

Adding a Freight Brokerage to Your Trucking Operation

by John D Thomas



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Introduction

Many in trucking are working directly with freight brokers. They use freight brokers to get loads. Strangely, many of these truckers don't have a good idea of how a broker goes about doing business. They are focused on "trucking" not "brokering". This is understandable – to some extent.

What many of these truckers may or may not understand is that they can get their own broker authority and go directly to shippers for loads. Essentially, these carriers cut out the middle man and put that money in THEIR pocket.

It's relatively simple to actually become a freight broker; it's more of a problem to make the transition from trucking to brokers – UNLESS, there is a blueprint to help navigate this process. This eBook will provide a better understanding on this process.

In this resource, truckers can learn about rates, negotiation, moving and monitoring loads, processing paper work, paying trucks, etc. from a "freight broker's" perspective.

You will first be given some initial insight on how a freight broker works as well as some of the benefits in addition to working as a trucking company. Simply put, a broker authority will enable a trucking company to expand the scope of their current operations. Growth, here, is almost unlimited.

There are some differences that truckers need to be aware of. Yes, making money is a goal that both carriers and brokers strive for – but HOW they go about this is different.

One could say that the trucker is the middle man between the broker and the receiver; likewise, the broker is a middle man between the shipper and trucker. Each has its own dynamics and a trucker that operates as a broker will need to learn how to wear two hats to succeed.

Of course, there are several registration requirements that are briefly outlined here toward getting the broker authority. Truckers will need to set up a separate company for the reasons mentioned further along. The start-up costs, as the reader will learn, are far less than most other businesses, especially a trucking company.

How does a new broker get started after getting their authority? This is dealt with further along as we begin with the "set-up packages" that brokers will use to initiate a business connection with shippers and carriers. Getting set-up with customers and carriers is the first step in building databases of information that may become very valuable as you build your own business.

Truckers who transition into brokering may or may not need to learn about customer acquisition strategies. It all depends on where the person is coming from. The same holds true for invoicing and collecting money – the trucker may already have policies in place; nevertheless, there still are some differences.

As far as working with other motor carriers, a new broker has to keep abreast on some of the legal aspects of qualifying and working with these other carriers. Avoiding negligent carrier selection and vicarious liability are two items worth investigating. And, other new issues are popping up from time to time.

A few comments are made further along in regard to learning what to expect from customers and carriers and what they will expect from you. It's not all rosy starting out – but, if you understand this and get fully prepared, you are 50% on the way.

In the Summary below, you will learn about some training options if you decide to pursue detailed and comprehensive freight broker training – training that is based upon actual broker experience as well as working with small business start-ups.

So, let's take a look here and learn a little bit about how a brokerage works.

How a Freight Brokerage Works

If you are in trucking and want to set up a brokerage, you will gain a giant step ahead of your competition.

Why is this?

You already possess the very thing that shippers desire – they need trucks! Many people think that finding loads is the most difficult part of brokering. While this may be true to some extent – especially if you are starting from scratch – the larger problem in brokering might be finding trucks when and where you need them.

If you are in trucking, you will approach shippers AS A FREIGHT BROKER. Many shippers will not work directly with a motor carrier. Of course you let them know you have a truck or trucks ready to roll. You will get set up with them as a freight broker and they don't care if you give their loads to your trucks or to any other truck in the company. They just want their cargo moved.

When shippers give you loads and you have a truck or trucks, you are VALUABLE! As a freight broker that has a truck or trucks, you will save the shipper time, effort and money.

You will use your trucks or rely upon your close trucking contacts or search the load boards and all of this takes time effort for shippers if they were left alone to do all this.

- ***You will know what rates you need if you are using your own trucks,***
- ***You will negotiate the best rate you can for you and for your shippers and carriers,***
- ***You will prequalify your carriers before using them,***
- ***You will take care of all the related paperwork,***
- ***You will dispatch drivers and monitor your load activity,***
- ***You will pay the carrier,***
- ***If and when delivery problems arise, you are the initial person that will coordinate efforts to solve these problems.***

Don't ever neglect the fact that – as a freight broker with capacity – YOU can become a very important component in your customers' success.

Now let's look at how YOU can benefit by adding a brokerage to your trucking business.

