and bonds to protect the shipping and handling public.

An argument in favor of property broker regulation was made during discussion of the proposed Motor Carrier Act. According to Senator Wheeler, without regulation "unreliable" brokers using market pressure on the carriers "...would completely break down the rate structure and everything else in the carriage of freight
or passengers."² In any case, brokerage was regulated with passage of the Motor Carrier Act of 1935. In the next several years the Commission established a $5000 surety bond requirement for brokers, and granted licenses to 51 applicants while denying 71 applications. The most common reason for denying a license was lack of a showing of need for the service.

**Regulatory Stasis, 1939-1974**

Although this is the longest period of property broker development it is notable primarily because so little happened to the industry during this time. Concerning regulation the most important development was the establishment in 1951 of thirteen rules to govern broker practices and records. Of particular note was one rule prohibiting brokers from receiving a commission from carriers on shipments the broker "controlled" as a result of a non-brokerage relationship (such as traffic consultant) with the consignor, consignee or shipper. This made it unattractive at times for brokers to also offer non-brokerage service -- even though their shipper-customers preferred it. In addition, many carriers were reluctant to pay broker commissions if there was any possibility of broker "control" since this could make the carrier guilty of rebating. Given such operating restrictions along with strict entry control of both carriers and brokers it is easy to understand why brokerage did not grow as the economy expanded. In fact, by the mid-1970's only seventy freight

brokers were listed on ICC records and many of these were inactive.

Regulatory Liberalization and Market Growth

In 1975, as part of a broader effort to reduce transport regulation, the ICC initiated a rulemaking proceeding (Ex Parte No. MC-96) dealing with entry control of brokers. In its 1977 report the Commission concluded that in passenger and general commodity broker applications there was no need for applicants to show consistency with the public interest. Essentially the ICC decided to open entry into the industry. (In addition broker surety bonds were raised from $5000 to $10,000.) The impact of the decision was immediate: in the 1977-1979 period, the Commission received 152 freight broker applications and granted 144. Although legal difficulties forced a review of the 1977 decision, the principal of open entry was soon reestablished for general commodity brokers and remains in effect to date.

The Motor Carrier Act of 1980 is also important to broker regulation and development. Concerning entry for example it requires only a showing of fitness for broker license applicants. More importantly perhaps, by emphasizing competition and efficiency in transportation as public policy the Act provided the legal basis for other changes in trucking that worked to enhance the demand for freight brokers. Thus as entry control of motor carriers was reduced the number of carriers -- and the need for brokers -- grew dramatically. From 1978 to 1985 for example, the number of small motor carriers more than doubled (from 12,900
to approximately 30,000). These new, small carriers that lack backhaul opportunities helped create a growing demand for brokerage.

Further, during the 1980-1983 period motor contract carriers were relieved from the duty of filing their rates (thus making quick rate changes practical), they were allowed to provide nationwide service, to haul almost any product, and to enter into contracts with brokers. All of these regulatory changes enhanced the role of contract carriers and freight brokers.

Another important regulatory development in 1980 was the issuance by the ICC of new broker operating regulations that were less restrictive than the old rules. (See Ex Parte MC-96, Sub. No. 3 Property Broker Practices, 132 MCC 233.) Recordkeeping requirements were reduced but most importantly the old prohibition against payment by a carrier to a broker on shipments the broker "controlled" was re-written. This significantly reduced the legal uncertainties under the old rules and made it more attractive for carriers to use brokers.

In sum, one important response to the deregulation of trucking has been a dramatic growth in freight brokers. As depicted below, the number of firms in the industry has grown more than five-fold in the 1982-1986 period alone. Clearly, reduced transport regulation has stimulated the creation of thousands of new firms.
Table 1. Number of ICC Licensed Brokers By Year

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</thead>
<tbody>
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<td>1679</td>
<td>2933</td>
<td>4451</td>
<td>6039</td>
<td>6042</td>
<td>5908</td>
</tr>
</tbody>
</table>

*July, 1988
Source: ICC, Office of Systems Development.

(See Appendix 1 for further discussion of the regulatory history of brokerage.)
C. INDUSTRY PROFILE

Employment

The number of workers employed by licensed brokers in 1988 can be estimated by multiplying the average number of employees reported in the broker survey (5.54) by the estimated number of active firms in 1988. Thus, according to the July, 1988 ICC list there were 5908 licensed brokers as of that date. The proportion of all brokers that are active is estimated to be 72% (see the discussion under Appendix 8: Broker Industry Survey Results). Thus, there were an estimated 4254 active brokers in business in 1988, employing an average of 5.54 workers, for a total broker industry employment of 23,567.

Sales

The 1987 annual sales for the broker industry are estimated (see Appendix 8: Broker Industry Survey Results) at approximately $5.89 billion. To put this in perspective, the ICC has reported 1986 revenues of Class I motor carriers as $35.5 billion, and 1985 revenues of Class II motor carriers as $3.7 billion. (No data on Class III carriers is collected by the ICC.) If Class I and II motor carrier revenues are taken to be about $40 billion in 1987, this would mean that broker revenues constituted about 15% of industry revenues during 1987. (Of course this ignores Class III carriers.)

Shipment Volumes

Although brokers are often perceived as being primarily involved in handling full truck loads, many also take less-than-
truckload (LTL) shipments. These LTL shipments are handled in several different ways: they may simply be added to a truckload headed for a compatible destination or several LTL shipments may be picked up by one truck and delivered to different destinations. Finally, brokers may represent one or more LTL motor carriers and market their service to shippers. (See, for example, Broker Interview No. 9, Appendix 3.) Information obtained by the broker survey (see Appendix 8) indicates that in 1987 the industry handled approximately 10.8 million truckload shipments. (This assumes there were 4350 active brokers that handled an average of 2480 truckloads that year.) However, fewer brokers reported handling LTL shipments (255 of 420 active respondents to the survey, or about 61%) and those that did handled fewer (1068) on average, during 1987. Thus assuming only 61% of 4350 active brokers handled an average of 1068 LTL shipments in 1987, then the industry is estimated to have moved approximately 2.8 million LTL shipments that year.

Location

The ICC list of names and addresses of licensed brokers was reviewed in an attempt to discern patterns of broker location. It was found that licensed brokers exist in all states (and the District of Columbia) except Hawaii. The ten states with the largest number of brokers are shown in Table 2. These ten states have a total of 2989 broker headquarters and account for almost 51% of all brokers. In contrast, four states (Alaska, Wyoming,
New Mexico, Vermont) and the District of Columbia have the least number of brokers.

Table 2. Brokers by State

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Brokers</th>
<th>1984 Manufacturing Employment (1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. CA</td>
<td>455</td>
<td>2,036</td>
</tr>
<tr>
<td>2. NJ</td>
<td>380</td>
<td>738</td>
</tr>
<tr>
<td>3. TX</td>
<td>365</td>
<td>975</td>
</tr>
<tr>
<td>4. IL</td>
<td>360</td>
<td>1,056</td>
</tr>
<tr>
<td>5. OH</td>
<td>311</td>
<td>1,128</td>
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<tr>
<td>6. PA</td>
<td>282</td>
<td>1,126</td>
</tr>
<tr>
<td>7. NY</td>
<td>256</td>
<td>1,347</td>
</tr>
<tr>
<td>8. GA</td>
<td>205</td>
<td>542</td>
</tr>
<tr>
<td>9. MO</td>
<td>191</td>
<td>415</td>
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<td>10. MN</td>
<td>184</td>
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<td>46. VT</td>
<td>12</td>
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<td>47. NM</td>
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<td>48. WY</td>
<td>8</td>
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<tr>
<td>49. DC</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td>50. AK</td>
<td>3</td>
<td>9</td>
</tr>
</tbody>
</table>

To further investigate the location patterns of brokers a rank correlation was performed between the number of brokers in each state and the state's 1984 manufacturing employment, as reported in Annual Survey of Manufactures, U.S. Bureau of the Census. The resulting coefficient of rank correlation was found to be .988 (which was significant at the .05 level.) Thus brokers appear to locate geographically near or in association with manufacturing activity. Yet this is not entirely satisfactory: New Jersey and Texas have many more brokers than their manufacturing would otherwise support. Perhaps location is also affected by international ports and import activity.
Broker Profile

Another method of describing brokerage is to focus on the characteristics and operations of the typical or average broker as revealed by the broker survey responses. Thus, on average the typical respondent broker employs about 5 people, maintains one office, handled 2480 truckloads and 1048 LTL shipments in 1987 and had total freight billings of about $1.8 million that year. (It should also be noted that half of the survey respondents employ 3 or fewer people and had 1987 billings of $700,000 or less.) Clearly, property brokers are typically small firms.

Concerning non-broker services offered, the most common are interstate trucking, local trucking and brokerage of exempt commodities. The typical brokerage is described as independently owned and operated by a company or individual with prior experience in trucking. Usually the broker is paid by the shipper and, in turn, pays the motor carrier. Brokers believe that checking the shipper's credit is their responsibility and they often see themselves as independent contractors rather than agents of the carrier or shipper.

On average the broker respondents served 95 different shippers during 1987. These customers were described as manufacturers that employed fewer than 100 people and produced such products as chemicals, petroleum products, paper, food and tobacco. These manufacturers were typically small volume shippers that moved twenty or fewer shipments per week, primarily
in truckloads but with some LTL shipments as well. Most brokered shipments moved 500 to 1500 miles.

The typical broker used an average of 179 different motor carriers in 1987, although half of all broker respondents reported using 50 or fewer. The most important benefits provided to these carriers (according to the broker respondents) included filling empty backhauls, reducing empty miles and allowing the carrier to operate in areas where it had no salesforce. (Least important benefits were higher rates and increased "fronthaul" business.) The carriers used were most frequently contract carriers, and least frequently, private carriers with common or contract authority. (See Appendix 8 for further information on brokers.)

Broker Specialization

From the interviews of brokers, carriers and shippers it appears that most brokers handle general commodities and use general purpose vans, refrigerated vans and flatbed trucks. The only product specialization found involved one broker that focused on food transport. (See Broker Interview No. 4.) In contrast most brokers are somewhat specialized geographically in that the shippers they serve are typically located within 100 miles of their office. Few brokers today offer carriers nationwide service with equal coverage in all regions. (For an exception, see Broker Interview No. 2.) However, most do offer their shipper customers trucking service to virtually all U.S. points.
Motor Carrier Brokers

In recent years an increasing number of motor carriers have obtained property broker licenses. To see whether or not such ownership has any apparent impact on operations the survey responses of motor carrier brokers (MCB's) were summarized separately from independently owned and operated (IOO) brokers. In sum, 129 respondents (31%) indicated they were a department or subsidiary of a trucking company, while 250 (60%) described the brokerage as independently owned and operated. (See question 8, Appendix 8.) Although most of the survey responses were comparable, some differences appeared and are noted below.

1. Independently owned and operated (IOO) brokers were older, on average than the MCB's.
2. IOO's were much more likely to be members of the Transportation Brokers Conference of America.
3. IOO's are larger firms in many ways than MCB's: they handled more truckloads, more LTL shipments, had higher sales and used more carriers than MCB's.
4. MCB's report serving larger shippers than IOO's.
5. MCB's are more likely to offer trucking service in addition to brokerage. In contrast, IOO's are more likely to offer brokerage of exempt agricultural products.

Industry Growth Trends

Information on the number of ICC licensed brokers provided earlier showed growth in number of licenses from 1982 to 1986 with an essentially stable number during 1987 and 1988. In contrast, 63% of survey respondents report steady to rapid growth in shipment volumes during the past three years. In addition, 76% expect the brokerage to grow in the future. (See Appendix 8)
These figures suggest that while the number of licenses may have stopped growing, the industry is still growing and will continue to expand in terms of shipments handled.

Analysis of survey responses include comparison of brokers that were members of the Transportation Brokers Conference of America (TBCA) and those that were not members. Results indicate that TBCA brokers handle more less-than-truckload (LTL) shipments, use more motor carriers and have higher annual sales than non-TBCA members. In addition, TBCA members are slightly older, more likely to be independently owned and operated, and more likely to forecast future growth of the firm.

Other specific findings relating to the shipper-broker relationship include the following:

- Ninety-three percent of respondents report that the shipper pays the broker and the broker pays the carrier.

- The number of shippers using the respondent broker ranged from 1 to 3000, with 52% reporting use by 35 shippers or less.

- Sixty percent of respondents indicated shipper customers are located less than 100 miles from the broker's office.

- Fifty-five percent of respondents believed that the benefits of using a broker are the same for all shippers, while 26% believe small shippers receive the greatest benefit.
D. SHIPPER REASONS FOR USING BROKERS

Information from the broker survey already noted that most broker customers are small manufacturers (employing less than 100 people) that ship twenty or fewer truckloads per week and are located within 100 miles of the broker. Results from the broker interviews (see Appendix 3) are generally consistent although the brokers also note that the volume of their business is not evenly distributed between customers. That is, while most broker customers are smaller firms, the few larger customers provide a disproportionately large volume of all broker shipments. Also, from the shipper and broker interviews it appears that small shippers that use brokers tend to give them a relatively large proportion of all their truckload business while large shippers give a small proportion of their total business to brokers.

Evidence on why shippers use brokers is available from the broker interviews and the broker survey; a survey of readers by Traffic Management magazine; interviews of twenty-five small shippers that use brokers (see Appendix 4); and, the NPTA survey results (see Appendix 7). Before summarizing the evidence several aspects of the information should be noted. First, the broker interviews and survey information is secondary, that is, it is the brokers' perceptions of why shippers use their service. Second, the NPTA survey results may include references to all intermediaries, not just licensed property brokers. (About 16% of shippers use brokers.)

of the NPTA respondents provided names of apparently unlicensed intermediaries when asked to name an ICC licensed broker.) It is impossible to evaluate this effect concerning the Traffic Management survey, however the twenty-five shippers interviewed were current users of ICC licensed property brokers. Third, shippers do not have to use brokers. Presumably they do so when it is to their advantage, thus users may be more positive toward brokers than non-users. Finally, most of the twenty-five shippers interviewed were identified by brokers, leaving open the possibility that the brokers suggested names of shippers with whom they had particularly good working relationships.

Broker Interviews And Survey Results

Concerning services provided shippers, the brokers interviewed noted a variety of services provided and these are summarized below.

1. Brokers offer service to virtually all U.S. points, thus the shipper can avoid having to call many carriers to locate one that has competitive rates and will provide the service required.

2. Brokers have expertise in traffic matters (including claims and knowledge of transportation alternatives) that small shippers often lack.

3. Brokers can offer lower rates to many (particularly small) shippers that lack the volume to attract the competitive rates offered large shippers.

4. Brokers have quick access to a large number of trucks, thus firms which need one in an emergency can often find its quickest through a broker.

5. In addition, firms (particularly large firms) often have erratic needs for a large number of trucks--as when a volume purchase is made that requires many truckloads of product be shipped quickly, or when a plant is moved to a new location. Such situations cannot usually be
handled by a firm's normal carriers since they don't have the excess equipment available. Yet another example occurs when firms operate in a seasonal industry and need a large increase in trucks over a limited time period.


It is interesting to note that the services provided by brokers to shippers seem to differ somewhat by size of shipper. That is, smaller shippers (according to the brokers) tend to use the traffic expertise of brokers more than large shippers and tend to benefit from lower rates more by using brokers. This appeals to common sense because small shippers often have no traffic specialists and they lack the volume of business needed to attract the lowest rates from carriers.

Results from question 21 on the broker survey appear to be essentially consistent with the broker interviews. The three most important benefits identified were:

1. More reliable service
2. Service better meets the needs of shippers
3. Lower price

Traffic Management Survey Results

The 1987 Traffic Management survey results identified respondents' major reasons for using a broker:

1. Obtain better carrier or equipment access (66%)
2. Obtain lower rates (54%)
3. Reduce shipper workload (33%)
4. Obtain specialized services (29%)

Also, the most important reasons for not using brokers, according to the respondents that did not use them, were the following:

1. Prefer dealing directly with the carrier (76%)
2. No need for broker service (36%)
3. Brokers have bad reputations (19%)
4. Brokers' rates are too high (9%)

Shipper Interviews

Interviews of twenty-five shippers indicate that price and service quality are the major advantages they gain from using a broker. From the shippers' comments it appears that nine were primarily price motivated, eleven used brokers for "better service" and five gave both reasons. (It is worth noting that none of the four larger shippers cited price as the primary reason for using a broker.)

Further review of respondents' comments on the meaning of "good service" revealed the following:

1. Six cited the broker's ability to find trucks when it was difficult for the shipper to do so.
2. Five cited convenience--one call saves time and effort.
3. Three believed broker service was faster and more direct.
4. Other service aspects included help with other shipping matters, good working relationship, reliable delivery, good equipment, and access to carriers going all over the country.

Concerning disadvantages of using brokers, sixteen of the twenty-five respondents said there were none. Disadvantages cited by the remaining respondents included: added communications burden, no shipper-carrier relationship, no trailer spotting, two brokers didn't pay the carriers, carriers not dependable, less carrier control, no rate advantage for big shippers.

It may be interesting to note several specific examples of how larger shippers use brokers. One (see Shipper Interview No. 3) had a need to make large shipments (multiple truckloads) on an
irregular basis and the firm's usual carriers did not have the capacity to handle such movements. By using brokers the shipper can quickly access the large number of trucks needed. A second shipper (see Shipper Interview No. 14) used a broker to transport numerous inbound loads from all over the country. Here the broker was used because of the convenience -- it saved the shipper numerous phone calls to many carriers even though the rates were slightly higher. Finally a third shipper (see Shipper Interview No. 4) uses brokers to locate trucks in an area (Montana) where trucking service is often difficult to locate.

NPTA Survey Results

Results from the NPTA survey concerning advantages of using brokers to arrange trucking of company freight are shown below, ranked from most important to least important:

1. Broker is a good "back up" for emergency or unusual shipments.
2. Service fits company needs well.
3. Good working relationship between broker and company.
4. Low rates.
5. Brokers can arrange service to more states than most carriers.
6. Other

Concerning disadvantages, most NPTA respondents answered "no disadvantages usually" -- a similar response to the twenty-five shippers interviewed. Disadvantages identified by other respondents included: "less reliable service," "rates not competitive usually," "less convenient than using a carrier," "collecting claims is more difficult," and "other."

In reviewing these results it appears that most shipper respondents have favorable opinions about brokers and typically
report no disadvantages from using them. The advantages they cite vary widely from lower rates to a variety of service attributes. It is possible that the advantages perceived by shippers are a function of firm size, with smaller firms getting the lower rates from brokers that larger firms already get directly from carriers. Disadvantages noted by some respondents were not generally seen as so important as to cause the shipper to stop using brokers. In summary the evidence seems to consistently indicate that shippers that use brokers find it to be to their advantage.
E. CARRIER REASONS FOR USING BROKERS

Information on why carriers use brokers is available from the broker interviews, (Appendix 3) interviews of twenty-five small carriers (Appendix 5), the Interstate Carriers Conference survey (Appendix 6) and the NPTA survey (Appendix 7). It should be noted that many of the carriers interviewed apparently did not distinguish between ICC licensed property brokers and other intermediaries. The same problem may well be found in the Conference survey as 17% of respondents said they "never" verify the broker authority and surety bond status with the ICC, while another 44% responded "sometimes." The Conference survey results should also be interpreted in view of the fact that Conference members tend to be older and larger carriers that are light users of brokers. Finally, the NPTA survey respondents also represent a somewhat special group of carriers (private carriers with ICC authority) and they also do not always distinguish between licensed property brokers and others.

Broker Interviews

The comments of the brokers on why carriers used brokers seem to focus on the economical provision of backhaul business with the broker assuming the credit risk. The comments are summarized below.

1. -Provide the carrier with the right kind of freight in a timely manner.
   -Help fill backhauls, check the shipper's credit and take the credit risk. The carrier needs to check the credit of one broker--not ten shippers.
   -The carriers need not take loads they don't want.
   -The carriers can get an even flow of freight through the year, although many shippers are quite seasonal.
2. The carrier gets guaranteed payment and payment in seven to 14 days.

3. Carrier gets backhaul freight and is paid in a timely manner.

4. Broker can provide backhaul loads for carriers in areas when the carriers have trucks so rarely they cannot efficiently market their service. In addition, the broker pays reliably in 21 days and can sometimes get carriers better rates due to superior knowledge of the going market rate.

5. Carriers can get more business at lower cost through a broker.

6. Carrier gets more business by using the broker.

7. Carriers get loads inexpensively where the volume of their business is too low to support their own salesforce.

8. Carriers get economical marketing from brokers, particularly in areas when they have no salesforce.

9. Brokers are an economical way for carriers to increase their business.

Small Carrier Interviews

From the interviews of twenty-five small motor carriers it appears that carriers use brokers to generate backhaul loads out of areas where they have no sales force or have insufficient freight available. The advantage of doing this is it reduces empty miles and produces revenue without the necessity of expensive and/or impractical marketing efforts. None of the commonly mentioned alternatives to using brokers (i.e. trip leasing, establishing a sales force or returning empty) were perceived to be superior or even practical to the carriers interviewed although a number hoped to be able to perform all their own marketing in the future. Concerning disadvantages of
using brokers, most carriers reported credit problems -- i.e. non-payment or slow payment. Other disadvantages mentioned occasionally include the broker's commission, low rates, and communication problems.

**Conference Survey**

Results of the Interstate Carriers Conference survey are consistent with the findings from the twenty-five interviews. Thus 87% of respondents agree or strongly agree with the statement, "Some brokers provide a useful service to our carrier." Again, the advantages of using brokers involve convenience in filling empty backhauls in areas where the carriers have no salesforce. (See the responses to questions 11, 12, and 14, of the Conference survey, Appendix 6.) The efficiency, convenience or utility of brokers over trip leasing is emphasized in responses to question 16 which show that brokers generate substantially more revenue for more motor carriers than trip leasing.

Concerning disadvantages of using brokers, again credit or payment problems are identified as a significant disadvantage: 89% of respondents agree or agree strongly with the statement, "Some brokers we have used did not pay us." Additional questions revealed the carriers' concerns with credit issues. For example, most wanted brokers regulated more strictly with higher surety bonds required of them. (See questions 36 and 37 on the Conference survey.)
NPTA Survey

Results from the NPTA survey are generally consistent with the twenty-five carrier interviews and the Conference survey, particularly with respect to the advantages of using brokers. By far the single most important advantage was, "reduces empty miles of the truck fleet and generates revenue." (See question 10, NPTA survey, Appendix 7.) In fact additional analysis of the NPTA responses showed that on average the reduction in empty miles equaled 8.2% of respondents' total annual miles.

In contrast to the interviews and the Conference survey results however, the NPTA survey respondents identified disadvantages of using brokers far less frequently. In fact, most respondents said there were, "no disadvantages usually" in using brokers. (See question 13, NPTA survey.) In addition, those that did find disadvantages cited "low rates" as the most important disadvantage by far.
The issue of non-payment of carriers by intermediaries is of such current interest that it is worth summarizing the relevant information that developed during the course of the study. First, the best evidence at present indicates that most of the non-payment problem arises from unlicensed intermediaries, not ICC licensed freight brokers. Clear identification is hampered by the fact that many companies do not always distinguish between ICC licensed freight brokers and other intermediaries. In common usage the word "broker" is typically applied to virtually all intermediaries, thus licensed property brokers may well be suffering to an extent from an inaccurate image.

Second, of the twenty-five carriers interviewed, fifteen reported significant credit losses to "brokers," although most (8) of the fifteen also reported that current losses have been minimized through experience and better credit checking. (Ten carriers reported no or small losses.) Some carrier comments suggest or frankly state that the losses were often attributable to inadequate credit checking. (See the comments in Carrier Interviews No. 3, 7, 18, 19 and 24 for example.) This is helpful information in that it strongly suggests that improved credit policies are useful in reducing these losses.

*See the statement of Heather Gradison, Chairman of the ICC, Before the Senate Committee on Commerce, Science And Transportation, Nov. 13, 1987.*
Third, only seven carriers gave quantitative estimates of their losses: four said they were 1% or less of their total intermediary business, while the highest figure reported was 10 percent.

Fourth, some relevant results from the Conference Survey include the following:

- 89% of respondents have suffered non-payment by brokers.
- 92% say the current surety bond is inadequate.
- 88% of respondents attempt to check brokers' credit or reputation before using the broker.
- 50% of respondents have never attempted collection from a broker surety bond.
- 91% want more regulation of brokers with most favoring a higher surety bond.

Fifth, as noted earlier, the NPTA survey results provide a somewhat different (and more positive) picture on non-payment to carriers. Most carrier respondents said they experienced no disadvantages usually in using brokers. Of those that did, the primary problem identified was low rates, with non-payment ranked second or third in importance.

Finally, lenient credit policies may be encouraged when credit information is costly or time consuming to access, the number of brokers used is large, and the risks are not great. Thus the large number of new intermediaries created in the past few years means that many are not yet rated by the usual credit services. Also, some carriers use a large number of brokers every year: 40 percent of the carriers interviewed said they used 50 or more brokers a year. In addition, taking a load from an unknown intermediary may be a profit maximizing strategy if the alternative is an empty return trip and the probability of
payment is 90% -- an apparently common situation. (See Appendix 5 for further discussion of this point.)
G. BROKERS AND SMALL MOTOR CARRIERS

Evidence from the interviews of twenty-five small motor carriers that use brokers (Appendix 5) indicates clearly that the vast majority benefit from use of brokers. (An example to the contrary is carrier No. 2.) The benefits stem from the fact that brokers provide these carriers with additional business (generally to fill otherwise empty backhauls) at less expense and greater convenience than existing alternatives such as trip leasing or direct marketing by the carriers. In fact, evidence from the twenty-five carrier interviews, as well as the Conference survey indicates that brokers are more important to small, new carriers than larger, older carriers. Small carriers appear to use brokers to generate a larger proportion of their total business than larger carriers.

Concerning the importance of brokers to small, new motor carriers, data from the carrier interviews in Table 3 is of interest. In the Table, carriers have been sorted into groups based on the proportion of their business generated annually by brokers. (The average fleet size for all twenty-five carriers was fifty-seven.) "Heavy Users" are defined as carriers that use brokers to generate more than 33% of their total business. "Light Users" use brokers to generate less than 6% of their total business. As the data indicate, heavy users were all founded since 1980 and their average fleet size is about 21 trucks. In other words, heavy users are newer, smaller firms. Five of the seven light users were founded prior to 1980 and their average
fleet size is about 67 vehicles. Thus light users tend to be older and have larger fleets.

Table 3
Carrier Size, Age and Broker Usage Rate

<table>
<thead>
<tr>
<th>Heavy Users</th>
<th>Age</th>
<th>No. Trucks</th>
<th>Estimated Proportion of Business From Brokers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. 1</td>
<td>7</td>
<td>12</td>
<td>35-40%</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>2</td>
<td>40%</td>
</tr>
<tr>
<td>12</td>
<td>less than 8</td>
<td>23</td>
<td>25-35%</td>
</tr>
<tr>
<td>17</td>
<td>4</td>
<td>33</td>
<td>40%</td>
</tr>
<tr>
<td>20</td>
<td>6</td>
<td>17</td>
<td>40-45%</td>
</tr>
<tr>
<td>24</td>
<td>4</td>
<td>41</td>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Light Users</th>
<th>Age</th>
<th>No. Trucks</th>
<th>Estimated Proportion of Business From Brokers</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>3</td>
<td>19</td>
<td>3-5%</td>
</tr>
<tr>
<td>5</td>
<td>6</td>
<td>24</td>
<td>5%</td>
</tr>
<tr>
<td>7</td>
<td>17</td>
<td>55</td>
<td>5-10%</td>
</tr>
<tr>
<td>9</td>
<td>53</td>
<td>50</td>
<td>5%</td>
</tr>
<tr>
<td>11</td>
<td>28</td>
<td>160</td>
<td>3%</td>
</tr>
<tr>
<td>13</td>
<td>20</td>
<td>60</td>
<td>less than 1%</td>
</tr>
<tr>
<td>15</td>
<td>15</td>
<td>100</td>
<td>5%</td>
</tr>
</tbody>
</table>

Why this dichotomy between "heavy" and "light" users exists is not clear. One hypothesis is that older, larger carriers that were successful under the regulations in existence prior to 1980 succeeded by operating in a restricted geographic area or in one or a few "lanes" (i.e. origin/destination pairs) and thus had the volume of trucks available to successfully market their backhaul service as well as their outbound capacity. Thus today they do not need brokers unless they expand into new areas or occasionally have traffic imbalances. These carriers may use brokers as a small supplement to their own marketing staff or
when they take occasional loads out of their normal lanes to please an important shipper.

New carriers (formed since 1980) may find shippers in their origin area offering them loads to widely scattered points. They develop a "shotgun" pattern of shipments that makes it difficult to market their return service efficiently with their own salesforce. Use of intermediaries becomes essential to such carriers, otherwise they would return empty often and would soon be forced out of business. This hypothesis is consistent with the desire of many shippers to reduce the number of carriers they deal with, thus requiring each remaining carrier -- and new carriers -- to accept loads to a wide area. If this scenario is accurate then it suggests that the regulatory changes since 1980 (including the granting of wide operating authority to carriers and opening entry into brokerage) have resulted in a reorientation of trucking operations with the desires of some shippers to deal with a smaller number of carriers causing changes in the way trucking firms operate and market their service.

Additional evidence that brokers (and other intermediaries) have helped small carriers is provided by the Conference survey. Analysis of the responses of carriers that employed 100 or fewer workers reveals that 82% (64 of 78 respondents) agree or strongly agree with the statement, "Some brokers provide a useful service to our carrier." Other comments of these small motor carriers are shown below.
Agree or Strongly Agree

Statement
86% "We use brokers in areas where we have no salesforce."
78% "Using brokers is easier and more convenient than trip leasing."
86% "We use brokers primarily to help fill backhauls or return loads."

Also, 41% of these small motor carriers said brokers generated 10% or more of their total 1987 revenues. In contrast, only 20% of respondent carriers with more than 100 employees said brokers generated 10% or more of their total 1987 revenues. These data provide further support for the belief that brokers are particularly important to small carriers.

Concerning trip leasing, 42% of small motor carrier respondents indicated no trip leasing during 1987 and only 9% (7 of 78 respondents) said trip leasing accounted for 10% or more of their 1987 revenues. In contrast, 61% of larger motor carrier respondents (with over 100 employees) indicated no trip leasing in 1987, and only 1 of 79 said trip leasing accounted for 10% or more of their 1987 revenues. This data supports the hypothesis that heavy users of brokerage (and trip leasing) tend to be smaller motor carriers.

In conclusion, an important consequence of the existence of brokers is that they have allowed motor carriers to enter the industry and stay in business on a very small scale. See Carrier Interviews No. 1 and 3 (Appendix 5) for examples and note that neither carrier employs a single, full time marketing person. To an extent, the existence of brokerage has allowed some carriers
to specialize in production while brokers do much of the marketing. This separation of production from marketing may have reduced the minimum firm size necessary to operate successfully in trucking and thus lowered entry barriers. In addition, the existence of many brokers covering the entire U.S. has allowed small carriers to provide "shotgun" service (i.e. from one origin area to virtually any U.S. point) -- a service some shippers need.

There is a social benefit here that should not be ignored. As the minimum firm size and entry barriers fall, more firms can enter the industry, enhancing competition and efficiency. Thus brokers promote competition and efficiency to the benefit of society in general.
H. BROKER PARTICIPATION IN FEDERAL GOVERNMENT TRAFFIC

Information on broker participation in Federal Government shipments was developed through a review of the literature and interviews with brokers and government officials. In addition, a question concerning the issue was placed on the broker industry survey.

General Services Administration

The GSA does use brokers to help move Federal traffic. However, because carrier selection is decentralized, there is no way for the GSA to know how many different brokers are used annually or what proportion of all GSA shipments move via brokers. Brokers that wish to participate in GSA traffic must fill out a variety of forms to qualify for consideration and the GSA policy is to pay the carrier, not the broker. (This procedure is somewhat at odds with the normal payment practices used by brokers: broker survey results reveal that 92% of brokers normally bill the shipper and pay the carrier. See question 13, Appendix 8.)

Department of Defense

The DOD policy is not to use brokers. Obviously this reduces the opportunities for brokers to sell trucking service and for the DOD to benefit from using brokers.

Broker Comments

Of the ten brokers interviewed only two had experience with GSA traffic. Both said payment tended to be somewhat slower in comparison to industrial customers and it required more
paperwork. Several brokers that did not participate in GSA traffic believed the payment time was too long to make it an attractive option. One said that current rates paid by the government were 6% to 9% higher than the broker charged industrial shippers.

Survey Results

Results from the broker survey (see question 30) seem generally consistent with the interview comments noted above. However, about 10% of the survey respondents indicated they had DOD traffic experience -- an impossible answer for brokers. In fact, the vast majority of brokers do not participate currently in Federal Government traffic. From the information available it appears that this is due to a variety of factors including different payment terms and practices, paperwork costs and direct exclusion of brokers. This situation takes on special significance in light of the comment that current government rates may be 6% to 9% above broker prices. If this situation does exist then the Federal Government may be paying a higher price than necessary to meet its transport requirements.
I. CONCLUSIONS

The results of this study help describe the licensed freight broker industry in greater detail and with greater reliability than ever before. Yet in addition to the descriptive statistics about brokers and the shippers and carriers that use them, the research suggests several broad conclusions of potential interest to policymakers and industry analysts. First, it is apparent that Federal regulation has had an important impact on the industry. During the 1935 to 1975 period entry controls and other economic regulations curtailed the growth of licensed brokerage. However, following reduction of entry control and other regulatory changes, the industry grew dramatically as thousands of new, small businesses were created. In addition these new brokers appear to be particularly helpful to other small firms, both carriers and shippers. This suggests a second general conclusion: partial deregulation of brokers has enhanced economic opportunities for small carriers and small shippers as well as brokers.

Third, licensed freight brokers improve economic efficiency thus providing benefits to shippers, carriers and society as a whole. Brokers help carriers reduce the empty miles they travel thus improving truck operating efficiency. They help shippers by bringing them improved price/service options -- that is, lower prices and/or service which better meets their needs. In addition brokers appear to have reduced the minimum firm size necessary in trucking by allowing separation of marketing from
production to an extent. This reduction in firm size reduces entry barriers and encourages more, smaller firms to enter the industry thereby enhancing competition and resource allocation.
Appendix 1. Regulatory History of Motor Carrier Brokerage
by
Mr. C. Jack Pearce

This history of Interstate Commerce Commission regulation of motor carrier brokerage can be summarized as consisting of the 1934-38 formative period, followed by a 35 year period of regulatory (and market) stasis, and the 1975-82 liberalization period, followed by a period of regulatory quietude and market growth.

A. The Formative Years

Motor Carrier brokers were regulated ancillary to installation of the regulation of interstate motor carriage in 1935. The formal history of the origin of Interstate Commerce Commission regulation of interstate motor carriage has been documented in numerous places. In economic terms, the then-regulated railroad sector sought protection from the developing competition of motor transport through imposition of price and entry controls on motor carriage.

A series of reports by the Interstate Commerce Commission and a Federal Coordinator of Transportation (ICC Commissioner Joseph B. Eastman) preceded legislative action. The first ICC report to mention brokerage was "Motor Bus and Motor Truck"


\[2\]Regulation of Entry and Pricing in Truck Transportation, Paul MacAvoy, John Snow, American Enterprise Institute, 1977.
Operation, 140 I.C.C. 685 (1928), which identified persons "in some cities" putting passengers in cars or busses owned by others. The Commission took the view that the practice "tends to disrupt the service and business of regular bus lines, and is not conducive to giving the public safe, adequate, and regular service. It should be prohibited" (at 704).

In the report on Coordination of Motor Transportation, 182 I.C.C. 263 (1932), the Commission identified the same set of practices (at 279-80) and recommended eliminating this service (at 386).

The first of the individual reports of Eastman, S. Doc. No. 152, 73rd Congress 2nd Sess. (1934), described legislation providing "for the issuance of brokerage permits to insure responsibility of transportation agents or broker and lessen the current evils of brokerage in transportation." (at 47).

In his second report, Eastman explained a proposed bill for "provision for more through going regulation of broker or transportation agents." "Licenses" would be "required of all persons selling tickets or making contracts, agreements or arrangements to provide transportation of persons or property in interstate or foreign commerce." "A showing of public interest and financial responsibility" would be "a condition to issuance of a license." The Commission was to "make reasonable rules and require bond to protect the handling or shipping public." H.R. Doc. No. 89, 74th Cong., 1st Sess, at 61-62.


The legislative history of the 1935 Motor Carrier Act contains little additional discussion of motor carrier brokerage. One witness, a Mr. J.E. Benton, pointed out a form of market failure -- small passenger transport brokers failing to assure reliable tour trips. Another theme, however, was sounded by Senator Burton Wheeler, a pivotal figure in the Motor Carrier Act and a subsequent 1940 rail regulatory statute. Wheeler reflected the view that "unreliable" brokers put market pressure on motor carriers such that if not regulated "...they would completely break down the rate structure and everything else in the carriage of freight or passengers." The "everything else" included, in the Senator's view, working conditions and safety in

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motor carriage. Senator Wheeler's discussion of brokerage, though brief, depicted brokerage as a significant market factor.

The drafters of the 1935 statute arrived at the definition of brokerage which remained in the Motor Carrier Act up to and through the legislative revisions of 1980.

Section 203(a) (18) of the Act of 1935 defined "Broker" as follows:

(18) The term "broker" means any person not included in the term 'motor carrier' and not a bona fide employee or agent of any such carrier, who or which, as principal or agent, sells or offers for sale any transportation subject to this part, or negotiates for, or holds himself or itself out by solicitation, advertisement, or otherwise as one who sells, provides, furnishes, contracts, or arranges for such transportation.

This established a pigeonhole for motor carrier brokers in the regulatory roll top desk, alongside freight forwarders (who were market intermediaries but took "carrier" responsibility for safe delivery of freight and were controlled as thoroughly as were common carriers as to rates, ownership, and practices);" shippers agents" (who matched up and consigned to railroads rail cars at railheads, without taking end-to-end carrier responsibility, and were exempted from detailed regulatory


Defined in recent years on 49 U.S.C. 10102(9); previously 49 U.S.C. §1002(5).
control);" and "shipper associations" (nonprofit cooperatives of shippers which consolidated shipments for delivery to carriers, and which also were exempted from detailed Commission regulations).a

Core provisions of the regulatory scheme were as follows:

(a) It shall be the duty of the Commission - (4) To regulate brokers as provided in this part, and to that end the Commission may establish reasonable requirements with respect to licensing, financial responsibility, accounts, reports, operations, and practices of any such person or persons.

Section 211 of the Act sets out brokerage license requirements and restrictions:

(a) No person shall for compensation sell or offer for sale transportation subject to this part or shall make any contract, agreement, or arrangement to provide, procure, furnish, or arrange for such transportation or shall hold himself or itself out by advertisement, solicitation, or otherwise as one who sells, provides, procures, contracts, or arranges for such transportation, unless such person holds a broker's license issued by the Commission to engage in such transactions: Provided, however, That no such person shall engage in transportation subject to this part unless he holds a certificate or permit as provided in this part. In the execution of any contract, agreement, or arrangement to sell, provide, procure, furnish, or arrange for such transportation, it shall be unlawful for such person to employ any carrier by motor vehicle who or which is not the lawful holder of an effective certificate or permit.

7Defined currently in a form unchanged since 1935 at 49 U.S.C. §10562(4).

8Defined currently in form unchanged since 1935, at 49 U.S.C. §10562(3).
issued as provided in this part: and provided further, That the provisions of this paragraph shall not apply to any carrier holding a certificate or permit under the provisions of this part or to any bona fide employee or agent of such motor carrier, so far as concerns transportation to be furnished wholly by such carrier or jointly with other motor carriers holding like certificates or permits, or with a common carrier by railroad, express, or water.