Here Are Some of the Biggest Benefits YOU Can Expect as a Freight Broker:

Cut Out the Middle Man – Go Directly to Shippers

Finally, you can rid yourself of going through other brokers to get loads! There are many good brokers but why not spend your time developing relationships with the real sources? Why not get well-connected with these shippers?

Something to consider is the fact that your shipping customers may be around a lot longer than any broker you are working with. There is a huge turn-over in brokering and, more often than not, you will find more stability by working directly with your shippers.

Here's a legitimate question to consider:

If ALL carriers get their broker authority and go directly to shippers where does that leave me when I need to find trucks?

The simple answer to this is – there are THOUSANDS of drivers and trucking companies that would not even consider becoming their own broker. There are many reasons for this but there are many drivers who just want to ***pick up and deliver*** – nothing more. They love it and they won't change.

So, rest assured, there will be capacity and it may be tight but this restriction on availability is not because they are “all” becoming freight brokers.

Lastly, if you have a trucking company and are working with other brokers, you most likely have a contract that restricts you from going directly to shippers that your broker is providing you. This is one reason you want to set up a separate company for your brokerage.

With a separate company, you will approach your shippers AS A FREIGHT BROKER (as mentioned above) and you do not have to be concerned about violating your broker-carrier obligations because your brokerage will not be under contract with the broker you were using.

By having your own broker authority, you are free to go to and fro with just about whomever you desire.

Add Dollars to Your Bottom Line

Perhaps the biggest benefit in adding a brokerage to your trucking venture is the potential of giving your bottom line a real kick.

By cutting out the middle-man and going directly to customers, you can expect to add an additional \$30,000 to \$75,000 in revenues over all – or much, much more, depending upon how many trucks you are running. The potential is unlimited.

When you are running your trucking business and using your trucks to move loads that your brokerage gives you, your brokerage would invoice the shipper and turn around and pay your carrier operation.

How much you pay your carrier (you want to imagine you are working with another party) is up to you and your accountant. Ten to twenty percent of the gross amount from the shipper is the norm for the broker's profit; the rest goes to the truck.

Your trucking company's revenues and bottom line may not change regardless of whether it gets paid by your brokerage or from another brokerage. The new revenues and profits, however, will accrue to the brokerage.

Sit down with your accountant and explain this. There will be income tax implications that need to be addressed.

Cast a Wider Net

With your broker authority, you are able to reach loads, capacity and opportunities that would not otherwise be available in your current operation without a brokerage.

Relatively recent legislation (Moving Ahead for Progress in the 21st Century – MAP21) requires motor carriers to have their own broker authority if the carrier is brokering out loads to other carriers.

With your broker authority, you can be virtually working with loads and other carriers in all 48 states. If you come upon some "hot" lanes while working your brokerage with other carriers, you may consider purchasing or moving some assets to these areas to get in on the action.

Enter New Markets, Expand Your Capacity, Get Better Utilization

As you cast a wider net, your opportunities are increased many-fold. Your options may become unlimited allowing you to build your brand.

It may be just as easy to run 20-50 trucks (or more) as it is to run 5-10. Have a plan, set-up operations properly, know what you are doing and make it happen.

Beat Your Competition

By having a carrier business and brokerage working in tandem, you have two potential money-making machines. You have two peas in a pod. Your trucking business does not make money if trucks are not moving; the brokerage is not making money unless they have trucks.

Bingo!

You get loads, get your trucks moving. When your trucks become available, you get more loads. Rinse and repeat all day long – 24/7/365 (well take a few days off once in awhile).

Now, as mentioned above, many drivers or carriers want to do nothing else but pick up and deliver. But, what if their loads dry up?

I've trained numerous truck owners who have taken a beating as the bottom fell out in their normal routine and they then scramble to get their broker authority.

Having a brokerage to supplement a trucking business is the only smart way to not only survive but to thrive as well.

Step out and beat your competition! Add this weapon to your arsenal!

Build an Asset

Brokering is a non-asset business because the trucks are inside the motor carrier business. And yet, while a broker builds a database of customers and carriers that provides steady streams of predictable income year after year, the brokerage does indeed become an asset that can either be sold or passed on to family.

The broker would simply create a list of customers with estimated annual revenues based upon current and historic activity. Active customers would have greater value than inactive ones.

The sum of the estimated annual dollar amounts is a starting point in coming to some determination on valuation. The flip side would be to create a list of carriers that enable the broker to generate income from shippers.

Like employees in a company, motor carriers are an investment as much as an expense. The constant investment in contracting with carriers only increases the broker's means of generating revenues.

How Your Brokerage Differs from Your Trucking Operation

Can you walk and chew gum at the same time? Some can, some can't. Brokering is different – much different at times – than working a trucking enterprise. Although the two are related, each may have its own required skills sets and modes of conducting business.

One of the biggest differences is in the way profits are made.

In trucking, as an asset-based business, income is derived by knowing costs of operation. That is, ALL the costs of running trucks need to be known and monitored. Once a carrier knows what their fixed and variable costs are, he or she is able to come up with a billing rate.

At times, cost may not be the overriding aspect in creating billing rates. Particular circumstances or technical knowledge may be the greatest factors in billing. Other times, carriers can bill rates based upon what the market will bear.

If a shipper is urgent to move a load, he or she may be open to paying rates that are above the going rates for a particular lane. In some of these urgent cases, some will pay whatever it takes to get the load moved.

It would be, however, naïve to think that shippers will always be urgent to find trucks. Shippers, just like carriers and brokers, learn lane dynamics and they use it to their benefit.

In freight brokering, they don't have a lot of expense outside of paying trucks. Their profits are based upon margins. They look at the spread between what the shipper is paying and what they pay the truck.

Margins may fluctuate with each load but smart brokers record and monitor margins for each load, for each shipper and overall for all activity. The industry standard is 10-15% margin overall. Getting a 20% margin consistently is not out of question for those who know what they are doing.

Contrary to what many carriers think, the broker does not take the largest part of the money in a load. Some brokers are barely hanging on. This is mostly because new brokers have trouble getting competitive rates from customers. It's the nature of this business starting out.

This leads to another difference between trucking and brokering.

Owner operators who don't get their own loads are pretty much confined to taking whatever rate their motor carrier provides. These owner operators are then constrained to drive as many miles as possible if they want to generate more income.

Freight brokers go out to the marketplace and find customers and may need to hone some good negotiating skills. The broker may then need to turn around and negotiate with drivers or dispatchers.

Many truck drivers don't want to go through this negotiation process. Then, on the other hand, many motor carriers are very skilled at negotiation. So, it all depends.

In addition to using negotiating skills, brokers are required to become research hounds. Usually loads are found by scouring the Internet for companies that may use freight brokers and then making a lot of phone calls.

Or some choose to make personal visits to potential customers. Presentation skills are required, both in making personal visits or in making phone calls.

Truckers, while moving a load, are concerned about making that delivery and may also be thinking about the next load. For sure, drivers are often distracted by traffic flow, mechanical problems, other crazy drivers, weather, construction and on and on.

But, normally, moving loads is a sequential thing. Sometimes the routine gets rather boring.

Then, woe be to brokers who gets a driver on the open road with nothing much to think about except trying to drum up a conversation with some one – anyone, including a broker.

Brokers may be dealing with 3-4 loads at the same time. Phone calls, faxes and emails are coming and going, often in rapid fire. Each load activity needs to be done in sequence so there may be 3-4 sequences in different degrees of completion. It's a challenge if the broker is working alone.

Computer and Internet skills are required to broker freight. One does not need to be a rocket scientist on these. But, Internet searches, using spreadsheets, preparing and using load confirmations, agreements and databases – all these are part of recording, monitoring and analyzing load activity.

The freight broker business appears to be simple in concept; yet, there are many procedures and details that need to be done properly and in sequence or else the broker falls flat on his or her face.

The proper approach to brokering is to think of “running a business”. The deception in thinking brokering is simple can mislead some individuals. Running a business – large or small – requires good cash management skills, customer acquisition skills, properly setting up operations and getting into the habit of taking time to “think” – just sit and **think** about what’s going on.

How to Get Started

Registrations and Applications

There are several steps in getting your broker authority. At least five different entities will need your application.