(b) A brokerage license shall be issued to any qualified applicant therefore, authorizing the whole or any part of the operations covered by the application, if it is found that the applicant is fit, willing, and able properly to perform the service proposed and to conform to the provisions of this part and the requirements, rules, and regulations of the Commission thereunder, and that the proposed service, to the extent to be authorized by the licenses, is, or will be consistent with the public interest and the policy declared in section 202(a) of this part; otherwise such application shall be denied. Any broker in operation when this section takes effect may continue such operation for a period of one hundred and twenty days thereafter without a license, and if application for such license is made within such period, the broker may, under such regulations as the Commission shall prescribe, continue such operations until otherwise ordered by the Commission.

(c) The Commission shall prescribe reasonable rules and regulations for the protection of travelers or shippers by motor vehicle, to be observed by any person holding a brokerage license, and no such license shall be issued or remain in force unless such person shall have furnished a bond or other security approved by the Commission, in such form and amount as will insure financial responsibility and the supplying of authorized transportation in accordance with contracts, agreements, or arrangements therefor.
(d) The Commission and its special agents and examiners shall have the same authority as to accounts, reports, and records, including inspection and preservation thereof, of any person holding a brokerage license issued under the provisions of this section, that they have under this part with respect to motor carriers subject thereto.

The service-demand related entry authorization test adopted was the same as that articulated for contract carriers, and less rigorous than that required for common carriers. A brokerage operation was to be permitted if it were deemed to be "consistent with the public interest" and met other tests articulated. Motor common carrier operations were to be licensed upon the more stringent showing that the service "is or will be required by the present or future public convenience and necessity."9

The first eleven sections of the 1935 Motor Carrier Act, in which the above cited sections are included, clearly and explicitly make brokerage one of the three principal objects of regulatory control, along with common and contract carriage. However, other sections of the Act did not establish as much particularized regulation of brokerage as of common and contract carriers. For example, brokerage was spared the complex scheme of price regulation which evolved for railroads and was imported wholesale into motor common carrier regulation.

Following passage of the Motor Carrier Act, the Commission did not develop from its generalized authorities an extensive or complex scheme of written regulations of brokerage operations.

In 1936, in *Motor Carrier Insurance for Protection of the Public*, 1 M.C.C. 45 (1936), the Commission established a $5,000 surety bond requirement to be set out in regulations (as 49 C.F.R. 1043.4 at the time).

Decisions on applications for brokerage authority in the first few years following the 1935 passage of the Motor Carrier Act allowed scope for some modes of operation which in the liberated trucking market of the 1980's became potent components of a vigorous market intermediary sector. However, in the comprehensively regulated transport milieu created by the regulatory system inherited from the railroads in the 1935-75 period, only small and stagnant niches resulted.

In one seminal case, the Commission recognized that brokers could consolidate freight, and use contract carriers, and one corporation could hold both a brokerage and a common carrier's license. The Commission also appeared to have recognized that a firm might perform a variety of transportation related functions other than goods transport, such as terminal, warehouse, and freight bill auditing services, and hold a broker's license, without the correlated services coming under Commission regulation.11

However, brokerage licenses were not freely distributed. A numerical tabulation of the Commission's decisions on brokerage

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10Acme Fast Freight, Inc. et al., Common Carrier Application, 3 M.C.C. 415 (1937).

license applications from June, 1936 through December, 1939 show 51 applications granted and 70 rejected. Commission decisions show considerable variability in rationales for acceptance and rejection. The range of uncertainty in result as well as the high cost of application for operations of substantial commodity or geographic scope were factors which any prudent potential entrant would consider. Experience in the exempt transport sector and later experience in a deregulated general commodities demonstrate that brokerages have tended to be small companies operating on slim profit margins. Clearly, entry restraints imposed in 1935 appear to have been a significant factor deterring entry.

The reasons for rejection of applications vary. A significant number of the denials were based on the judgment that the service applicant provided was not brokerage service. E.g., Stone's Express, Inc., Broker Application, 8 M.C.C. 723 (1938). Few, if any, were rejected for lack of "fitness." Lack of a finding of need or useful purpose was the usual stumbling block. In R. A. Byrnes Broker Application, 1 M.C.C. 122 (1937), the application was denied because the Commission judged that a carrier's use of brokerage authority for shipments it could not handle as a carrier (e.g. by reason of authority or equipment limitations) served "no useful public purpose." The Commission

12 Truck transportation of agricultural commodities was exempted from ICC regulation. Brokers developed with the truck perishables transport market, coming to handle about 50% of perishables loads. Most of these brokerages were very small companies.
reasoned that it could see on the record "no reason why the shipper cannot contact carriers other than the trucking company without the intervention of applicant, or any valid reason for diminution of the revenue derived by such other carriers from this shipper's traffic in the amount of applicant's commissions." (at 123) In *Portland & Storage Co. Broker Application*, 9 M.C.C. 731 (1938) the Commission could perceive no need for brokerage services in that the local moving company had only infrequently offered traffic to other carriers.

Most of the Commission's written reports on brokerage applications in the 1936-1940 period are brief and conclusory. A reasoned landmark decision is *P. D. Copes Broker Application*, 27 M.C.C. 153 (1940). This case contains an informative discussion of a number of earlier decisions. The opinion recognized that many regulatory issues concerning brokerage had not been addressed. It dismissed attempts by carrier intervenors to prevent brokers from accepting compensation from carriers (at 164-167). It also articulated a rationale concerning need for brokerage service which contradicted some of the more restrictive earlier decisions -- i.e. the provision of a variety of valuable services (including solicitation of traffic) for carriers not well situated to supply such services themselves (at 162-166). The decision also turned back a challenge to the ability of a broker to use contract carriers, though the circumstances in which such use would be countenanced were narrowly defined (at 168).
In a significant, through very brief decision, Anna M. Grant Broker Application, 11 M.C.C. 433 (1937) the Commission held that brokers could not transfer their authorities, as the authority was considered a "personal right." This ruling tended to diminish the utility of a brokerage license.

B. Codification and Quiescence

In 1942, the Commission issued rules relating to the records to be kept by passenger brokers, in Records of Passenger Brokers, 32 M.C.C. 267 (1942). Shortly after the end of World War II, in 1946, the Commission undertook a general inquiry into the practices of property brokers. This inquiry resulted in a report entitled Practices of Property Brokers, 49 M.C.C. 277 (1949). The Commission's written report distinguished between brokers of household goods and brokers of 'general' freight, describing each with a reasonable degree of comprehensiveness and accuracy, and proposed to subject both to the same regulations. In this proceeding the Commission originated thirteen rules to govern both forms of operation. Rules six and nine of this collection were a Commission response to carrier complaints that broker compensation was often unreasonably high, and that brokers effected "rebates" to shippers by providing shippers services free or at reduced charge. Rules six and nine do not, however, restrictively govern broker compensation. The Commission's text suggests that it anticipated eventually setting maximum rates for brokerage services (308-317). However, the Commission has never undertaken definitively to do so.
The applicability of these rules was suspended pending consideration of exceptions, and a final decision was issued in December of 1951, in *Practices of Motor Carrier Brokers*, 53 M.C.C. 633. The modifications made in the 1950 decision, appended, did not alter the general purpose of the thirteen rules.

In 1972, the Commission concluded a consideration of the surety bond requirements then applicable to brokers with a judgment that the $5,000 bond requirement set in 1935 did not need revision. *In the Matter of Broker Security for Protection of the Public*, 115 M.C.C. 1 (1972).

In this period of quiescence, the number of active brokers remained small, as the immediately following discussion details.

C. Liberalization and Growth

The modern push to "deregulate" transport began in 1971, with proposals of the Nixon Administration addressed to the rail, motor and water carrier modes. The first legislative result was the "Rail Regulatory Reform and Revitalization Act" of 1976, which dealt with railroads only. The Motor Carrier Act was not to follow until 1980. However, in 1975, the Commission issued a Notice and Order of rulemaking in "Ex Parte No. MC-96," dealing with the subject of entry control of brokers. The rulemaking was instituted on recommendation of a "blue ribbon staff study" to the effect that "no compelling reason exists for the present requirement that applicants for a broker license establish that their proposed service be consistent with the public interest and
the national transportation policy." Entry Control of Brokers, 126 M.C.C. 476, 478 (1977).

The Commission's April 1977 report and order contains a useful summary of much of the legislative history of broker regulation, and a discussion of the tests applied to brokerage applications in the 1970's. In addition, it contains some information on the number of brokers then listed on Commission records (70 licensed freight brokers and about five times that many passenger brokers were recognized in 1975, p 493). The Commission estimated the total number of brokers at about 500 in total in 1977, including about 50 household goods brokers (at p. 493). The report also sets out the number of applications for authority presented in 1975 (of which 32 were approved and 10 disapproved)\(^\text{13}\).

The Commission determined that the public interest would be served by more permissive licensing of passenger brokers—basically on a fitness only standard—pursuant to simplified and expedited procedures (495-510). Licenses would henceforth be issued in global, national form.

\[^{13}\] Fiscal 1975

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The Commission reached the same conclusions and provided for similar procedures as to "general commodities" property brokerage licenses (pp. 510-514). The Commission's rationale for virtually eliminating individual findings of consistency with the public interest was that it wished to develop the potential benefits of introducing more competition into the marketplace. In effect, the Commission made a global finding that it would be consistent with the public interest to allow more competition in passenger and general commodities brokerage, and on that basis felt there was no need to make findings in particular cases.

However, the Commission declined to change licensing standards and procedures for brokers of household goods. Its reasoning was that such licensing would destroy the system of exclusive agency arrangements then current in the household goods trade. It posited several untoward results which it deemed likely to flow from household goods carrier loss of control of "agents." (pp. 515-524). (The Commission's economic reasoning as to the household goods market seems inconsistent with the gist of its reasoning concerning passenger and general commodities markets, and would be found lacking by the proponents of general economic deregulation.)

The Commission increased the amount of the bond required of property brokers from $5,000 to $10,000. The bond for passenger brokers was left at $5,000. The Commission reasoned that the higher bond would give greater assurance of broker fitness to operate, and tend to prevent abuses of the public (at 500).
The Commission's 1977 decision was attacked on appeal to the United States Court of Appeals for the District of Columbia Circuit, which vacated the rules on the grounds that the Commission had not given adequate notice of its rulemaking to all interested parties (National Tour Brokers Association v. United States and Interstate Commerce Commission, 591 Fed. 896 (Dec. 11, 1978)). The Commission promptly reopened the Ex Parte MC 96 proceeding by order of April 27, 1979, dividing it into four elements, including passenger brokerage, "general commodities" property brokerage and household goods brokerage.

The Commission's decision in the sub-proceeding dealing with general commodities brokerage was issued in September of 1979, Property Broker Entry Control, Ex Parte No. MC-96 (Sub No. 4), and the passenger brokerage sub-proceeding in December of 1979, Passenger Broker Entry Control, Ex Parte No. MC-96 (Sub No. 2). In these decisions the Commission reaffirmed its 1977 rulings, and reinstituted the simplified licensing procedures contemplated in 1977. In the process, the Commission noted that in the two year period of operation of its 1977 rules, it had received 152 freight brokerage applications, approved 144, rejected three, and disapproved five because of inability to make affirmative findings on the fitness of the applicants. (Ex Parte MC 96, Sub No. 4, p. 3). The Commission held in abeyance a ruling on household goods brokerage operation.

Approximately one year later, in September of 1980, the Commission issued revised regulations for brokerage operations.
Ex Parte MC-96, Sub. No. 3, Property Broker Practices, 132 M.C.C. 233 (1980). This set of rules applied to both brokers of general freight and brokers of household goods (at 238). The opinion signals a relaxation of licensing standards for household goods brokers by noting that henceforth such licenses would be considered pursuant to the standards of the Motor Carrier Act of 1980 (at 238). The regulatory paragraphs governing brokerage were reduced to seven, including definitions (incorporating the statutory definition of brokers and agents); recordkeeping (summary records concerning the particulars of shipments, which would be kept in the ordinary course of business); accuracy of representation of the broker's identity; limitations on compensation to shippers; a requirement that the broker follow the requirements of the law as to remitting payment when it acts for a person bound by Commission regulations as to the timing of remitting payments to carriers; filing for approval to transfer ownership or control of brokerage licenses; and maintaining accounts so that brokerage activities are segregated from non-brokerage activities. The regulations are briefly stated and of limited scope. They have not proved to be restrictive or burdensome in practice.

Simplified entry tests and the reduction in regulations substantially eased the costs of entry into the brokerage sector, and made brokerage much more attractive than before.

Commission decisions as to contract carriage also greatly stimulated the growth of brokerage. In Ex Parte MC-55, Sub. No.
43, Acceptable Forms of Request for Operating Authority (Motor Carriers and Brokers of Property), 364 I.C.C. 432 (1980), the Commission decided that contract carriers would have unrestricted geographic authority nationwide. In Ex Parte MC-165, Exemption of Motor Contract Carriers From Tariff Filing Requirements, 133 M.C.C. 150 (1983), the Commission determined that contract carriers need not file rates with the Commission. In Ex Parte MC-165 (Sub. No. 1), Motor Contract Carriers of Property, Proposal to Allow Issuance of Permits Authorizing Industry-wide Service, 133 M.C.C. 298 (1983), the Commission permitted licensing for broad commodity categories, including the "general commodities" category.

In the pivotal Dixie Midwest decision, Dixie Midwest Express, Inc. - Extension General Commodities, 132 M.C.C. 794 (1982), the Commission ruled that a broker could be a shipper vis-a-vis a contract carrier, and thus conversely contract carriers could serve brokers.

The combination of broad geographic and commodity authorities for both carriers and brokers, and the freedom of contract permitted the contract carrier format after the Commission's decision cited above, provided market intermediaries powerful tools.

Following these pivotal Commission decisions, the brokerage sector exploded. The following chart sets out the number of
brokerage licenses on record at the Interstate Commerce Commission for the fiscal years 1982-1987.\textsuperscript{14}

\begin{tabular}{ccccccc}
952 & 1679 & 2933 & 4451 & 6039 & 6042 \\
\end{tabular}

Passenger brokers were exempted from all regulation except bond requirements by the Bus Regulatory Reform Act of 1982. In \textit{Passenger Broker Surety Bond of Insurance}, 133 M.C.C. 57 (1982), the Commission exercised the discretion allowed by that Act to discontinue bonding requirements for passenger brokers.

Freight forwarders (except household goods forwarders) were exempted from regulation of all aspects of operation by legislation in 1986 (Public Law 99-521, Surface Freight Forwarder Deregulation Act of 1986). ICC statistics indicate that 401 freight forwarders were registered with it in 1987. Whether some companies have abandoned the brokerage mode of operation in favor of the freight forwarding mode is not known at this time.

In the mid-1980's, the Commission has given further consideration to the coverage and terms of surety agreements which it would accept. Upon the urgings of the brokers, it has

\textsuperscript{14}More applications were granted than the number outstanding. Also, there has been some turnover on the trade. The following table sets out the number of brokerage licenses revoked in the fiscal years 1982-1987.

\begin{tabular}{ccccccc}
21 & 33 & 54 & 98 & 176 & 439 \\
\end{tabular}

The authors have not made an investigation of the reasons for revocation of the licenses. It is believed that most of the revocations resulted from companies not complying with bonding requirements.
broadened to some extent the categories of security arrangements which it will accept. Ex Parte MC-173, 3 I.C.C.2d 689 (1987); Ex Parte MC-5, (Sub. No. 8), 3 I.C.C.2d 945 945 (1987).

In Ex Parte MC-183, 3 I.C.C.2d 689 (1987), the Commission definitively stated that carriers as well as shippers should have access to brokers' surety bonds. The Transport Brokers Conference of America has urged that Commission regulations should allow sureties or security holders the option of refusing payment until any disputed claim has been adjudicated or arbitrated. As of the time of this writing, the Commission has not accepted this position.

In the 1980's, the Interstate Commerce Commission and the Senate Commerce Committee have each examined carrier complaints concerning broker practices, and thus far declined to initiate any new or additional regulatory controls. In Senn Trucking Company -- Lawful Practices of Property Brokers -- Petition for Rulemaking ____ M.C.C. ____ , (1986) 3 CCH 37359.04, pgs. 47638-47642, May 20, 1987 Senn Trucking Company and other carriers urged that the Commission undertake a rulemaking proceeding to consider additional constraints on brokerage operations. The petitioners presented a number of complaints concerning brokers, including complaints that brokers sometimes gain "excessive compensation," sometimes require that carriers publish or otherwise offer rates lower than tariff rates, and sometimes do not pay carriers within the time limits set for shippers. Petitioners asked the Commission to impose requirements that
brokers inform both carrier and shipper of all compensation received as to a given shipment, not be allowed to receive compensation from a carrier when the broker is an employee of the shipper charged with control of the shipper's freight, not be allowed to receive compensation from customshouse brokers, and be required to pay the carrier within the time limits set for shipper payments. In addition, the petitioners asked that shippers be required to be liable for payment of freight charges to carriers when the shipper had paid the broker but the broker failed or refused to compensate the carrier. (This last regulation would have altered prevailing case law which allocated the risk of loss from failures to pay by intermediaries between shippers and carriers depending upon the forms of agency relationship between the parties, and the degree and form of the carrier's reliance on the broker as an independent entity.

The Commission declined to institute the rulemaking proceeding. It reasoned that the results sought in petition could be achieved to a considerable extent by the exercise of prudent business judgment by contracting parties, that the carrier petitioners sought to use government edict to strengthen the bargaining position of carriers at the expense of that of brokers in ordinary commercial dealings, that surety bonds and Commission staff intervention were available to carriers, and that the broker trade association was undertaking efforts to improve broker practices. In sum, the Commission determined that "internal industry efforts combined with available commercial and
administrative remedies should ensure that problems within the brokerage industry are controlled without the need for the type of strict regulatory response proposed by Senn."

In the Fall of 1987, the Surface Transportation Subcommittee of the Senate Commerce Committee held a one-day hearing in which the complaints voiced to the Commission were set out before it, and broker and shipper interests responded. The Committee Chairman Senator Exon, indicated that the Committee would continue to observe the brokerage sector. The Committee held no further hearings and initiated no legislation concerning brokers in the 1987-88 Congressional session.

Concluding Summary

The brokerage sector was regulated ancillary to comprehensive regulation of interstate motor carriage in the 1930's and has been virtually deregulated in parallel with partial deregulation of motor transport in the 1980's. Though brokers were subjected to little control of rates and practices, administrative requirements that brokers demonstrate public need restricted the field to less than 150 participants in the freight sector, and less than four hundred in the passenger sector, as of the time the Commission began to liberalize entry controls in the mid-1970's. The institution of "fitness-only" licensing, combined with ease of entry and free contracting in the carrier sector, allowed an expansion to over 6,000 brokers as of 1987.
With the general relaxation of regulation in the 1980's, the Commission reduced the already limited regulatory restraints on brokers, and has thus far declined to institute new controls or limitations. The Commission's orientation to broker regulation in the late 1970's and 1980's reflects an apparent over-all judgment that the brokerage sector adds significant value to the transport market, broker practices are disciplined by competitive market forces and improved by private sector efforts, and additional regulatory intervention of the sorts requested by some carrier interests would diminish the capability of the brokerage sector efficiently to perform its functions. However, the Commission has shown some interest in financial security arrangements, on the one hand broadening to some extent the means available to brokers to meet surety requirements and on the other hand extending the scope of financial assurance arrangements to carriers.
Appendix 2. Literature Review and Overview of Trucking Regulation

A search of the literature identified relatively few articles and books on ICC licensed property brokerage (A bibliography is included at the end of this report.) Most articles were found in trade journals and focused on such topics as the growth of the industry and how brokers operate.

Of the four books identified one—Gallagher On Transportation Brokerage—is a comprehensive review of legal matters and relationships involving brokers and is the best book of its type on brokerage. Two others (A Guide To Understanding Brokering and Brokers In Transportation) are intended to instruct new brokers in how to create and operate a brokerage. Finally, the fourth Motor Carrier Broker's Manual, is primarily a compilation of previously published articles on brokerage from The Professional Broker, Traffic World, and other journals and magazines. Some original material on each chapter topic is included, as well as interviews with four brokerage managers describing company operations.


Of the articles appearing in the periodical literature, three are summarized below, primarily because they provide data on the industry. One of the earliest articles, "Freight Brokers and General Commodity Trucking," appeared in 1984 and summarized interviews held with eleven brokers located throughout the country. The brokers were all small businesses (employing less than fifty people) and seven had become brokers since 1980. Four held ICC motor carrier authority. The brokers handled shipments destined to a wide geographic area, but shipment origins tended to concentrate in the region surrounding their location. (Only one had more than one office.) Products shipped were general commodities in truckload volumes, although two firms handled LTL shipments primarily. In addition most of the others consolidated larger LTL shipments (5000 pounds and above) with other loads and thus were not limited to handling truckloads only.

Most of the brokers billed their shipper customers and added a mark up (of about 10%) to the carriers' charges in order to earn revenue. Personal selling was the primary method used to contact shippers and most of the brokers believed they were successful because they offered shippers reliable service at lower prices. Reliability was said to be improved for shippers because the broker checked out carriers -- including authority, insurance, and prior experience with the broker -- before

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shippers used them. Also, several brokers noted that their traffic expertise allowed them to take advantage of all the new opportunities that were becoming available under the 1980 Motor Carrier Act and subsequent ICC decisions. Such expertise was said to be often lacking, particularly in small firms. The article noted the importance of exempt brokers in agricultural trucking and suggested that the importance of brokers in general commodity trucking would continue to expand.

A second article of interest -- "The Expanded Role of Motor Freight Brokers in the Wake of Regulatory Reform," reported the results of a 1984 mail survey of Transportation Brokers Conference of America (TBCA) members. At that time the TBCA membership was 434, and only 85 usable responses were received. Nonetheless the results helped describe the industry. Major findings of the Crum survey included the following:

1. Broker Respondent Profile

Most respondents were licensed since 1980, and offered nationwide service via the carriers they used. They were generally small firms -- 60% earned operating revenues of less than $1 million per year. (Operating revenue is the amount retained by the broker -- not the total freight bill.) About 61% of respondents handled 20,000 tons of freight per year or less and reported 5 or fewer brokerage employees. Eighty percent described the brokerage as a privately owned, independent
operation, while 12% were affiliated with motor carriers; the remaining 8% were shipper owned.

2. **Services Offered**

In addition to brokerage, about 45% of respondents offered motor carriage and shipper agent services. Also commonly offered were routing and tracing of shipments, claims help, and verification of carrier rates, authority and insurance.

3. **LTL Activity**

Sixty-five of the 85 respondents handled LTL freight. In fact, 20% reported LTL accounted for more than 45% of their business. The largest brokers tended to handle a larger proportion of their business in LTL shipments.

4. **Carriers Utilized**

The broker respondents reported using motor common carriers most frequently, and a large number also used owner-operators. Most respondents used 40 or fewer carriers.

5. **Shippers Served**

Fifty percent of respondents reported serving 39 or fewer shippers per year; twenty-eight respondents served 100 or more shippers. Many of the shippers served had annual revenues of less than $1 million, thus indicating the importance of small shippers to brokers.

A third article, published in 1987 in *Traffic Management*\(^\text{21}\) magazine reported results of a reader survey on why shippers used

brokers. Although the article is summarized below, it is impossible to know how representative the results are since the number of respondents was not disclosed. The survey results include the following:

1. Seventy-two percent of respondents reported they use brokers.

2. The major reasons for using brokers were:
   - To obtain better carrier or equipment access (66%)
   - To obtain lower rates (54%)
   - To reduce shipper workload (33%)
   - To obtain specialized services (29%)
   (Percentages do not equal 100 due to multiple answers.)

3. Of those shippers that use brokers, 59% described the brokers as "professional." However, of those shippers that do not use brokers, only 9% described brokers as "professional."

4. The reasons for not using brokers include the following:
   - Prefer dealing directly with the carrier (76%)
   - No need for broker services (36%)
   - Brokers have bad reputations (19%)
   - Brokers' rates are too high (9%)

Also, of those respondents that used brokers, about 75% shipped 30% of their freight or less with the broker.

Finally, the results of a recent (1988) membership poll conducted by the TBCA were summarized in the June, 1988 issue of *The Professional Broker*. Although only 162 responses were received from the approximately 1400 members, the results are useful. According to the survey, slightly over half of respondents had 5 or more years experience in brokerage. In addition, 33% of respondents employ 1 to 3 employees while another 33% employ 4 to 6 employees.

The Interstate Motor Carrier Industry: Regulation, Structure and Operations

Introduction

Although the primary focus of this study is ICC licensed freight brokers, a brief description of the motor carrier industry provides a useful context for understanding brokerage. According to Charles Taff\(^2\)\(^3\) trucking began in the U.S. prior to World War I when perhaps 250,000 trucks were engaged in local delivery operations. Improved mechanical reliability, the introduction of the pneumatic tire and continuous highway improvements have led to steady growth in the industry. In fact, trucking has grown in market share as well as absolutely—testimony to the superior economic efficiency provided by trucking (for some shipments) in relation to rail and other modes. For example, in 1946 motor carriers generated about 9% of all intercity ton/miles (81 billion ton/miles) while railroads produced 66% or 602 billion ton/miles. By 1987, trucks generated about 25% (661 billion ton/miles) while railroads produced about 36% or 972 billion ton/miles.\(^2\)\(^4\)

Operations

Interstate motor carriers operate in two very different ways. First, those carriers that handle full truckloads (TL carriers) operate in direct service. That is, the truck is


dispatched by the headquarters to the shipper's location. The freight is loaded and driven directly to destination. No intervening terminals are normally needed and the freight is loaded and unloaded a minimum number of times. This service is fast and minimizes loss and damage due to handling and delay. Most trucking companies today operate in this direct manner.

In contrast some firms (LTL or "less than truckload" carriers) that handle primarily small shipments (less than 10,000 pounds approximately) must consolidate the shipments to avoid running near-empty trucks. To accomplish this the firms normally establish a system of terminals throughout their geographic market. The trucks normally run fully loaded between the terminals although the freight must usually be unloaded, sorted and reloaded at each stop until it arrives at final destination. For example, a small shipment originating at Boston and destined for San Diego may be picked up in a small truck and driven to the company's Boston terminal. Then it is unloaded, sorted and reloaded on a large, over the road truck going West. The shipment may move through one or more additional terminals until it arrives at the local San Diego terminal for final delivery in a smaller delivery van. This system, which is typically used by LTL carriers, is slower, more costly and causes more damage due to handling and lost shipments than a direct method. Often the over the road trucks for LTL carriers will be filled with thirty or more shipments each weighing, on average, less than one thousand pounds. Note that the need for an extensive terminal
system as well as marketing ability over a wide geographic area could well constitute significant barriers to entry in the LTL trucking segment. In contrast, direct operations are easy to enter and exit.

Regulation: The Motor Carrier Act of 1935 and the Classification of Carriers

Federal regulation of trucking was initiated by the Motor Carrier Act of 1935. That law established ICC control over interstate motor carrier economic and safety matters and established a classification of carriers. Safety regulations (which cover the truck itself, the driver and operations) were transferred in 1967 to the U.S. Department of Transportation.

The classification of carriers included five basic types: common, contract, private, exempt and brokers. Common carriers hold themselves out to serve the general public, they must file their rates with the ICC (and may charge only those rates) and they are liable to the shipper for loss or damage of the freight.

Common carriers have been further classified by the ICC into two groups: regular route carriers and irregular route carriers. The regular route common carriers haul general commodities and operate over designated routes. These carriers typically specialize in LTL (less than truckload) service, nationwide or regionally. The largest U.S. carriers -- including UPS, Roadway, Yellow and Consolidated Freightways -- offer nationwide LTL service and are regular route carriers.

Irregular route common carriers typically handle full truckloads over any route they choose, although prior to 1980
they were restricted as to where they could pick up and deliver freight. For example, they might have had authority to pick up in New York and deliver in California, but not at any point in between. These operations are normally specialized in one of 17 commodity groups set up by the ICC, and listed below.

Irregular Route, Common Carrier Commodity Groups.
1. General Freight
2. Household Goods
3. Heavy Machinery
4. Liquid Petroleum Products
5. Refrigerated Liquid Products
6. Refrigerated Solid Products
7. Dump Trucking
8. Agricultural Commodities
9. Motor Vehicles
10. Armored Truck Service
11. Building Materials
12. Films and Associated Commodities
13. Forest Products
14. Mine Ore, not including coal
15. Retail Store Delivery Service
16. Explosives or Dangerous Articles
17. Specific Commodities, not subgrouped

Motor contract carries differ from common carriers in that the former do not hold themselves out to serve the public. Rather, contract carriers serve specific shippers under the terms of a contract agreed to by both parties. The contract typically includes the service to be offered, price, and liability for loss and damage. (Most contract carriers take liability for loss and damage.) During the period 1935 to 1980, ICC regulations limited the flexibility and use of contract carriers by allowing them no more than eight contracts at any time. In addition, the contracts had to be filed with the Commission -- and some were rejected due to "unreasonably low" prices.
Since the Motor Carrier Act of 1980, contract carrier restrictions have been relaxed. Today contract carriers do not need to file their contracts with the ICC (although they have to keep them in their office) and they may enter into as many contracts as they wish. In addition, their contracts may allow for flexible prices, i.e., prices that are determined at the time service is arranged. Thus, under current regulations contract carriers have more flexibility than common carriers with respect to pricing. Contract carriers typically offer full truckload (TL) service rather than LTL service.

Private carriers are firms engaged primarily in non-transportation business, which use their own trucks used to transport their own goods. A manufacturer, for example, may own (or lease) a fleet of trucks used to deliver finished products to customers. Private carriers are not "for-hire" in that they handle only products that they own, and they charge no one for their service. In 1984 there were far more private carriers (119,582) than regulated common and contract carriers (34,149) or exempt carriers (49,760).\(^2\)

Shippers may engage in private carriage for many reasons; the most common reason usually involves service quality. A firm which has its own vehicles and drivers has the greatest degree of control over transport and can usually insure itself of timely pick-ups and delivery, as well as other service aspects.

\(^2\)Taff, op. cit. p. 7.
Although private trucking is and was an attractive alternative to many, Federal regulations from 1935 to approximately 1980 worked to reduce the efficiency of private trucking. This happened because the ICC refused to allow private carriers to become common or contract carriers or even to trip-lease their trucks and drivers to such carriers. Thus, private carriers could not normally haul products for other shippers on a for-hire basis and often had difficulty filling backhauls after delivering their products. (An exception involved exempt products, to be discussed below.) This led to a large volume of empty trucks moving on the highways.

Since the late 1970's, the ICC has changed its policies to allow private carriers to hold common or contract authority. In addition, they may also trip lease a truck and driver to another common or contract carrier and, under the Motor Carrier Act of 1980, they may engage in Compensated Intercorporate Hauling (CIH). CIH allows the private carrier of one corporation to transport freight, for compensation, for another wholly owned corporation, without getting common or contract carrier authority. All of these alternatives offer private carriers the legal opportunity to transport products for-hire, thus reducing their empty mileage and improving their efficiency. A 1984 survey of 443 private carriers found that 19% have common or contract carrier authority, 70% plan to trip lease to common or contract carriers, and 45% participate in Compensated
Intercorporate Hauling. In addition, according to recent testimony by an official of the Private Truck Council of America, about one-third of its private carrier members also hold ICC or state trucking authority and 10% to 20% hold ICC broker licenses as well.

The fourth major group included in the classification of carriers is exempt operations. When the Motor Carrier Act of 1935 was passed, Congress exempted certain trucking operations from economic (but not safety) regulation. These exemptions included transport of unprocessed agricultural and horticultural products, livestock, newsprint and fish. In addition, local pick-up and delivery operations performed wholly within a municipal zone are exempt. As noted above, a large number of carriers (about 49,700 in 1984) are engaged in exempt operations, primarily in transport of agricultural products, livestock and fish. In addition, private and regulated carriers at times also engage in for-hire exempt operations to fill empty backhaul capacity.

Many carriers involved in exempt operations are small -- one person with one truck. These individuals are commonly called owner-operators and they earn income by transporting exempt products. As they hold no authority from the ICC, they can


legally carry only exempt products. However, they may lease themselves and their vehicles to other carriers for a single trip or for an extended period of time. (When a truck and driver are leased to a regulated carrier, they become part of that carrier's fleet with the regulated carrier's insurance and operating authority covering the shipment.)

Another important institution in the exempt trucking industry is the exempt broker. Exempt brokers, thought to number about 1000, arrange transport of exempt products. As an intermediary, brokers bring together farmers in the broker's local area with owner-operators looking for a load. In addition to matching loads with truckers, the broker may also advance some funds to drivers at time of pick-up, and take responsibility for loss, damage and delay as far as the shipper is concerned. A recent publication included review of two studies of exempt brokers and concluded:

1. The agricultural broker is essential because it is more efficient for the owner-operators of the trucks to spend their time driving rather than looking for loads.

2. Most agricultural brokers are small and operate in one area of the country. They do not generally arrange loads outside of their immediate vicinity.

3. Competition between agricultural brokers is keen to attract both loads and truckers. To be successful, agricultural brokers attempt to develop a reputation for honesty and reliability. Agricultural shippers look for brokers who can be relied on to have trucks available when needed. Brokers who have loads available regularly are attractive to owner-operators. Of course, the price for a load is most important.

4. Agricultural brokers receive an average of 10 percent of the price the shipper pays for each load.
5. The agricultural shipper usually feels that he is doing business with the broker and is not concerned with the broker-trucker relationship.

6. When loss or damage of produce occurs during shipment, the shipper generally deducts the loss from the payment to the broker. The brokers normally deal with the trucker in regard to the claim. Most brokers will not use a trucker unless the carrier has proof of cargo insurance and, preferably, a history of settling claims reasonably.

Some agricultural brokers have received general commodity broker licenses from ICC in the past few years. In fact, these two markets are quite different. Among other things, agricultural truck brokers deal with truck drivers while freight brokers typically do not.²⁸

The fifth group included in the 1935 classification of carriers was brokers, including brokers of household goods, brokers of passengers, and general commodity freight brokers. Although brokers that were in business in 1935 were given licenses by the ICC, few new broker authorities were granted during the 1935 - 1978 period. Thus, regulated freight brokerage languished until the regulatory changes of 1978 and 1980. Since 1980 however, passenger brokerage has been completely deregulated and freight brokerage has expanded dramatically. It is believed that household goods brokers have not expanded as much, since little regulatory change has occurred in that industry.

**Economic Regulation: Entry Control and Pricing**

The two most important aspects of motor carrier economic regulation involve entry control and pricing. Under the Motor Carrier Act of 1935, any carrier that was in business on the date

---

of passage of the Act was to be given authority. However, new carriers (including new brokers) would have to apply for authority to the ICC. The Commission eventually adopted a strict entry standard that made it very difficult to obtain new authority of any sort.

Thus as the economy expanded, the business available to the existing carriers grew -- as did the value of their authorities. In addition, the new authorities that were granted often were severely restricted in scope -- in fact many allowed operation in only one direction. Others allowed transport of only one or a few products, and many could pick up or deliver only in very restricted areas. These limitations were essentially used to reduce competition from new or expanded authorities. However, they also had the potential to reduce the carrier's ability to find backhauls and thus operate in an efficient manner.

Pricing was also highly regulated following the 1935 Act. As noted earlier, contract carriers had to file their contracts with the ICC and they were occasionally rejected on the basis of low prices. Common carriers were exempted from the Sherman Act and other antitrust legislation in 1948 and allowed to set their prices collusively through rate bureaus. These prices were then filed with the ICC. Once the Commission approved the rates, they would become the only legal prices a common carrier could charge. If an individual common carrier tried to file lower rates, they would be contested by the rate bureau, expensive litigation would ensue, and the lower priced carrier would bear the burden of
proving the "reasonableness" of its rate. Few, if any, such rates were ever put into effect. In this manner, price competition among those in the industry was largely curtailed, while entry control stopped new entrants. The primary beneficiaries of this non-competitive market were owners of the trucking companies (whose authorities were bought and sold at steadily higher prices) and the Teamsters Union whose employees enjoyed wage increases far above productivity increases.

Deregulation - The Motor Carrier Act of 1980

The fundamentally anti-competitive nature of the 1935 Motor Carrier Act was soon attacked by economists as promoting inefficiency and high prices.

In response Congress passed the Motor Carrier Act of 1980 which partially deregulated the industry. (Remaining regulations include the requirement of common carriers to file their rates with the Commission, partial antitrust immunity and State regulation of intrastate operations.) Entry control was greatly relaxed (few applications are denied today) and many carriers have contract carrier authority to serve virtually all shippers and receivers - including brokers - in all 48 contiguous states. Collusive pricing has been reduced significantly although not entirely. Common carriers may still set rates in rate bureaus under some circumstances. However, individual carriers may now file any rate they wish with the ICC, without interference from rate bureaus, and many have taken advantage of this opportunity. In fact, today discounts of 40% or more from the rate bureau
rates are commonly found in LTL rates. Full truckload service by contract carriers however, is no longer regulated as to price, and rates are set in a competitive, free market environment.

The impact of the Motor Carrier Act of 1980 is difficult to measure exactly but appears to be quite significant. Price reductions from 1977 to 1982 are about 12% for LTL carriers and 25% for truckload carriers.\(^{29}\) (Even with a doubling of fuel prices.) Service quality has improved or remained the same. Annual savings on logistics (transport and inventory) expenditures for the U.S. have been estimated at between $56 and $90 billion.\(^{30}\)

One noteworthy change in regulated trucking since 1980 is the large increase in the number of new, small regulated carriers. As shown in Table 1, the total number of carriers has increased from 16,874 in 1978 to 33,283 in 1985.

<table>
<thead>
<tr>
<th>Class</th>
<th>1978</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>I and II</td>
<td>3,974</td>
<td>2,946</td>
</tr>
<tr>
<td>III</td>
<td>12,900</td>
<td>30,337</td>
</tr>
<tr>
<td>Total</td>
<td>16,874</td>
<td>33,283</td>
</tr>
</tbody>
</table>

Class I and II carriers have revenues of $1 million or more, Class III carriers have revenues of below $1 million.

truckload carriers is of particular importance to brokers since these carriers often lack the marketing capacity to develop backhaul business in areas distant from their headquarters location. Thus, as the number of these carriers has grown, the need for brokers has also expanded. In fact, if brokers were not available to market carrier backhauls some carriers may not have entered the industry at all and others might not be able to survive. Thus brokerage has played a significant role in helping to create and maintain a large number of small motor carriers.

Although the price reductions noted above indicate substantial improvement in use of resources for the economy as a whole, some sectors have been hurt to an extent by deregulation. These appear to include the owners of established carriers whose operating authorities became worthless with open entry. Also, carriers that maintained operating costs above the competitive level after deregulation were forced out of business. In addition, Teamsters Union member wage rates have fallen in relation to non-union wage rates, although they are still above the latter. (For a concise but thorough review of the regulation and deregulation of trucking, see Diane S. Owen, "Deregulation in the Trucking Industry," Bureau of Economics, Federal Trade Commission, May, 1988.)

How Brokers Differ From Freight Forwarders, Shipper's Agents and Custom House Brokers

Surface Freight Forwarders

Surface freight forwarders in the U.S. operate as intermediaries by arranging transportation of shippers' goods via
motor, water or rail transport. Surface forwarders were regulated initially by the Freight Forwarder Act of 1942 which (along with subsequent changes) made forwarders common carriers and instituted entry and price control by the ICC. However, the industry was almost completely deregulated in December, 1986. Now, any company may be a surface forwarder but the firm must file with the ICC proof of cargo insurance. While forwarders may operate in a variety of ways, they use other carriers to transport the freight and they are common carriers by common law. That means that forwarders -- unlike brokers -- are liable to the shipper in case the freight is lost or damaged. This common carrier liability is the single most important distinguishing feature between surface forwarders and brokers.