1. Your first step is to register your freight broker business after you decide on the form of doing business – LLC, sole proprietorship, etc. and select a name that is available. (Do not comingle your brokerage with any other entity).
2. In some cases, you may need a Federal ID number (EIN),
3. MC & DOT #s with the Federal Motor Carrier Safety Administration (FMCSA),
4. BOC-3 – Process Agent Permit – gives you legal representation in all 48 states,
5. Unified Carrier Registration (UCR) – no big deal here,
6. Surety Bond or Trust Fund – to satisfy the \$75K bonding requirement through the FMCSA.

In regard to the application for your Motor Carrier (MC) and DOT numbers, you will file your application using the Unified Registration System (URS). You need to navigate this application with care as some applicants make incorrect entries at the expense of paying extra, non-refundable fees.

Remember this:

Even with your motor carrier authority, you still need another authority for the brokerage. You will have two separate MC and DOT numbers: one for the trucking company and one for the brokerage.

There are several options for getting your trust fund or surety bond. You can actually get started for about \$1,400 on your broker authority. This would include the first installment for your trust fund (\$995), the application for the MC and DOT numbers (\$300), the BOC-3 (\$39) and your UCR permit (\$76).

Once all the required documents are properly submitted, you can expect to receive your Grant Letter in about 30 days after filing your trust fund/surety bond application. Your status with the FMCSA will then be shown as ACTIVE and you are ready to start moving loads as a freight broker.

Several Items You Don't Need Are:

1. Expensive freight broker software, and
2. Contingent cargo insurance.

While freight broker software has its benefits, it won't help find customers; and getting customers is your top priority starting out. Our particular training includes about 40 handouts several of which are load manager spreadsheets to help record and follow load activity.

Contingent cargo insurance also has some benefits but it's expensive and you may not be getting the coverage that you think you're getting. Put this off unless you are running into a lot of shippers that require you to carry this type of insurance.

Bear in mind that, as a freight broker, you normally do not take possession of cargo. Your carrier will have cargo insurance and it will be your responsibility to verify this coverage.

Some individuals ask if there are any background checks – the answer is No. Of course, there may be credit checks in regard to the trust fund or surety bond.

How Freight Brokers Get Customers

After you obtain your broker authority and are active, your first step is to prepare set-up packages that will be sent to others – one for the shipper, one for other motor carriers. If you have a trucking company, you may already have a set-up package that you use to send to brokers. This may serve as a basis and can be modified for shippers. Once the shipper receives your set-up package, you are ready to start moving loads for them.

Now – this is important – once you are ready to roll as a freight broker, you will notify every person you know that is working in shipping or trucking. You will let them know that you have your freight broker authority and that you would like to work with them directly.

You will ask to send your set-up package and then you will follow-up – and follow-up as often as needed. Don't be timid. Go after it. Make it happen. Don't be afraid of being a pest. Don't wait for them to call you back – you call them until you either start getting loads or until you get tired of calling with no response.

The shipper will not return anything or even acknowledge they have your set-up package. Broker-Shipper agreements are not essential and are even discouraged if you are just beginning.

Once you do have a truck for your customer, you can then expect the shipper to send their confirmation. Review this. Make sure the rate is what you agreed to verbally. Of course, the rate is usually subject to negotiation – but not always.

How Do You Know You're Going to Get Paid?

There are two steps you want to take that will help assure payment from your customer: One, talk to the shipping manager and ask how quickly they normally pay freight brokers, and Two, run a credit check. These two procedures will go a long way in helping you make a decision on customer acquisition.

To be truthful, you CAN expect to get paid – the real question is, How QUICKLY can you expect payment?

Many shippers will pay within 30-35 days. Others will pay in 45-60 days. A few will plan to sit on your money for 3-4 months IF and UNLESS you allow that to happen. It's up to YOU to manage your cash flow. Don't be afraid to "rock the boat" to get your money if this is required.

How Freight Brokers Get Started with Carriers

As far as the set-up package that you will send to other motor carriers, you will expect to get information returned to you. The first item is your Broker-Carrier agreement that you send. It should be returned, properly signed, initialed and dated.

If the agreement is not returned or if it is returned with numerous modifications, don't work with this carrier. YOU need to be in control as much as possible.

The other information that the carrier may return should be entered into whatever database you have where important information is collected.

How Do You Avoid Negligent Carrier Selection or Vicarious Liability?

Several brokers have failed to avoid being negligent in selecting a motor carrier. Or, they have exercised so much control over the driver that the "independent contractor" relationship is broken and the broker then becomes "vicariously" liable for the harmful actions of the driver.