Little is known today about the current nature of surface freight forwarder operations. In the past the largest forwarders concentrated on LTL shipments which they consolidated into full truckloads. These large forwarders located in the major U.S. cities (particularly New York and Los Angeles) and shipped consolidated loads of LTL via rail "piggyback" service or motor carrier. They would charge shippers the same LTL rates as the large LTL carriers charged, but could often provide faster service due to the direct shipment which avoided the multiple terminals used by LTL carriers. Profit was earned by the spread between the cost of shipping truckloads on piggyback, and the revenues earned by charging the high LTL rates.
Since 1980 the demand for forwarder service has declined, probably due to increased price competition from LTL motor carriers. In 1986 the industry was deregulated almost completely and its Washington, D.C. trade association was closed. A December 1987 count by the ICC showed a total of 401 forwarders with insurance proof on file with the Commission.

Although surface freight forwarders offering truckload service would appear to be an obvious competitor to ICC licensed, general commodity brokers, such competition has not developed to a large extent to date. Perhaps a primary reason is that most motor carriers already have cargo insurance, thus the insurance required by forwarders is an unnecessary added expense making this method uneconomic. It is worth noting that 4% of the broker survey respondents also offered surface freight forwarder service. (See question 7 on the broker survey, Appendix 8.)

**Shippers' Agents**

Shippers' Agents are transport intermediaries that coordinate "piggyback" or trailer-on-flatcar (TOFC) shipments for U.S. shippers. These agents typically sign contracts with the major piggyback railroads which give them a significant price discount on the service in return for a guaranteed volume of business with the railroad. The agent then markets the service to shippers for the railroad.

Shippers -- particularly smaller TOFC shippers -- find shippers' agents convenient since the agent will take responsibility for the entire dock-to-dock shipment but charge
the same as the railroad. Extra services provided by the agent include such things as:

- Arrange for origin motor carrier to deliver empty trailer to shippers dock for loading.
- Arrange for origin carrier to haul loaded trailer to rail siding
- Select best rail route
- Arrange interchange motor carrier service between railroads
- Arrange pick-up of trailer at destination rail siding and delivery to final destination
- Arrange pick-up and return of empty trailer

Also, large shippers' agents are able to rent trailers at attractive prices and have superior information on alternative routings and service quality. In contrast to forwarders, agents do not take cargo liability: if a shipment is damaged the carrier involved is liable, not the shippers' agent. Thus agents are not common carriers and are like ICC licensed freight brokers in that respect. However, shippers' agents are not now regulated by the ICC and have never been regulated.

It is worth noting that many shippers' agents got ICC broker's licenses after 1980 so they could legally arrange interstate trucking service to and from rail piggyback terminals. However, the need for a broker's license has been reduced by recent ICC decisions deregulating such trucking service when it is part of a through piggyback shipment; yet, many shippers' agents still maintain a broker's license. (For a further description of shippers' agents see: Terence A. Brown, "Shippers' Agents and the Marketing of Rail Intermodal Service," Transportation Journal, Spring, 1984.) About 7% of the broker
survey respondents also offered shippers' agent service. (See question 7.)

Customhouse Brokers

Customhouse brokers (CHB) are licensed by the U.S. Treasury Department and facilitate importing for U.S. firms and individuals. The services provided include such things as payment of transport charges, clearance of the shipment through customs (including checking to insure that the correct duty is applied, when applicable), and payment of duties to Customs. The CHB earns revenues by charging the importer a small fee for each service performed.

Since the ICC relaxed entry into freight brokerage, many CHB's have obtained a broker's license so they may charge for arranging transport of imported goods from the port of entry to final U.S. destination. For an example of this type of CHB broker operation, see broker interview No. 8.
Appendix 3. Broker Interviews

Nine active brokers were interviewed in an effort to develop a better understanding of brokerage operations. (Summaries of each interview and the questions asked are found at the end of this section.) The nine were selected to provide variation in size, geographic location, nature of operations, TBCA membership and economy in conducting the interviews. Each interview lasted for an hour or more and provided the brokers an opportunity to review and comment on the survey questionnaire and to describe their operations in an unstructured format. Thus the respondents could elaborate on some questions and introduce topics not brought up by the interviewer. Although a list of questions was used, not all respondents answered all questions. Table 1 below provides data on each of the firms interviewed, additional information is summarized after the Table. It should be understood that most respondents answered questions on firm revenues, payments, number of shippers, etc. with approximate or estimated answers.

These interviews were not chosen in a random fashion and the results cannot be projected onto the industry as a whole. In fact, on average the firms are larger and older than most in the industry. The fact that most are TBCA members (although most licensed brokers are not) is an obvious atypical characteristic of the group.
Table 1  
Broker Interviews - Summary Data

<table>
<thead>
<tr>
<th>Broker No.</th>
<th>State</th>
<th>Licensed</th>
<th>Ann. Rev.</th>
<th>Carrier Payments</th>
<th>No. Offices</th>
<th>No. Employees</th>
<th>TBCA Member</th>
<th>Other</th>
<th>Businesses</th>
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<tbody>
<tr>
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<td>1935</td>
<td>8</td>
<td>400</td>
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<td>None</td>
<td>Many</td>
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<tr>
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<td>.09</td>
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<tr>
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<td>1983</td>
<td>1.2</td>
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<td>Many</td>
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<td>Many</td>
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<td>6</td>
<td>MD</td>
<td>1978</td>
<td>6-7</td>
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<td>NA</td>
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<td>None</td>
<td>Many</td>
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<tr>
<td>7</td>
<td>PA</td>
<td>1981</td>
<td>1.2</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>Yes</td>
<td>None</td>
<td>Many</td>
</tr>
<tr>
<td>8</td>
<td>TN</td>
<td>1983</td>
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<tr>
<td>9</td>
<td>CA</td>
<td>1980</td>
<td>$24+</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>Yes</td>
<td>None</td>
<td>Many</td>
</tr>
</tbody>
</table>

*Total company employment includes non-broker employees.
Broker Operations

As depicted in Table 1 the brokers interviewed varied widely in size, although all but one are small businesses. They typically handle general commodities, although one specializes in processed food products and two others do a significant proportion of their business in over-sized, over-weight shipments. Prior to opening the brokerage, most of the owners were employed in trucking or other transportation businesses.

Concerning geographic specialization or scope of the brokers, there is some geographic concentration—particularly with respect to origins. For example the NJ broker noted that about 40% of its shipments originated in the Mid Atlantic area. This is understandable since most brokers use a salesforce to call on shippers in one part of the country. (An obvious example to the contrary is broker #2 that has virtually a nationwide salesforce.) However, it should also be noted that trucking decisions are often centralized—i.e. corporate headquarters in New York may decide which motor carrier or broker to use on shipments from Los Angeles to Atlanta. Thus brokers with a salesforce in one area may (and do) arrange trucking throughout the U.S.

Concerning other businesses operated, most of the brokers offered other related transport services such as pre- and post-freight bill auditing, claims work, etc. Two others owned trucking firms. Three (Firms No. 2, 6 and 9) were quite unusual. Firm No. 2 was part of a large conglomerate with operations in...
agriculture, packing and transportation—including trucking, exempt brokerage and "piggyback" arrangements. Broker No. 6 was owned by a firm which was primarily involved in international trade (it was a customhouse broker as well as a foreign freight forwarder) and the ICC broker's license was a small but integral part of its business. Broker No. 9 was a diversified freight management business that offered an unusually wide array of transportation and traffic management services including air freight, international shipping, piggyback and small package services.

As a generalization, for most of the firms interviewed, the ICC brokerage was the major business focus. Whether or not this is typical of most firms that hold a broker's license is unknown. The fact that most brokers interviewed are TBCA members may suggest that they are more active in brokerage than non-TBCA license holders. It should be noted that ownership of an ICC broker's license does not mean that the license is actively in use: some firms hold the license but do not use it.

The vast majority of the business done by the brokers was in truckload quantities, although large LTL shipments were handled by consolidating them on trucks with other compatible loads. Small LTL shipments were rarely handled, although several brokers did market the services of LTL carriers. In contrast, the customhouse broker dealt with numerous LTL carriers regularly and did a substantial portion of its ICC brokerage business in this manner.
Customers

The number of customers serviced each year varies widely—from a few to thousands. Most of the brokers believed that the majority of their customers were small businesses that shipped small volumes of truckload freight. However, a few of their customers were described as large firms with large shipping volumes. These few large shippers typically provided the brokers with a disproportionately large volume of the broker’s business.

Concerning services provided shippers, the brokers noted several, including the following:

1. Brokers offer service to virtually all U.S. points, thus the shipper can avoid having to call many carriers to locate one that has competitive rates and will provide the service required.

2. Brokers have expertise in traffic matters (including claims and knowledge of transportation alternatives) that small shippers often lack.

3. Brokers can offer lower rates to many (particularly small) shippers that lack the volume to attract the competitive rates offered large shippers.

4. Brokers have quick access to a large number of trucks, thus firms which need one in an emergency can often find it quickest through a broker.

5. In addition, firms (particularly large firms) often have erratic needs for a large number of trucks—as when a volume purchase is made that requires many truckloads of product to be shipped quickly, or when a plant is moved to a new location. Such situations cannot usually be handled by a firm's normal carriers since they don't have the excess equipment available. Yet another example occurs when firms operate in a seasonal industry and need a large increase in trucks over a limited time period.

6. Brokers screen carriers to help insure reliability, ICC authority and insurance.
Carriers

The number of carriers under contract to the broker varied from under fifty to over 1200. However, it was typical for them to do business regularly with a small proportion of all those under contract. Most carriers were contract carriers (used because of their rate flexibility and protection against undercharge claims) and relatively few were common carriers in relation to the broker. That is, although many had both common and contract carrier authority, they dealt with the broker under their contract carrier authority. Most brokers reported limited use of private/contract carriers because these carriers had strict time constraints and could not delay in returning to their home base. In contrast, Broker #2 viewed private carriers as a very important component of its fleet and described them as the lowest cost carriers.

Concerning payment to carriers, most brokers billed the shipper and paid the carrier. These brokers said they guaranteed payment to the carrier—that is, they guaranteed to pay the carrier even if they were not paid by the shipper. (Such a guarantee is a fundamental requirement of TBCA brokers.) The time it took to pay the carriers (from date of receipt of the carrier's bill and shipping documents) varied from one week to 60 days, but was about 30 days on average.

Broker #6 does not typically pay carriers, rather, when it arranges a shipment the carrier will bill the shipper and remit a percentage to the broker as a commission. (See No. 9 also) Many
brokers avoid this method of operation since, among other things, it may encourage the shipper and carrier to arrange future loads directly without involving or paying the broker.

Generally, the brokers used carriers that ranged widely in size, although the very largest carriers in the nation (which are LTL carriers) were used extensively by only one broker--No. 6. The comments of the brokers concerning firm size of their carrier are summarized below:

1. Small to medium sized.
2. Wide range--2 to 1000 trucks, most have fewer than 100 trucks.
3. 80% - 90% have 20 employees or less.
4. Wide range--5 to 200 trucks, most have 50-200 trucks
5. From 4 or 5 to 600 trucks.
6. Primarily large carriers.
7. Averaged size carriers.
8. Typical carrier has 250 to 400 trucks.
9. Most have 100 or more power units.

Service Provided Carriers

Most of the brokers marketed a carrier's service when the carrier had empty trucks available. Often this was in "backhaul" situations--the carrier was in an area where they had little (or no) return loads available. A broker would then be used to find a return or backhaul load. However, some brokers commented that they also helped carriers increase their business in the "fronthaul" or outbound direction as well as the backhaul. Some
comments from the brokers on the services they provided carriers are listed below:

1. -Provide the carrier with the right kind of freight in a timely manner.
   -They help fill backhauls, check the shipper's credit and take the credit risk. The carrier needs to check the credit of one broker--not ten shippers.
   -The carrier need not take loads they don't want.
   -The carrier can get an even flow of freight through the year, although many shippers are quite seasonal.

2. The carrier gets guaranteed payment and payment in seven to 14 days.

3. Carrier gets backhaul freight and is paid in a timely manner.

4. Broker can provide backhaul loads for carriers in areas when the carrier has trucks so rarely they cannot effectively market their service. In addition, the broker pays reliably in 21 days and can sometimes get carriers better rates due to superior knowledge of the going market rate.

5. Carriers can get more business at lower cost through a broker.

6. Carrier gets more business by using the broker.

7. Carriers get loads inexpensively where the volume of their business is too low to support their own salesforce.

8. Carriers get economical selling from brokers, particularly from areas when they have no salesforce.

9. Brokers are an economical way for carriers to increase their business.

Experience With Government Traffic

Most of the brokers had no experience with Federal Government traffic, although two (No's 1 and 4) did a significant volume of business with the General Services Administration. One (No. 7) was active in DoD traffic as an agent for one common carrier, not as a broker.
Those that had experience with Government freight believed that handling this business required more paperwork than dealing with private firms. In addition, payment was slower. It is interesting to note the comment of one large broker that Government shipments are currently moving at rates that are 6% to 9% above those charged by his firm.

Should Brokers Hold Payments "In Trust" for Carriers?

Most of the brokers interviewed were opposed to this proposal and made a number of observations on it.

1. It would be a costly regulation to put in effect and would cause practical problems. Setting some funds aside in special accounts may be practical for a firm with few large transactions but is impractical when there are a large number of small transactions each day, as is the case with brokers.

2. The credit problems carriers have experienced are due in part to their own lack of credit checking and credit management—poor business practice on their part.

3. In practice, the carriers have never asked for this, but just ask to be paid on a timely basis.

4. Competitors do not have to do this—carriers that trip-lease to owner operators or others have not always paid and they are not hampered with this regulation. One broker that owns a carrier noted that he had lost thousands of dollars due to unpaid accounts from a carrier that provided the loads but did not pay.

5. The most serious credit problems are caused by unlicensed individuals that defraud carriers. These people would not be affected and would continue their operations in any case. Thus such a regulation would hurt legitimate, honest brokers and would do nothing to stop illegal operations.

Finally, a tenth broker was interviewed (using different questions) in order to show why some manufacturers and producers have obtained broker licenses. While this phenomenon is not
necessarily common as yet--only 45 such operations have been identified to date--they may become more important in the future as firms continue to realize the opportunities that have become available in the past eight years. The broker interviewed--Metex Inc.--was created by its parent corporation to earn a profit while taking advantage of its expertise in traffic management. To date the brokerage has worked effectively. The interview summary and the questions asked are included at the end of this section.
Broker Interview #1

A. Description of Operations

| License Date: | 1935 |
| No. Employees: | about 20 |
| No. Office Locations: | One |
| Broker Revenues: | about $8 million |
| Payments to Carriers: | about $6-$7 million |
| Other Businesses: | none |
| Geographic Shipping Patterns: | About 40% of shipments originate in the Mid-Atlantic states |
| Commodities: | General commodities with a significant volume of oversize/overweight shipments |

B. Customers

The size distribution of customers varies widely from very small firms to Fortune 500 corporations. Most—80%-90%—are small, i.e. employ less than 500 people. Because of their small size, this group of customers generates only about 20% of sales. Most customers are industrial shippers, that is manufacturers and distributors. The firm has arranged trucking for the General Services Administration, but not the Department of Defense (DoD).

C. Carriers

Currently there are about 300 carriers that are under contract to the broker or work with the broker. About 90% of these carriers are contract carriers. A relatively small number—about 20—are private carriers with contract carrier authority. About half of all carriers that work with the broker are small to medium sized, that is their fleets contain less than fifty trucks. This group of carriers carries about 20% of the broker's business. The broker does not lease owner/operators to a carrier authority. Common carriers are not used very much because the rules on pricing are "awkward" and the broker could be liable to undercharge claims if rates were not filed correctly. Payment terms are from one week to sixty days typically. Payment to carriers is guaranteed, if the shipper does not pay the broker, the broker will still pay the carrier. The broker pays the carriers when the broker is paid unless the payment period gets long and the carrier requests payment.

D. Services Provided to Shippers

Today brokers can help shippers "sort out" the options available to ship their products with respect to price, service and reliability. Small shippers are more likely than large ones to use the expertise of the broker in traffic and transportation
matters. Although large shippers get the best carrier rates due to their volume, brokers arbitrage this to an extent—that is, they also lower rates and pass them on the small shipper. Brokers can get lower rates than small shippers because brokers are large shippers and because they are in a position to help carriers. Large shippers use brokers more as another option and a backup, while small shippers will use a broker to perform their entire traffic function at times.

E. Services Provided to Carriers

Brokers give carriers the right kind of freight in a timely manner. The carriers need to fill empty backhauls and they do this with their own salesforce plus brokers. In addition, the broker checks the shippers' credit and takes the credit risk so the carrier needs to check just the broker's credit—not ten small shippers'. That is why the credit reputation of a broker is essential. If a shipper doesn't pay the broker, the carrier gets paid anyway.

A broker can help carriers more than a typical shipper at times if the broker just lets the carrier take the loads they want and doesn't push him into taking bad loads—loads that are unprofitable or are out of the carrier's normal lanes. Shippers will sometimes do this to carriers. A broker should be able to get a good deal from carriers because:

1. Carriers need not take bad loads from brokers.
2. Brokers save carriers marketing cost.
3. Brokers can give carriers an even flow of freight fifty-two weeks a year while many shippers are quite seasonal.

Since the broker does this for carriers he should be able to attract lower rates that he can sell to shippers.

F. Experience With LTL Shipments

About ten percent of the broker's business is LTL, most of which are larger (5000 pounds) shipments added to a truckload going in the same direction. The broker also has a regional LTL carrier that handles other LTL shipments within the region.

G. Should Brokers Hold Payments "In Trust" for Carriers?

This proposal was described as a "phony issue" for legitimate brokers—it would burden and inhibit them. Complaints on the credit issue are due to thieves—people who defraud others—not legitimate brokers. Such a policy would put legitimate brokers out of business although the thieves would still be there. The policy would increase the costs of overhead and increase paperwork. In addition, someone would have to be paid to oversee all this. Escrow accounts are normally used to
keep large sums from single transactions—not the small amounts from many transactions that brokers engage in.

Currently the credit issue is not a problem with the carriers that deal with the broker — they know the broker and its reputation and they would not do business if they were not paid. Carriers have never requested the broker to hold money in trust — they just ask that their bills be paid. There is a parallel situation with carriers that use leased owner-operators, and they do not have to hold money in trust.

H. Experience with Government Traffic

The DoD does not deal with brokers as such—although a broker could deal with the DoD as an agent of one carrier. However, this destroys a real advantage of using brokers — their ability to have many different carriers available. The broker has dealt with the GSA for a long time: payment tends to be slow and there is a great deal of paperwork involved.
Broker Interview #2

A. Description of Operations

Headquartered: Minnesota
License Date: 1981
No. Employees: about 660 total corporate
No. Office Locations: 52
Broker Revenues: about $400 million
Payments to Carriers: NA
Other Businesses: Firm is a diversified conglomerate with interests in agriculture, packing, finance, shipper's agent, exempt broker, warehousing

Geographic Shipping Patterns: Ships throughout the U.S. and Canada
Commodities: General Commodities

B. Customers

The firm arranges transportation for about 7000 customers annually. Of these, about 1000 employ 500 workers or more, although these large firms generate about one-half of all company shipments. Approximately 3000 customers are small firms, generating a few truckloads per month and employing fewer than 100 workers.

Respondent noted that the broker focuses on two types of accounts - large firms with nationwide distribution and small firms located in the region around the broker's offices. The large firms are the focus of a national accounts salesforce while the small firms are reached by the local salesforces in each local office. The broker has no experience moving government freight, but believes that the government is paying 6% to 9% above the broker's rates.

C. Carriers

The broker has about 1400 carriers under contract, and uses other options (owner-operators, common carriers) very little. About 40% of the carriers are private fleets with contract carrier authority. Respondent noted that private fleets work well for the broker. It was noted that the broker negotiates carrier prices every day and quotes prices to customers in the same way - on the spot market.

The fleet sizes involved ranged widely: some carriers have only one or two trucks, while others have over 1000. Most fleets have fewer than 100 trucks.
Payment terms to carriers are 7 to 14 days from receipt of the carrier's bill. This payment is guaranteed whether or not the broker was paid. In fact, the broker is typically paid in 28 to 32 days, thus normally it pays the carrier before it is paid by the shipper.

D. Service Provided to Shippers

Essentially the broker is filling backhaul capacity thus it gets trucks at lower prices which it passes on to shippers in terms of lower rates. In addition, it takes responsibility for handling claims which makes things easier and quicker for the shipper. In fact, the broker has developed an in-depth system for claims handling with the carriers. In this way they offer guarantees to the shipper as well as the carrier.

Concerning very large shippers, they can do as well or better on rates often because the carriers can go directly to them and offer low rates for volume shipments on specific lanes—i.e. from the same origin to the same destination area. However, the broker offers service on lanes many carriers don't want or on freight that fluctuates seasonally. The broker targets companies that have highly seasonal shipping patterns and thus need extra trucks at that time—and are willing to pay for them. Then, once the broker works well for a large company, they can often get part of the regular non-fluctuating business as well.

Small companies are typically looking for price and the broker is in good position to help them because of its large backhaul fleet. Also, they are too small for the carriers to call on directly—i.e. it is not worth it for one truckload a week or a month. The broker is able to give them almost as low rates as the large shippers get.

Essentially brokers help shippers because the brokers have superior information—the broker knows what carriers are in each area each day and where they are headed, so it can pass on backhaul savings to shippers. In a sense the broker helps small shippers more than large ones.

E. Services Provided to Carriers

There are two major benefits to carriers from using the broker:

1. Guaranteed payment—written in the contract, the carrier gets paid whether we get paid or not.

2. Payment in 7 to 14 days from receipt of the carrier's bill.
Paying carriers quickly develops carrier loyalty although it increases our working capital needs.

Small, private/contract carriers are important to the broker since they constitute 40% of the total fleet. The broker helps them since they cannot afford a salesforce to generate one truckload per week, particularly since they often do not know where the trucks will be next week.

F. Experience with LTL Shipments

Currently the broker is basically a full truckload operation but it is in the process of establishing a nationwide LTL program based on a number of existing regional carriers. Essentially the broker will arrange linehaul via TOFC or trucks into the East, of full loads of consolidated LTL. Eventually the system will be expanded nationwide. The firm believes the opportunity is there since current LTL prices are still too high.

G. Should Broker Hold Payments "In Trust" for Carriers?

This is not necessary and the broker is against this proposal. Truck lines don't put money in trust for owner-operators. The marketplace should determine rates and terms. It's the responsibility of the carrier to research the broker before doing business with it--just like the broker has to check out shippers and carriers. The "in trust" proposal would be costly to administer and it is a step backward toward more regulation. The carriers don't ask for it. The broker guarantees in the carrier's contract they will be paid--"...its ethically right, morally right and its good business."
Broker Interview #3

A. Description of Operations

<table>
<thead>
<tr>
<th>Firm Name:</th>
<th>Landmark Transportation Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent:</td>
<td>Nick Cinquepalmi</td>
</tr>
<tr>
<td>Headquartered:</td>
<td>Chicago, Illinois</td>
</tr>
<tr>
<td>Broker Licensed:</td>
<td>1983</td>
</tr>
<tr>
<td>No. Employees:</td>
<td>8</td>
</tr>
<tr>
<td>No. Office Locations:</td>
<td>One</td>
</tr>
<tr>
<td>Broker Revenues:</td>
<td>about $1.2 million</td>
</tr>
<tr>
<td>Payments to Carriers:</td>
<td>about $1.1 million</td>
</tr>
<tr>
<td>Other Businesses:</td>
<td>Related logistics and transport services</td>
</tr>
<tr>
<td>Geographic Shipping Patterns:</td>
<td>Much LTL moves from Northeast to West</td>
</tr>
<tr>
<td>Commodities:</td>
<td>General commodities including LTL</td>
</tr>
</tbody>
</table>

B. Customers

The firm works with about 100 different shippers per year, most of whom are small "Mom and Pop" type operations that generate about 40% of the firm's business. In contrast, a few large accounts generate 60% of the business. The broker has no experience arranging government freight shipments.

C. Carriers

The broker has a carrier base of about 350 firms, although it uses only about 150 of them to date. The carriers are virtually all contract carriers; the broker rarely if ever uses a common carrier. Private/contract carriers are used at times. Concerning carrier size distribution, 80% to 90% of the carriers are small—that is have 20 employees or less. A contract carrier/broker contract is maintained on each carrier as well as copies of carrier ICC operating authority and insurance certificates. Contracts specifically provide for rates that "from time to time may be verbally agreed to" provided they are reduced to writing within 5 days of shipment.

Concerning payment terms, the broker normally bills the shipper and pays the carrier within 30 days—whether it has been paid or not. Generally the broker gets paid in 15 to 30 days, although at times it takes 60 to 90 days. Once the broker was not paid at all, although the carrier was still paid in 30 days since it is the responsibility of the broker to collect from the shipper.
D. Service Provided to Shippers

With one large account the broker provides an LTL consolidation service which has helped reduce customer shipping costs dramatically. In this case the shipper was shipping a large volume from the East and Midwest to the West Coast, all of it as LTL shipments. The broker designed a consolidation program in Chicago using an LTL carrier’s facilities that enabled the shipper to move the product in truckloads (via rail and over the road) from Chicago to the West at much reduced cost. (Of course, the shipments still moved LTL to Chicago.)

Other LTL service is provided to shippers in the Chicago area by placing LTL shipments on trucks already destined for the same region but only partially loaded. This saves time (and money) since it avoids dock handling—the LTL load is picked up at origin and delivered direct to destination without going through any terminals.

In addition the broker uses backhaul carriers to handle large (i.e. 5000 pounds) LTL shipments at very reduced (truckload) rates. For example in one case the broker paid $225 for an exclusive truckload move from Ohio to Chicago which had an LTL class rate of $350.

Other services provided shippers include a printout of all shipments handled by the broker which shippers do not ask for but find very helpful. In the case of small shippers the personal contact and sensitivity to their special needs seems most important in getting and keeping their business.

E. Services Provided to Carriers

Most of the carriers used by the broker are looking for freight in their backhaul. That is, most are headquartered out of Chicago and call the broker for loads to get their trucks back to the origin or headquarter state. They use the broker because they have heard the broker has freight going in the direction they need and they know the broker has a good reputation. That is, the broker pays the carriers in a timely manner.

F. Experience with LTL Shipments

About 40% of the business done by the broker is in LTL quantities, as described above. The larger (5000 pounds) LTL shipments move as backhauls in trucks returning to their origins. Most of these are moving from the East to Chicago or the West. Savings on these exceed the 40% to 50% discounts offered by many LTL carriers.

Also, large volumes of LTL from the East and Midwest are consolidated in Chicago and delivered to the West Coast via TOFC
or truckload carrier. Finally, numerous LTL carriers are under contract to the broker and call when they have a partially loaded truck. If the broker has an LTL going in the same direction the LTL is loaded on the end of the truck and moves directly to destination.

G. Should Brokers Hold Payments "In Trust" for Carriers?

Carriers have never asked the broker to do this or anything like this. Rather, it is important that carriers check out brokers before they use them. Respondent is opposed to such a requirement and notes that it pays carriers in 30 days reliably even when it does not get paid by the shipper.
Broker Interview #4

A. Description of Operations

Firm Name: Chuck Ellis Brokerage, Inc.
Respondent: Charles Ellis
Headquartered: Springfield, Missouri
No. Employees: 10
Broker Licensed: 1983
Broker Revenues: approximately $6 million
Payments to Carriers: approximately $5 million
Other Businesses: Trucking
Geographic Shipping Patterns: Primarily Midwest
Commodities Handled: Primarily food products, canned goods, dairy products

B. Customers

The broker arranged trucking for about 340 different customers during 1987. Customer size ranged widely as did their shipping volumes. Some customers ship 2000 truckloads per week while others only move 2 truckloads per month. Most customers could not be described as small business. Concerning shipment volumes with the broker, the largest 20% of the firms did about 80% of the broker's business. Many customers are food chains or food warehouses.

C. Carriers

Because this broker is owned along with a trucking company, the trucking firm is used when possible. However, other carriers are also used frequently. The majority of these carriers are contract carriers and some of them are private/contract carriers. The private/contract carriers are used whenever possible because they work very well. The size of the carriers used ranges widely, from five trucks to two hundred. The majority have 50 to 200 trucks and thus are medium sized carriers. Rates are negotiated with the carriers ahead of time -- that is, before the load is identified.

Concerning payment terms, the broker pays the carriers in 21 days, although the broker is paid by shippers, on average, in 30 days. This payment period encourages good relations with carriers and carrier loyalty. Even if the shipper does not pay the broker, the broker pays the carrier in 21 days, as required in the carrier-broker contract.

D. Service Provided to Shippers

Many customers first come to the broker because they need a truck in a hurry--perhaps they are using a JIT system--and they know that brokers have a very large fleet of trucks at their
disposal and can access equipment quickly. Also, larger firms are coming to the broker because of equipment shortages. In addition, the broker bills the customer, pays the carrier and helps with any claims.

E. Service Provided to Carriers

Carriers can't keep a salesforce in areas where they do a small or erratic volume of business. Thus a large shipper in Kansas City may be moving 50 truckloads per week into the Southwest. One carrier from that area may be in Kansas City with a truck only twice a month and thus the large shipper would not be interested in dealing with such a carrier. Yet, the broker can bring them together by representing many such carriers.

In addition, a broker may be able to get a carrier a better rate because it knows what the going rates are in an area the carrier is unfamiliar with. Also, the broker pays the carriers reliably in 21 days.

F. Experience with LTL Freight

The broker does not handle LTL freight.

G. Should Brokers Hold Payments "In Trust" for Carriers?

Motor carriers that have problems getting paid by brokers didn't do their homework -- they didn't follow good business procedure. They could check credit ratings and references--there is a company in Florida that keeps data on brokers and how fast they pay. This broker pays carriers in 21 days whether the shipper pays the broker or not.

H. Experience with Federal Government Traffic

The broker does a large volume of business with the General Services Administration and has done so for a long time. The payment for this work tends to be slow. In one case a carrier works for the broker and hauls GSA freight even though the carrier could go direct to the government itself. It does this because it prefers to get paid less from the broker in 21 days than get somewhat higher rates from the government but wait 45 days for payment. Most of the business done for the GSA involves food products.
Broker Interview #5

A. Description of Operations

Firm Name: Zona Transportation Services, Inc.
Respondent: Dave Zona
Headquartered: North Canton, Ohio
No. Employees: About 12
No. Office Locations: 4
Date Licensed: 1983
Broker Revenues: about $3½ million
Payments to Carriers:
Other Businesses: Trucking, transportation services
Geographic Shipping Patterns: Northern Ohio to Northeast and Texas
Commodities: General commodities

B. Customers

Currently the broker does business with about 120 different shippers, most of whom are described as smaller firms that generate most of the broker's business. However, there are a few very large firms that use the broker and generate 10% to 20% of its business.

C. Carriers

The broker has a file of information on about 1200 carriers throughout the nation. Of these it has contracts with about 160 carriers. In a typical month it will use about 50 of these, although the majority of its freight will be handled by 20 carriers. Carrier size ranges from 4 or 5 to 600 trucks, although the broker prefers to deal with carriers that have at least 10 trucks. Respondent noted that there are many carriers that began operations by dealing with a broker and have since expanded their business as the broker expanded.

Although both common and contract carriers are used by the broker, most are contract carriers. They include truckload carriers as well as LTL carriers, and provide nationwide as well as regional service.

D. Service Provided to Shippers

The primary benefit to shippers is the ability of the broker to service truckloads destined to points all over the country. Respondent believed that most truckload carriers tend to operate in lanes and thus could not provide such wide geographic coverage. A second service is help with general transportation and traffic problems experienced by the shippers -- particularly
small and medium sized shippers. The broker offers help on such matters as negotiating with carriers, claims, and rate auditing. Once the broker begins to work with a shipper it tries to learn everything it can about the total shipping business of the firm so that it can offer as much help and service as possible.

E. Service Provided to Carriers

With respect to the benefits provided carriers using a broker, respondent noted that it is very expensive for a carrier to open up a new market area on its own. By using a broker the carrier can attract more business at lower cost. Also, at times a carrier will have only a few trucks in an area per month and this is not enough to support good service to a shipper. However, by using a broker that has many such carriers, the service to the shipper can be good and still provide loads to the carrier.

Concerning payment terms, the broker pays the carriers within thirty days of receipt of the carrier's bill. The broker takes the credit risk in terms of collecting payment from the shipper. Thus the broker pays the carrier in 30 days even though the broker might not be paid by the shipper.

F. Experience with LTL Freight

The broker handles LTL shipments in several different ways. Some LTL shipments are physically consolidated by using a local cartage motor carrier. Others are picked up by an already partially loaded truck going to the destination area. Finally, the broker markets the service of an LTL carrier.

G. Should Broker Hold Payments "In Trust" for Carriers?

Respondent was negative on this proposal and believed that most -- although not all -- collection problems are due to unlicensed intermediaries. Carriers that are hurt often did not follow good business procedures -- they need to do better credit checking. This would minimize although not eliminate the problem. Brokers should take the credit risk and be responsible to pay the carrier, no matter what. In fact, some brokers today pay carriers faster than shippers would.

H. Experience with Federal Government Traffic

The broker does not handle traffic for the Federal Government.
Broker Interview #6

A. Description of Operations

| Headquartered:                       | Baltimore, Maryland |
| No. Employees:                      | See below           |
| No. Office Locations:               | One                 |
| Date Licensed:                      | 1978                |
| Broker Revenues:                    | See below           |
| Payments to Carriers:               | See below           |
| Other Businesses:                   | Customhouse Broker, Foreign Freight Forwarder General commodities |
| Commodities:                        | General commodities |
| Geographic Shipping Patterns:       | Baltimore to Midwest, Midwest to Baltimore |

This firm's primary businesses are customhouse brokerage (CHB) and foreign freight forwarding. As a CHB the firm helps other companies or individuals import goods into the United States. They act as liaison between importers and U.S. Customs and assist in getting imported goods through inspection, arrange payment of any import duties and arrange transport to final U.S. destination if requested. Customhouse brokers are licensed by the Treasury Department. In addition to the services noted, a CHB may also pay the shipping line or air carrier that brought the goods into the U.S.

Foreign freight forwarders are licensed by the Federal Maritime Commission and help U.S. exporters arrange shipment of U.S. products to foreign destinations. The forwarder may arrange shipment of product from the Midwest to Baltimore, for example, then arrange for handling and shipping to a foreign destination. This service may include such things as processing of bills of lading, dock receipts, delivery orders, consular documents, or export declarations. (For a discussion of the operations of foreign freight forwarders, see Robert C. Lieb, Transportation, Reston Publishing Co., p. 159.) An ICC license to engage in property brokerage by motor vehicle is of clear advantage to CHB's and foreign freight forwarders since it allows them to legally arrange trucking when required by customers and to be compensated for this service.

Freight moved through the ICC brokerage varies widely in terms of commodities and volumes. For example, much freight moves in LTL quantities using the large general commodity carriers such as Roadway and Yellow Freight System, although some shipments do move in truckload quantities. For truckload shipments the firm tries to use truckload divisions of the major carriers to avoid having the shipment move through carrier terminals. Concerning commodities handled, this also varies and may include a single suitcase, electronics, or bulk raw materials. The number of employees working in the ICC brokerage

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operation is difficult to determine since it is meshed with other operations of the firm. The only size indication was the annual earnings of the brokerage which were estimated at $95,000 per year.*

B. Customers and Service Provided to Customers

Shippers served by the ICC brokerage vary widely in size—from a well known tire manufacturer to an individual with one suitcase—although most are described as small shippers. In total the CHB represents about 3000 shippers per year. The ICC brokerage was described as providing two services for shippers: shopping for rates and making the arrangements when the shipment was ready to move.

C. Carrier Relationships

The firm deals with about seventy different motor carriers each year, 95% of whom are ICC regulated common carriers. Carrier size varies widely from the largest LTL carriers noted above, to much smaller carriers that serve a restricted geographic region. Normally the motor carriers are paid by the receiver of the goods on a collect basis, thus the broker does not usually pay the motor carrier or handle the money. The broker helps the carriers by bringing them business and normally earns a commission from the carriers of four to six percent.

D. Payment held "In Trust" Proposal

Respondent was not aware of this proposal but noted that in the past some importers had paid CHB's custom fees due U.S. Customs only to have the CHB go bankrupt or disappear without paying the fees. In response, some importers have resorted to sending checks already made out to the U.S. Customs so the money cannot go into the account of the CHB.

E. Participation in Federal Government Freight

Respondent reported no experience with U.S. Government freight. The firm makes no attempt to handle such traffic.

F. Other Comments

Deregulation was described as having put a burden on the broker because of the great diversity of rates now available. Thus the firm must now spend more time searching for carriers with low rates and good service. In the past the rates for the large carriers were always the same so they could select a carrier on the basis of service performance alone. Now they have to call different carriers and compare prices as well, and this requires more rate people. Thus the ICC broker's license has
been helpful since the revenues it generates helps offset the added expense.

*Note that $95,000 is the net amount earned by the broker and thus is not comparable with the annual revenues reported by most of the other brokers interviewed. The annual revenues are much larger since they include the amount to be paid to the carrier.
Broker Interview #7

A. Description of Operations

Headquartered: Harrisburg, Pennsylvania
No. Employees: Four
No. Office Locations: One
Date Licensed: 1981
Broker Revenues: $1.2 million
Payments to Carriers: $.9 to $1.0 million
Other Businesses: Motor carrier, computerized traffic data.
Geographic Shipping Patterns: All U.S. points.
Specializations: Machinery, plant relocations, rigging

B. Customers

The brokerage arranged shipments for 15 to 25 different shippers the prior year, however, 4 or 5 provided the majority of its traffic volume. The large shippers are large corporations (two are Fortune 500 firms) while most of the other shippers are small firms that ship sporadically. The broker had found that it was most important to check the credit of shippers since he had lost money on several loads when the shipper did not pay him. In these cases, he had paid the carriers since, "..it wasn't their problem...I'm the shipper to them."

C. Carriers

In the past year the broker used about fifty different carriers including Bulldog Transport, Builders Transport, J.B. Hunt, and C&H. However, about fifteen carriers were used predominantly and they received the majority of the broker's business. Usually the broker does not have contracts with the carriers, instead they publish special rates for his use. Most of the carriers used were common carriers, although on occasion he would use private/contract carriers. These private carriers however, did not work out very well since they often would refuse to wait a day for a return load. Most carriers used were of "average size for motor carriers."

Payment terms are complex in that the broker paid the carriers 50% of the bill upon receipt of the bill from the carrier and the remainder in fifteen days. This prompt payment is possible because the broker factors much of its accounts receivables. Normally it gets paid from shippers in 30 to 45 days.
D. Service Provided to Shippers

Respondent believed that the most important reason shippers used his brokerage instead of going directly to a carrier was because the broker offered service to all U.S. points. Most carriers were said to concentrate in specific lanes while the broker covers the entire country. In addition, on large moves—for example moving an entire manufacturing plant—the broker can provide the shipper with one bill even though five carriers might actually be used.

E. Service Provided to Carriers

The broker noted that it is very expensive to keep a salesperson active generating loads. Brokers are paid only when they provide business and thus are very economical when the amount of business volume is low.

F. Should Brokers Hold Payments "In Trust" for Carriers?

The broker had not heard of this proposal before but believed that since he paid the carriers before he was paid, it might not apply to him. However, he noted that he might be forced to comply with additional regulations (even though he ran a legitimate business) because others did not.

Respondent stressed the importance of not confusing brokers with other unregulated intermediaries, particularly agents. Many of the problems that occurred were not due to brokers but to these agents and other unregulated firms that had no ICC license or surety bond. Finally, the broker noted that at times the payment problem was reversed. That is, respondent's motor carrier had taken two loads under a trip lease agreement from another motor carrier in Seattle only to have that carrier go out of business and refuse to pay him. The ICC was called but they could not help. Today this is not as common a problem because now brokers and carriers learn quickly who to trust and extend credit to.

G. Broker Experience with Federal Government Freight

Respondent did a significant volume of business with the DoD as an agent for one common carrier. However, no broker business was handled this way. In general he found that government rates were 10% to 20% cheaper than commercial rates and the DoD was somewhat slower to pay than typical private shippers.
A. Description of Operations

Firm Name: Pathmark Transportation Marketing Co.
Respondent: Carl Pierce
Headquartered: Memphis, Tennessee
No. Employees: 27 plus 19 commission sales people
Broker License: 1983
Annual Revenues: $12 million
Payments to Carriers: $10.8 million
No. Office Locations: Five - Tennessee, Ohio, Texas, Georgia, Missouri
Other Businesses: Traffic consulting, freight bill auditing, TOFC service.
Business prior to 1983: Trucking
Major Shipping Patterns: From Central States to all U.S. points
Commodities: General Commodities

B. Customers

During 1987 the broker served about 700 different firms which ranged widely in size. However, the largest 100 customers provided a disproportionately large volume of the broker's business. The broker noted that the firm's marketing efforts were focused on larger firms because they were the most profitable and easiest to deal with. (For example, they had well established and managed shipping operations that helped make volume shipping easy to accomplish and routine in nature.) In addition, very small firms are hard to get information on, thus they are less attractive as customers.

C. Carriers

Currently the broker has 291 carriers under contract or with special rates filed for the broker if the carrier is a common carrier. However, of these 291, forty are used on a daily basis and do the majority of the broker's business. During 1987 all 291 carriers were used at least once.

Some of the carriers used are private carriers with contract authority. Such carriers were said to "...work well" but were somewhat restrictive in that they often needed to return to their base immediately, and would not even take a triangular trip home. In addition, they strongly preferred palletized or "no touch" loads, and convenient pick up and delivery times (i.e. convenient to them.) In contrast, some private carriers that were organized on a profit center basis and were leased operations running under
the authority of the leasing companies, were described as more flexible.

The broker pays carriers within five days of being paid by the shipper. However, if the shipper does not pay the broker it always pays the carrier. (This was a very rare event since shippers are credit checked.) Typically if the shipment pick-up is on Day 1, the broker will receive the bill of lading (showing delivery by the carrier) via mail on about Day 11. The shipper will be billed on Day 12 and will pay the broker by day 25 to 30. Carriers will be paid on Day 25 to Day 30. However some shippers will pay much quicker, particularly if they use electronic data interchange to speed up the process.

Concerning size of carriers, the average or typical carrier used is between 250 and 400 trucks. A small number have less than 50 trucks (about 20 currently). These small trucking firms are normally very good with respect to service but are limited in terms of the volume of business they can handle.

D. Service Provided to Shippers

Brokers can provide a variety of services to shippers. For example, a firm may have an unusual or emergency situation in which it needs fifty or more trucks in a short time. Motor carriers are not able to meet that need normally, although brokers can. In addition, in dealing with a broker the shipper gains convenience and reduces the time it takes to call numerous carriers to discuss many different shipments. The broker can accomplish all this for the shipper in one telephone call.

Respondent noted that the brokerage attempts to emphasize high quality service including information on loads. This is particularly important when something goes wrong--the truck is delayed for some reason. By calling the shipper immediately it may allow the shipper to take action or alert the destination party to reduce the difficulty caused by a late load. Also, the shipper has the convenience of receiving one bill for numerous shipments, thus reducing paperwork.

Another service the broker performs for shippers is screening and monitoring the carriers. This is particularly important for shippers that ship hazardous materials since it improves reliability and reduces risk.

E. Service Provided to Carriers

The main advantage to carriers from using the broker is the economic sales ability of the broker. This allows the carrier to get freight without having to pay for marketing until the freight is actually generated. This is particularly useful to carriers because they can get loads out of areas where they have no
salesforce of their own. Providing backhaul freight is the great advantage that brings most carriers to the broker initially, although over time, as trust is developed, the carrier may begin to work with the broker on marketing its entire service, not just backhauls. The use of a broker is clearly superior to trip leasing.

F. Experience With LTL Freight

Currently the broker handles about 90% of its business in full truckloads, and the remainder in large LTL shipments. However, it intends to expand the LTL business soon by connecting LTL distribution carriers with truckload carriers hauling full loads of LTL from one shipper.

G. Should Brokers Hold Payments "In Trust" for Carriers?

Respondent was opposed to this concept and noted that none of its competitors--motor carriers--had to do this. It was noted that in the past the broker had engaged in co-brokerage with other brokers and had experienced difficulties in getting paid at times.

H. Participation in Federal Government Freight

The broker refused to become involved with this freight because the payment period is too long--it was said to take anywhere from 45 to 90 days to get paid from the Government.

I. Other Comments

Most shippers served by the broker shipped both LTL and truckloads and use a number of LTL and truckload carriers in addition to the broker. Thus the broker is a small supplier to most shippers.

In general, respondent believed the image of brokers is not good because they are seen as being poor business people--and this is often true. Finally, the surety bond required of brokers is of little help or meaning -- "...a facade." Ten thousand dollars is a very small amount in relation to the average balance carried by brokers. Carriers do not have to post such bonds, although there has been a lot more money lost to bankrupt carriers than to brokers. If brokers must have a bond, so should carriers--the two should not be treated differently.
Broker Interview #9

A. Description of Operations

Firm Name: Freight Distribution Services, Inc.
Headquarters: Burbank, California
Respondent: Barry Keyes
License Date: 1980
No. Employees: 40 office staff plus 16 commissioned sales
No. Office Locations: 1
Broker Revenues: over $24 million
Carrier Payments: NA
Other Business: Transportation Freight Management
Shipping Patterns: To and from U.S. and international points
Commodities: General Commodities
Prior Business: Trucking, warehousing, piggyback, LTL

Operations and Customers

F.D.S.I. has operated in the traditional, spot market manner typical of most brokers since 1980. However, it has recently switched its emphasis to freight management in which the firm offers a wide array of transport services including rail, TOFC, truckload and LTL motor, small packages, air freight, international shipping and warehousing.

Its freight management program is founded on study of a firm's traffic patterns to identify changes in carriers as well as shipping methods that will provide good service at a savings to the shipper. Once the shipper brings in the new carriers, F.D.S.I. will receive a commission from the carriers on all the business they do for that shipper. Thus in this arrangement F.D.S.I. does not do the customer billing but is paid a commission.

Although a variety of shippers have implemented freight management programs through F.D.S.I., the primary focus is on large, firms with annual sales of $50 million and up. Sales of F.D.S.I.'s service are generated by 36 commissioned salespeople and 192 agents throughout the U.S. and foreign countries. Typically these agents are other brokers or freight management professionals that sell under an agreement with F.D.S.I., along with the other business they do for themselves.

F.D.S.I.'s freight management program is different because it offers a wide array of transportation services as well as transportation/warehousing consulting. In addition it is focused on the ongoing, year round, inbound and outbound shipments of the firms. It is not oriented to filling empty backhauls for carriers -- a typical service provided by many brokers.
The spot market operations of F.D.S.I. still account for about 75% of its total business and generate over $1.5 million a month in gross billings to shippers. (This includes 2000 to 2500 truckloads arranged per month.) Usually F.D.S.I. does the billing on spot market transactions and commits to pay carriers within 30 days of receiving their bill with proper paperwork. Normally they are paid by shippers within this time period. The customers using this service range widely in size.

Carriers

Currently the firm actively uses about 500 different carriers. The broker checks each new carrier for authority and insurance and finds out the carriers' interests in terms of traffic lanes or areas served. All carriers must sign a contract. Carrier size varies, most have 100 or more power units. The firm in one case set up a new carrier to fit the particular needs of a shipper client -- an unusual step for a broker.

Services Provided to Carriers

Carriers work with F.D.S.I. because they can attract increased business at a cost below what it would cost them to generate it with their own salesforce. F.D.S.I. is described as an "...added sales tool for the carriers."

Services Provided to Shippers

With respect to the freight management program, F.D.S.I. offers a review of the firm's transportation and warehousing methods to bring about reduced logistics costs. In a recent case, one shipper saved $500,000 a year when it implemented the program. In addition, F.D.S.I. set up a freight payment plan in which all carrier bills were audited before payment and a monthly reports were provided to the shipper. Arrangements were made to spot six trailers a day at the shipper's docks -- thus allowing direct loading and saving 15,000 feet of space on the dock. Two dock worker jobs were eliminated.

Should Brokers Hold Payments "In Trust" for Carriers?

Respondent was aware of this proposal but was not familiar enough with it to comment. In any case, the freight management business and some of the spot market business required the carriers to do the billing.

Experience With Federal Government Freight

The firm has not pursued this freight. It appears to be more cumbersome and requires more paperwork than private shippers require.
INTERVIEWS OF NINE BROKERS

1. Description of Operations
   - Truckload and/or LTL shipments?
   - Number of office locations, date of authority, number of employees
   - Geographic shipping patterns, sales revenues, payments to motor carriers, number of employees, commodities handled, specialization
   - How differ from surface freight forwarder, shippers' agent, custom house broker?
   - Other businesses currently operated
   - Business prior to beginning brokerage

2. Types of Customers and Their Needs
   - Customer size by number of employees
   - Number of customers
   - Shipping patterns of customers, TL and/or LTL
   - Services provided to customers

3. Carrier Relations
   - Number of carriers used during 1987
   - Types of carriers used-common, contract, private-for hire, owner operator trip lease
   - Size distribution of carriers
   - Services or benefits provided for carriers?
   - Has the broker ever supported a carrier for ICC authority?
   - Payments to carriers: who does customer billing?
   - Time between carrier delivery of shipment and payment to carrier?
   - Comment on proposal to hold carrier payments "in trust?"

4. Participation in Federal Government Freight
   - Proportion of 1987 shipments/tonnage?
   - Agency/(DoD GSA ?)
   - Comments on arranging Federal Government shipments?
Interview Summary: Metex, Inc.

Broker: Metex, Inc.
Headquartered: St. Louis, MO
Respondent: James Dahlem
License Date: 1986
No. Employees: 3
No. Offices: 1
No. Annual Shipments: 1500
Broker Revenues: $1 million
Payments to Carriers: $850,000 to $900,000

Parent Corporation, Organizational and Operating Relationships

The parent corporation is Metal Exchange, Inc., an aluminum broker. In addition to trading (which accounts for 80% of its business) Metal Exchange also refines aluminum and manufactures semi-finished aluminum products. The firm has a private fleet consisting of 15 power units and 130 trailers (open top vans) used primarily to collect aluminum scrap from other companies. It expects to become an ICC licensed carrier in the near future. Metal Exchange has about 125 employees, ten offices, plants and warehouses in the U.S. and two sales locations abroad. Traffic decisions are made centrally in St. Louis for all U.S. operations except the two manufacturing plants which handle their own traffic.

Metex is wholly owned by Metal Exchange and is operated by its traffic department. Both firms have benefitted from this arrangement in a number of ways. Metal Exchange earns additional profits (i.e. Metex profits) and has reduced its trucking costs somewhat because Metex is given lower rates by some carriers than Metal Exchange could get from the same carriers. (In other words, some carriers offer brokers lower rates than they offer shippers.) Also, at times the shipments of Metal Exchange can be coordinated with Metex shipments to provide carriers with balanced, two way hauls which are attractive to the carriers and generally lowers rates.

Metex has benefitted from the expertise of the Metal Exchange traffic department and the parent's support of the firm's start up. In addition, the Metal Exchange insurance provider also was used to provide the surety bond.

It should be noted that aluminum brokers are sensitive to transport costs, since the profit margins are quite small, per pound. If trucking costs are reduced by $100 per truckload, this amounts to about $ per pound which is an important amount when margins are 2¢ per pound. Thus logistics costs are an important component of a metal broker's total cost.
Concerning other operating relationships, Metex originally planned to market its service to firms in the metals industry, including vendors, customers and competitors of Metal Exchange. However, marketing to these firms has had limited results since they are wary of letting other competitors know their sources of supply and their customers.

Reasons for Establishing the Brokerage

The fundamental attraction to Metal Exchange of a motor carrier brokerage was simply to earn more profits. However, another motivating factor on the part of some was to document the excellent job the traffic department was doing in getting good trucking service at low rates.

Relations with Carriers

Currently Metex uses 75 to 100 different carriers per year, although it depends on ten to fifteen which are used consistently. The carriers used typically have 25 to 50 power units (a small trucking company) and are headquartered in the South or Central U.S. The carriers normally will have customers in the headquarters area that give them shipments in a "shotgun" pattern -- that is, to a wide array of points. As a result the carriers look to Metex to fill their empty backhauls. Although about 90% of the loads brokered to carriers by Metex are backhauls to the carriers, they do accept "fronthaul" business at times. Equipment used includes dry vans primarily with occasional open tops and flatbeds. Carriers were identified by other brokers that were handling Metal Exchange shipments as well as carriers that were already doing business with Metal Exchange. The carriers are paid by Metex, usually within two weeks of receipt of the carrier's bill. Metex bills the shippers and credit checks them as well. To date no shipper has failed to pay Metex.

Relations with Shippers

Most Metex business comes from a few firms that ship such commodities as aluminum, cat food, paper bags and boxes, manufactured products and cosmetics. Customers are now solicited by one outside salesperson that calls (by telephone and personally) on potential accounts. Respondent noted that it seems rather easy to attract the new accounts. As for what Metex does for shippers, it was not clear what motivates customers to use the brokerage. That is, no special services or equipment is involved normally and the rates were described as "average -- not super low." Yet, the broker is able to handle loads that are destined for a wide variety of locations -- their business is not in the same, recurring lanes. This ability to service a wide geographic area was one characteristic that might explain
the demand for Metex's service, since many motor carriers are not interested in such business.

Concerning rates, Metex quotes on a mileage basis (i.e. "85¢ a mile from point A to point B") rather than cents per hundred weight. The pricing constraints are the amount necessary to get a carrier to take the load (minimum) and what the market will bear, as a maximum. The firm tries to earn at least $75 per load and usually "marks up" the rate paid to carriers by 15¢ to 20¢ per mile. The exact rate offered is a judgment issue to some extent, and the firm tries to maximize profit by quoting somewhat higher rates to less sophisticated firms. Apparently such firms are thought to be less price sensitive or have poorer information on carriers and rates.
In House Brokerage Interview

Respondent Name
Parent, industry: size, private fleet? Authority?
-Transport decisions: centralized?
No. employees
Broker: date of license, start date, size - $, No. shipments annually
-Consistent shipping patterns?
-Payment and billing practices

Relations with Carriers
-No. carriers used annually, No. under contract, etc.
-Equipment types
-Annual payments to carriers
-Carrier size distribution
-Who does customer billing?
-Why does carrier use you?
-How attract carriers to use you?

Relations with Shippers
-No. shippers serviced per year? How market the trucking service to shippers?
-Industry, who are customers?
-Size - less than 100, etc.
-Services provided them?
-Shipping patterns?

Relationship to Parent Corporation
Purpose of broker? - Profit, help private fleet? Get better rates/service from carrier? Support Carriers? Support continuous movement program?
Organization - part of parent or separate?
Appendix 4. Small Shipper Interviews

Twenty five shippers with recent experience using ICC licensed brokers were interviewed, twenty-two by telephone and three in person. The interviews were intended to be exploratory; i.e. to gather information on the shipper-broker relationship without reference to a specific hypothesis. Exploratory research is intended to help form testable hypothesis, not to confirm or reject one. These interviews were not selected in a random manner and the results cannot be generalized to all broker customers.

Before describing the interviews, it may be useful to note some of the more obvious biases that could affect the results. Concerning selection of respondents, most of the shippers interviewed were identified by brokers, (specifically, the sources of respondents were: twenty-two shippers from ten brokers, two shippers from the Principal Investigator, and one shipper from ACTEBA). Such a selection process is open to bias in that the brokers may suggest firms that have a particularly good working relationship with the brokerage. This could affect the respondents' perceptions: perhaps dissatisfied customers would be more likely to perceive disadvantages from using brokers than satisfied customers. Yet interviews of small shippers with recent broker experience may be inherently biased since current and recent users are more likely to be satisfied users. In other words, users are more likely to be satisfied than non-users. (There are advantages to the selection method--it is inexpensive,
quick and it insures that the respondents are recent users of ICC licensed broker service. This last criterion is most important since some shippers are frankly unaware of the legal status of those that arrange their trucking.)

Finally, in any research of this nature a potential bias may be toward rationality. That is, when interviewing people about their purchasing behavior it is possible that the respondents tend to rationalize their selections. For example, in order to appear efficient, intelligent and effective to the interviewer, the respondent may give reasons for purchases which sound rational (such as lower price and/or superior service) and ignore more personal motives—such as a friendly relationship with the salesperson. (One respondent however, did mention the personal efforts and helpful attitude of their broker's salesman—after discussing price and service quality.) This issue is noted here because personal selling appears to be the primary promotion tool used by most brokers.

Table 1 provides summary data on the twenty-five respondents; additional information from the interviews is discussed below the Table.
**Shipper Interviews Summary**

**TABLE 1**

<table>
<thead>
<tr>
<th>No.</th>
<th>Est. No.</th>
<th>Shipping Volumes</th>
<th>2TL/week</th>
<th>60-75 TL/yr.</th>
<th>$35 mill./yr.</th>
<th>16 mill. lbs/mo.</th>
<th>40-50 TL's/mo.</th>
<th>100-150 TL's/mo.</th>
<th>5 mill ibs/yr TL</th>
<th>3-4 TL's/week</th>
<th>10 TL's/week</th>
<th>50 TL/year</th>
<th>2TL/week</th>
<th>60 TL/year</th>
<th>4-5 TL's/month</th>
<th>40 TL/week</th>
<th>150 TL/year</th>
<th>8-10 TL/month</th>
<th>2 TL/week</th>
<th>8 TL/month</th>
<th>550 TL's/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Brown PA</td>
<td>M 400 (100)</td>
<td>2TL/week</td>
<td>2</td>
<td>P</td>
<td>None</td>
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<tr>
<td>2.</td>
<td>Brown PA</td>
<td>M 250 (24)</td>
<td>60-75 TL/yr.</td>
<td>1</td>
<td>P</td>
<td>Communications</td>
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<tr>
<td>3.</td>
<td>ACTEBA VA</td>
<td>R 15,000</td>
<td>$35 mill./yr.</td>
<td>8</td>
<td>S</td>
<td>No carrier relationship</td>
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<td>4.</td>
<td>Broker NJ</td>
<td>M 450 (100)</td>
<td>16 mill. lbs/mo.</td>
<td>5</td>
<td>S</td>
<td>More costly, Reliability</td>
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<td>5.</td>
<td>Broker TX</td>
<td>M 150</td>
<td>40-50 TL's/mo.</td>
<td>4</td>
<td>S</td>
<td>No Trailer Spotting</td>
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<td>6.</td>
<td>Broker IL</td>
<td>DW 21</td>
<td>100-150 TL's/mo.</td>
<td>25-30 P</td>
<td>No</td>
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<td>7.</td>
<td>Broker IL</td>
<td>M 100</td>
<td>5 mill lbs/yr TL</td>
<td>2</td>
<td>P</td>
<td>None</td>
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<tr>
<td>8.</td>
<td>Broker IL</td>
<td>M 75 (25)</td>
<td>3-4 TL's/week</td>
<td>NA</td>
<td>S</td>
<td>None</td>
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<tr>
<td>9.</td>
<td>Broker GA</td>
<td>M 40</td>
<td>10 TL's/week</td>
<td>1</td>
<td>P</td>
<td>Communications</td>
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<td>10.</td>
<td>Broker MO</td>
<td>DW 60</td>
<td>60 TL/week</td>
<td>2</td>
<td>S</td>
<td>Carrier dependability</td>
<td></td>
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<td>11.</td>
<td>Broker MO</td>
<td>DW 13</td>
<td>50 TL/year</td>
<td>1</td>
<td>B</td>
<td>None</td>
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<td>12.</td>
<td>Broker KS</td>
<td>DW 40</td>
<td>NA</td>
<td>1</td>
<td>P</td>
<td>None</td>
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<td>13.</td>
<td>Broker CA</td>
<td>M 50-70</td>
<td>250 TL's/yr.</td>
<td>1</td>
<td>B</td>
<td>No</td>
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<td>14.</td>
<td>Broker KS</td>
<td>DW 300</td>
<td>600 TL's/week</td>
<td>1</td>
<td>S</td>
<td>No</td>
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<td>15.</td>
<td>Broker NJ</td>
<td>P 130</td>
<td>20 TL/yr.</td>
<td>1</td>
<td>S</td>
<td>None</td>
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<td>16.</td>
<td>Broker IL</td>
<td>DW 45</td>
<td>10 TL/week</td>
<td>1</td>
<td>B</td>
<td>Carrier not paid</td>
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<td>17.</td>
<td>Broker PA</td>
<td>M 90</td>
<td>60 TL/year</td>
<td>1</td>
<td>S</td>
<td>No</td>
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<td></td>
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<tr>
<td>18.</td>
<td>Broker PA</td>
<td>M 5000</td>
<td>NA</td>
<td>2</td>
<td>S</td>
<td>No rate advantage for large co.</td>
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<td>19.</td>
<td>Broker MI</td>
<td>DW 150</td>
<td>4-5 TL's/month</td>
<td>3-4 P</td>
<td>Broker bankruptcy</td>
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<tr>
<td>20.</td>
<td>Broker PA</td>
<td>DW &lt;100</td>
<td>40 TL/week</td>
<td>1</td>
<td>P</td>
<td>None</td>
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<td>21.</td>
<td>Broker VA</td>
<td>M 50</td>
<td>150 TL/year</td>
<td>2</td>
<td>S</td>
<td>No</td>
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<td>22.</td>
<td>Broker CA</td>
<td>DW 18</td>
<td>8-10 TL/month</td>
<td>1</td>
<td>S</td>
<td>No</td>
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<td>23.</td>
<td>Broker NV</td>
<td>M 80</td>
<td>2 TL/week</td>
<td>1</td>
<td>P</td>
<td>None</td>
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<td>24.</td>
<td>Broker CA</td>
<td>DW 15</td>
<td>8 TL/month</td>
<td>1</td>
<td>B</td>
<td>No</td>
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<tr>
<td>25.</td>
<td>Broker IL</td>
<td>DW 75</td>
<td>550 TL's/year</td>
<td>Many B</td>
<td>No</td>
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* P = Price primarily  ** M = Manufacturing  P = Printing
S = Service primarily  DW = Distributor, Dealer, Wholesaler
B = Both price and service  R = Retailer
As noted in the Table, the primary business of twelve respondents was manufacturing, twelve were wholesalers, distributors or dealers, and one was a large retailer. Most would typically be described as small shippers, although several (#3, #4, #14, #18) were medium or large. Table 1 describes size in terms of number of employees and shipment volumes. The total company employment is noted with employment at the respondent's location in parenthesis when there is more than one location. The latter figure is often most relevant, particularly when traffic decisions are decentralized—i.e. when selection of the trucking company and/or broker is left to each location's management. In this situation with each location acting independently, the traffic activity is comparable to a small company rather than a large firm purchasing large volumes of trucking service at one time. In any case the majority of the firms employed fewer than 100 people and had one location.

Shipping volumes are also useful as size indicators since some firms with a large number of employees (service firms, for example) may ship relatively little, particularly in truckload volumes. In contrast other firms with fewer employees (such as a distributor or wholesaler) may do a substantial volume of truckload business and be more sophisticated in purchasing of trucking service. Review of the respondents' comments in describing their shipping volumes indicates that about half are very small—i.e. ship one or fewer truckloads per day (excluding any private carriage, rail, and LTL shipments). Most of the
remainder ship two to three truckloads a day, although four are medium to large shippers. As would be expected from the small shipping volumes involved, about half of the respondent firms used only one broker. In contrast, the larger shippers tended to use multiple brokers.

Reasons For Using Brokers

Respondents provided a variety of answers to the question, "Why do you use a broker instead of a motor carrier?" Virtually all of the comments focused on price and service quality. In reviewing these answers an attempt was made to identify the primary motive or reason, when possible. This is an admittedly subjective process particularly since a respondent's actions may be complex. For example, a shipper may say it selects a carrier or broker on the basis of price, but it may not take rate quotes from carriers or brokers unless their service is perceived as good. The interviews are summarized in an appendix so that others may review the remarks and draw their own conclusions.

After review of respondents' comments it appears that nine used brokers primarily because of lower prices, eleven because of better service and five for both reasons. (See Table 1.) It is worth noting that all four of the larger shippers (#3, 4, 14, 18) were service oriented. None of the larger shippers were motivated primarily by price consideration— in fact one believed he was paying slightly higher (about 1%) rates to the broker. This outcome is consistent with the beliefs of some: Brokers No. 1 and No. 2 during their interviews for this study reported that
large shippers already get the lowest rates due to their volume of business and that brokers helped small shippers get almost comparable rates.

Although nine shippers are described as price motivated, almost all of them noted that service was good also. For example, shipper No. 12 selected the carrier or broker on the basis of the lowest price but only asked for rate bids from among those that had provided good service in the past. The five shippers described as both service and price motivated also discussed these two variables but did not indicate that one was more important than the other.

A brief summary of the eleven service oriented respondents' remarks is presented below.

<table>
<thead>
<tr>
<th>Firm No.</th>
<th>Service Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Needs many trucks quickly for large shipments</td>
</tr>
<tr>
<td>4</td>
<td>Trucks hard to find in Montana</td>
</tr>
<tr>
<td>5</td>
<td>Broker checks carriers, provides trucks during peak periods</td>
</tr>
<tr>
<td>8</td>
<td>Broker gets hard to find equipment</td>
</tr>
<tr>
<td>10</td>
<td>Convenience - saves shipper time and effort calling many carriers</td>
</tr>
<tr>
<td>14</td>
<td>Convenience - saves shipper time and effort calling many carriers</td>
</tr>
<tr>
<td>15</td>
<td>Faster, fewer problems, reliable, saves shipper time</td>
</tr>
<tr>
<td>17</td>
<td>Good equipment, handles problems effectively</td>
</tr>
<tr>
<td>18</td>
<td>Broker has specialized equipment, helps on import shipments</td>
</tr>
<tr>
<td>21</td>
<td>Convenience, shipper needs to make only one call</td>
</tr>
<tr>
<td>22</td>
<td>Convenience, shipper needs to make only one call</td>
</tr>
</tbody>
</table>

Reviewing the above comments suggests that "good service" means different things to shippers that use brokers—although four (No's 10, 14, 21, and 22) emphasized convenience. In addition, another four (No's 3, 4, 8, 18) noted the broker's
ability to access hard to find trucks. They were hard to find due to the type of equipment (No. 18), location (No. 4) or timing (No. 3).

Finally, the comments on "good service" by all respondents were reviewed and it appears that the single most common aspect of good service (mentioned by six respondents) related to the broker's access to trucks. That is, the broker could find trucks when it was difficult for the shipper to do this for some reason. (See the comments of No.'s 3, 4, 5, 8, 16, 25.) Next, convenience--one call that saves the shipper time and effort--was noted by five respondents (No.'s 10, 12, 14, 21, 22). Three respondents (No.'s 6, 19, 23) believed the broker provided faster, direct service. The remaining eight respondents cited a wide variety of "good service" aspects including help with other shipping matters, close working relationship, reliable delivery, good equipment and access to carriers going all over the country.

Disadvantages of Using Brokers

Perhaps the most notable aspect of shippers' responses to the question, "Have you experienced any disadvantages from use of a broker?" is the fact that sixteen of twenty-five answered "no" or "none." The disadvantages that were noted varied widely including, among others; "added communication burden," "no shipper-carrier relationship," "no trailer spotting," "two brokers didn't pay the carriers," "carriers not always dependable," "less carrier control," "no rate advantage for big shippers."
It is worth noting that two shippers commented that brokers had gone bankrupt or closed their business and did not pay the carrier. In one case the carrier went to the shipper and asked him not to pay the broker—which the shipper agreed to. In the other case the shipper had paid the broker and was not affected by the bankruptcies.

**Large Shipper Use of Brokers**

After review of the interviews it is interesting to note that large shippers appear to differ from small shippers in their use of brokers. As already noted, they tend to be service (not price) motivated and they tend to use more brokers in a year than small firms. Finally, it appears that while small shippers may give all or a large proportion of their truckload business to one or two brokers, large shippers are more likely to do a small proportion of their shipping business with brokers. As examples, No. 3 did about 2% of its business with brokers, No. 14 did about 15% and No. 18 did about 5 percent. In contrast, No. 4 did 40% to 50% of its truckload business with brokers (although there is some question as to the legal status of the intermediaries used since two could not be identified as licensed ICC brokers.) Also, No. 6 did all of its truckload business with brokers. Although it shipped a substantial volume, No. 6 was a small firm in terms of employment.

**Other**

In almost all cases the shipper reported use of brokers on an "as needed" basis, with no contract between them. Also, the
Shippers were billed by the broker (typically within a few days to a week) and paid the broker two to four weeks from receipt of the bill. Most expected to continue using the current brokers as they have been using them.

Conclusions

The small number of interviews conducted makes it impossible to project these findings with confidence to all shippers. However, the results suggest that brokers are particularly helpful to small firms and small shippers because they provide both lower prices and useful service to these firms. Also, it appears that brokers do not provide larger shippers with lower prices primarily, but they offer them convenience and specialized service. These findings tend to support the assertions of some brokers that brokerage helps reduce the difference between the low rates available to large shippers and the higher rates often paid by small shippers.
SHIPPER INTERVIEW #1
Pennsylvania
Source: Brown

Firm Size and Operations

The company employs about 400 people in several locations in the Midwest and East. The Pennsylvania operation employs about 100 people and makes all its own trucking decisions. The firm is in the aluminum industry: it melts scrap aluminum as well as virgin ingots into aluminum ingots for sale. In addition it extrudes ingots into finished products which are then sold to customers. Thus the company ships scrap, ingots and aluminum products throughout the East and the Midwest.

Shipment Volumes

The company ships 2-3 truckloads per day on its own private fleet, and about two truckloads per week on outside carriers or brokers. In addition, it has a constant flow of LTL shipments and small parcels. Shipping patterns for the truckload freight are erratic--there are no fixed lanes or recurring patterns to shipments. The private fleet is used only on shorter -- 250 miles -- trips.

Broker Usage

The firm has been using two brokers and several motor carriers for the past eighteen months. Brokers are used instead of carriers because the broker offers lower prices on a specific shipment. Service quality has been excellent from both carriers and brokers, so the choice is based simply on price considerations. Brokers used are Tucker Co. (NJ) and Metex (MO)--both ICC licensed brokers.

Cost or Other Disadvantages From Using a Broker?

No. There has been no disadvantage from using a broker over a carrier. If anything, use of a broker has saved the firm money and has not hurt the company.

Spot Market or Long Term Transactions

The firm purchases trucking on a spot term basis only. Since the shipping is erratic, without any pattern or predictability, each load is purchased individually on a spot basis.
Payment Terms

The shipper pays the broker, not the carrier. They are billed a few days after shipment and pay the broker within two weeks.

Use of Brokers, Carriers, Private Fleet

Private fleet takes about 90% of all truckloads, carriers and brokers split the remainder about equally.

Other Comments?

Reaction to brokers is positive, offering good rates and service. The broker gives the firm the same carrier on most loads, but has used a variety of different carriers over time.
Firm Size and Operations

The firm employs about 250 people in total, at ten plants nationwide. This location employs about 24 workers and does all its own transport purchasing. The company molds and forms insulation used for industrial machinery and other equipment where pipes must be insulated. The firm ships about 60 to 75 truckloads per year, primarily into the Northeast, South and Midwest (in order of volume). About 65% of shipments are carried on the private fleet, about 20% go direct carrier, and 15% go via brokers.

Broker Usage

Brokers are used because their prices are competitive. One specific advantage from using a broker was that the broker could help find carriers going all over the U.S. Carriers often were willing to take loads going in one direction, but were often not helpful or interested in loads to other parts of the country. It was noted that it is not always easy to find carriers that would go to all points.

Costs or Other Disadvantages From Using a Broker?

One disadvantage from using a broker was noted: it made it more difficult to get information quickly if something went wrong. For example, if a carrier was late for a pick-up, the shipper had to call the broker who then called the carrier and then called the shipper back, etc. The broker added another party in the information chain and thus made communications more difficult at times.

Spot Market or Long Term

The shipper used brokers on both a spot, single load basis as well as on a long term agreement to ship a continuing volume from the same origin to the same destination.

Other Comments

Broker service was needed, their rates were competitive or the company would not use them.

Payment Terms

The firm was billed in about three days from shipment, and paid in about two weeks. Currently the shipper was using Coast to Coast Brokerage (NJ) an ICC licensed broker.
Virginia
Source: ACTEBA

Firm Size and Operations, Shipment Volumes

The shipper is a large retailer with over 200 retail locations in the U.S. Annual sales approximate $2.1 billion with a total shipping cost (freight bill) of about $35 million. Total employment nationwide is about 15,000. Shipping patterns are diverse but include shipments to the retail locations from six regional distribution centers as well as direct shipments from vendors to retailers and the distribution centers. In addition imports account for a significant part of the total shipping bill. Products shipped include a wide variety of retail goods, from bulky lawn furniture to jewelry. Also, printed advertising materials—an exempt product—are trucked to various cities and are notable because they require timely shipment. Most of the firm's shipments are handled by contract motor carriers, (15) and seven national and regional LTL carriers.

Broker Usage

During 1987 the firm shipped approximately 1500 truckloads with brokers. About half of these shipments were newsprint and the rest were various retail products. This volume constituted less than 2% of their total shipping volume. The firm used eight different brokers although most of the shipments were handled by three firms. The printed matter moves to various U.S. points from Kentucky and Minnesota and presents something of a problem since a large number of truckloads are generated in a short period of time and then must move quickly to destination. Time is crucial since the printed matter often involves sales promotions that are good for only a brief period.

The firm uses brokers primarily because they cannot use their normal contract carriers for some loads. Newsprint requires many trucks to move large volumes in a short period of time and their normal carriers cannot provide equipment for such situations. Also, at times they will purchase a large volume of retail product from one source and that also will have to be moved quickly. The shipper commented that they would prefer to use just their regular carriers but brokers were necessary since the carriers could not respond to their needs for these irregular, large volume shipments. Although the brokers did move exempt products they also held ICC licenses to broker general commodities.

Cost or Disadvantages From Use of a Broker?

One serious mishap involved a truckload of printed materials which was not handled properly and eventually was lost. It was
found one month later but the materials were useless since they announced a sale that was long since over. In addition, business was lost during the sale due to the lack of the advertising materials. The printed matter itself was worth $26,000.

Spot Market or Long Term Relations With Brokers?

The shipper uses brokers on a spot basis, as needed to fill unusual shipping needs. They have no contracts or long term agreements in force with any broker, however, they usually use the same brokers and have developed informal working relations with them over a period of years.

Payment Terms

The shipper pays the broker not the carrier.

Other Comments

The shipper does have a private fleet, but could not comment on how much volume moves on the fleet versus other carriers. The largest group of private trucks is at one of the distribution centers and is used to service retail locations. It consists of 12 power units and 196 trailers.

In conclusion, the shipper noted that use of a truck line was preferable to using brokers due to greater direct control over the trucking firm. Also, it allowed the company to build working relations with the carrier. It was suggested to other shippers that they develop good working relations with any broker they use and get to know the broker and the carriers it used.
SHIPPER INTERVIEW #4
New Jersey
Source: Broker

Shipper Description

The shipper employs a total of about 450 people throughout the U.S. At the firm's New Jersey headquarters it employs 100 people. There are a total of 12 warehouses, 3 other locations and 12 vendors. All shipments are controlled by the main office. The firm ships about 15 to 17 million pounds per month using rail and full truckloads on inbound and LTL on outbound. The products include chemicals, minerals and pigments. The warehouses are in the Northeast and California.

Broker Usage

The firm uses about five different brokers per year to find trucks (full TL only) when the trucks cannot be identified directly. A good example of this occurs in Montana where many loads originate yet few carriers exist. Here the shipper uses brokers to find carriers. About 40% to 50% of all TL shipments are arranged through brokers. Some brokers used include: Curry Industries (Kansas City), Frateco Company (Montana) and Unique in New Jersey. Unique could not be identified as an ICC licensed broker.

Disadvantages of Using Brokers?

"Using a broker is probably more costly - I could buy it myself directly at a lower cost if I knew what carriers existed in each local area. One disadvantage is that you don't know what carrier will be used. You hope they use reliable carriers." Once an owner-operator took a load and parked it for two weeks in his driveway while he went on vacation. "Hopefully you find a broker that doesn't use owner-operators, but uses fleet or private carriers with more professional drivers." Claims and other matters are easier to handle when you are dealing with an established carrier rather than an owner-operator. "Of course the product is inexpensive and cannot really be sold, so we don't fear theft as some shippers might. We have had some turnover of brokers—we quit using the one that gave us the owner-operator we had trouble with."

Credit Check Brokers?

"We always check authority, insurance etc., but we have done business with some of these people for years. I have known them personally for years. Also, it's a slow process of bringing on a new carrier or broker. You start with one load at a time, then slowly grow."
Spot Market or Long Term Relations?

"We have long term relationships to handle recurrent shipments with brokers. The rates are agreed upon ahead of time. We are billed by the broker usually and pay him. We have not had a problem with carriers coming to us complaining of not being paid."

Other Comments

"You have to form a judgement about brokers over the phone--I never meet them. But I have been fortunate...I guess I ask the right questions. Also, I sometimes get broker names recommended to me from others."
SHIPPER INTERVIEW (telephone) #5  
Texas  
Source: Broker

Firm Size and Operations

The company employs approximately 150 people although it is owned by a much larger firm in Michigan. However, all traffic decisions for the shipper are made locally. The firm produces walk-in coolers (used by grocery stores for milk and other refrigerated products) which are distributed nationwide. Distribution is complicated by the time sensitive nature of demand -- customers want the coolers installed as the last step in store construction. Delivery is accomplished using flatbed trucks primarily, but vans are also used on about 5% of shipments. The volumes of truck shipments vary with the construction season: in April the company shipped 40 to 50 loads, of which 25 to 30 went through brokers. Shipments include full truckload, LTL and private fleet loads.

Broker Usage

The firm uses four brokers, although it relies on two primarily: NTS (Fort Worth, Texas) and Ameritrans (Irving, Texas). (Both are licensed brokers.) As noted, shipping volumes through the brokers varies with the seasons. The respondent uses brokers because, "...it eliminates the guesswork." That is, he knows the brokers and relies on them to check out the different carriers they supply. In this way the shipper need not check out and take a risk with many different carriers. The shipper would prefer to use carriers directly, but its need for trucks is so erratic over time that it is impossible for a few regular carriers to supply all the trucks needed. Respondent noted that brokers also provided trucks at a slightly lower price than direct carriers. Although the shipper used the same brokers repeatedly over several years, there was no long term commitment to them, thus the relationship was on a spot basis with respect to any specific truckload.

Costs or Disadvantages of Using Brokers?

One major drawback to using brokers was their inability to leave an empty trailer with the shipper for several days to a week. This "drop trailer" service was most convenient for the shipper and allowed him to load the trailer slowly to keep less finished product on the warehouse floor.

Other Comments

The shipper pays the brokers directly, never the carrier on brokered loads. Over the past 6 months relative truckload volumes have been approximately: brokers 60%, private fleet 25%
and direct carriers 15%. Finally, respondent noted that one company approached him as a broker and showed him "phony" papers of insurance and authority. He feels there is no way for him to quickly check the firms that say they are licensed and those that are not in reality licensed and insured.
SHIPPER INTERVIEW (telephone) #6
Illinois
Source: Broker

Firm Size and Operations

The company operates as a distributor of plastics and employs about twenty-one workers. It brings in plastics from the South (100 to 150 truckloads and 10 to 15 rail hopper cars per month) to the Chicago area. The products are then warehoused and sold to customers located in the Eastern half of the country. The same volume of product moves outbound using truckload brokers and LTL carriers. All truckload traffic is routed through brokers. No private carriage is used although it was used in prior years. The type of trucks used include vans and some refrigerated trucks.