It's beyond the scope of this book to go into detail on these two issues but, pay heed:

... Some of these errors in working with carriers have resulted in penalties to the broker to the tune of up to 23 million dollars. Ouch!

According to transportation attorney Henry Seaton, there are three essential items that a broker needs to verify before using a carrier. The broker needs to confirm that the carrier is:

- 1. Licensed,***
- 2. Authorized, and***
- 3. Insured – that's it!***

Henry goes on to state that any additional procedures that the broker uses in carrier selection may actually be used against them by attorneys seeking negligence.

There is, and has been, a lot of confusion in working with motor carriers and there may not be any clarity on this issue for some time to come. The courts have said that brokers should use "reasonable care" in carrier selections; however, they neglect to define "reasonable care".

What to Expect, Starting as a New Freight Broker

With the Shipper:

You can expect to spend a lot of time searching the Internet for potential work, making a lot of phone calls, and/or meeting in person with these potential customers.

If you are starting from scratch without having contacts to work with, business activity is sporadic. One day you are so busy you can't even go to the bathroom, the next day you are twiddling thumbs, wondering what to do next. Don't worry about this. Just keep on Keeping On!

Here is an excellent resource on helping you to prepare yourself. There is more than the technical aspects of brokering that need to be learned; smart brokers get prepared with the proper mindset first. Every successful freight broker has developed expertise in ALL of the items outlined in this eBook.

>>> [Click Here to Get a \\$5 Discount on Success Strategies for Building Massive Income as a Freight Broker](#) <<<

After you have worked with a shipper with a number of loads, you can expect them to call YOU instead of you calling them all the time. This is what you want. This is the result of building relationships.

Plus, after you have proven yourself, you may expect the shipper to give you a rate and then say, "If you need a little more, let me know". This is music to your ears.

With time and experience, you should learn what to expect from each shipper and you will learn to anticipate their needs – this is important and another weapon in your arsenal of building relationships.

With the Motor Carrier:

Expect some difficulty when starting to work with motor carriers. Sometimes you are dealing directly with the driver; other times you are working with their dispatcher who could be a spouse back home or a company dispatcher. It doesn't matter to you.

The difficulty stems from the fact that you are NEW. These carriers may not work with you just because you ARE new and for no other reason. In the back of their mind, they may be thinking about their chances of getting paid. They may be unwilling to extend you credit without your having prior experience or some type of credit rating.

Now, truckers or dispatchers won't care about your trucking experience. They view you as a freight broker (and you are) and some truckers don't like brokers, plain and simple.

Another difficulty starting out with carriers is that the shipper will not give you their best rate (if they do indeed have a better rate in mind). They will give you low rates; they will give you loads that are hard to cover; they will throw these to you with the hopes that you can help them.

So, if you can't get a competitive rate from a shipper what do you do? Well, you do what you can with what you have. You are in the middle. You will try to put the deal together. You will use your best people and negotiating skills.

Sometimes you can't put the deal together. It's not the end of the world. Sometimes you may avoid working with a particular shipper. Don't worry about it. Just keep on Keeping On!

At some point, you can expect to get better rates as you weed out the poorer paying customers; you can expect to more easily work with carriers because you have paid them in a timely manner and you have treated them fairly.

Summary

Adding a freight brokerage is a smart decision for many truck companies. If a truck owner or an owner operator can master the necessary skills and requirements of running a brokerage as well as with the trucking enterprise, this can only result in greater success.

When you are working as a freight broker with shippers and other carriers, you put on your freight broker hat; when you are working your trucking business, you put on your trucking hat.

You keep the two separate but related. As a trucker, you may already be doing research on getting and maintaining your business; you may already be doing some negotiation, you may already have learned to multi-task, you may already have learned to solve problems. With these skills and experience, you are ready to broker freight too.

You gain a competitive edge over other brokers and carriers by becoming knowledgeable.

To learn what shippers want from the perspective of a freight broker, to learn how to deal with motor carriers from the perspective of a freight broker, to master the art and science of freight brokering, you may want to consider detailed, comprehensive freight broker training. You have several training options.

>>> [Click Here for a Quick but Comprehensive Overview of Your Training Options](#)