Broker Usage

The firm uses 25 to 30 different brokers in one year typically, although five or six brokers get a large share of the business. Several brokers used include: RJW, (IL) Flaa, Inc., and DMS (Minn.). The respondent noted that he selects brokers over direct carriers primarily because of price. He believes he pays about 50% less for broker service than regulated common carrier prices. He attributes these savings to the backhaul nature of the carriers used by the brokers.

Another advantage provided by brokers is faster service. For example, respondent used to have to call a common carrier for pick up the same day but delivery would not occur until the next day. Today with brokers the shipper gets same day pick-up and delivery. This improved service is important to the shipper's customers and helps sell his products. Same day delivery is a common occurrence today when using brokers.

Costs or Disadvantages of Using Brokers?

No. There have been some truck failures - breakdowns - but these occur in any trucking operation and are not due to the broker.

How Credit Check Brokers?

The shipper does not check the credit or other aspects of brokers before using them since he knows the people involved personally in most cases. Respondent has been involved in transportation for many years and knows many of the broker people from their earlier work with carriers. Respondent always pays the broker and never pays the carrier directly. On only a few, rare instances has respondent heard of financial problems between broker and carrier.
Firm Size and Operations

The firm is described as a manufacturing chemist; it makes a variety of aerosol products in cans. Currently it employs about 100 workers and is located in Chicago.

Shipment Volumes

The company ships a total of about 10 million pounds of product per year, half of which moves in truckload lots and half moves LTL. The firm owns two small delivery trucks which operate in the Chicago area only.

Broker Use

The company uses two brokers, RJW and Alliance Shippers. (Both are ICC licensed brokers.) They have been using RJW for at least seven years and normally ship two to three truckloads per week and several large LTL loads per week with RJW. The most important reason for using a broker instead of a carrier is cost savings. (RJW is much cheaper than common carriers.) In addition, since they have used RJW for so long the two firms can now do business in an efficient manner. For example, RJW now knows the schedules of workers on the loading dock so they always make sure to send a truck for pickup by 11 AM. Others may send trucks later in the day only to find that loading is scheduled to end by 3:30 PM. If the truck is not loaded by that time the company has to pay overtime to finish the loading. Thus RJW's willingness to get trucks in early helps the company ship efficiently.

Costs or Disadvantages

None. The firm has experienced no identifiable disadvantages from using a broker.

Other Comments

The shipper has no contract with any broker and uses them essentially on a spot market basis -- that is, there is no long term agreement on prices or shipments. However, they have used RJW for at least seven years. Concerning payment terms, they get billed within one week by the broker and they pay twice per month: on the 10th and 25th.
SHIPPER INTERVIEW (telephone) #8
Illinois
Source: Broker

Firm Size and Operations

This firm makes insulated glass used in buildings. The company has three plants which arrange their own shipping. The Illinois plant employs about twenty-five people and ships primarily to the Midwest and East. The firm uses flatbed and open top vans and ships full truckloads usually, with little LTL volume. The Illinois location has its own small (two trucks) private fleet which handles about half of the firm's total shipping. The remainder—which totals about three or four truckloads per week—is shipped through direct contract carriers or brokers.

Broker Use

The reason the shipper uses brokers instead of direct carriers is because brokers deal with more carriers and can find equipment easier than most carriers. Instead of having to make numerous phone calls to find a truck, the shipper can make one call and usually get a vehicle. This problem with getting trucks from carriers is due to the type of trucks needed--flatbeds and open top vans—which are hard to find. The shipper has no contracts with any broker and uses them only on a spot market basis, when needed.

Costs or Disadvantages

The respondent could not identify any cost or disadvantages from using brokers. They had never experienced any credit or other financial problems with brokers.
SHIPPER INTERVIEW (telephone) #9
Georgia
Source: Broker

Firm Size and Operations

The company manufactures metal bed frames and employs about 40 workers. Shipping is accomplished via LTL carriers for about 70% of the outbound volume with the remainder moving in truckloads via contract carriers and one broker. Trucking patterns are from Georgia to a wide variety of destinations in the Southeast. Trucks used are vans, which are 48' x 102'' in dimensions. The firm does not have its own trucks. The firm's truckload volumes vary from one to three truckloads per day.

Broker Usage

The firm uses only one broker -- NTS in Texas. (This broker is ICC licensed.) The primary benefit from using a broker is price. According to the respondent the broker was able to get them trucking service at lower prices than any other supplier. In fact, he estimated the savings were from $40 to $100 per truckload.

Costs or Disadvantages?

Respondent noted that one disadvantage experienced with using a broker was that the broker was slower than most carriers to find a truck for any particular shipment. For example, if using a direct carrier the carrier would be able to say within one hour whether it would or would not have a truck available the next day for a pickup. When using a broker it would take the broker longer to find a truck and then confirm with the shipper. Respondent had experienced no credit or financial problems with the broker. Normally, the shipper would pay the broker, not the carrier.

Other Comments

The respondent noted that he uses the same broker every time and thus feels confident that the shipments will be taken care of without problems.
SHIPPER INTERVIEW (telephone) #10
Missouri
Source: Broker

Shipper Description

Respondent was at one of four company locations. Total firm employment was approximately 60 persons, with four people located in St. Louis. The firm shipped photochemicals in LTL quantities as well as truckload quantities. Truckload shipments accounted for about half the firm's shipments and totaled about 60 shipments per year. The firm used common carriers for the LTL shipments and two brokers for the truckload shipments. It had no private trucks of its own. All shipments from St. Louis were routed from there. Shipping patterns were from St. Louis to all U.S. points.

Broker Usage

The shipper used two brokers to arrange all of its truckload shipments including McCann and Freight Watcher. (McCann is an ICC licensed broker, as is Freight Watchers. Both are headquartered in Missouri.) Brokers were used because they saved the shipper money in comparison to shipping everything via common carriers. However, of primary importance was the fact that the brokers knew many carriers and thus saved the shipper the time and effort required to call a variety of carriers to find one that would take the company freight.

Cost or Disadvantages From Use of Brokers?

Respondent believed that the carriers supplied by brokers were sometimes not as dependable as common carriers hired directly, although this was the carrier's fault not the broker's. Although the carriers would be faster than using common carriers generally, at times they would have delivery problems, that is they would not deliver as soon as promised.

Other

The shipper used brokers on a spot basis, as needed, and had no contract with them. The shipper usually was billed by the broker within several days to two weeks. Final payment to the broker however, had to be cleared by the company's main office in another part of the country and thus the broker did not get paid for about 30 days.

In summary the shipper was satisfied with using brokers, they provided convenience and checked out the carrier's insurance. Respondent believed he might be able to save a little on rates by going direct to carriers but this was too time consuming and not worth the effort.
SHIPPER INTERVIEW (telephone) #11
Missouri
Source: Broker

Shipper Description

The company sells edible oils, (including corn syrup, sugar, etc.) and ships product from St. Louis to all points in the U.S. East of the Rocky Mountains. They have no private trucking (other than for local deliveries) and ship both truckloads and LTL amounts. Truckload volumes approximate 50 loads per year, while the firm ships about 3 LTL's per day. In addition, other shipments are made which are controlled by the customer. The shipper is a small company with only one location and has a total of 13 employees.

Broker Use

Shipper uses one broker primarily (McCann's) for both truckload and LTL shipments. The broker is used because it offers the shipper lower rates than it can get from direct carriers and the service is better. "If they say it will be there tomorrow, I know it will be."

Costs or Disadvantages of Using Brokers?

"No, none." If there were problems with using the broker,"...I wouldn't use them."

Other

Normally the broker bills the shipper in a few days and the shipper pays the broker in 15 days. In summary respondent noted that the broker "...fills our need." The company is described as a small firm whose sales are greatly affected by the cost of transport, thus the broker helps give them an edge by keeping transport costs down and expanding sales. "Today the big firms probably get better rates--70% discounts--while we can get 50% with only one company for a limited area." In sum, they are satisfied with using the broker and have no problems with it.
SHIPPER INTERVIEW (telephone) #12
Kansas
Source: Broker

Shipper Description

The shipper is a middleman operation which buys, sells and barters a wide range of manufactured goods and commodities. It uses public warehouses and transportation continuously. The firm employs about 40 people and shipped 3 million pounds of LTL freight last year. Although truckload shipments are important, respondent was unsure how many truckload shipments the firm had made recently. Respondent commented that at times they purchase 5 to 10 truckloads of service at one time. Origins and destinations are throughout the country and the products include tomatoes, toys and canned food, among many things.

Broker Usage

The shipper uses only one broker (Freight Distribution Services, Inc., an ICC licensed broker) primarily for truckloads—i.e. shipments of 20,000 pounds or larger. For these shipments the shipper solicits several bids from the broker and carriers and takes the lowest bid from those carriers that it believes will provide good service. The broker is used when its bid is low and because it gives good service. Respondent noted that the broker was convenient because it knew many trucking firms that went to a wide variety of destinations. This saved the shipper from having to make extensive phone calls just to locate a carrier that would go to the shipment destination. In addition, the broker was helpful on a wide variety of other shipping matters. It had helped find good warehousing in different cities and had helped the shipper arrange air freight service and piggyback service as well. The broker was described as very good because of the high quality of service provided. It would trace shipments for the shipper when asked and would help file claims when necessary. The shipper described the broker as a "...full service broker."

The shipper used the broker on a spot or as needed basis; no contract existed between the shipper and broker.

Costs or Disadvantages of Using Brokers

"No. None."

Payment Terms

The shipper paid the broker on brokered shipments and usually did so within thirty days.
Other Comments

The shipper owned no trucks. Its truckload freight went to the broker primarily, although some went directly to carriers. The LTL freight went directly to carriers. Shipper was very pleased with the "...follow through.." service of the broker and expected to continue to use it in the future.
SHIPPER INTERVIEW (telephone) #13
California
Source: Broker

Shipper Description

The shipper is a plastics manufacturer producing plastic cases and housing for electrical and other equipment. The firm had annual revenues of about $10 million and shipped its product throughout the U.S., Canada and to several other international destinations. Currently it employs from 50 to 70 workers, depending on the needs of the production schedule. Its total shipping bill for the year is roughly equally split between LTL and TL shipments. Last year they shipped about 200 to 250 truckloads of product. The firm has two plants in the U.S. and ten distribution centers.

Broker Use

The shipper uses one broker primarily, Freight Distribution Services, Inc. for truckload shipments. The respondent began using the broker because the firm had low shipping volumes in some areas and felt that by use of a broker the broker could negotiate better with the carriers, given its volume, and this would be of advantage to the shipper. In addition, originally there was only one person to take care of transportation in addition to other responsibilities. Thus the broker was also used to provide expertise and traffic management help. Respondent noted that he wanted the broker to "...look out for our interests."

Costs or Disadvantages of Using Broker

"No. Don't believe so." Respondent stated that any problems encountered when using the broker -- such as slow delivery or lack of equipment--were the same as when using carriers directly.

Other

The broker usually billed the shipper within one week and the shipper paid the broker within two to four weeks. There was an agreement between the broker and shipper to the effect that the shipper would attempt to give the broker a certain volume in exchange for a given level of rates. However, this agreement could be broken at any time. Currently about 20% of the shipper's truckload volume was going to the broker and the remainder to direct carriers. The respondent felt brokers were valuable to small firms particularly because the broker could negotiate better with carriers for rates with its larger volume of business. However, respondent felt small firms should be
careful to use financially sound brokers so the carriers would always be paid by the broker and not come back on the shipper for a second payment. This was not a problem with the broker used by respondent.
The firm is a large wholesaler of food products and is composed of autonomous divisions. Respondent spoke only of the experience with the one division headquartered in Kansas. This division had 300 employees and shipped about 250 truckloads per week outbound (as well as some LTL) to destinations in Kansas and Missouri. All of this freight was normally handled by the firm's private truck fleet. Approximately 350 truckloads (including partial loads) were received each week. This inbound volume was usually handled by the vendors (60%) or the firm's private fleet (25%) or through a broker (15%). Inbound shipments originated from all over the U.S.

The shipper was currently using one broker (Curry Industries, an ICC licensed broker) to help route inbound shipments. The broker was used because of ease or convenience. That is, the shipper could make just one phone call to the broker instead of calling any number of carriers to locate one that served the origin, had a truck there at the right time and had competitive rates. As for the rates charged by the broker, the shipper believed they were at times slightly higher than could be gotten from carriers, and at times somewhat lower. On average the respondent felt he paid 1% more by using the broker but was well satisfied in that this saved him much more than this in time and telephone calls. The difference was well worth it in convenience or ease.

"No." Respondent noted that he expected to encounter problems in using a broker before he tried it because he would not have much contact or relationship with the carrier and might experience claims problems. However, this did not in fact occur. If claims arise the shipper files the claim through the broker which is easier than tracking down the carrier involved.

The shipper has no contract with the broker but has established a long term relationship (2.5 years) that works well. Typically the broker bills the shipper within one week of shipment and the shipper pays the broker within one week of billing.
Respondent noted that he was looking for another broker for another part of the country because his experience was so good with the current broker. He recommended brokers to other shippers because they save clerical time and telephone cost and time.
SHIPPER INTERVIEW (telephone) #15
New Jersey
Source: Broker

Shipper Description

The firm is involved in printing and employs about 130 workers. It ships about twenty truckloads a year with a broker and also ships on its own private fleet. About 80% of its outbound volume is carried in the private fleet.

Broker Use

The shipper uses only one broker--Tucker Co. an ICC licensed broker--to handle outbound truckloads, primarily destined to the Midwest. It has used the broker for 10 years and has experienced "...very efficient shipping..." by doing so. Originally the firm dealt directly with carriers but experienced problems including lack of adequate insurance, damaged loads, poor service, and late deliveries. Once they began using the broker the service improved. It is now faster and more reliable than before. If a shipment needs to be delivered by a certain date, it is done reliably. In addition the broker takes care of problems, "...it relieves me of having to handle problems. I can spend more time doing other things." Rates have been the same or lower than rates paid to direct carriers.

Costs or Disadvantages of Using Brokers

"None to my knowledge. Its all on the plus side, believe it or not."

Other

The shipper has no contract with the broker. The broker bills the shipper within 10 days of shipment and the shipper pays the broker within 15 days of billing. Respondent described the relationship with the broker as, "...very good." The broker was, "...conscientious, the equipment was good and the trucks moved on time." This latter point was important because some of the printed material had dates and was needed by a given day or would probably be worthless later.
Company Description

The company is a distributor of raw plastic resins and ships in both truckload and LTL quantities. Most shipments originate in the Chicago area and are destined for customers located within 500 miles. The firm ships at least 10 truckloads per week in addition to LTL shipments. About 40% of the truckloads are moved via the broker with the remainder moving on the private fleet (local customers primarily) and through direct carriers. The firm employs about 45 workers.

Broker Usage

Currently the shipper is using one broker -- RJW, Inc., an ICC licensed broker. The reason the shipper uses a broker is because the "...rates are cheaper and the broker has trucks available when needed." The shipper described the broker as "very reputable."

Costs or Disadvantages of Using a Broker?

In the past one broker could not get trucks in time, so that broker is no longer used. Another broker once did not pay the carrier for a shipment and the shipper has refused to pay the broker for that shipment until the broker pays the carrier.

Other

Normally the broker bills the shipper in about one week from shipment date and the shipper pays the broker in about 14 days after receiving the broker's bill. There is no contract as such between the shipper and broker although there are agreed upon rates for specific shipments that recur. "The good ones can meet a need -- they have cheaper rates due to backhauls and have many trucks available. I've enjoyed working with this broker." Respondent felt it was important to make sure the broker was insured in case anything went wrong with the carrier's insurance.
SHIPPER INTERVIEW (telephone) #17
Pennsylvania
Source: Broker

Shipper Description

The shipper is a small (about 90 employees) manufacturer of furnaces which are often oversized and thus need specialized transport. Shipments are from Pennsylvania to a wide variety of points throughout the U.S. and foreign countries. The firm moves approximately 30 shipments per year with the broker but each shipment may entail one to three truckloads. In addition, LTL shipments are also shipped with UPS and other LTL carriers. A small private fleet (two trucks) does local pick-ups and deliveries.

Broker Usage

The shipper currently uses one broker--Tucker Co. an ICC licensed broker--for all the truckload shipments it routes. This broker has been used by respondent for almost thirty years. The shipper uses a broker because the broker "... has more clout with carriers in case of a foul up." As a small business the shipper believes the broker gives him a size advantage because the broker does a large volume of business. This issue is of importance since the product shipped is oversized and cannot be handled by all carriers. The equipment provided by the broker is "good to excellent." Respondent rated the service from the broker as "exceptional."

Costs or Disadvantages of Using a Broker?

"No."

Other Comments

The shipper has no contract with the broker but uses it as needed. Virtually all of the truckload shipments destined in the U.S. go via the broker and this accounts for the largest volume of shipments. Concerning rates, the shipper believes the broker negotiates with the carriers for good rates, but all shipments move COD, thus respondent does not get involved in payment.

"To a small firm brokers are an advantage...I don't have to get on the phone and call three or four carriers. They do the work for me."
SHIPPER INTERVIEW (telephone) #18
Pennsylvania
Source: Broker

Shipper Description

The shipper manufactures boilers for industrial and commercial customers as well as other equipment used in conjunction with boilers. The firm is large, employing about 5000 employees and it maintains 16 shipping locations. The firm owns no private fleet: about 95% of its shipments are via contract carriers.

Broker Usage

Currently the firm uses two brokers: Top Line Brokerage (PA) and Traffic Distribution Services (NJ). (Both are licensed ICC brokers.) The brokers arrange about 5% of the traffic of the shipper. These two brokers are used "..for special purposes." Both brokers offer special services that are particularly useful and/or convenient for the shipper. One for example, has developed expertise in handling container shipments arriving in the Eastern ports and the other has access to specialized trucking equipment that moves short haul. However, the vast majority of company shipments do not involve brokers.

Costs or Disadvantages of Using Brokers?

Respondent noted several drawbacks to using brokers. First, due to the company's size they could negotiate effectively with carriers and did as well or better than most brokers concerning rates. Second, a shipper does not have the degree of control over the carrier when using a broker that it can have if it goes direct. The respondent noted that he negotiated contracts with carriers that gave him commitment as well as attractive rates and other services. He believed that brokers were "..playing games with rates.." Also, many brokers in business today were not firms that he would rely on--they did not provide the insurance papers promptly and were sloppy in providing backup data in general.

Other

Respondent believed that deregulation had brought about many changes in transportation, including the increase in brokers. He was not positively impressed with many brokers, although he believed there were some good brokers that operated effectively.
SHIPPER INTERVIEW (telephone) #19
Michigan
Source: Broker

Shipper Description

The shipper is in the industrial lubricants industry and ships to all U.S. points from Michigan. The firm ships LTL through the major carriers -- including Roadway, Yellow and Consolidated, as well as truckloads through several brokers. The firm employs over 150 workers and ships 4 to 5 truckloads per week. It owns no private trucks, but does use TOFC on some shipments.

Broker Usage

Respondent would not identify the brokers currently used, feeling that was confidential information. It uses brokers because their rates are lower--substantially lower--than the rates of the major carriers noted above. In addition, the brokers' truckload shipments were moved direct from origin to destination without any intervening terminals or stop-overs. The shipper has used brokers since deregulation.

Costs or Disadvantages From Use of a Broker?

Respondent noted that two brokers it had used went out of business without paying the carrier involved with their shipment, even though the shipper had paid the brokers. They were not affected except to the extent of talking with the carriers and providing them with evidence that they had paid. The evidence was to be used in small claims court. Respondent did not know the outcome of the court hearings.

Other Comments

Respondent was generally positive about the brokers it is currently using. Respondent described them as "...upstanding...courteous...prompt." The firm will continue to use brokers as they "...do the job with no problems." Concerning payment, the shipper pays the broker, usually within three days of receipt of the broker's bill.
SHIPPER INTERVIEW (telephone) #20
Pennsylvania
Source: Broker

Shipper Description

The shipper has a freight dock with a rail siding and is part of a motor common carrier firm. The company receives rail carloads of canned food products and beer, unloads the cars and reloads product into trucks immediately for delivery within a 300 mile radius. All outbound shipments are in truckload quantities, all inbound product arrives in rail boxcars. The total corporate employment is less than 100 workers. Shipment volume in Pennsylvania is about 40 truckloads per week. Currently about 4 truckloads per week are routed via one broker while the remainder are moved in the company's common carrier fleet.

Broker Usage

At present the company is using only one broker but is talking with another which it may utilize. The broker now being used is Top Line Brokerage (an ICC licensed broker headquartered in Pennsylvania). However, the shipper is new and just opened up operations in Pennsylvania and has just begun to use brokers. The only reason given by respondent for using a broker is that he needs to identify carriers that will do the job at low rates. The broker has been able to help him identify such carriers and this has saved him time and effort.

Costs or Disadvantages of Using Brokers?

None.

Other Comments

The shipper noted that he uses the broker on an as needed basis without any contractual obligation on either. Respondent said he was satisfied to date with the service and rates of the broker and expected to continue using them. He had found the broker to be reliable and useful.
SHIPPER INTERVIEW (telephone) #21
Virginia
Source: Broker

Shipper Description

The firm manufacturers agricultural equipment used to wash, grade and size produce such as apples, tomatoes, peppers, grapefruit, etc. The firm ships both LTL and truckloads throughout the U.S. from Virginia. During 1987 the firm shipped about 377 shipments, of which about 40% or approximately 150 were truckloads. The firm has no private fleet. Its LTL shipments move over a variety of LTL carriers. Almost all of its truckload shipments move via two brokers. The firm employs a total of about 50 workers.

Broker Usage

The shipper uses two brokers, although almost 90% of its business goes to one of them. The two brokers are Trans Serv Associates (VA) and Arnold Gale Inc. (VA). (Both are ICC licensed brokers.)

Respondent uses brokers because their rates are good--much lower than the rates of common carriers. Perhaps more important though is that the brokers have access to many carriers and can normally find a carrier quickly. Using a broker is easier "...less headache..." than trying to look for a carrier. "All I have to do is say 'This is where I have to go, find me a truck'."

Costs or Disadvantages of Using Brokers?

"No. None."

Other Comments

The shipper has been using brokers for over two years; respondent has been in the job for only that time and cannot say when the firm began using brokers. Respondent does not deal with invoicing, thus does not know about billing and payment periods. The firm expects to continue using brokers in the future. Respondent noted that the brokers used were "..friendly, go out of their way to be helpful."
SHIPPER INTERVIEW (telephone) #22
California
Source: Broker

Shipper Description

The shipper employs 18 people and is engaged in the metal scrap business. Shipping includes movements of containers in international trade as well as truckloads from California to Texas, Illinois and Arkansas. The shipper does not ship LTL and has no private fleet.

Broker Usage

The firm has been using one broker for "...about 10 years I guess." The broker is Freight Distribution Services Inc. (CA) an ICC licensed broker. This broker gets most of the shipper's truckload shipments, although sometimes a direct carrier is used. Concerning why a broker is used, respondent noted the "...flexibility and service they give us. One call can handle it." Instead of having to call many different carriers to find out who can take the load to destination, and the rate, the shipper just calls the broker and he takes care of it. Respondent said that the broker's rates were competitive and service was good. The broker was reliable--when he said a truck would be there, it was. In addition, if there was a problem the broker would handle it well. "They handle all aspects of the shipment."

Costs or Disadvantages of Using Brokers?

"No problems, I would say there are no disadvantages."

Other

The shipper does not have a written contract with the broker and usually does not call with a load until 48 hours to 24 hours before the load needs to move. In some cases they call the same day. Concerning payment, the broker usually bills within one week of shipment and the shipper usually pays the broker within two weeks of receiving the bill.

The respondent expects to continue using the broker in the future and commented that he felt"...very fortunate...does a super job." That is, the personal contact by the broker is very important, the broker" is striving to keep us happy." According to the respondent his use of the broker was "...like any other business..." how customers were treated and how problems were handled was of great importance.
SHIPPER INTERVIEW (telephone) #23
New Jersey
Source: Broker

Shipper Description

The shipper has two locations in New Jersey and employs a total of about 80 people. The firm produces varnish and ships it in both truckload and LTL volumes, primarily to Illinois. The LTL shipments move via common carriers while the truckloads--about 2 per week on average--move via a broker.

Broker Usage

The firm has used one broker--Tucker Co., an ICC licensed broker--since 1980. The reason for using a broker is "...Price." Respondent noted that the price charged by the broker was "...at least 50% lower than other trucks." Also noted as reasons for using a broker was the service quality. The trucks would be loaded at origin and go straight through to delivery without having to unload and reload the freight or go through a terminal for driver changes.

Costs or Disadvantages of Using Brokers?

"Not at this time. None."

Other

The respondent said there was no contract between the shipper and the broker, they were called as needed. Usually the broker billed the shipper within 4 or 5 working days after shipment and the bill was paid in 7 days. The shipper expects to continue to use the broker in the future and noted that "We have to. Our competitors have low trucking rates and we have to also to stay in business." In addition, respondent noted that they usually called the broker "...at least one hour in advance of the need for the truck." This short notice was a requirement of his business--they needed to ship immediately in response to a customer's need. Usually they used a van, heated in the winter. In summary, the respondent said, "Using a broker gives better control of the whereabouts of the freight...you know where it is at all times." This was very useful because it allowed the shipper to call its customer and tell them if the load was delayed by a snow storm or whatever. The broker was better at this than most common carriers according to the respondent.
SHIPPER INTERVIEW (telephone) #24  
California  
Source: Broker  

Shipper Description  

The shipper employs 15 people and ships vitamins to many points throughout the U.S. Currently they move two truckloads of consolidated product per week and about 80,000 pounds of LTL shipments per month. The shipper does not own any private trucks and uses ABF to haul its LTL shipments.  

Broker Usage  

Respondent noted that the firm is using one broker currently--Freight Distribution Services Inc., an ICC licensed broker--and has been using it for about six months. The primary reason they use the broker is to benefit from a consolidation service created for them by FDSI. Every Tuesday and Thursday the broker has a van spotted at the shipper's business, and pulls away the loaded van. The loaded van is normally only partially filled with many small shipments destined for the Texas area. This van is then loaded with other LTL shipments from other broker customers and driven to the Dallas distribution center of UPS for final delivery. This procedure has saved the shipper $3000 per week. In addition to the consolidation program the broker also does pre-and post-audits of all the shipper's freight bills at no additional expense. Finally, the broker handles the shipper's air freight shipments and due to its volume, saves the shipper about 15 cents per pound on air freight. The shipper also noted that was more convenient to call the broker and let them handle the air freight--rather than having to call around and identify the rates and services available from different carriers. "Its easier to pick up the phone and let them handle it--it only takes five minutes, and I don't have time to waste."  

Costs or Disadvantages of Using Brokers?  

Respondent described the fee paid to the broker as the only cost involved. (The fee was 10% of the savings on the consolidation program.) As for any disadvantages, respondent said, "Not really...I'm pretty happy with it."  

Other  

The shipper pays the broker usually within 10 days of receiving a bill. Normally the broker bills within 3 days of shipment. Respondent noted that he would "definitely" continue to use the broker--in fact they were working on expanding the
consolidation program to other areas of the country. The results were quite attractive financially—the shipper's costs of transportation were reduced from 7-8% of sales to about 5.2% currently.
SHIPPER INTERVIEW (telephone) #25
Illinois
Source: Broker

Shipper Description

The firm buys and sells steel pipe from its headquarters in Illinois and through sales offices in two other states in the East. It brings in large quantities of pipe from many different sources and ships primarily into the east Coast. Currently the firm employs about 75 people and operates three locations. The pipe moves on 40' flatbed trucks usually. Shipping volumes vary widely over a month or two. Thus the firm may purchase a large volume of pipe at one time and bring it all in (i.e. 30 to 40 truckloads) but then not have any inbound shipments for a while. Of course, it ships outbound to the East Coast as well. Total volume is estimated to be several hundred truckloads inbound per year, and about the same outbound. The firm has two trucks, used to do local deliveries primarily; the remainder of the trucking is done through brokers (about 80%) and direct carriers.

Broker Usage

The shipper uses, "...quite a few brokers..." as well as direct motor carriers because they are searching for the best rates as well as truck availability. Whoever has a truck or trucks available and the lowest rate gets the shipment. The shipper has been using brokers for the past year and a half. One broker used was Best Ways Brokerage of Washington. (Best Ways is an ICC licensed broker.) According to the respondent, brokers seemed to have the lowest rates often and were, "...easier to deal with--they work harder to get you set up."

Cost or Disadvantages of Using Brokers?

"No."

Other

The shipper has no contracts with brokers. They pay the broker not the carrier on brokered loads. Usually the broker bills them within a few days of shipment and they pay the broker in 30 to 45 days. The shipper expects to continue to use brokers in the future.
INTERVIEWS OF TWENTY FIVE BROKER CUSTOMERS

1. What is the size of the shipper in terms of employees, shipments per year and number of shipping locations.
2. What product type does the shipper ship?
3. What are the shipper major shipping patterns in terms of truckload, less-than-truckload and geographic patterns?
4. What are the names and ICC MC numbers of brokers used by the shipper?
5. How many brokers are currently being used by the shipper?
6. Why does the firm use brokers instead of a carrier?
7. Has the firm experienced any costs or disadvantages from using brokers?
8. What is the nature of the broker service: spot market or long term commitment to handle recurring shipments?
9. Does the shipper pay the broker or the carrier on brokered shipments?
10. What proportion of truck traffic is shipped through brokers?
11. What proportion of truck traffic is shipped on a private fleet?
12. What proportion of truck traffic is shipped on a motor carrier without use of a broker?
Appendix 5. Small Motor Carrier Interviews

Twenty-five telephone and personal interviews of small motor carriers were conducted in order to explore the motor carrier-broker relationship from the carrier perspective. Of particular interest were the advantages and disadvantages involved in using brokers as perceived by carriers. The research is exploratory in that it does not attempt to support or refute any specific hypothesis, rather its purpose is to collect enough information to establish testable hypotheses for future research.

A number or pool of potential respondents were identified by different brokers, members of the Advisory Committee and the Interstate Carriers Conference -- a trucking association. Although this method of identifying potential respondents may allow various biases to affect the results, it does help identify carriers with broker experience and it probably ensures that major broker-carrier issues are identified.

The Conference announced the study in its newsletter and asked members to volunteer to be interviewed. Unfortunately the headline above the announcement described the project as a "Broker Abuse" study. Depicting the study in this manner (besides being inaccurate) may have caused a systematic bias in respondents -- for example, it may have encouraged more respondents from among those carriers that feel abused. However, the volunteers identified through the Conference were included in the pool of potential respondents.
Additional carriers were identified by brokers and they may have suggested carriers with which they have very good working relationships. This could have imparted a positive bias to the interview results. Yet these potential respondents unquestionably have recent experience with an ICC licensed broker and are small carriers. In any case the small number of interviews does not allow the results to be generalized or projected to the industry as a whole.

Several carriers were selected from the pool of all potential respondents in order to provide geographic variation, and several others were chosen because they were close and could be personally interviewed economically. However, most were chosen at random from the pool.

Unfortunately respondents could not or did not always distinguish between ICC licensed brokers and other intermediaries such as exempt brokers, agents, forwarders and others. This fact was evidenced by respondents' comments to that effect (see, for example, No.'s 2, 5, 22), as well as comments that after non-payment by an intermediary the carrier would investigate and find that it had no license and no surety bond. Also, when asked to name an ICC licensed broker, carrier respondents would at times provide names that could not be found on the ICC list of licensed brokers. At other times respondents would provide several names, some ICC licensed and some apparently not. (For examples of respondents that were apparently unable to always distinguish among intermediaries, see No's 2, 4, 5, 7, 19, 20, 22) While the
results of the interviews presented below refer often to "brokers," respondents' remarks are probably best interpreted as referring to all intermediaries. Future research on ICC licensed brokers is going to have to take this apparent confusion into account in order to provide the most useful results on ICC licensed brokers.

Table 1 provides summary information on the twenty-five carriers interviewed. Most are small firms (they typically employ fewer than 100 people) that began operations since 1980. All are in the truckload business, none are primarily LTL carriers. The number of brokers used per year varies widely, as does the proportion of their total business generated by brokers. (The average proportion of business from brokers is about 20%) Although not shown in the table, the equipment typically used includes general purpose vans, refrigerated vans and flatbed trucks.

The summary data indicate there may be a relationship between the proportion of broker usage and carrier age and size. In Table 2 thirteen carriers have been sorted into groups based on the proportion of their business generated annually by brokers. "Heavy Users" are defined as carriers that use brokers to generate more than 33% of their total business. "Light Users" use brokers to generate less than 6% of their total business. As the data indicate, heavy users were all founded since 1980 and their average fleet size is about 21 trucks. (The average fleet size for all twenty-five carriers was fifty-seven.) Thus heavy
users are newer, smaller firms. Five of the seven light users were founded prior to 1980 and their average fleet size is about 67 vehicles. Thus light users tend to be older and have larger fleets.
Table 1
Motor Carrier Interviews - Summary Data

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<th>No.</th>
<th>Source</th>
<th>Em</th>
<th>No. p</th>
<th>T l Source</th>
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<td>20-25% A,C</td>
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<td>19</td>
<td>**Confer. TX (60) (100)</td>
<td>1974</td>
<td>Yes</td>
<td>(25-30)</td>
<td>A</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Broker OK 17 23</td>
<td>1982</td>
<td>No</td>
<td>15/week</td>
<td>40-45% B</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Confer. MI 50 75</td>
<td>$6m. 1986</td>
<td>Yes</td>
<td>75-100</td>
<td>20-25% B,C</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Confer. KY 130 175</td>
<td>$12m. 1980</td>
<td>Yes</td>
<td>6-7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Broker CA 9 14</td>
<td>$1.5m. 1984</td>
<td>10</td>
<td>10% B</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Confer. OH 41 59</td>
<td>$2.9m. 1984</td>
<td>Yes</td>
<td>75-100</td>
<td>60% C</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Confer. NE 200 200</td>
<td>$21m. 1969</td>
<td>Yes</td>
<td>75-100</td>
<td>33% B</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Respondent 2 ceased trucking operations since the initial interview.
**Respondent 19 has curtailed carrier operations to a large extent.
A = None or small amount to licensed brokers.
B = Past losses, now reduced by credit checking and experience.
C = Currently do not always check credit and references of new brokers.
<table>
<thead>
<tr>
<th>Heavy Users</th>
<th>Age</th>
<th>No. Trucks</th>
<th>Estimated Proportion of Business From Brokers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. 1</td>
<td>7</td>
<td>12</td>
<td>35-40%</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>2</td>
<td>40%</td>
</tr>
<tr>
<td>12</td>
<td>less than 8</td>
<td>23</td>
<td>25-35%</td>
</tr>
<tr>
<td>17</td>
<td>4</td>
<td>33</td>
<td>40%</td>
</tr>
<tr>
<td>20</td>
<td>6</td>
<td>17</td>
<td>40-45%</td>
</tr>
<tr>
<td>24</td>
<td>4</td>
<td>41</td>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estimated Proportion of Business From Brokers</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Light Users</th>
<th>Age</th>
<th>No. Trucks</th>
<th>Estimated Proportion of Business From Brokers</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>3</td>
<td>19</td>
<td>3-5%</td>
</tr>
<tr>
<td>5</td>
<td>6</td>
<td>24</td>
<td>5½%</td>
</tr>
<tr>
<td>7</td>
<td>17</td>
<td>55</td>
<td>5-10%</td>
</tr>
<tr>
<td>9</td>
<td>53</td>
<td>50</td>
<td>5%</td>
</tr>
<tr>
<td>11</td>
<td>28</td>
<td>160</td>
<td>3%</td>
</tr>
<tr>
<td>13</td>
<td>20</td>
<td>60</td>
<td>less than 1%</td>
</tr>
<tr>
<td>15</td>
<td>15</td>
<td>100</td>
<td>5%</td>
</tr>
</tbody>
</table>
Why this dichotomy between "heavy" and "light" users exists is not clear. One hypothesis is that older, larger carriers that were successful under the regulations in existence prior to 1980 succeeded by operating in a restricted geographic area or in one or a few "lanes" (i.e. origin/destination pairs) and thus had the volume of trucks available to successfully market their backhaul service as well as their outbound capacity. Thus today they do not need brokers unless they expand into new areas or occasionally have traffic imbalances. These carriers may use brokers as a small supplement to their own marketing staff or when they take occasional loads out of their normal lanes to please an important shipper.

New carriers (formed since 1980) may find shippers in their origin area offering them loads to widely scattered points. They develop a "shotgun" pattern of shipments that makes it difficult to market their return service efficiently with their own salesforce. Use of intermediaries becomes essential to such carriers, otherwise they would return empty often and would soon be forced out of business. This hypothesis is consistent with the desire of many shippers to reduce the number of carriers they deal with, thus requiring each remaining carrier -- and new carriers -- to accept loads to a wide area. If this scenario is accurate then it suggests that the regulatory changes since 1980 (including the granting of wide operating authority to carriers and opening entry into brokerage) have resulted in a reorientation of trucking operations with the desires of some
shippers to deal with a smaller number of carriers causing changes in the way trucking firms operate and market their service.

**Why Do Carriers Use Brokers?**

Responses to this question indicate that carriers typically use brokers to generate additional business, under different conditions or in different circumstances. Thus most carriers interviewed used brokers to generate backhaul loads from areas where the carrier have no salesforce and little opportunity to generate their own backhaul freight. This situation may arise in a number of different ways. For example, one carrier (#16) felt obliged to take some loads from shipper customers that were out of the usual operating areas of the carrier -- apparently to hold the rest of the customer's business. Then, to get the trucks back loaded, a broker would be used. It was not economic for the carrier to support a salesforce in an area where the carrier has so few trucks available. In fact, marketing there would be of little value since it would not be possible to provide reasonable service to a shipper when there may be only one truck per week (or less) available on an erratic basis.

Another situation that leads to use of a broker is typified by small, new carriers that operate in "shotgun" fashion (rather than in lanes or in one geographic area) and have no full time salesforce. The carrier's owner/manager may market its outbound service to shippers in the headquarters area, but brokers are relied on to provide almost all backhauls. (Examples of this
would include carriers No. 3, No. 12, No. 17 and No. 20.) This method of operation is particularly well suited to some new carriers because it allows them to operate without incurring the expense of marketing backhauls. To an extent, the existence of brokers has allowed these carriers to specialize in "production" and let other parties do the backhaul marketing. Thus it may have reduced the minimum firm size necessary to operate in trucking efficiently, and has allowed small firms to enter the industry successfully. The entry barrier for trucking may have been lowered, in a sense. In addition, the existence of a large number of brokers allows this carrier to offer "shotgun" service to shippers -- a service some shippers want. This helps the carrier get and keep outbound business. In sum, the existence of brokers allows small carriers to enter the business, specializing in production and to offer shippers "shotgun" service. (It is interesting to note that one of these carriers, #12 is essentially a converted private carrier which delivers finished product from its parent corporation as the outbound haul and uses brokers primarily on backhauls.)

A third situation leading to use of brokers -- and apparently more common of older, larger carriers -- occurs when the carrier has an imbalance in one of its lanes or areas. Even though it has a salesforce in the area or can develop some business on its own, it cannot generate enough backhauls to fill all the trucks coming into that area. Here brokers are used as a supplement to the carrier's existing marketing ability.
Finally, some carriers (No. 1, 8 and 24) also take outbound loads as well as backhauls from brokers.

**Costs or Disadvantages of Using Brokers?**

An important question asked respondents was whether the carrier had experienced any costs or disadvantages from using ICC licensed brokers. Most responded that credit problems -- slow payment and/or non-payment -- were their primary concern. Also mentioned occasionally were communications problems (such as not getting all the necessary information correct), low rates and the broker's commission.

**Loss Experience**

As indicated in Table 1, ten carriers reported little or no loss from use of intermediaries (see No.'s 1, 3, 4, 7, 8, 9, 10, 13, 18, 19). Of the ten, five carriers were identified by the Conference, and five by brokers.

The remaining fifteen carriers (identified by the Conference, brokers and ACTEBA) reported losing money to intermediaries although most could not estimate a dollar amount of the loss. Typical responses included, "...a significant amount..."; "...some..."; and "...several..." However, eight respondents did make quantitative estimates, as shown below:
<table>
<thead>
<tr>
<th>Respondent No.</th>
<th>Loss</th>
<th>As % of Total Intermediary Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>about $300,000 (all intermediaries)</td>
<td>N.A.</td>
</tr>
<tr>
<td>5</td>
<td>$9100 (7 brokers, not all licensed)</td>
<td>7%</td>
</tr>
<tr>
<td>6</td>
<td>$180,000 since 1980</td>
<td>2%</td>
</tr>
<tr>
<td>17</td>
<td>4 or 5 times in 2 years</td>
<td>less than 1%</td>
</tr>
<tr>
<td>20</td>
<td>$3000 per year to intermediaries</td>
<td>less than 1%</td>
</tr>
<tr>
<td>21</td>
<td>$10-$15,000 per year to intermediaries</td>
<td>less than 1%</td>
</tr>
<tr>
<td>22</td>
<td>10% less to all intermediaries</td>
<td>10%</td>
</tr>
<tr>
<td>25</td>
<td>$100,000 over 4 years</td>
<td>less than 1%</td>
</tr>
</tbody>
</table>

The third column "As % of Total Intermediary Business" attempts to show the reported loss as an annual percent of the firm's annual intermediary business. That is, the loss was turned into an annual figure and then divided by the total annual dollar volume of business done with intermediaries and expressed as a percent. For example, No. 25 reported $100,000 in loss over four years, thus the annual loss was taken to be $25,000, which was divided by $1,350,000 -- the reported annual dollar volume of broker business. (No. 17 was estimated at 2 losses per year at $2000 per loss.) The results show intermediary loss experiences ranging from less than 1% to 10 percent.

Reasons for Losses

To help develop a better understanding of how these losses occurred it may be of some help to look closely at the carriers' experience. Of the fifteen that reported significant losses, eight have responded by instituting credit and/or reference checking on all new intermediaries and have been able to reduce credit loss significantly. (see No.'s 6, 11, 12, 14, 20, 21, 23, ...)
25.) One way to interpret this is to hypothesize that some earlier losses could be attributable to liberal initial credit policies adopted by carriers.

Some of the respondents' comments seem to support the theory that many were -- and perhaps still are -- very liberal in granting credit to intermediaries. For example, No. 19 said that when it had no backhauls the driver would go to truck stops searching for loads -- no checking of any sort was done. In fact, in one instance a driver took a second load from an intermediary even though the intermediary had refused to pay for the first one! Respondent believed its losses were due to its own negligence in not checking out the intermediaries it used. Respondent No. 21 reported that, to reduce losses, the carrier has begun credit checking brokers. This has helped significantly reduce -- but not eliminate -- the problem.

In contrast, some respondents still do little or no credit and/or reference checking of intermediaries. Respondent No. 3, for example, said that using a broker was often done, "...cold turkey...you take a chance and use the broker, and if things work out, fine, you use them again. If not, then you keep looking for other brokers." Respondent No. 18 does not have time to check out new brokers so "...its a gamble..." every time a new one is used. (Other respondents with similar comments include No.'s 7 and 24.)

It is interesting to speculate on the reasons why carriers would extend credit to unknown intermediaries. Apparently, it is
an economically rational strategy if the alternative is an empty backhaul. For example, if an unknown intermediary offers a load to fill an otherwise empty backhaul, the additional cost to the carrier in taking the load will be small ($100 perhaps in added fuel, time, wear and tear, etc.) in relation to the potential revenues (let us say $800) even if the probability of getting paid is only 90%. (Thus $800 x .9 = $720, still far above the $100 additional cost of the shipment.) Thus taking the risk is worthwhile as long as the alternative is an empty backhaul, the additional costs of taking the business are low and the probability of payment is reasonable. Of course the above example is simplistic yet it does explain some of the observed behavior.

A comment from Respondent No. 21 seems to describe this situation to an extent. According to the respondent, if it has a truck without a backhaul, it calls all the reputable, well known brokers in the area, but if no load develops it calls unknown brokers. If they have a load the carrier often takes the risk to avoid an empty backhaul. When a carrier has a truck but no backhaul, according to the respondent, "the reality is desperation."

Alternatives to Using Brokers

Carrier respondents were asked what alternatives existed to using a broker, in an attempt to estimate the impact of brokers on carrier operations. Most responded that they would have to generate their own business on backhauls. Other answers included
increasing the number of empty backhaul trips (No. 3), increasing the amount of time the trucks sat idle waiting for a backhaul (No. 4), hauling exempt products (No. 1), refusing loads outside of the carrier's established lanes (No. 16) and, trip leasing to other carriers that had a load.

The trip leasing alternative was discussed by many respondents, generally with great disfavor. Although some do trip lease it was described as quite inferior to brokerage because of the regulations involved, the paperwork it required, and the low compensation received by the carrier that actually did the transportation. Respondents noted that under trip leasing regulations the vehicle must be driven to the originating carrier's location for inspection and placarding (placing new identification placards on the doors). Then the truck is driven to origin for pick-up -- all of which takes time and generates empty miles. Additional paperwork is typically required -- the carrier that takes the load must send back to the originating carrier original receipts for any fuel purchased during the trip to avoid a deduction for state fuel taxes from each state traversed during the delivery trip. All this excess time and effort led one respondent to describe trip leasing as "detestable." (see No. 6)

In contrast, if the originating carrier had a broker's license it could broker the load to another carrier with a minimum of paperwork and empty miles. In addition, most (not all) respondents believed the brokerage option gave the
delivering carrier a higher total payment. Trip leasing in the past normally provided the delivering carrier 75% of the total bill while brokers give carriers about 90 percent. (It should be noted that the carrier using a broker must provide all the insurance although this is not true with trip leasing and the base rate is lower today.) Respondent No. 1 for example, used to trip lease owner-operators at times and described this as the most lucrative part of his business.

Today many motor carriers hold broker authority—apparently in order to broker loads they cannot take due to equipment shortages or do not want because they have no backhaul for the return trip. (see No. 16 and 21) Table 1 indicates that most respondents that were queried on this point did hold a broker's license. Respondent No. 25 also commented on the importance of taking loads offered by a shipper or running the risk of being dropped by the shipper. It is worth noting that a brokers license may help carriers reduce empty miles by providing an economic and practical way to avoid taking loads into areas where they have no backhaul. Finally, some respondents believed that brokerage was replacing trip leasing and that trip leasing would virtually cease to exist in the future (see No. 5).

Other Comments

Many of the respondents made remarks, comments or suggestions which are difficult to summarize. Some made basically positive comments such as the following:

-"Brokers I use regularly, I do well with" - No. 3
-Essentially positive experience with brokers, "...they are a necessity." No. 10
-Generally satisfied, "could have been better, could have been worse." No. 12
-"A good broker is worth his weight in gold." No. 22
(For other positive remarks, including intent to continue using brokers see No.'s 13, 14, 15, 16, 20, 23)

Negative comments were made on a variety of matters such as slow payment (No. 1, 16, 25 for example) and the surety bond ("Should be $100,000" - No. 22; and "$10,000 surety bond too small" - No. 24.) (See also No.'s 5, 6, 11, 17, 21, 22, 25)
Several comments referred to the necessity of checking brokers out before using them, although many believed this would still not insure payment. (See No.'s 2, 5, 14, 19, 21, 23.)

Several suggestions were made to change the way brokers operated:
- Shippers should be required to pay the carriers, not brokers (No. 2)
- Should be deregulated to void credibility of a license (No. 6)
- Brokers should be required to sell at rates set by carriers (No. 11)
- Shippers should be held responsible to pay carriers if the broker does not
Carrier Description

The firm has a total of 12 trucks, including 10 flatbeds, and 2 vans. There are a total of 15 employees, including 6 owner operators with their own tractors. The trucking operations began in 1981; at a later date the company got ICC brokerage authority also. The major trucking lanes are primarily from New Jersey to the Midwest (Illinois) and Southeast (North Carolina).

Broker Usage

There were approximately 50 different brokers utilized within the past year. Three or four are used almost daily and most of the others are used sporadically or just once. Approximately 35% to 40% of all loads come from brokers. The amount of broker business varies with the season of the year because the company's direct shipper customers tend to ship less during the winter, thus brokers are used more during this time.

Brokered loads are almost always full loads. On very rare occasions will they take light loads (LTL) and then only if they have something else to "marry" with it immediately. Brokered loads are for both backhauls and fronthauls, although most are backhauls.

Why use a broker?

The company uses a broker because they do not have a sales force. The only available person to do sales work is the owner and he has very little time to call on shippers. Having brokers is an economical way to have a sales force, since the firm only has to pay a percentage of the freight bill when it gets a load.

Are there any disadvantages involved in using a broker?

There are disadvantages when payment is not made. The firm is currently making a claim against a broker bond and this is the third claim they had to make. The firm was successful in the last two claims and believes that it will be successful with the current litigation also. There are, however, $20,000 in claims out against the broker. The broker is still available, but is no longer in the business.

The firm attempts to avoid these problems by dealing with TBCA member brokers only and credit checking through "Dun's Transportation." It also asks for credit references before moving the first load. Despite all of the precautions, it
still loses in certain instances. The comparison was made that it is just like dealing with shippers.

Has the use of brokers affected the motor carrier's efficiency?

Use of brokers has helped this firm. When it first got into trucking it was totally dependent for backhauls on exempt brokers and trip leasing. Both were quite unsatisfactory. Development of the brokerage business has been a real help to the company overall. There are some aspects, however, that the owner is not happy with. An example was when brokers contribute to depression of rates by cutting their rates, since there are so many brokers seeking and finding small carriers that are desperate for loads. Overall, however, the firm has benefited financially -- it receives 85% to 90% of the freight bill as opposed to 75% with a trip lease. Even though prices are lower today, respondent believes that it is better off. However, since there are so many brokers today, more are disreputable. It is felt that many brokers get into business that do not have the necessary background, they fail and thus it is very difficult collecting from them. Despite all the drawbacks, brokers are still advantageous.

Has the use of brokers reduced empty miles for the truck fleet?

There has been a reduction of 5% of the empty miles due to the brokers. The firm presently runs deadhead about 10% or less as opposed to about 15% empty miles prior to brokers.

Experience with alternatives to brokers

Trip leasing is too costly because the carrier with the load takes 25% of the freight bill. This is too lucrative, "...all they are doing is providing the insurance." Respondent has trip leased some of its loads to others and found this to be the most profitable part of trucking. However, respondent ceased this type of operation because it did not have enough control over the drivers.

Exempt brokers were of very limited help to respondent because there were not that many products it could legally carry. (Primarily newspaper inserts and non-refrigerated products.) The rates were also very diverse; at times even depressed. In one case van traffic out of Florida was offered at 60 cents a mile. The rates, however, were at times very attractive.

Would you sign a contract with a broker today?

The firm would sign a contract with a broker. The initial contact is often over the phone for the first load. The firm usually calls brokers using the list provided from the TBCA and from word of mouth.
Other comments?

Some brokers do not pay until they get paid; this is not looked on with favor. The carrier prefers to get paid immediately. One current broker is not a credit risk, he has always paid even when he has not received payment. One broker which the firm uses is particularly good at weeding out the credit risks and slow paying shippers.

Why do you have a broker's license?

When the carrier was in the process of getting generic contract authority, its attorney suggested that it apply for broker authority also. Since there were no additional costs, the firm did obtain broker authority. This used to be used often but, the firm has grown as a result of obtaining new equipment and the broker authority is not used as much. The average brokered loads yield 7% to 8% in commissions. It is much simpler to broker loads than to trip lease.
Motor Carrier Interview (telephone) # 2
March 11, 1988
Arkansas
Source: ACTEBA

Carrier Description

The respondent is a motor common carrier with about twenty trucks and currently employing 40 people.* The operation hauls refrigerated products outbound and general commodities on return. The company has also held a broker's license but is letting it lapse. The firm used to operate 50 trucks with about 120 employees until 1986 when it suffered severe financial losses and reduced the firm size. At that time the firm lost about $300,000 to intermediaries that did not pay freight bills. Some were ICC licensed brokers, others were not. (*Since the original interview the motor carrier has gone out of business.)

Broker Usage

The carrier indicated that in the past year it has used 25 to 30 different brokers, but currently uses only four.

Why use brokers?

Respondent feels it is necessary to use brokers at the current time because it cannot obtain enough loads on its own to fill backhauls. It cannot afford to have trucks move empty nor does it have its own sales force to solicit backhauls. The brokers which the firm is currently using are: Carrier Nationwide (Mass), Rocky Mountain Express (Colorado) and Mondi (Ohio). All are ICC licensed.

Disadvantages of using brokers

Respondent cited several disadvantages from using brokers:

1. The firm has not been paid by some brokers. Some brokers, in this regard, had surety bonds, but, at times the claims on the bonds were far greater than the $10,000 bond. In one case the firm was not paid $70,000. Furthermore, some brokers did not have bonds at all and others just left and could not be located. Some of these "brokers" were not licensed, some were. One such company went out of business and then reopened shortly after under a different name.

2. Bad loads. Respondent said that brokers would give them good loads at first to win over the firm's confidence. Later on, however, bad loads were given to the firm.

3. Low rates. Respondent indicated that brokers get trucking business from shippers by cutting rates to very low levels. They
then take 10% for themselves and this leaves too little for the carrier. In addition, brokers take too long to make payment: they pay anywhere from 30 to 60 days, even though they are paid in two weeks.

Alternatives to using brokers?

Respondent indicated that the best alternative to using brokers was to hire its own sales force, which it planned to do in the future. Trip leasing was used but was described as "...a bad deal." It is currently taking 60 to 90 days to be paid on trip leases. Use of exempt brokers was said to be minimal.

Other Comments

Respondent noted that he is currently attempting to check the credit ratings of brokers thoroughly before using them. Even if the firm checks the ratings, it is still not adequate to protect against bankruptcy. Thus, a bank may tell the carrier that the broker has an account of five figures, but it does not know how many other carriers are owed money by the broker. Also, the respondent views the broker's license as a license to steal, and suggests that brokers be stopped from billing shippers. Shippers should be required to pay carriers only, and then pay brokers a commission for the broker service.

Concerning current rates, respondent notes that it is often not paid the tariff rate, but is paid much less. The firm believes that this may not be legal and they may be able to go back on the shippers or brokers for the entire tariff amount. Some of the brokers that the company lost money to include: Morgan Transportation (Wisc.), Boston Carriers (Mass.) and 5D in Georgia and California.

Subsequent checking of the brokers named in the interview revealed the following: Boston Carrier, Inc., Morgan Transportation Services and Five-D all were listed on an ICC list of licensed brokers as of March 1987. None of these companies were members of the TBCA currently, but Morgan was a member in the past and had four complaints against it outstanding. Five-D had also been identified as a TBCA member during 1985. Carrier Nationwide, Rocky Mountain Express, and Mondi (brokers currently being used) were all listed on the March 1987 ICC list of licensed brokers. In addition, all three were members of the TBCA as of January 1988.
Carrier Description

Respondent has been in business for two years and has two trucks, three full time employees and one part time driver. Operations are typically from Pennsylvania to New Orleans, Kansas, Tennessee, Virginia and New Jersey. Products carried are general commodities. Typically, the firm is given outbound freight by three local shippers and then has to use brokers to fill the backhauls. Currently, the carrier transports between 100 to 150 loads per year.

Broker Usage

The carrier uses "about a dozen" brokers steadily or consistently, although it has called between 25 to 50 different brokers during the past year. Normally, the carrier calls looking for loads, although at times the brokers will initiate the call. Brokers utilized include: Tucker Co. (NJ), F & T (OH), CS Carriers (Mo.), Expert Freight (LA), and others.

Why use brokers?

Brokers are used to fill empty backhauls. Currently, most outbound shipments are one way. Only one firm provides a backhaul along with the outbound load. Thus, brokers are necessary to keep the trucks loaded. If there were no backhauls it would not be beneficial to the firm to take the outbound loads. All outbound trips are returned with loads generated by brokers, except for the one shipper that provides both outbound and inbound loads. Therefore, about 40% of the carrier's loads are generated by the brokers. All broker loads are truckloads.

How does the firm check out the brokers?

The firm uses Transport Source Magazine to find the names of brokers. It calls them and sometimes receive information in the mail about these brokers. But, often, it is "cold turkey...you take a chance and use the broker and if things work out, fine, you use them again. If not, then you keep looking for other brokers."

Have you experienced any disadvantage from using brokers?

The respondent stated that "sometimes I have to lay over when the freight is not ready to move on time. Don't know whether this is really the fault of the broker or the shipper. Also, once a broker skipped town and did not pay for a load and
we lost the money. This happened just once. We couldn't get a hold of anyone." The amount was rather small ($500) so it was not vigorously pursued. The firm did not have any knowledge of surety bonds so it did not make any attempt to collect. Also, "brokers sometimes say they will have a load, but, then don't, so we call several to make sure we do get a load back."

Has use of brokers affected efficiency?

It was found that using brokers reduces empty miles, "otherwise, we would be deadheading back home." The carrier has considered trip leasing, but never tried it. Also, the firm has tried to generate back haul loads directly, but has not been successful.

Broker relationships and rates

The carrier reported that it usually had a contract with the brokers it used. Rates were not fixed in the contract, but were negotiated at the time of the shipment. There essentially was no credit checking of the brokers. The respondent stated, "I take pot luck chance. Sometimes a good broker that doesn't have a load for us will recommend another broker to call and when this happens I feel safe with that." Brokers usually pay monthly and they usually pay when promised.

Do you experience credit problems with your direct shippers?

No credit problems were experienced with direct shippers by this firm. The firm's direct shippers pay very well. Some pay weekly, others monthly.

Other comments?

The respondent stated that "the brokers I use regularly, I do well with...I get to know them and they help me out. I give them good service, they know it so they use us."
Carrier Description

The carrier has 48 state, general commodity common carrier authority, has been in business three years and has a fleet of 19 trucks. Four trucks are owned by the carrier, 15 are owner operators. All are flatbeds except one, which is a dry van. Typical products hauled include aluminum extrusions, iron, steel and machinery. The carrier hauls loads anywhere but most of its outbound business involves regular peddle runs (a trip with multiple stop-offs for deliveries) to Florida, Texas, Ohio, New England and Kentucky. The carrier has a total of 26 employees, including the owner-operators and annual gross revenues of about $1.5 million.

Broker Usage

The carrier reports use of a number of brokers, both exempt and ICC regulated. Some ICC licensed brokers named included Bear and Ameritrans in Dallas (both were found on an ICC list of brokers) and Clark in Oregon (Clark was not on the list). Over the past two years, an estimated 100 loads have been handled through brokers for this firm.

Why use a broker?

The carrier uses brokers to get backhauls when they cannot get them directly from their own customers. The rates they get from the brokers are "average" and they only accept full truckloads, no light loads.

Any disadvantages from using a broker?

Several disadvantages were noted:

1. Rates were too low. The carrier, however, had to get a backhaul so he accepted the loads. The respondent felt that he was "at their mercy" because the brokers had the loads.

2. Brokers take too much of the revenue for their own profit, they "skim the cream."

3. Brokers make payment slower than shippers. The average payment is made in about 30 days instead of the 10 to 15 days shippers usually pay.

4. One broker went out of business and did not pay the carrier $800 for a load. The broker--White's Truck Brokerage of
Florida—was apparently an exempt broker and could not be found on the 1987 ICC list.

Any advantages of using brokers?

The primary advantage is that brokers help the carrier get its trucks back (loaded) quickly. Brokers save the carrier from having to hold the truck idle for days while searching for freight.

Other Comments

Concerning losing money to the brokers, the carrier feels this is a problem with exempt brokers but is not yet a problem with ICC licensed brokers. This firm uses Dun & Bradstreet to check the credit ratings of brokers before they use a broker. D&B "weeds out the bad brokers." Brokers were described as an "evil necessity" because they are not "accountable." The ICC can not oversee the brokers effectively and prevent them from taking excess profit on brokered loads.
Carrier Description

The carrier operates 24 trucks (refrigerated vans and flatbeds) and earned annual revenues of $2.4 million. In addition to its motor carrier authority, it also holds an ICC broker's license. The carrier employs fewer than 100 workers.

Broker Usage

During the past year the carrier used 75 brokers which generated about 5.5% of its total revenues ($132,000).

Why use brokers?

Brokers are used when the firm can not find a load for an empty truck. Most typically this occurs outside of the North Dakota, South Dakota, and Minnesota area. Alternatives to using a broker include finding the freight directly, which is preferable, or trip leasing. However, the trip leasing option is difficult to find and is burdensome with respect to the required paperwork. Respondent believed that trip leasing was less common today and would eventually die out. Trip leasing currently represents about 1% of the carrier's revenue.

Disadvantages from using brokers?

There were two disadvantages cited by the respondent:

1. Slow payment. The most prevalent problem is that brokers are slow to pay the carrier. Payment is made within 30 to 60 days.

2. No payment. Less prevalent, but more serious are the problems caused when the broker does not pay at all. Currently, there are seven brokers that have not paid the carrier and the carrier is pursuing payment. Three of the brokers have gone out of business, another two did not have a surety bond in effect. One of the brokers' bonds is being attached, but there are so many other claims against the broker that the carrier only expects to get 5 cents per dollar of debt. In general, the respondent felt that the surety bond was almost useless because of the time it takes to get anything from it. Furthermore, even when payment is received it is but a small portion of the total debt.
Did the carrier check broker credit ratings before using them?

Yes, respondent uses Dun & Bradstreet, Transport Information Bureau (California) and the TBCA Database. However, there are many brokers that are new and many are not found in these books.

Advantages of using brokers?

The primary advantage of using brokers is to keep the carrier's trucks loaded.

Other Comments?

The biggest problem encountered with brokers today is the credit problem. It is essential for motor carriers to do credit checking and set credit limits when using brokers today.
Motor Carrier Interview (Telephone) - # 6
April 11, 1988
Louisiana
Source: Conference

Carrier Description

This carrier owns 70 power units (all dry vans), employs 85 workers and earned annual revenues of $9 million.

Broker Usage

During the past year the carrier used approximately 100 different brokers which, in total, generated 12% of the firm's annual revenues, or $1,080,000.

Why use brokers? - Advantages of Using Brokers

Brokers provide marketing help for the carrier, they are used instead of a sales force to generate freight when needed to reposition trucks. For example, the carrier has only three trucks per week destined for North Carolina and thus cannot support an adequate service commitment to a shipper in that area. Brokers are, therefore, used to get loads out of the area.

Disadvantages of using brokers?

Respondent felt that credit problems were the major disadvantage from using brokers. The carrier had lost $180,000 since 1980 as a result of credit problems. The surety bond was said to be of little help. Although the ICC licensed brokers this license was not a guarantee of payment. Recently, however, the carrier has taken the following steps that have helped reduce credit losses to brokers:

1. Credit checking brokers through D&B, although few brokers are listed there, and through other checking agencies. Again, many new and small brokers are not found in the credit sources currently available.

2. Establish a credit limit for each broker.

3. Hired an attorney to attempt collection.

4. Carrier now insists upon doing the billing for all new brokers.

5. Increased sales force size.

Respondent noted that even when a reliable broker was listed in the credit sources, this was often of no help if the broker went bankrupt.
Trip Leasing Alternatives?

Trip leasing is not viewed as an attractive alternative, in fact, it was described as "detestable." The administrative procedures required to legally engage in trip leasing were described as extremely time consuming and burdensome for both the involved carriers. For example, the truck and driver must be checked by the originating carrier and then driven to origin—all of which often requires much empty mileage. Other matters, such as charging the trip leased carrier for state fuel taxes in all the states traversed makes the whole effort very cumbersome. Finally, payment of 75% of the total freight bill is too low for the actual carrier; going through a broker is more profitable. In fact, brokerage is causing a decline in the practice of trip leasing.

Other Comments

ICC regulation of brokers has been lax; there is no effective enforcement of violations. If they cannot police the industry, they should not license them—the license means nothing. A preferable alternative would be total deregulation of the industry. Brokers would then not get the credibility of the license.
Motor Carrier Interview (Telephone) - # 7
April 12, 1988
Iowa
Source: Conference

Carrier Description

The carrier has 55 trucks (flatbeds and hoppers), $5.5 million in annual revenues and employs 75 workers. The firm holds common carrier authority and has been in business since 1971.

Broker Usage - Advantages

Brokers are used primarily in areas where the carrier has no sales force or shipper contacts. About 5% to 10% of the carrier's total business is generated by brokers of all kinds, i.e. licensed, exempt and unlicensed. The respondent provided the names of two brokers, Smithway Transportation Brokerage and ABC, that they believe were licensed. Smithway was found on the Spring 1987 ICC list of licensed brokers, ABC was not. Respondents found it difficult to determine which brokers are licensed and which are not. They believed that brokers saved the firm money and that there is a real need for brokers.

Disadvantages Of Using Brokers

Respondents reported no problems with the licensed brokers they use, they are paid as promised. However, they did experience credit problems - slow payment and no payment--from unlicensed brokers. Also, the brokers were "irresponsible." At times, the carrier was promised loads but when the truck arrived at the origin, no load was available. Once they went to pick up a load to find another carrier already loading the shipment; the broker apparently sent two carriers. Also, brokers were said to take too much of the shipment revenue - 20% when the reasonable amount would be 8% to 10%. Respondents believed that credit checking was too difficult and time consuming to be of much help.

Trip Leasing Alternatives?

Trip leasing is rarely done and is not as good an alternative for the carrier as using brokers. The administrative cost, paperwork and time it takes to trip lease is excessive. Instead, the carrier intends to move away from using brokers by soliciting shippers directly.
Carrier Description

The carrier received its contract authority in 1977 and is associated with a food warehousing firm. The fleet consists of 30 power units and 35 employees. Operations are generally restricted to a radius of 150 miles and primarily involve deliveries of warehouse food products.

Broker Usage and Advantages of Using Brokers

 Approximately 20% of the carrier's total business is generated by three brokers. This freight is both inbound and outbound and consists of both TL and LTL shipments. In effect, the brokers act as a supplemental sales force for the carrier which has but one part time salesperson. The advantage of using brokers is that they generate business, including backhauls, for the carrier, thus helping to keep the equipment fully utilized. The carrier has been using brokers for several years.

Alternatives To Using Brokers

Respondent felt that the primary alternative to using brokers would be to generate more sales by themselves. This would require additional salespeople. Trip leasing was not used and was not viewed as a practical alternative because it required too much paperwork.

Disadvantages of Using Brokers

Respondent could not identify a specific disadvantage arising from use of brokers. The carrier had always been paid by the brokers in a reasonable time period. Typical payment terms were under 30 days but never over 60 days. The carrier used the same three brokers always and had known the people involved for some time. Respondent mentioned three brokers by name: Tucker Co., Transport Systems, and Logistics Transport, all in New Jersey. All three were found on the 1987 ICC list of brokers.
Carrier Description

Carrier has annual revenues of $4.5 million, with 50 tractors and 145 trailers (flatbeds and tanks) and 69 employees. The firm received its contract carrier authority from the ICC in 1935 and has two terminals, one in New Jersey and the other in Pennsylvania. Products carried include bulk chemicals in tank trucks and building materials on flatbed trucks from Western Pennsylvania to the East. The carrier does not have a broker's license.

Broker Usage

The carrier used about five different brokers in the past year which generated about 5% of the carrier's total business. Brokers are used, however, only to secure loads for the flatbed division from the East back to Western Pennsylvania. Respondent notes that as a result of the rate structures that have developed since 1980, the company uses brokers in order to get backhauls and reduce empty milage. Brokers are currently generating about three truckloads (no LTL is taken) per week although the carrier requires about five or six of these loads.

Broker Alternatives

Alternatives to brokers would require the firm to go to shippers directly. Trip leasing is an alternative but at times it is impractical due to all the paperwork it requires.

How did you locate the Brokers?

The carrier currently uses two brokers. Brokers normally call the carrier more than they call brokers. The firm has used carrier/brokers because "we know them and they'll pay us."

Disadvantages From Using Brokers?

Once a broker did not pay the carrier for a load because the shipper went bankrupt and did not pay the broker. The bill was for about $2000, so the carrier did not pursue the matter; it did not try to file a claim against the surety bond. The broker was located in New Jersey and respondent just stopped using it. The broker was found on the 1987 ICC list of licensed brokers.
Motor Carrier Interview (Telephone) - # 10
May 19, 1988
Missouri
Source: GSA/Broker

Carrier Description:

The carrier employs about 50 people and has 27 refrigerated trucks in service. It handles only truckload business and began operations in 1984.

Broker Use:

About 15 to 20 different brokers are used each year which generate approximately 25% of the carrier's total business. All of this business is in full truckloads. Brokers are used to develop backhauls in areas where the carrier does little business, has no sales force, and few trucks. Thus, when it takes a load into one of these areas it uses brokers to load them out.

Disadvantages of Using Brokers:

Two disadvantages of using brokers were noted: first, the carrier had to pay a commission of 6% to 10% on each load, and second, communication was sometimes hampered because there is a third party involved between the carrier and shipper.

Alternative to Brokers?:

The only alternative identified was searching for a load by themselves. Trip leasing was not considered an acceptable alternative due to the difficulties involved.

Other:

The carrier held both common and contract authority but dealt with brokers through contracts as a contract carrier. Carrier experience with brokers was essentially positive, "they are a necessity."
Carrier Description:

Respondent holds common and contract carrier authority and operates 160 trucks (all flatbeds) primarily on coast to coast shipments. The firm employs about 150 people and began operations in 1960.

Broker Use:

Currently the carrier uses only 4 or 5 brokers (including Best Ways Brokerage in Spanaway, Washington) although prior to 1984 it used a larger number. Today brokers are used only as a last resort when a truck needs to be moved but the carrier has no load for it. Essentially, brokers help the firm reduce empty miles.

Disadvantages of Using Brokers?:

1. The carrier has lost a significant amount of money in the past due to non-payment by brokers. The brokers either go bankrupt or just quit the business. The surety bond is too little to help much and the ICC is of little help also.

2. Brokers tend to pay slowly, 45 to 60 days is common.

3. Brokers often pay less than the agreed amount.

4. Problems often occur, that is extra stop-offs are required, no help in loading or unloading is provided, etc.

Alternatives:

Trip leasing is a good alternative because there is a written contract, not a verbal agreement over the telephone. Also, generating their own shipments is another alternative and this is being pursued with the creation of a telemarketing division within the company. Also, the firm has established the following credit rules brokers must meet before being considered:

1. In business for three years.
2. TBCA Member
3. References for payment practices.
Since 1980 carrier profits have fallen. Allowing brokers to enter the market has given them control since they are in control of the freight. This allows brokers to control the rates to carriers, which should not be -- brokers should sell at rates set by the carriers.
Carrier Interview (Telephone) - # 12
May 19, 1988
Arkansas
Source: Broker

Carrier Description:

The motor carrier has ICC contract carrier authority and is owned by a furniture manufacturing firm. Prior to April 1, 1988 the carrier was a private carrier that also held contract authority but is now a wholly owned subsidiary of the furniture company. The carrier employs 40 people and operates 23 tractors with 70 trailers. The furniture company employs about 350 people.

Broker Use:

The carrier has used about 50 different brokers in the past year, including C.H. Robinson, perhaps the largest broker in the country. The carrier hauls new furniture for its parent on outbound moves and returns with general commodities arranged by brokers. The brokers are used to fill empty backhauls primarily with full truckload shipments. Respondent estimated that 50% to 75% of the carrier's return loads were arranged by brokers and this amounted to 10 to 12 loads per week normally. Concerning payment terms, brokers generally paid within 30 days, and their commissions ranged from 7% to 12%.

Costs or Disadvantages From Using Brokers?:

In the past (about 18 months ago) a number of brokers did not pay the carrier. In response, the carrier has become more cautious about selecting brokers: a new broker is only given one shipment and if it does not pay in a reasonable time, it is not used again. Another disadvantage cited was that at times brokers would not get all the details involved in a shipment correct or complete and this would cause difficulties.

Alternatives:

The primary alternative noted by respondent is going directly to shippers although this has not yet been attempted. Trip leasing has been tried but it is too much paperwork and payment is slow. Trip leasing is no longer used by the carrier.

Other Comments:

The carrier has written contracts with most of the brokers it uses. In summary, respondent was generally satisfied with the brokers being used currently. Using brokers, "...could have been better, could have been worse."

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Motor Carrier Interview (Telephone) - # 13
May 20, 1988
Ohio
Source: GSA/Broker

Carrier Description:

The carrier has been in business for about twenty years and currently employs about 100 people. It operates 60 trucks, all vans.

Broker Use:

Respondent noted that the carrier does not use brokers very much -- they account for 1% or less of its annual business -- and they use 10 or fewer brokers in a year. One broker used was CS Carrier Service, an ICC licensed broker. Brokers were used to fill trucks in areas where the company had too many trucks and not enough freight to fill them. As an example, respondent noted that it would take loads into Texas but then need help at times getting loads back. Respondent noted that the company, "...can't be everywhere." Brokers were used to generate full truckloads only, not LTL.

Costs or Disadvantages From Using Brokers?:

None.

Alternatives:

If the company could not get loads from brokers it would continue to try to develop business directly -- ie. by calling shippers. The vast majority of its business is developed in this manner.

Other Companies:

The carrier does not have contracts with the brokers it uses, although the carrier is both a common and contract carrier. It intends to continue to use brokers as it does now -- on a very limited basis.
Carrier Description:

Carrier operates 150 tractors and 250 trailers with about 200 employees. It handles general commodities, but a large portion of its business involves temperature-controlled products such as foodstuffs. The firm was first licensed by the ICC in 1972.

Broker Use:

The carrier uses between 50 and 75 different brokers per year, including C. H. Robinson, which does a large volume of business with the carrier. Total broker shipments account for about 10% to 15% of the carrier's annual volume. The majority of broker loads are truckloads; LTL shipments are rare.

Brokers are used in order to generate backhaul loads out of areas the carrier rarely goes to. Because these areas are low volume for the carrier, i.e. few trucks per month or week go there with loads -- they cannot generate sales directly. If an area were high volume -- i.e. many loads going there per week or month -- the carrier would establish its own marketing program there and develop loads directly from shippers. The carrier has contracts with all the brokers it uses.

Costs or Disadvantages from using Brokers?:

Respondent noted that the more people involved in the communications chain on a shipment, the more opportunity there was for mistakes to be made or misunderstandings to occur, such as incorrect pick-up time, delivery time, or the type of equipment needed.

In response to a question, respondent noted that the carrier has at times not been paid by the brokers -- this happens 6 to 15 times a year. This is described as a "rare" occurrence because the carrier has instituted credit and reference checking procedures for all new brokers. In these cases the carrier has sometimes been able to collect from the broker's surety bond, but not always.

Alternatives:

The main alternatives to use of brokers for the carrier is to develop its own sales force to contact shippers directly. Trip leasing is done rarely since brokers can accomplish the same thing at lower cost and with less paperwork. Concerning carrier
revenues from trip leasing versus brokers, respondent believes they are the same today. Competition has driven them to the same level.

**Other:**

Respondent emphasized the need for carriers to do research in selecting brokers -- careful selection is required. If this is done, then brokerage, "...can work very well for all parties concerned." The carrier will continue to use brokers in the future as it does now, and expects to use them always.
Carrier Description:

The firm is a general commodities carrier headquartered in Indiana. The carrier has 100 tractors, 200 trailers and about 120 employees. It began trucking operations in 1973.

Broker Use:

Carrier uses about 12 different brokers in a year which generate a total of about 5% of the carrier's annual business, all in truckload volumes. Respondent named Trans Dynamics of Georgia as one broker used. This broker was found on the March 1987 list of active brokers provided by the ICC.

The carrier uses brokers to fill backhauls in areas where it has empty trucks but no sales force. This reduces the empty miles run by the carrier.

Cost or Disadvantages?:

The only disadvantage noted was that sometimes the brokers did not pay the carrier. The carrier "...got burned when the broker goes belly up." This still happens even though the carrier now checks out new brokers by getting three references from other motor carriers. Apparently, they paid the other carriers, but then went out of business. Respondent did not know about carrier efforts to collect from broker surety bonds.

Alternatives:

The major alternative to using brokers was for the company to generate its own freight directly from shippers. Respondent noted that the carrier did use trip leasing also.

Other:

The respondent expected to continue using brokers on the same basis as before.
Motor Carrier Interview (Telephone) - # 16
May 20, 1988
Tennessee
Source: Conference

Carrier Description:

The carrier began operations in 1984 and currently operates 27 trucks, all vans, and has 48 employees. The carrier has a sales force operating in Tennessee and Alabama.

Broker Use:

The carrier uses about 10 different brokers per week, and throughout the year uses 30 to 35 brokers on a regular basis. In addition other brokers are used less frequently. Brokers generate about 10% of the carrier's total business, all in truckload volumes.

The carrier uses brokers when it gets loads into an area where it has no sales force and cannot generate a backhaul. Respondent noted that the carrier had a shipper client in Tennessee and feels obligated to take the loads offered by the client and this sometimes means going to areas outside its normal lanes. Thus, brokers help the carrier reduce its empty miles on these backhauls. Concerning brokers used, respondent named one: Trans Serv in Baltimore. (Trans Serv is a well known broker headquartered in Virginia with an office in Baltimore.)

Costs or Disadvantages?:

Respondent noted that some brokers had generated loads for the carrier but then did not pay the carrier. Today the carrier checks credit and other references before using a new broker. In addition, commercial credit information companies like Dunn & Bradstreet are also used. This includes a factor (Systran) which provides them with a list of brokers whose accounts payable it will factor, and another list of those it will not factor.

Another disadvantage noted was that rates from brokers varied with the supply of trucks and were often too low. At times, loads were available at 80 cents per mile and then a few days later, it would be 60 cents.

Concerning the surety bond, respondent said that at times they were able to collect monies due them from brokers through the bonds, but not always.

Alternatives:

The primary alternative noted by the respondent would be for the carrier to refuse to take loads from its shippers that were
outside the carrier's established lanes. The carrier would consolidate business in certain lanes. Trip leasing was over-complicated and required too much paperwork. Drivers would sometimes have to travel miles out of their way to complete the paperwork.

Other:

Respondent noted that the firm also held a broker's license in addition to its common and contract carrier authority. The license was used frequently to give loads to other carriers (in lieu of trip-leasing) when the company did not have enough freight or did not want to go where the freight was destined.

In addition, respondent believed that brokerage was a good and lucrative business with honest people but there were also dishonest people who would open up, take money and then move out without paying the carriers. However, brokers were essential and the carrier would continue to use them, although its preferences would be to deal directly with shippers.
Motor Carrier Interview (Telephone) - # 17
May 23, 1988
Missouri
Source: Broker

Carrier Description:

The carrier operates 33 refrigerated vans and is headquartered in Missouri. It employs about 40 people and had annual revenues of about $3 million last year. The company first began operations in 1984 and handles temperature controlled products in truckloads only. The carrier has both common and contract authority.

Broker Use:

The carrier uses about 60 to 75 different brokers in a typical year. These brokers generate about 40% of the carrier's total business, or approximately $1.2 million per year, in full truckloads only, not LTL shipments.

Respondent explained that the company uses brokers to generate backhauls. The company hauls shipments outbound for its own direct customers but needs brokers to find loads for the return hauls. As the respondent noted, it could contact shippers and deal directly with them; however, it gets loads to a wide variety of destinations and must depend on the local brokers to generate backhauls.

Costs or Disadvantages of Using Brokers?:

The major disadvantage of using brokers noted by respondent was that some of them were bad -- they would go out of business or "skip town..." and leave the carrier unpaid for its services. In the past two years this has happened to the carrier 4 or 5 times. The surety bond has been of little help -- it is usually cancelled by the time it moves against the broker. Although it tries to check out brokers through references, this still does not guarantee the broker will pay. Instead, when the carrier uses a new broker it is, "...taking a chance." There are many good brokers in business -- perhaps 90% of them are, in fact the carrier deals regularly with several brokers and the results are excellent. The carrier is always a contract carrier to brokers and signs agreements with them.

Alternatives:

The only alternative suggested by respondent was for the carrier to generate its own freight direct. Trip leasing was used very occasionally, but was not attractive since it cost too much. On a trip lease the carrier with the freight took 23%-25% of the total revenue, while brokers only took 8% to 10%.

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Motor Carrier Interview (Telephone) - # 18
May 27, 1988
New York
Source: Conference

Carrier Description:

The carrier operates about 50 power units, had annual revenues of $4 million in 1987 and employs about 60 workers. Its trucks are all dry vans and about 65% of its business is within 400 miles of its headquarters in upstate New York. The carrier handles full truckloads primarily and received its ICC authority (both common and contract) in 1981.

Use of Brokers:

Respondent estimated that the company uses about 150 to 250 different brokers per year, many in New Jersey, New York and Pennsylvania. These brokers are used to generate backhauls and provide both truckload and LTL shipments. Currently brokers are generating about 20% to 25% of the carrier's business. Brokers are used because the carrier cannot generate enough business directly with its own sales force. At one time, it did maintain an office in New Jersey but lost accounts and had to close the office. It still maintains a salesperson there now, but does not have enough business to fill the empty equipment. At one time it used little brokerage but now must rely heavily on brokers to fill their backhauls. Brokers used include C.H. Robinson, and Asta Traffic Services of New York. (Both ICC licensed brokers.)

Disadvantages of Using Brokers:

1. Lost Revenue -- the broker takes a commission which would otherwise go to the carrier. In fact, respondent says that in one case the broker makes as much or more than the carrier on a load.

2. Lost Payments -- in some cases brokers have not paid the carrier -- although this is not common.

3. Slow Payment -- this is very common and it takes 60 to 280 days at times to get paid from some brokers.

4. Deductions -- some brokers deduct sums from payments even though they do not discuss this ahead of time. Deductions are for insurance or administrative costs.

The carrier has not attempted to attach the surety bond of brokers for non-payment. Respondent does not have time to credit check all the brokers used so "...its a gamble..." every time it uses a new broker.
Alternatives:

Trip leasing is an alternative but it is not attractive because it involves excessive paperwork and other requirements. Also, it has all of the same problems as brokers -- slow payments, lost revenue, etc. A better alternative is to solicit freight directly from shippers -- the carrier is trying this now but it is very difficult. In fact, it has "back-solicited" several shippers and the shippers have refused to deal with them directly. It cannot afford to go back empty any more than it does already.

Other:

Respondent noted that the carrier also holds broker authority which it uses often. The license is used to place excess freight with other carriers.
Motor Carrier Interview - # 19
June 3, 1988
Texas
Source: Conference

Carrier Description:

This carrier/broker is very small in terms of trucking and its trucking operations are limited to a small geographic area in the Tennessee, Arkansas, Mississippi area. However, until three years ago the trucking operations were much larger and included 60 trucks and about 100 employees. The trucking firm had terminals in Florida, Alabama, Texas, Tennessee, Arkansas and California. All vehicles were general freight vans and the carrier held both common and contract authority. The common authority was received in 1974 and the contract in 1982. The carrier carried truckloads only. The current trucking operations do not use brokers as the shipments are basically short haul. In contrast, the brokerage has grown and now includes 35 offices nationwide and has a gross annual revenue of $150 million.

Broker Usage:

In the past, the carrier in one year used perhaps 25 to 30 different brokers or firms that purported to be brokers. The selection of the broker would be by the driver (all drivers were owner-operators) and would occur when the truck was unloaded but could not find a load back. The company would take loads into areas where they had no source of freight and the driver would then go to truck stops looking for a load. People alleging to be brokers would often provide loads. No checking was done on credit, brokerage license, surety bond, etc. The driver would accept the risk because it needed a load back. In one case a second load was taken even though the alleged broker had refused to pay the carrier on the first load. On later checking, it was often found that the "broker" was not licensed by the ICC.

Disadvantages of Using Brokers?

The alleged brokers used by the carrier (as described above) would frequently not pay or pay less than the agreed upon amount. These credit problems eventually helped push the firm into financial difficulties and caused it to reduce its size drastically in 1986.

Other Comments:

Respondent believes that the carrier's problems and financial losses from use of brokers were largely due to its own negligence in not checking out the purported brokers credit, license, surety bond, references, etc. prior to conducting business with them. There are several credit sources now
available that can help carriers that are interested. However, the TBCA roster is not very good since it does not pre-screen brokers adequately before they are listed.

Trip leasing as an alternative is not very attractive since it pays lower revenues than a broker's commission would provide. Also, it is time consuming and many "brokers" have carrier authority and will also trip lease. However, the credit problems are the same.

Because of the ease and convenience of brokering, respondent believes that many carriers are getting broker licenses to use instead of trip leasing. In some cases respondent reports brokering a load to a carrier and then later finding the load was brokered again to another carrier. Carriers are said to use their broker license to place loads they take from shippers but do not have the equipment to handle themselves.
Motor Carrier Interview - # 20
June
Oklahoma
Source: GSA/Broker

Carrier Description:

The carrier operates 17 trucks (all refrigerated vans) from Oklahoma to most of the U.S. It holds both common and contract carrier authority and was first licensed in 1982. It employs about 23 people, but does not use owner-operators. The firm does not hold an ICC broker's license.

Broker Use:

The carrier uses about 15 different brokers per week to fill backhauls into Oklahoma. These brokers are both licensed and exempt. The carrier generates its own outbound loads, but then needs return loads, thus it uses brokers instead of employing a larger sales force. Respondent believes the brokers take a commission of about 8% on loads, which is cheaper than setting up a sales force. About 40% to 45% of all the carrier's business is generated by brokers. All the business is in truckload lots.

Costs or Disadvantages of Using Brokers?

The respondent noted that you had to "watch your money." That is, at times brokers would not pay. After about a year though, this problem was reduced because the carrier had weeded out the bad brokers; and identified the ones which were reliable and paid. This was not perfect since it was estimated that in the past year it lost perhaps $3,000 (a small amount) in unpaid loads.

Other:

The carrier dealt with brokers as a contract carrier and had contracts with the ones used. Price was established at the time the load was arranged. If the broker's price was not good enough, the carrier would not take the load. Price was set by "supply and demand."

In response to the question of whether the carrier would continue to utilize brokers, the response was "certainly."
Carrier Description:

The carrier holds contract authority and hauls truckloads of packaged perishable food products between all points in the Eastern two-thirds of the U.S. The carrier has 50 power units, 65 trailers and 75 employees. Approximately 90% of its fleet is refrigerated vans. It had annual revenues of about $6 million last year. The carrier received its ICC authority in 1986. The carrier also holds and actively uses an ICC broker's license.

Broker Usage:

Respondent estimated that the company uses about 75 to 100 different ICC licensed brokers per year when it has trucks but no backhauls. It hauls only full truckloads and never uses brokers on fronthauls -- in fact, it has more outbound loads than it can handle with its equipment. Respondent estimated that 20 to 25 percent of the company's business is generated by brokers.

Costs or Disadvantages?

Respondent noted that in 21 years of business the only real collection problems it experienced has been with brokers. Perhaps as much as $10,000 to $15,000 per year has been lost due to non-payment by brokers in the past. Currently however, the company, in order to cut down this loss, has begun to insist on the credit checking of brokers before taking loads. This has helped to significantly reduce this type of loss, although it has not eliminated it. Credit checking includes Dunn & Bradstreet, ICC broker license number, surety bond holder's name and number, and references from carriers and banks.

Respondent has never been able to collect from a surety bond (although it has tried) because the bond is "empty" by the time the carrier has tried to collect.

As described by respondent, if a carrier has an empty truck but no backhaul, it begins calling all the reputable, well known brokers in the area, but if no load develops, it then calls unknown brokers. If they have a load then the carrier must balance the risk of doing business with an unknown broker, or return the truck empty. Thus they often take the risk and take the load. "The reality is desperation."
Alternatives:

The major alternative to brokers would be to develop clients directly by use of a sales force. In fact, the carrier does have a sales force, but its outbound destinations are so diverse (it does not operate in one or two lanes) it still cannot get all the backhauls needed. If a carrier has a truck in an area only once a week, it cannot offer attractive service to any shipper there. Thus, brokers are important to this carrier.

Other Comments:

The carrier has gone to more thorough credit checking today to minimize losses but, "this has been a 2½ year learning process." "There are good, reputable brokers that pay carriers reliably -- including C.H. Robinson and Chuck Ellis Brokerage..."

The carrier expects to continue to use brokers in the future although it would prefer to have its own direct clients.

Concerning the carrier's broker license, the firm uses the license to place outbound loads with other carriers because the firm has more outbound loads than it has capacity. In this way it can take the loads from its shipper clients and still earn a 10% to 20% commission without having to invest in new trucks. It pays its carriers regularly in three weeks and checks out the carriers carefully. Trip leasing is not used to place these loads because it too difficult and time consuming. Although, perhaps the carrier could get another 5% in revenues through trip leasing, it is not worth doing in comparison to brokering. Respondent believes that it is now common for motor carriers to have broker licenses because of the convenience it offers in comparison to trip leasing.
Motor Carrier Interview - # 22
June 3, 1988
Kentucky
Source: Conference

Carrier Description:

The carrier holds both common and contract authority and operates as an irregular route carrier of truckloads of general commodities and refrigerated products. It began operations in 1980 and currently has 130 power units, 175 employees and annual revenues of $12 million in 1987. The carrier services the entire US. Also, it holds and uses an ICC broker's license.

Broker Usage:

Brokers are used by the carrier in backhaul situations—i.e. when it has a truck in an area where it has no backhaul loads. Because it goes all over the US and does not run regular lanes it cannot promise shippers to have many trucks available each week in any one area; thus it turns to brokers to generate freight in these areas. Respondent estimated that brokers generate about 6% to 7% of its total business.

Costs or Disadvantages of Using Brokers?

The major disadvantages of using brokers is the risk of not being paid or being paid slowly. Respondent estimated that in about 10% of the cases where it secures loads from intermediaries it does not get paid. These intermediaries includes licensed brokers, exempt brokers, forwarders, agents, carriers and others. It often gets paid slowly; 45 to 60 days is typical, although some brokers do pay in 30 days. To help control this loss the carrier has instituted credit checking procedures through D & B and the Redbook. The carrier has several claims against surety bonds outstanding, but it takes months to collect, if at all.

Alternatives:

If there were no brokers the alternative would be for the carrier to increase its sales force in central points in each region of the country. Using this method it could always have some trucks in each region. However, this would increase sales expenses and would also increase the empty miles traveled by the carrier's trucks.

Other Comments:

Respondent believes all brokers should have a surety bond of $100,000 to help protect motor carriers. In addition, there is still a large volume of "brokerage" that is essentially illegal—the intermediary does not have an ICC license or any other
authority -- yet still brokers loads. Concerning use of its own license, respondent uses the license to place loads it has with carriers that need backhauls. This is much better than trip leasing because it requires less paperwork. Typically, brokerage commissions are about 8% to 10% while traditionally trip leasing provided the carrier with the load 25%. Yet, brokerage was preferred to trip leasing.

The carrier intended to continue using brokers in the future to fill its backhauls. "A good broker is worth his weight in gold. He can be a tremendous help to shippers and carriers. It's been a good thing to let brokers exist. It's a good method. The paying problem is the only thing I see against it."
Motor Carrier Interview - # 23  
June 6, 1988  
California  
Source: GSA/Broker

Carrier Description:

The carrier operates 9 trucks, all dry vans, and hauls canned food and other products from California to all US points. The company employs a total of fourteen people and had annual revenues of $1.5 million in 1987. It began operations in 1984.

Broker Usage:

Normally the respondent attempts to deal with only 3 or 4 brokers that have loads nationwide, but this does not always work, thus in a year the firm may use as many as ten different brokers. Brokers are used because the carrier does not have enough backhauls of its own. It needs backhaul loads to avoid running empty trucks yet it often delivers in areas where it has no loads. Also, at times they will deliver loads in an area that it goes into only on very rare occasions. In that instance there is no other practical way for it to generate business other than by brokers. During 1987, brokers generated about $350,000 for the carrier.

Costs or Disadvantages of Using Brokers:

The only complaint mentioned by the respondent was the commission rate paid the broker. On questioning, he noted that in the past it had problems to some extent in getting paid or in getting paid within 30 days. However, this is more in the past than a current problem. In time, the carrier learned which brokers paid and which did not. Even with today's credit checking, some brokers still do not pay promptly. Some have gone bankrupt on the carrier. If there are collection problems, the carrier uses a collection agency. Overall, if the broker is good, using a broker is "a pretty good deal".

In response to a question concerning what would happen if there were no brokers, respondent said they would be "...in a world of hurt." They would have to run more empty miles and spend more time on the phone looking for loads. Trip leasing was used on occasion but it required more paperwork and was less profitable because the other carrier took a higher proportion of the revenue. The carrier is a contract carrier and has contracts with the brokers it uses.
"Using brokers is very feasible if the brokers are good--otherwise you lose a load." Brokers are checked by getting three carrier references from them and their D&B if available. However, even though other carriers say the broker's money is good, that doesn't guarantee payment.
Carrier Description:

The contract carrier operates 41 trucks (all dry vans) from Ohio to various destinations in the Midwest and East. It employs about 59 people (counting the owner-operators as employees), it began operations in 1984 and had annual revenues of about $2.9 million last year.

Broker Usage:

Respondent estimated that the company uses 75 to 100 different brokers per year, primarily to generate backhauls—although some fronthaul business also comes from brokers. About 60% of the carrier's total revenues are generated by brokers. Using brokers allows the carrier to avoid hiring a sales force; in fact, the carrier currently has no sales force.

Costs or Disadvantages from Using Brokers?

A common problem with some brokers is that they are very slow to pay the carrier or they go out of business. This has happened—i.e., the broker went out of business—on several occasions and the carrier has turned the matter over to an attorney to pursue payment.

Credit Check Brokers?

Although the carrier tries to check brokers out, sometimes there is just not any time to do so. The truck drivers get paid for miles driven, thus, they don't get paid anything if the truck is idle. The carrier maintains a list of "don't use" brokers based on bad experience with the broker. Currently, there are 18 brokers on the list.

Alternatives to Brokers:

In response to the question, "What would the company do if there were no brokers?" respondent stated, "We'd be in a mess." The company is now dealing with several very good brokers that pay quickly (these include Expert Freight and Intermodal Brokerage Service, both ICC licensed brokers). Trip leasing is sometimes done but it is harder to do because of the paperwork.

Other:

Shippers that use brokers should be held responsible if the carrier is not paid. Currently, if the broker does not pay, the
carrier ends up having to suffer the loss. The surety bond of $10,000 is too small to offer any help. Shippers should have to check out brokers.

Currently, the carrier also has a broker's license which it originally hoped to develop, but this has not been possible. At the moment, the license is dormant.
Motor Carrier Interview (telephone) - # 25.
June 6, 1988
Nebraska
Source: Conference

Carrier Description:

The carrier operates 200 trucks including dry vans, refrigerated units, flatbeds, bulk and tank trucks. Most operations are in the West although the carrier serves all 48 states. The company employs about 200 people (including owner-operator drivers) and had annual revenues of about $21 million last year. The motor carrier handles truckloads only and has both common and contract authority. In addition, it also holds a broker's license.

Broker Usage:

The carrier uses brokers when it has trucks destined for areas where it has no sales force and no freight. Although it operates four sales offices it does not have enough freight in certain areas, including the East Coast, Texas and Louisiana. Last year brokers generated about one-third of all the company's business or about $7 million worth. The carrier used from 75 to 100 different brokers during 1987.

Costs or Disadvantages from Using Brokers:

"Yes. Over a period of four years our bad debt loss has been about $100,000." Although now the carrier checks the broker out thoroughly before doing business with it, this is not foolproof. Bad debt losses have been reduced but not eliminated. Currently the carrier checks the ICC number and surety bond as well as bank and carrier references. Complaints to the ICC do no good: the surety bond of $10,000 is not much help. Typically, when the broker goes out of business the bond will only cover 2 to 14 cents on the dollar. Brokers should be required to have at least $100,000 in surety bonds. One problem currently is that it is not worth the legal expense to pursue small amounts, such as $1,800.

Alternatives to Using Brokers?

The alternative would be for the carrier to solicit business directly from the shippers. This would mean having to hire more salespeople. Currently the carrier needs brokers. To help improve the bad debt situation, shippers should be required to pay the carrier.

With regard to trip leasing, respondent felt that the financial security with other carriers was not much better--carriers have had their own financial problems lately.
The carrier also has a broker's license but does not use it a great deal -- only when one of its shipper customers offers it a load that it doesn't have a truck for. The shipper does not mind that the carrier brokers out the load but it would mind to some extent if the carrier refused the load. The carrier believes it is important to accept the loads offered -- if it refuses loads it may be terminated as a carrier by the shipper.

Other:

Most shippers pay freight bills within 30 days, yet brokers often pay much slower - up to 45 days. This amounts to living off the carrier's money and the respondent resents this. If a broker takes more than 60 days to pay, the carrier no longer uses it. Brokers sometimes go out of business without paying and then open up in another location.
INTERVIEWS OF TWENTY FIVE SMALL MOTOR CARRIERS

1. How many different brokers did you use during 1987?
2. Can you identify the brokers by name and ICC-MC number?
3. How large is the motor carrier in terms of employees, vehicles, revenues?
4. Why does the motor carrier use brokers?
5. What proportion of the motor carrier's total freight during 1987 was generated by brokers?
6. Does the broker generate both truckload and less-than-truckload freight?
7. Has the motor carrier experiences any disadvantages from using brokers?
8. How has the use of brokers affected the efficiency of the motor carrier? (For example, have brokers helped reduce empty vehicle miles for the carrier? If so, can the carrier estimate the total or proportion of such mileage?)
9. What alternatives to use of a broker exist for the carrier?
10. Do you have contracts with all of your brokers?
11. Do you have filed common carrier rates that are used by brokers?
Appendix 6. Interstate Carriers Conference Survey Results

The Interstate Carriers Conference (hereinafter referred to as "the Conference") is a motor carrier association headquartered near Washington, D.C. One of several Conferences of the American Trucking Association, it has about 590 carrier members that hold ICC authority and operate as interstate truckload carriers. On June 1, 15 and 29, 1988, the Conference sent a questionnaire to its carrier members in its bi-weekly newsletter concerning their experience using brokers. (The results of the 159 responses are summarized on the questionnaire found at the end of this section.)

Before reviewing the survey results it should be noted that several kinds of intermediaries exist, including ICC licensed brokers, exempt brokers of unregulated commodities, carrier agents, forwarders and others. Carriers do not always distinguish between them thus, it may be impossible to draw conclusions separately about each group.

Also, the wording of survey questions is more art than science but it is important since it may affect responses. Issues concerning question wording arise with every survey; thus, the questions are included so they may be reviewed and judgments on interpretation of the responses can be formed.

Several other factors relevant to this survey should also be noted. First, the newsletter of June 1 that initially included the questionnaire solicited responses from member carriers that had experience using brokers. This may have encouraged a higher
response rate from carriers that use brokers than carriers that do not. Thus, 94% of the respondents reported use of a broker within the past twelve months but whether or not this proportion is reflective of all Conference trucking firms seems open to debate.

A second matter is the announcement that accompanied the questionnaire to the effect that the results were to be used as a data base for the Conference's newly formed Ad Hoc Committee on Broker Abuses. Again this may have tended to encourage a higher response rate by carriers that feel abused by brokers than by other carriers.

Third, respondents to this survey appear to be, on average, older and larger than industry norms. Thus more than two-thirds of respondents received their ICC authority prior to 1980 while most carriers were first licensed during or after 1980. Also, respondents reported a median of 85 power units, and only 10 respondents (of 159) reported 10 or fewer power units. Assuming each power unit generated $100,000 per year in gross revenues, this would mean that respondents with fewer than 10 power units had annual sales of less than $1 million and are thus categorized as Class III carriers by the ICC. About 90% of all ICC licensed carriers are Class III carriers yet of the survey respondents, less than 10% are apparently Class III.

Finally, as might be expected given the age and size of these carriers, they tend to use brokers proportionately less than the 25 small carriers interviewed. That is, half the
carriers reported brokers generated 6% or less of their revenues. In fact, about 77% of respondents said brokers generated 10% or less of their revenues. Also, only 6 of the respondents are "heavy users" of brokers -- i.e. brokers generate 33% or more of their revenues. Again, as would be expected, these "heavy users" tend to be smaller and newer than the average motor carrier respondent.

Although the responses to each survey question are included, some of the major findings of interest are noted and discussed below.

1. The vast majority of respondents (87%) agree or strongly agree that some brokers provide a useful service to the carrier. However, 89% also report that they were not paid by some brokers and over 50% of carrier bad debts are attributed to brokers.

2. Brokers are used to help carriers find return loads or backhauls (91% agree), particularly in areas where the carrier has no salesforce (84% agree).

3. Concerning trip leasing, most respondents (82%) found use of brokers to be more convenient. There is no agreement on whether or not carriers earn higher revenues from using brokers than from trip leasing.

4. Carriers use brokers more than trip leasing today--further testimony perhaps to the convenience of brokerage. Thus 129 respondents reported an average of 11% of their annual revenues generated by brokers, while 77 reported trip leasing which generated an average of 4% of annual revenues.

5. Concerning credit and financial responsibility issues, most respondents (92%) found the broker surety bond inadequate and 85% believed shippers should be responsible for broker debts to carriers.

6. The vast majority of respondents (88%) reported performing routine credit or other checks before using a broker, although 12% do not follow this procedure.
7. In checking brokers, 39% of respondents "always" verify broker authority and surety bond with the ICC, although 44% do this "sometimes" and 17% "never." These responses are consistent with carrier interviews and support the contention that many carriers do not always distinguish between ICC licensed property brokers and other intermediaries.

8. Most respondents have never complained to the ICC about late or non-payment by brokers. Those that did complain did not generally get a satisfactory resolution of the problem. Also, 50% of respondents reported never attempting to collect defaulted payments from a broker's surety bond. Of those that did, few ever collect full payment. Yet, it is still difficult to understand why 50% of carriers reporting non-payment have never tried to collect from the surety bond.

9. Although 45% of respondents have filed lawsuits against brokers, 92% believe this is impractical, often because the expense is greater than the debt.

10. The vast majority -- 91% -- of respondents favor stricter regulation of brokers. The most common suggestions include a higher surety bond (46 respondents), holding the shipper liable for payment (20 respondents) and stricter entry control (11 respondents).
CONFIDENTIAL
Interstate Carriers Conference
Transportation Broker Survey

1. Is your company an ICC-authorized carrier?
   a. Yes  b. No  Only those answering "yes" are summarized below.
      Numbers may not add to 100 due to rounding.
      If answer is "No" please skip the rest of the questions and return the
      questionnaire. Thank you.

2. In what year did your company first receive ICC-motor-carrier authority?
   Prior to 1980 = 68%  No. Responses = 153
   1980 to present = 32%

3. Does your company hold an ICC property broker's license as well as a motor-
   carrier license?
   a. Yes 50%  b. No 50%  No. Responses = 157

   (Count each full time owner-operator as one employee.)
   Number of employees  Mean = 241  Range = 1 to 5000  Median = 101
   St Dev=511.6

5. How many power units do you have (count owner-operator units)?
   Mean = 186  Range = 1 to 4200  Median = 85  No. Responses = 159
   St Dev=426

6. Has your motor carrier used the services of an ICC-licensed property broker
   during the past 12 months?
   Exclude household goods and exempt commodity brokers.)
   a. Yes 94%  b. No 6%  c. Don't know  No. Responses=159
   If the answer to question 5 is "No" or "Don't Know," please skip the rest
   of the questions and return the questionnaire. Thank you.

7. Do you execute a written contract with a broker:
   a. always 17%  b. sometimes 72%  c. never 11%
   No. Responses = 149

8. How many different ICC-licensed brokers did your motor carrier use in the
   past 12 months?
   a. 1 to 5  22%  
   b. 6 to 10  15%  
   c. 11 to 20  19%  
   d. 21 to 50  26%  
   e. over 50  18%

189
Each of the following statements refers to ICC-licensed property brokers (not household goods brokers or exempt commodity brokers). Please indicate whether you agree or disagree with each statement by circling the appropriate number (1 = Agree Strongly 2 = Agree 3 = No Opinion 4 = Disagree 5 = Disagree Strongly).

9. Some brokers provide a useful service to our carrier.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>No Opinion</th>
<th>Disagree</th>
<th>Disagree Strongly</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

No. Responses = 148

10. Some brokers we have used did not pay us.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>No Opinion</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

No. Responses = 148

11. We use brokers in areas where we have no salesforce.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>No Opinion</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

No. Responses = 148

12. Using brokers is easier and more convenient than trip-leasing.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>No Opinion</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

No. Responses = 148

13. Brokers typically pay the carrier higher revenues than trip leasing would.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>No Opinion</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

No. Responses = 148

14. We use brokers primarily to help fill backhauls or return loads.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>No Opinion</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

No. Responses = 147

15. What percentage of ICC-licensed brokers that you have utilized pay within the following periods from the date of delivery?

<table>
<thead>
<tr>
<th>Pay within</th>
<th>Mean</th>
<th>Mean</th>
<th>Mean</th>
<th>Mean</th>
<th>Mean</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0-30 days</td>
<td>31-45 days</td>
<td>46-60 days</td>
<td>61-90 days</td>
<td>over 90 days</td>
<td></td>
</tr>
<tr>
<td></td>
<td>73</td>
<td>121</td>
<td>118</td>
<td>76</td>
<td>68</td>
<td></td>
</tr>
</tbody>
</table>

No. Responses = 147

In explanation of the results to question 15: the reported average proportion of brokers that pay carriers in 0 to 30 days is 21% based on 73 responses. The average proportion of brokers that pay carriers in 31 to 45 days is 46, based on 121 responses, etc.
16. What percentage of your revenue last year (1987) was generated through ICC-licensed brokers? *Range 1 to 100* Trip Leasers? M = 4% Med. = 2%
Mean = 11% No. Responses = 129
Median = 6% St. Dev. = 14.9
No. Responses = 77

17. What percentage of your bad debts written off in 1987 were from ICC-licensed brokers? Trip Leasers?
Mean = 56% No. Responses = 118
Median = 70%
No. Responses = 34

18. In your opinion, is the existing property broker surety bond adequate security for collecting freight charges.
   a. Yes 8%  b. No 92%  No. Responses = 145

19. In your opinion, should shippers be held responsible for broker debts to motor carriers?
   a. Yes 85%  b. No 16%  No. Responses = 146

20. How many, if any, non-ICC licensed brokers did your motor carrier utilize in the past 12 months?
   a. 1-2 50% No. Responses = 104
   b. 3-4 17%
   c. 5-6 12%
   d. 7-8 2%
   e. over 8 19%

21. Has your experience with non-ICC licensed brokers been less satisfactory than your experience with ICC-licensed brokers?
   a. Yes 43%  b. No 57%  No. Responses = 110

22. Do you routinely run a credit check or in some manner try to check on the reputation of a particular broker before utilizing the broker?
   a. Yes 88%  b. No 12%  No. Responses = 134

23. In running a credit check on a broker, which of the following do you do routinely?
   i) Verify property broker authority and surety bond with the ICC?
      a. always  b. sometimes  c. never  No. Responses = 126
         39% 44% 17%
   ii) Obtain a credit bureau report?
      a. always  b. sometimes  c. never  No. Responses = 128
         41% 38% 21%
iii) Verify other carrier references provided by broker or credit bureau?

<table>
<thead>
<tr>
<th>Always</th>
<th>Sometimes</th>
<th>Never</th>
<th>No. Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>52%</td>
<td>43%</td>
<td>5%</td>
<td>129</td>
</tr>
</tbody>
</table>

iv) Verify banking records?

<table>
<thead>
<tr>
<th>Always</th>
<th>Sometimes</th>
<th>Never</th>
<th>No. Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>24%</td>
<td>51%</td>
<td>24%</td>
<td>127</td>
</tr>
</tbody>
</table>

v) Check membership status and standing with Transportation Brokers Conference of America?

<table>
<thead>
<tr>
<th>Always</th>
<th>Sometimes</th>
<th>Never</th>
<th>No. Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>21%</td>
<td>32%</td>
<td>47%</td>
<td>131</td>
</tr>
</tbody>
</table>

24. Which of the following credit agencies or services do you consult?

<table>
<thead>
<tr>
<th>Agency/Service</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dunn &amp; Bradstreet</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>Packer Red Book</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>Produce Blue Book</td>
<td>21%</td>
<td>79%</td>
</tr>
<tr>
<td>Compunet</td>
<td>18%</td>
<td>82%</td>
</tr>
<tr>
<td>Baker, Govern &amp; Baker</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>Transportation Credit Bureau</td>
<td>14%</td>
<td>86%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. Responses</td>
<td>137</td>
<td></td>
</tr>
</tbody>
</table>

25. How many times, if ever, have you complained to the Interstate Commerce Commission about receiving late payment or nonpayment by an ICC-licensed broker?

<table>
<thead>
<tr>
<th>Times</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>56%</td>
</tr>
<tr>
<td>1-2 times</td>
<td>23%</td>
</tr>
<tr>
<td>3-4 times</td>
<td>9%</td>
</tr>
<tr>
<td>5-6 times</td>
<td>2%</td>
</tr>
<tr>
<td>Over 6 times</td>
<td>11%</td>
</tr>
<tr>
<td>No. Responses</td>
<td>132</td>
</tr>
</tbody>
</table>

26. How often were your complaints satisfactorily resolved? e.g. complete or partial payment received?

<table>
<thead>
<tr>
<th>Times</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>82%</td>
</tr>
<tr>
<td>1-2 times</td>
<td>15%</td>
</tr>
<tr>
<td>3-4 times</td>
<td>1%</td>
</tr>
<tr>
<td>5-6 times</td>
<td></td>
</tr>
<tr>
<td>Over 6 times</td>
<td>2%</td>
</tr>
<tr>
<td>No. Responses</td>
<td>83</td>
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</tbody>
</table>
27. How often, if ever, have you sought payment from an ICC-licensed broker only to learn that the broker was in bankruptcy or eventually went bankrupt before you were paid?

a. never 10%  
   No. Responses = 131
b. 1-2 times 29%  
c. 3-4 times 19%  
d. 5-6 times 11%  
e. over 6 times 31%

28. How often, if ever, have you sought payment from a non-ICC licensed broker only to learn that the broker was in bankruptcy or eventually went bankrupt before you were paid?

a. never 31%  
   No. Responses = 121
b. 1-2 times 29%  
c. 3-4 times 18%  
d. 5-6 times 5%  
e. over 6 times 17%

29. How often, if ever, have you sought to recover a defaulted payment from an ICC-licensed broker through its surety bond?

a. never 50%  
   No. Responses = 131
b. 1-2 times 24%  
c. 3-4 times 10%  
d. 5-6 times 2%  
e. over 6 times 14%

30. How often, if ever, have you collected full payment from the surety bond?

a. never 84%  
   No. Responses = 125
b. 1-2 times 10%  
c. 3-4 times 4%  
d. 5-6 times 1%  
e. over 6 times 1%

31. How often, if ever, have you sought payment from an ICC-licensed broker only to learn that the broker could no longer be reached at its place of business?

a. never 12%  
b. 1-2 times 29%  
c. 3-4 times 14%  
d. 4-6 times 10%  
e. over 6 times 35%  
   No. Responses = 148

32. How often, if ever, have you sought payment from a non-ICC licensed broker only to learn that the broker could no longer be reached at its place of business?

a. never 32%  
b. 1-2 times 29%  
c. 3-4 times 14%  
d. 4-6 times 4%  
e. over 6 times 21%  
   No. Responses = 135

193
33. Have you ever filed a lawsuit against a property broker?
   a. Yes 45%  b. No 55%  No. Responses = 150

34. In your opinion, is filing a lawsuit a practical means of resolving nonpayment?
   a. Yes 8%  b. No 92%  No. Responses = 147

35. If no, is that because the expense involved in bringing a lawsuit is greater than the debt to be collected?
   a. Yes 87%  b. No 13%  No. Responses = 133

36. In general, do you believe brokers should be more strictly regulated?
   a. Yes 91%  b. No 9%  No. Responses = 150

37. If yes, what are your suggestions?  
   1.) Raise surety bond (46)  
   2.) Hold shipper responsible (20)  
   3.) Stricter entry control (11)  
   4.) Other (55)

PLEASE PRINT

Name ____________________________ Nickname ____________________________

Title ____________________________ Company ____________________________

Address ____________________________ (Street or P.O. Box)

_________________________ (City) ____________________________ (State) ____________________________ (Zip Code)

Telephone: (____) ____________________________ / (800) ____________________________

Please Return To: Interstate Carriers Conference
ATTN: Transportation Broker Survey
2200 Mill Road, Suite 600
Alexandria, VA 22314

RETURN BY JUNE 28, 1988

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Appendix 7. National Private Trucking Association Survey Results

The National Private Trucking Association (NPTA) (formerly the Private Carrier Conference) was created in 1944 to represent manufacturers, distributors and others, that operate their own truck fleets as an extension of their primary business. Major representation activities include:

1) coordinating, developing and representing the views of the private trucking industry on regulatory concerns, taxation, safety and administrative matters before Congress, the various regulatory agencies and the states;
2) providing information and services to the members in the forms of periodic newsletters and mailings, a monthly magazine, various publications, and workshops, seminars and annual meetings;
3) providing a strong voice and public relations for the private fleet industry.

Current priorities of the organization include continued improvement in truck safety; simplification and equitable application of truck taxes; continued deregulation of trucking, and improved productivity for private fleets. On October 1, 1988 NPTA and the Private Truck Council of America joined to create the National Private Truck Council.

On June 28, 1988 the NPTA included a questionnaire on broker use in its monthly newsletter sent to 1249 members with private truck fleets. A total of 139 responses (11%) were received, and the results are summarized below.

Before reviewing the results it should be noted that the respondents are firms that own one or more private trucks and thus may use brokers in two ways. First, as a shipper, they may use them to arrange trucking of their products or, second, as a carrier they may use them to find loads for the private fleet.
Thus the survey contained questions on broker use from both shipper and carrier perspectives.

A second characteristic of the respondents is their size. Of the 106 that answered the survey questions on firm size, 55 (52%) said their firms employed over 500 people, while only 16 (15%) said they employed fewer than 100 persons. In other words, most respondents are larger firms--clearly not small businesses. It is speculative but worth noting that these larger firms may be different than small firms. For example, they may be more sophisticated in transportation matters and perhaps more likely to hold ICC motor carrier authority.

Third, 30 respondents (22%) said they held an ICC broker's license--a much higher proportion than found in private fleets generally. (There are over 100,000 private fleets in the U.S., thus if 22% of them held broker authority, there would be 22,000 broker licenses extant. In fact there are fewer than 6,000 licensed brokers currently.) This suggests that the survey respondents may be more interested and knowledgeable about brokers than the general population of private fleet owners.

Although responses to each survey question are provided in detail below, some of the major findings include the following.

1. Seventy percent of respondents had used a broker within the past 12 months. Of those that had not used a broker, the predominant reason was "do not need a broker's service."

2. Sixty-five of 99 respondents (65%) said they hold ICC authority as common or contract motor carriers.
3. Firm size of respondents is depicted below:

<table>
<thead>
<tr>
<th>Size</th>
<th>No. Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 100 employees</td>
<td>16 (15%)</td>
</tr>
<tr>
<td>100 to 500 employees</td>
<td>35 (33%)</td>
</tr>
<tr>
<td>over 500 employees</td>
<td>55 (52%)</td>
</tr>
<tr>
<td>Total Respondents</td>
<td>106 (100%)</td>
</tr>
</tbody>
</table>

4. The number of miles traveled by the respondents' truck fleets in the prior 12 months varied from 64,000 to 35 million, with a median value of 1,978,000.

5. Some respondents (about 16%) that named a broker they used provided a name that could not be found on the current ICC list of licensed property brokers. This suggests that some firms do not distinguish between ICC licensed brokers and other intermediaries. All but a few brokers named by respondents were named only once—however, C. H. Robinson was named 13 times, testimony to the high visibility of that firm with private fleet owners.

6. The most important advantage in using brokers to arrange trucking of company freight was, "broker is a good back-up for emergencies or unusual shipments" although "service fits company needs well" was a close second. "Brokers can arrange service to more states than most carriers" was the least important advantage cited by these shippers—an interesting response in that many brokers note this as an advantage they offer to shippers.

7. Concerning disadvantages of using brokers to arrange trucking of company freight, 39 of 55 respondents (about 71%) said there were no disadvantages usually. Of those that experienced disadvantages, the most common disadvantage (mentioned by 16 respondents—about 30%) was "broker service is less reliable than carrier service usually."

8. The primary advantage of using brokers to find loads for the respondent's truck fleet was, "reduces empty miles of the truck fleet and generates revenue" while the second most important reason was, "extension of sales force for the truck fleet" -- a closely related attribute.

9. Empty miles saved during the prior 12 months by using a broker ranged from 365 to 1,250,000 with a median of 60,000 miles. The proportion of total miles saved averaged 8.2%.
10. Concerning possible disadvantages of using brokers to find loads for the truck fleet, 27 respondents (out of 51 or 53%) indicated "no disadvantages usually" while 24 (47%) had experienced some disadvantage. The most common disadvantage noted by far was, "rates are low." Other, much less common responses were, "payment is slow" and "do not get paid on some loads."

NPTA BROKERAGE SURVEY

1. Does your company hold an ICC license as a motor carrier broker? (Circle one.)
   a. yes - 30 22%
   b. no - 109 78%
   
2. Has your company used an ICC licensed motor carrier broker of property (not household goods or exempt commodities) during the past 12 months?
   a. yes (Go to Question 4) 97 70%
   b. no (Go to Question 3) 41 29%
   
3. If the answer to question two is "no," which of the following statements describes your company? (Circle as many as apply.)
   a. company policy forbids use of ICC licensed brokers 4
   b. do not need a broker's service 24
   c. have never been approached by a broker for business 4
   d. stopped using brokers due to problems with them 6
   e. company employees fewer than 100 people 4
   f. company employs 100 to 500 people 9
   g. company employs more than 500 people 10
   h. other reasons for not using a broker (explain) 5
      "No authority to haul any goods other than our own"
      "Not needed"
      "Thrust from upper management continues to be to maintain strict private fleet"
      "Brokers provide limited use to us. Currently looking into using one in the future."
      "Do not want to use brokers."
      "Just starting to exercise for-hire authority."
      "Food wholesaler-broker seldom used."
      "Can't depend on them."
      "Not yet set up to use. I need to upgrade our equipment."
"Question on legality of our private carrier status."

If the answer to question two is "no" or "don't know," please skip the rest of the questions and return the questionnaire to NPTA. Thank you for your cooperation.

4. If the answer to question two is "yes," which of the following statements describes what the broker does for the company? (Choose as many as apply.)

a. broker arranges trucking service for your company's freight shipments 42
b. brokers find loads for your company's private truck fleet 47
c. other (explain) ________________ 10

"For permanently leased owner/ops"
"Broker finds backhauls for fleet"
"We are a carrier-brokers find loads for our fleet"
"Brokers handle certain parts of our outbound as designated by us."
"Provides services not offered by parent company"
"Answer a. But broker usually selected by third party shipping freight for which we are responsible."
"Hauls our freight"
"Broker finds loads for company's contract carrier fleet."
"Brokers are used for backhauls only."

5. Can you provide the name of an ICC licensed broker the company has used during the past 12 months, and the state where the broker is headquartered? (Optional)

<table>
<thead>
<tr>
<th>State</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>Joe-Tex East-West Inc.</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Lee Truck Brokers</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Ozark Truck Brokerage</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Paul Yates Company</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Jett Trucking Express</td>
</tr>
<tr>
<td>California</td>
<td>Consolidated Enterprise Inc.</td>
</tr>
<tr>
<td>Florida</td>
<td>FTS</td>
</tr>
<tr>
<td>Georgia</td>
<td>Sun Coast</td>
</tr>
<tr>
<td>Georgia</td>
<td>Blue Star</td>
</tr>
<tr>
<td>Georgia</td>
<td>Highway Marketing</td>
</tr>
<tr>
<td>Georgia</td>
<td>T &amp; D Transportation Brokers</td>
</tr>
<tr>
<td>Georgia</td>
<td>CTMS</td>
</tr>
<tr>
<td>Illinois</td>
<td>Worldwide Logistics</td>
</tr>
<tr>
<td>Illinois</td>
<td>B &amp; V Brokerage</td>
</tr>
<tr>
<td>Illinois</td>
<td>Midwestern Transit Service</td>
</tr>
<tr>
<td>Illinois</td>
<td>American Backhaulers</td>
</tr>
</tbody>
</table>
Iowa
Iowa
Kansas
Massachusetts
Massachusetts
Michigan
Michigan
Minnesota
Minnesota
Minnesota
Mississippi
Missouri
Missouri
Missouri
Missouri
Missouri
Montana
New Jersey
New Jersey
New Jersey
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North Carolina
North Carolina
North Carolina
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Missouri
Tennessee
Tennessee
Texas
Texas
Texas
Texas
Texas
Utah
Washington
Washington
Wisconsin
Wisconsin

Epic
BTI
Greg Orscheln Transportation Company
Carrier Nationwide
Sweeney Nationwide
Northland Express
RPL
G.S. Brokerage
Twin Modal
C.H. Robinson (13)
Silver Bullet
Hub City Terminals
United Intermode
L & P Transportation Brokers
Standard
Distributor Transportation Service
MXN
Meadow Lark Agency
Right On
Tucker Company (3)
AJ Express
Vertex
Productive Transportation (2)
Hildebran Freight Brokers
Dyson Clark
Beam Transport
Zona Transportation
Loadpower
R&G
Freight Brokers Inc.
L.L. Transportation Services
G & J Industries
Century Lines
L.T.
Nat Heigy Enterprise
Colonial Freight System
Rapid Transit
Am Lady
Diversified Freight
Lone Star Transportation Service (2)
McBee Transportation Company
Advantage Transportation
Best Way
H&S
TOPSS
KK Truck Brokerage
Following were named more than once:
C.H. Robinson (13)
Tucker Co. (3)
Productive Transportation (2)
Lone Star Transportation Service (2)

*Those that were not found on the ICC list of current brokers were deleted along with those named when respondent answered "No" to question #6.

6. Would you recommend the broker named above to other carriers?
   a. Yes 81
   b. No 8

7. If your company uses an ICC licensed broker to arrange trucking of company freight, what are the most important advantages for the company from using the brokers? (Rank the statements below, with 1 = Most Important, 6 = Least Important.)

   low rates
   service fits company needs well
   broker is a good "back-up" for emergencies or unusual shipments
   brokers can arrange service to more states than most carriers
   good working relationship between broker and company
   other (explain)

<table>
<thead>
<tr>
<th>Advantage</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>low rates</td>
<td>12</td>
<td>16</td>
<td>7</td>
<td>4</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>service fits company needs well</td>
<td>26</td>
<td>16</td>
<td>7</td>
<td>4</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>broker is a good &quot;back-up&quot; for emergencies or unusual shipments</td>
<td>32</td>
<td>11</td>
<td>10</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>brokers can arrange service to more states than most carriers</td>
<td>9</td>
<td>7</td>
<td>2</td>
<td>10</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>good working relationship between broker and company</td>
<td>18</td>
<td>10</td>
<td>10</td>
<td>13</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>other (advantages of using brokers)</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

"Equipment availability is good except for New England and upper East Coast states."
"We have all of these with DTS."
"They have connections to networks which occasionally are beneficial to us."
"We did - no more"
"When volume is high temporarily broker fills void"
"Finding backhauls"
"None - we no longer use brokers"
"Backhauls - reduces empty miles"
"Access to varied trucking lanes"
"Provides good competitive rate level to keep common and contract carrier rates low."

8. If your company uses an ICC licensed broker to arrange trucking of company freight, has the company experienced any disadvantages from use of the broker? (Choose as many as apply.)

a. no disadvantages usually 39
b. yes, broker service is less reliable than carrier service usually 16
c. yes, broker rates are not competitive usually 7
d. yes, using a broker is usually less convenient than using a carrier 10
e. yes, collecting damage or other claims is more difficult when using a broker 10
f. other (explain) 10

"Has little equipment available for New England and upper East Coast states."
"Have had no problems"
"We co-broker and relationships are very good."
"Brokers often times cannot commit to loads till they have called around, necessitating more phone calls."
"No direct contact with carrier dispatcher to check on location or change route."
"They seem to all have financial problems; they disappear in middle of night."
"Our claims are paid within 30 days"
"The benefits outweigh the risk. Good broker is the key."
"May not be aware of equipment condition until they arrive at your dock."
"Slow pay"
"Some don't pay the trucks"
"We sometimes have a problem with delivery times or obtaining a good ETA - three way communications will probably continue to be the downfall of the brokerage business."
"Billing problems for multiple locations."
"A broker must go out and find a truck which takes more time."
"Some have not paid drivers promptly causing delay or aggravation as drivers try to get paid."
9. Does your private truck fleet also have ICC authority as a common or contract motor carrier?

a. yes 65
b. no 33
c. don't know 1

If your answer is "no" or "don't know" please skip the rest of the questions and return the questionnaire. Thank you for your cooperation.

10. If your company uses an ICC licensed broker to find loads for the company's truck fleet, what are the most important advantages for the company from using the broker? (Rank the statements below, with 1 = Most Important, 6 = Least Important.)

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extension of sales force for truck fleet</td>
<td>20</td>
<td>6</td>
<td>10</td>
<td>4</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Reduces empty miles of the truck fleet and generates revenue</td>
<td>52</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broker provides quick payment to the truck fleet usually</td>
<td>8</td>
<td>4</td>
<td>8</td>
<td>6</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Broker pays the truck fleet reliably</td>
<td>10</td>
<td>5</td>
<td>10</td>
<td>9</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Broker is more economical to use than other alternatives</td>
<td>4</td>
<td>9</td>
<td>7</td>
<td>11</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Broker is more convenient or easier to use than other alternatives</td>
<td>9</td>
<td>14</td>
<td>14</td>
<td>4</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

"Due to small size of our fleet we don't have significant bargaining power with shippers, therefore the broker acts as a go-between."

"We reciprocate with our brokers as far as freight is concerned."
11. If the use of an ICC licensed broker has helped reduce the number of empty miles traveled by the company truck fleet, can you estimate the number of empty miles thus saved during the past 12 months?

41 responses
Range: 365 to 1,250,000
Median = 60,000 miles
Mean = 170,332

12. Approximately how many miles in total (both loaded and unloaded) did the company truck fleet operate in the past 12 months?

No. responses = 70

Median 1,978,000
Range: 64,000 to 35,000,000

13. If your company uses an ICC licensed broker to find loads for your company's truck fleet, has the company experienced any disadvantages from the use of the broker?

a. No disadvantages usually
b. Yes. (Rank the statements below, with 1 = Most Important, 6 = Least Important.)

rates are low
payment is slow
do not get paid on some loads
less convenient than trip leasing or hauling exempt products
less revenue than trip leasing or hauling exempt products
other

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>rates are low</td>
<td>24</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>payment is slow</td>
<td>3</td>
<td>11</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>do not get paid on some loads</td>
<td>7</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>less convenient than trip leasing or hauling exempt products</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>other</td>
<td>5</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

"Often can't find us loads."
"Collections have been prompt. Not a single bill not paid."
"Unable to find load in lanes we need."
"Unreliable, they lie, incomplete data provided."
"Loads are usually circuitous to return destination and involve food items for food store chains."
"Looking for consistent moves that can be efficiently planned."
14. Which of the following statements describes your company?

a. employees less than 100 people  
   b. employees 100 to 500 people  
   c. employs more than 500 people

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>employees less than 100 people</td>
<td>12</td>
</tr>
<tr>
<td>employees 100 to 500 people</td>
<td>26</td>
</tr>
<tr>
<td>employs more than 500 people</td>
<td>45</td>
</tr>
<tr>
<td>total</td>
<td>83</td>
</tr>
</tbody>
</table>
Appendix 8. Broker Industry Survey Results

A. Introduction

On August 10, 1988 a survey of ICC licensed brokers was undertaken to help determine the industry's size and operating methods. A recently updated list (July, 1988) of all 5908 licensed brokers was obtained from the Interstate Commerce Commission. The firms were randomized and numbered, a random starting number was generated and from that point every fourth firm was selected. This 25% sample generated a total of 1477 names all of whom were sent surveys. However, 151 surveys were returned as undeliverable - no forwarding address. Telephone calls were attempted to the first 100 of these, but only 15 had a current phone number listed. These 15 were contacted, a new address was obtained and a survey was sent to them.

On August 24, 1988, a follow-up letter was sent to all non-respondents and three weeks later, telephone calls were attempted to half (551) of the remaining non-respondents. (Telephone numbers for 291 were found, but the rest were not listed.) No further surveys were returned after October 21, by which time a total of 548 had been received. The 548 responses represents a return rate of 37% of the 1477 firms in the original sample, and 40.8% of the 1341 that apparently received the survey in the mail.

Responses to the survey were coded as they arrived with those received by the originally requested date of September 1 coded as "1" and all later responses coded as "2." (A total of 206
368 were received by September 1, 172 after that date and 8 were left uncoded by mistake.) The later respondents may be thought of as proxies for all non-respondents since they were non-respondents as of September 1, but did eventually respond. The surveys of the two groups were summarized separately and compared in an attempt to determine whether or not non-respondents (late respondents) were systematically different from respondents. The results indicate that "late" respondents are significantly different in two respects: they reported much lower annual sales (question 31) and had fewer shipper customers (question 14). (The significance tests on these questions are described at the end of this section.) Because of these results, any attempt to project industry sales and shipper customers from the survey data must take these findings into account. Table III-1 summarizes the survey responses.

Table VIII-1. Broker Survey Responses

<table>
<thead>
<tr>
<th>Surveys Sent</th>
<th>Responses Received</th>
<th>Total Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1477</td>
<td>368</td>
<td>548</td>
</tr>
<tr>
<td>136</td>
<td>172</td>
<td>929</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

B. Survey Results - Summary and Discussion

The responses to each question are provided at the end of this section; however, some major findings are summarized and discussed below.

1. Although the responses typically appear to be within the bounds of what is known about brokers, a few exceptions exist. Notably, about 10% of respondents on question 30
indicated experience arranging Department of Defense trucking although the DOD does not use brokers. This suggests that some respondents did not always understand or follow the survey directions to report only brokerage activity and it is possible that other operations are included in other responses as well. Of some help is the fact that the majority of respondents (60%) are operated independently thus; this should not be a problem for them.

Another data collection problem involved question 32 which, from the responses received, was apparently misunderstood by many respondents. For example, many reported the same figure for both questions 31 and 32, yet this is impossible. Others reported what appeared to be percentages, not dollar totals. Finally, others reported amounts that exceeded the total annual sales reported in question 31. For these reasons the responses to this question have been ignored and appear to be of no value to the study.

2. A substantial proportion of licensed brokers are not actively in business. About 19% said this in response to survey question No. 2. In addition, as noted earlier, 136 surveys (9% of the 1477 in the sample) were non-deliverable, with no current forwarding address and most with no listed telephone number. Assuming these 136 are also not in business, a better estimate of the proportion of inactive license holders would probably be the sum of these figures (9% plus 19%) or 28 percent. Thus, if the industry has 5908 licenses with 28% inactive, this would suggest there are about 4254 active firms in the industry in 1988.

3. About 51% of respondents are TBCA members, although only about 24% of all broker license holders are TBCA members. (During 1988 there were about 1400 TBCA members and 5908 licensed brokers.) Thus survey respondents are not like the universe of all licensed brokers in this respect.

4. Brokers are typically small businesses: ninety percent of respondents indicate they employ fewer than 10 people and 75% maintain one office. Fifty percent report total 1987 gross sales (before carrier payments) of $700,000 or less. It should be noted that about 90% of this amount is paid to motor carriers for their trucking service. Thus it would appear that 50% of respondents received approximately $70,000 or less in 1987 out of which they had to pay operating expenses and taxes before generating profit.
5. The broker industry is new and continues to attract new entrants: 59% of respondents began operations during or after 1985. This is important because the failure rate of new businesses is much higher than older firms.

6. Concerning the volume of broker truckload operations during 1987, responses ranged from 2 to 80,000 loads with a median of 1000 loads handled that year. Concerning LTL operations, 255 brokers indicated volumes ranging from 1 to 96,000 shipments in 1987. Fifty percent of respondents reported handling 100 or fewer LTL shipments during the year.

7. Concerning broker-shipper relationships:

- Ninety-three percent of 418 respondents reported that the shipper pays the broker and the broker pays the carrier.

- The reported number of shippers that used the respondent broker to arrange trucking service during 1987 ranged from 1 to 3000. Fifty-two percent reported 1987 use by 35 shippers or fewer. (374 respondents)

- Fifty-nine percent of respondents that had information on customer size said the average shipper customer employed fewer than 100 workers. (417 respondents)

- Eighty-one percent of respondents described the majority of their shipper customers as manufacturers. (410 respondents)

- Sixty-seven percent described shipper customer shipping patterns as primarily truckload shipments with some LTL shipments. (417 respondents)

- Seventy-one percent of respondents said most shipper customers shipped from less than one to 20 truckloads per week. (413 respondents)

- The three most important benefits brokers believe shippers receive from using a broker include more reliable service, service which better meets the needs of the shipper, and lower price. (415 respondents)

- Sixty percent of respondents indicated that shipper customers are located less than 100 miles from the broker's office. (411 respondents)

- Fifty-five percent of respondents believed that the benefits of using a broker are the same for all shippers, regardless of size, while 26% believe small
shippers (less than 100 workers) receive the greatest benefit. (411 respondents)

- Seventy-one percent of respondents described the truckload shipments they handled as repetitive, same origin and destination, while 27% described them as spot market. (414 respondents)

- Sixty-eight percent of respondents reported no experience arranging Federal Government trucking.

9. Concerning broker-carrier relationships:

- The three most important benefits brokers believe motor carriers get from using the broker's service include filling empty backhauls (27.8%), reducing empty miles (17%) and allowing operation in areas where no carrier salesforce exists. (414 responses)

- The number of carriers used by respondents during 1987 ranged from 1 to 8000. The mean was 179 and the median was 50. (384 respondents)

- Contract carriers are used most by respondents, while private carriers with common or contract authority are used least. (328 and 266 respondents)

- Concerning benefits offered carriers by brokers, 44% of respondents believe benefits are the same for all carriers, while 43% believe benefits are greatest for very small or small (less than 100 employees) motor carriers. Only 1% believe benefits are greatest for large (over 500 employees) motor carriers. (414 respondents)

10. Concerning the growth history of brokers, 42% report steady annual growth of from 5% to 20% per year over the past three years, while 21% report growth rates in excess of 20% per year. (417 respondents) In fact, 76% of respondents expect the brokerage to grow in the future. (419 respondents)

C. Estimating 1987 Industry Sales

Broker industry sales for 1987 are estimated by projecting the survey findings onto the total number of firms -- 6042 according to ICC data -- in business that year. Thus the survey results indicate that 28% of brokers are inactive, 20% are active
with average sales of $2.167 million (corresponding to "early" respondents) and 52% ("late" respondents plus non-respondents) are active with average sales of $1.043 million. Extending these three groups onto the 6042 firms, as shown below, allows the calculation of an industry sales estimate of $5.89 billion.

1. $0 = 6042 \times 28\% \times $0
2. $2.61 billion = 6042 \times 20\% \times $2.167 million
3. $3.28 billion = 6042 \times 52\% \times $1.043 million
Total = $5.89 billion

To put this in some perspective, 1986 annual revenues of Class I motor carriers totaled $35.5 billion while 1985 revenues of Class II motor carriers was $3.7 billion. If 1987 revenues of both are estimated at $40 billion, then broker sales that year constitute about 15% of the total. Unfortunately no data is collected by the ICC on Class III carriers.

D. Analysis of TBCA vs. Non-TBCA Responses

An additional analysis made of the survey data compared responses of TBCA members with responses of non-TBCA members. As indicated in Table VIII-2, TBCA members tend to be larger than non-TBCA brokers--they have more employees, handle more shipments, (both truckload and LTL), serve more shippers, use more carriers and enjoy much higher total sales. However, the differences are statistically significant only for number of LTL shipments, number of carriers used and, annual total freight bills (sales).

"It is assumed that "late" respondents are more like non-respondents than "early" respondents."
Table VIII-2. TBCA vs. Non-TBCA Responses

<table>
<thead>
<tr>
<th>Question 3</th>
<th>TBCA</th>
<th>Non-TBCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Employees</td>
<td>Mean 5.8</td>
<td>4.6</td>
</tr>
<tr>
<td></td>
<td>Stand. Dev. 7.55</td>
<td>18.8</td>
</tr>
<tr>
<td></td>
<td>Median 4.0</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td>Responses 213.0</td>
<td>201.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 9</th>
<th>TBCA</th>
<th>Non-TBCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Truckloads</td>
<td>Mean 2755.5</td>
<td>1501.1</td>
</tr>
<tr>
<td></td>
<td>Stand. Dev. 6501.2</td>
<td>4538.8</td>
</tr>
<tr>
<td></td>
<td>Median 1300.0</td>
<td>350.0</td>
</tr>
<tr>
<td></td>
<td>Responses 213.0</td>
<td>201.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 11</th>
<th>TBCA</th>
<th>Non-TBCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of LTL's</td>
<td>Mean 1005.2</td>
<td>287.3</td>
</tr>
<tr>
<td></td>
<td>Stand. Dev. 6753.6</td>
<td>960.8</td>
</tr>
<tr>
<td></td>
<td>Median 30.0</td>
<td>20.0</td>
</tr>
<tr>
<td></td>
<td>Responses 213.0</td>
<td>201.0</td>
</tr>
</tbody>
</table>

*Statistically significant difference at .05 level.

<table>
<thead>
<tr>
<th>Question 14</th>
<th>TBCA</th>
<th>Non-TBCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Shippers</td>
<td>Mean 94.6</td>
<td>74.6</td>
</tr>
<tr>
<td></td>
<td>Stand. Dev. 134.3</td>
<td>243.9</td>
</tr>
<tr>
<td></td>
<td>Median 40.0</td>
<td>20.0</td>
</tr>
<tr>
<td></td>
<td>Responses 213.0</td>
<td>201.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 25</th>
<th>TBCA</th>
<th>Non-TBCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Carriers</td>
<td>Mean 220.7</td>
<td>105.6</td>
</tr>
<tr>
<td></td>
<td>Stand. Dev. 413.8</td>
<td>582.4</td>
</tr>
<tr>
<td></td>
<td>Median 85.0</td>
<td>25.0</td>
</tr>
<tr>
<td></td>
<td>Responses 213.0</td>
<td>201.0</td>
</tr>
</tbody>
</table>

*Statistically significant difference at .05 level.

<table>
<thead>
<tr>
<th>Question 31</th>
<th>TBCA</th>
<th>Non-TBCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Freight Bills, 1987</td>
<td>Mean $2,160,206</td>
<td>$832,603</td>
</tr>
<tr>
<td></td>
<td>Stand. Dev. 6,994,738</td>
<td>1,553,293</td>
</tr>
<tr>
<td></td>
<td>Median 685,000</td>
<td>212,000</td>
</tr>
<tr>
<td></td>
<td>Responses 213</td>
<td>201</td>
</tr>
</tbody>
</table>

*Statistically significant at .05 level.

Other differences include the fact that non-TBCA respondents are somewhat more likely to operate in conjunction with a motor carrier. Thus 39% described the brokerage as a department or subsidiary of a trucking company in contrast to 13% of TBCA brokers. Also, 53% of non-TBCA respondents said they were independently owned and operated, in contrast to 66% of the TBCA respondents.
TBCA members also tend to be slightly older than non-TBCA respondents. (Forty-six percent began operating prior to 1985, while 35% of non-TBCA respondents reported beginning before 1985.) Finally, TBCA respondents are more likely to forecast growth of the brokerage (81%) than non-TBCA respondents (72%).

E. Analysis of Independent vs. Carrier Owned Brokers

Further analysis was undertaken to determine if brokers that were owned and operated independently differed in any important way from brokers that were a department or subsidiary of a trucking company. (Responses from question eight on the survey indicate that 60% of respondents were independent while 31% were part of a trucking company.) Thus the responses to the survey questions were summarized separately for the two groups. Typically the brokers answered the questions in much the same way but some differences were apparent and are summarized below.

1. Independently owned and operated (IOO's) brokers were older than motor carrier brokers (MCB's). The average year IOO's started was 1983 while the MCB's started on average in 1985.

2. IOO's were much more likely to be TBCA members (57%) than MCB's (39%).

3. IOO's are substantially larger firms in many ways: they handled more truckloads, more LTL shipments, used more carriers and had higher 1987 sales than MCB's. The data are depicted in Table VIII-3, below.

"Statistically significant at the .05 level.

213
Table VIII-3. Independent and Carrier Owned Brokers: Size Comparisons

<table>
<thead>
<tr>
<th></th>
<th>IOO's</th>
<th>MCB's</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of truckloads handled</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>2448</td>
<td>1836</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>4494</td>
<td>3877</td>
</tr>
<tr>
<td>Median</td>
<td>1186</td>
<td>700</td>
</tr>
<tr>
<td>Responses</td>
<td>218</td>
<td>105</td>
</tr>
<tr>
<td><strong>No. LTL Shipments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>1463</td>
<td>496</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>7848</td>
<td>1556</td>
</tr>
<tr>
<td>Median</td>
<td>200</td>
<td>100</td>
</tr>
<tr>
<td>Responses</td>
<td>156</td>
<td>74</td>
</tr>
<tr>
<td><strong>No. carriers used</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>238</td>
<td>85</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>650</td>
<td>200</td>
</tr>
<tr>
<td>Median</td>
<td>75</td>
<td>30</td>
</tr>
<tr>
<td>Responses</td>
<td>230</td>
<td>119</td>
</tr>
<tr>
<td><strong>1987 freight bill total ($)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>2,010,017*</td>
<td>1,000,095*</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>3,347,639</td>
<td>1,494,641</td>
</tr>
<tr>
<td>Median</td>
<td>1,000,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Responses</td>
<td>192</td>
<td>106</td>
</tr>
</tbody>
</table>

*Statistically significant difference at .05 level.

4. As would be expected, MCB's reported the prior business as trucking (see question 15) much more frequently than IOO's (75% vs. 37%).

5. MCB's also reported serving larger shippers than IOO's. (See question 16) Thus 13% of MCB's reported most of their shippers employed 500 or more workers (in comparison to 7% of IOO's) and 41% of MCB's reported most shippers employed less than 100 workers. In contrast 57% of IOO's said most of their shippers employed less than 100 workers.

6. Finally, as expected, MCB's are much more likely to offer ICC motor carrier service (as a non-broker service) than IOO's. In contrast, IOO's are much more likely to offer brokerage of exempt agricultural products.

F. Significance Tests

The test applied to question 31 and question 14 was a test of differences between means from large samples. The null hypothesis was that the mean from sample one equaled the mean.
from sample two at a significance level of .05. Thus the null hypothesis would be rejected if \( z \) was less than \(-1.96 \) or greater than \(1.96 \). The formula used to calculate \( z \) is given below.

\[
\frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}}
\]

when: \( \bar{x} = \) sample mean  
\( s = \) sample standard deviation  
\( n = \) sample size

The results are shown below.

Question 31
\[
\frac{2167324 - 1043157}{454239} = \frac{1124167}{454239} = 2.475
\]

\[ z = \sqrt{\frac{6445055^2 + 1747248^2}{247} + \frac{1747248^2}{80}} \]

Reject null hypothesis

Question 14
\[
\frac{79 - 36}{12.4} = 3.467
\]

\[ z = \sqrt{\frac{202^2 + 86^2}{367} + \frac{86^2}{172}} \]

Reject null hypothesis
TRANSPORTATION BROKER INDUSTRY SURVEY

1. Are you an ICC-licensed motor carrier broker of property, other than household goods?

<table>
<thead>
<tr>
<th></th>
<th>Valid %</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>94.6</td>
<td>511</td>
</tr>
<tr>
<td>No</td>
<td>5.4</td>
<td>29</td>
</tr>
<tr>
<td>No Response</td>
<td>8</td>
<td>548</td>
</tr>
</tbody>
</table>

2. Are you actively conducting brokerage business at present?

<table>
<thead>
<tr>
<th></th>
<th>Valid %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>81.2</td>
</tr>
<tr>
<td>No</td>
<td>18.8</td>
</tr>
<tr>
<td>No Response</td>
<td>31</td>
</tr>
</tbody>
</table>

3. How many workers do you currently employ full time in the brokerage business? (Count every two part-time employees as one full time worker. Do not include employees that work entirely on non-broker business.)

<table>
<thead>
<tr>
<th>Value</th>
<th>Frequency</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>77</td>
<td>19.4</td>
<td>19.4</td>
</tr>
<tr>
<td>2</td>
<td>94</td>
<td>23.7</td>
<td>43.2</td>
</tr>
<tr>
<td>3</td>
<td>57</td>
<td>14.4</td>
<td>57.6</td>
</tr>
<tr>
<td>4</td>
<td>35</td>
<td>8.8</td>
<td>66.4</td>
</tr>
<tr>
<td>5</td>
<td>36</td>
<td>9.1</td>
<td>75.5</td>
</tr>
<tr>
<td>6</td>
<td>21</td>
<td>5.3</td>
<td>80.8</td>
</tr>
<tr>
<td>7</td>
<td>20</td>
<td>5.1</td>
<td>85.9</td>
</tr>
<tr>
<td>8</td>
<td>11</td>
<td>1.8</td>
<td>88.6</td>
</tr>
<tr>
<td>9</td>
<td>7</td>
<td>1.8</td>
<td>90.4</td>
</tr>
<tr>
<td>10-250</td>
<td>38</td>
<td>9.6</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4. In what year did you begin operating as a broker?

<table>
<thead>
<tr>
<th></th>
<th>Valid %</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to 1980</td>
<td>7.1</td>
<td>29</td>
</tr>
<tr>
<td>1980 - 1984</td>
<td>33.5</td>
<td>138</td>
</tr>
<tr>
<td>1985 - 1988</td>
<td>59.3</td>
<td>244</td>
</tr>
<tr>
<td>No Response</td>
<td></td>
<td>137</td>
</tr>
</tbody>
</table>
5. How many different office locations do you currently maintain?

<table>
<thead>
<tr>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. One</td>
<td>313</td>
</tr>
<tr>
<td>2. Two</td>
<td>66</td>
</tr>
<tr>
<td>3. Three</td>
<td>18</td>
</tr>
<tr>
<td>4. Four</td>
<td>6</td>
</tr>
<tr>
<td>5. Five-Ten</td>
<td>10</td>
</tr>
<tr>
<td>6. Eleven or more.</td>
<td>6</td>
</tr>
</tbody>
</table>

419 99%  Non-Respondents = 129

6. Are you a member of the Transportation Broker's Conference of America (TBCA)?

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Yes</td>
<td>213</td>
<td>51%</td>
</tr>
<tr>
<td>2. No</td>
<td>201</td>
<td>49%</td>
</tr>
</tbody>
</table>

Total 414  Non-Respondents = 134

7. Do you offer any of the following non-broker services? (Check more than one if necessary)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
</table>
| 1 | Truck brokerage of household goods
| 16| Truck brokerage of agricultural and other exempt commodities
| 7 | Shipper agent for all rail "piggyback" service
| 3 | Customhouse broker
| 4 | Surface freight forwarder
| 4 | Air freight forwarder
| 22| ICC regulated motor carrier
| 14| Local trucking
| 9 | Warehousing
| 9 | Consulting
| 1 | NVOCC
| 7 | None of the above
| 2 | Other

412 Respondents, 136 Non-Respondents
8. Which one of the following best describes your company?

| %  | 1. It is a department or subsidiary of a trucking company | 31 |
| 2. It is a department or subsidiary of some other (non-trucking) transportation company | 3 |
| 3. It is a subsidiary or department of a manufacturing, wholesaling or retailing company | 2 |
| 4. It is a subsidiary or department of a warehousing company | 60 |
| 5. It is owned and operated independently | 2 |
| 6. None of the above | 6 |
| 7. Don't know | 7 |

417 Respondents, 131 Non-Respondents

9. Approximately how many full truck load (TL) shipments were handled by you during 1987?

<table>
<thead>
<tr>
<th>Value</th>
<th>Frequency</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-100</td>
<td>40</td>
<td>11.1</td>
</tr>
<tr>
<td>101-244</td>
<td>32</td>
<td>20.0</td>
</tr>
<tr>
<td>245-380</td>
<td>36</td>
<td>30.0</td>
</tr>
<tr>
<td>381-700</td>
<td>41</td>
<td>41.4</td>
</tr>
<tr>
<td>701-1000</td>
<td>35</td>
<td>51.1</td>
</tr>
<tr>
<td>1001-1500</td>
<td>49</td>
<td>64.7</td>
</tr>
<tr>
<td>1501-2000</td>
<td>22</td>
<td>70.8</td>
</tr>
<tr>
<td>2001-3000</td>
<td>41</td>
<td>82.2</td>
</tr>
<tr>
<td>3001-5200</td>
<td>30</td>
<td>90.6</td>
</tr>
<tr>
<td>5201-80,000</td>
<td>34</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Respondents = 360, Non-Respondents = 188

10. What is the approximate weight in pounds of the average truckload shipment?

| %  | 1. less than 20,000 | 3. 30,000-40,000 | 43% |
| 2. 21,000-29,000 | 4. over 40,000 | 48% |

Respondents = 414, Non-Respondents = 134

11. Approximately how many less-than-truckload (LTL) shipments were handled by you during 1987?

Range 1 to 96,000

| Mean = 1068   | Median = 100   |
| St. Dev. = 6210|              |

Responses = 255, Non-Respondents = 293

12. Your average brokered shipment moves approximately what distance?

| %  | 1. Less than 500 miles | 2. 500 miles to 1500 miles | 3. Over 1500 miles | 4. Don't know |
| 16% | 1. Less than 500 miles | 2. 500 miles to 1500 miles | 10% | 4. Don't know |

Respondents = 415, Non-Respondents = 133
13. On most shipments arranged by you:

93% 1. The shipper pays the broker and the broker pays the carrier.
6% 2. The shipper pays the carrier and the carrier pays the broker.
1% 3. Don't know
1% 4. Other

Respondents = 418
Non-Respondents = 130

14. During 1987 approximately how many different shippers used you to arrange trucking service?

<table>
<thead>
<tr>
<th>Value</th>
<th>Frequency</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>36</td>
<td>9.6</td>
</tr>
<tr>
<td>6-10</td>
<td>44</td>
<td>21.4</td>
</tr>
<tr>
<td>11-20</td>
<td>56</td>
<td>36.4</td>
</tr>
<tr>
<td>21-25</td>
<td>27</td>
<td>43.6</td>
</tr>
<tr>
<td>26-35</td>
<td>32</td>
<td>52.1</td>
</tr>
<tr>
<td>36-50</td>
<td>42</td>
<td>63.4</td>
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<tr>
<td>51-80</td>
<td>26</td>
<td>70.3</td>
</tr>
<tr>
<td>81-130</td>
<td>36</td>
<td>79.9</td>
</tr>
<tr>
<td>131-200</td>
<td>39</td>
<td>90.4</td>
</tr>
<tr>
<td>201-3000</td>
<td>36</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Mean = 95
Standard Deviation = 203
Median = 35
Range 1 to 3000
Respondents = 374
Non-respondents = 174

15. What business was the current brokerage owner or parent corporation engaged in prior to becoming an ICC licensed broker?

20% 1. Sales representative for trucking company
46% 2. Other trucking
5% 3. Shipper (manufacturing, wholesaling, retailing, etc.)
6% 4. Truck broker of exempt commodities
16% 5. Other transportation
6% 6. Other non-transportation
1% 7. Don't know

Respondents = 411
Non-respondents = 137

16. Most of the shippers that use you to arrange trucking service employ approximately how many workers? (Check more than one if necessary)

<table>
<thead>
<tr>
<th>Valid %</th>
</tr>
</thead>
<tbody>
<tr>
<td>31% 1. Less than 50</td>
</tr>
<tr>
<td>20% 2. Between 50 and 99</td>
</tr>
<tr>
<td>25% 3. Between 100 and 499</td>
</tr>
<tr>
<td>10% 4. 500 or more</td>
</tr>
<tr>
<td>14% 5. Don't know</td>
</tr>
</tbody>
</table>

Respondents = 417
Non-respondents = 131

219
17. The majority of shippers that used your services in 1987 are best described as:

- 81% Manufacturers
- 4% Retailers
- 8% Wholesalers
- 7% Other

Respondents = 410
Non-respondents = 138

18. Referring to manufacturers that use you to arrange trucking service, what industries are they in? (Check only those that account for at least 20% of your brokerage business)

- 19% Food, tobacco
- 6% Apparel and textiles
- 24% Paper, chemical, petroleum products, plastics, rubber
- 14% Lumber, stone, ores, concrete, primary metals
- 11% Machinery
- 4% Electrical equipment, photographic and other equipment
- 8% Printed matter (books, magazines, etc.)
- 15% Miscellaneous manufacturing
- 9% Don't know

Respondents = 414
Non-respondents = 134

19. Which one of the following statements best describes the shipping patterns of most of the shippers that use your services? (This refers to all shipments, not just those handled by you.)

- 20% Ships truckload shipments exclusively
- 67% Ships truckload shipments primarily but also ships some less than truckload shipments
- 11% Ships some truckload shipments but ships less than truckload shipments primarily
- 1% Ships less than truckload shipments exclusively
- 5. Don't know
- 6. None of the above

Respondents = 417
Non-respondents = 131
20. Which one of the following statements best describes the shipping patterns of most of the shippers that use your services? (This refers to all shipments, not just those handled by you.)

10% 1. Ships one or less truckload shipments per week
31% 2. Ships two to five truckload shipments per week
30% 3. Ships six to twenty truckload shipments per week
25% 4. Ships more than twenty truckload shipments per week
5% 5. Don't know
1% 6. None of the above

Respondents = 413
Non-respondents = 135

21. In your opinion, which of the following are the most important benefits shippers get from using your services? (Check no more than 3)

16% 1. Lower price
28% 2. More reliable service
10% 3. Personal contact with sales force
25% 4. Service better meets the needs of the shipper
3% 5. Consolidation of LTL shipments
2% 6. Help with claims
7% 7. Check carrier qualifications
8% 8. Negotiate with carrier
1% 9. Other
10% 10. Don't know

Respondents = 415
Non-respondents = 133

22. Most of the shippers that use you to arrange truck transportation are located:

36% 1. Less than 50 miles from your office
24% 2. Less than 100 miles from your office
39% 3. 100 or more miles from your office
1% 4. Don't know

Respondents = 411
Non-respondents = 137
23. In your opinion, brokers offer the greatest benefit to:

12% 1. Very small shippers (less than 50 employees)
14% 2. Small shippers (50 to 100 employees)
12% 3. Medium sized shippers (100 to 500 employees)
  4% 4. Large shippers (over 500 employees)
  55% 5. Benefits are the same for all shippers
  4% 6. Don't know

Respondents = 411
Non-respondents = 137

24. In your opinion, which of the following are the most important benefits motor carriers get from using your services? (Check no more than 3)

  4% 1. Higher rates
28% 2. Fills empty backhauls
  4% 3. Increases "Front Haul" business
  11% 4. Quicker payment
  12% 5. Guaranteed payment
  17% 6. Reduces empty miles
  16% 7. Allows operation in areas when no carrier sales force exists
  8% 8. Allows carrier operation without any sales force
    9. Other
    10. Don't know

Respondents = 414
Non-respondents = 134

25. Approximately how many different motor carriers did you actually use during 1987?

Mean = 179      St. Dev. = 523
Range = 1-8000   Median = 50

Respondents = 384
Non-respondents = 164

26. Most truckload shipments handled by you are:

  71% 1. Repetitive, same origin & destination
  27% 2. Spot Market
  2% 3. Don't know

Respondents = 414
Non-respondents = 134
27. What percent of your brokered shipments are transported by the following types of carriers?

Respondents

<table>
<thead>
<tr>
<th>Carrier Type</th>
<th>Mean %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common carrier</td>
<td>42%</td>
</tr>
<tr>
<td>Contract Carrier</td>
<td>57%</td>
</tr>
<tr>
<td>Private Carriers with common or contract authority</td>
<td>32%</td>
</tr>
<tr>
<td>Other</td>
<td>17%</td>
</tr>
</tbody>
</table>

28. In your opinion, brokers offer the greatest benefits to:

25% 1. Very small motor carriers (less than 50 employees)
18% 2. Small motor carriers (50 to 100 employees)
 9% 3. Medium sized motor carriers (150 to 500 employees)
 1% 4. Large motor carriers (over 500 employees)
44% 5. Benefits are the same to all carriers
 3% 6. Don't know

Respondents = 414
Non-respondents = 134

29. On most truckload shipments arranged by you:

92% 1. Checking the shipper's credit standing is your responsibility
 4% 2. Checking the shipper's credit standing is the responsibility of the carrier
 4% 3. None of the above
 1% 4. Don't know

Respondents = 418
Non-respondents = 130

30. Which of the following statements describes your experience arranging trucking service for Federal Government traffic? (Check as many as necessary)

68% 1. No Federal Government Traffic Experience
10% 2. Department of Defense Experience
 8% 3. General Services Administration Experience
 4% 4. Other Federal Government Experience
11% 5. Don't know

Respondents = 404
Non-respondents = 144
31. What was the approximate total freight bill for all your brokered shipments during 1987? (Estimate the total freight bill for all 1987 brokered shipments even if the broker did not bill the shipper.)

Mean = $1,897,107  
Median = $700,000  
Range = $400 to $92,000,000  
Respondents = 333  
Non-respondents = 215

32. Of the total 1987 freight bill indicated above, approximately what amount was paid to you for the brokerage service?

33. As a broker, are you:

35%  1. The agent of the shipper
10%  2. The agent of the carrier
49%  3. An independent contractor
4%   4. Other
3%   5. Don't know

Respondents = 412  
Non-respondents = 136

34. Which of the following statements best describes your brokerage business? It will:

17%  1. Remain about the same size
76%  2. Grow in the future
2%   3. Decline in size in the future
5%   4. Don't know

Respondents = 419  
Non-respondents = 129

35. Which of the following best describes the growth history of the brokerage over the past three years? (In terms of numbers of shipments brokered?)

8%   1. Little or no growth in number of shipments
42%  2. Steady growth each year of 5% to 20%
21%  3. Rapid growth - over 20% per year
25%  4. Broker has not been in business for three years
3%   5. Don't know

Respondents = 417  
Non-respondents = 131
Bibliography

Books:


Articles:


225


Government Testimony:

1. Ad Hoc Committee To End Broker Abuses and The Maryland Independent Truckers and Drivers Association, Testimony Before The Senate Surface Transportation Committee.


