Outsourcing By Small Shippers Fueling Growth Among Brokerage Firms, Freight Forwarders

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Outsourcing of transportation services by smaller shippers is fueling revenue growth for brokerage firms and forwarders, while increasing the clout of many third-party logistics firms, industry observers said.

“We believe the next decade will prove to be a golden age for [logistics companies],” said Nathan Brochmann, a senior equity research analyst at William Blair & Co. in Chicago. “The industry should take share away from asset-based carriers as shippers seek low-cost solutions and greater assistance with maximizing their supply chains.”

Take Corporate Traffic Logistics, for example. The company, based in Jacksonville, Fla., started out doing what all freight brokerage firms do: finding trucks to move truckload shipments.

Now, Corporate Traffic — founded by Christopher Cline in 1992 to provide marketing and sales for a couple of freight carriers, and later joined by his brothers, Chad and Craig — operates a fleet of 50 trucks and provides what the Clines call “managed LTL” service along with rail and airfreight brokerage. It recently opened its first branch office in Charlotte, N.C.

The growth at Corporate Traffic is emblematic of a broader industry trend that is pushing traditional freight brokers and forwarders to offer a broader range of transportation services and technical expertise.

“Our clients are relying more heavily on us to manage all aspects of their logistics needs,” said Chris Cline, the firm’s president.

Cline noted that many small- and medium-sized shippers laid off staff during the downturn and are not anxious to rehire people to handle transportation management as business recovers.

“Where there were two or three people in the shipping department, now there is one guy loading trucks and handling shipments. We take on that workload,” he said.

Cline said he expects utilization of LTL, intermodal and expedited airfreight services to grow significantly during the next five years as shippers outsource more of their transportation responsibilities to providers of third-party logistics services. He also expects to double the size of the company’s truck fleet over the next three years to augment freight-hauling capacity.

Many freight brokerage and forwarding firms have reported strong revenue growth in the past year.

“2010 was a most rewarding year,” said Harry Wachtel, president of Sunteck Transport Group, Boca Raton, Fla. “We experienced growth in all of our business lines and service offerings.”

Sunteck’s corporate parent, AutoInfo Inc., reported a 52% jump in gross revenue to $279.7 million in 2010 from $183.9 million in 2009.

Sunteck ranks No. 10 on the Transport Topics Top 25 Freight Brokerage Firms list.

The nation’s largest freight broker, C.H. Robinson Worldwide, Eden Prairie, Minn., said its gross revenue grew 22.4% to $9.27 billion in 2010 from $7.58 billion in 2009.
While there is “still a lot of uncertainty in the marketplace,” Chairman John Weihoff said the company’s truckload volume increased about 7% in January.

According to the TransCore North American Freight Index, February truckload volume increased 38%, compared with January, and surged 65%, compared with February 2010.

Michael Williams, chief operating officer of Sunteck, said financially stable firms that weathered the recession “are in a great position” to grow, now that the economy has improved.

“A rising tide lifts all ships,” Williams said.

Much of Sunteck’s growth has come from expanding its network of sales agents, many of whom have brought in new business from intermodal, flatbed and refrigerated shippers as well as from government agencies. The company also is preparing to launch a new LTL shipping service, Williams said.

At Total Quality Logistics, No. 4 on the Top 25 Freight Brokerage Firms list, gross revenue rose 46% in 2010 to $736 million, and company officials said they plan to add several hundred people to its workforce of 1,100 at its headquarters in Union Township, Ohio, and at satellite offices around the country.

“We’re always hiring,” said Kerry Byrne, executive vice president for TQL, said in an article published Jan. 23 by The Enquirer newspaper in Cincinnati.

President Ken Oaks said a shortage of trucking capacity is fueling growth.

“There aren’t as many trucks out there. When that happens, it’s good for intermediaries like us,” Oaks said in the article.

Tim Higham, president of Interstate Transport Logistics Group, St. Petersburg, Fla., said his firm, which provides freight brokerage and transportation management software, has formed a dedicated trucking unit to provide additional capacity to shippers.

“We have been asked by our clients to increase their access to newer equipment and provide dedicated equipment and drivers,” Higham said. “We listened, and we are delivering those solutions.”

Interstate’s fleet will focus on temperature-controlled freight shipments and will operate about 200 tractors and trailers.

Higham said he expects truck capacity to remain tight, in part, because many financial institutions are reluctant to lend money for the purchase of truck equipment, making it difficult for existing freight haulers to expand and new entrants to get started.

Intermodal is also a major focus of attention for many brokers and forwarders.

Randy Bowman, president of MW Logistics, Dallas, said his company has begun to purchase capacity directly from railroads to help secure needed capacity for shippers and to make intermodal service “more robust.”

“I haven’t spoken to one shipper who moves goods more than 500 miles in the last 12 months who was not interested in intermodal,” he said.

Likewise, Dennis Schoemehl, president of Logistics Management Solutions, St. Louis, said the purchase of McCann’s Piggyback Consolidation Inc., an intermodal marketing company, in March will lower the cost of rail service while expanding access to all Class I railroads.

“My sense is railroads are looking to attract new business coming off the roads,” Schoemehl said. “This gives us use of the ramps that we want to use. We will have our own contracts with the railroad.”

Some carriers also are seeking new ways to partner with logistics companies.

Officials at Southeastern Freight Lines Inc., a regional less-than-truckload carrier based in Lexington, S.C., said they are working with Odyssey Logistics & Technology, Danbury, Conn., to test a Web-based shipment-tracking system.

“Demand from 3PLs led us to develop these systems,” said Braxton Vick, senior vice president of corporate planning and development.
Under the system that Southeastern developed, 3PL tracking numbers are matched with pickup information that drivers update with an explanation if they don’t pick up or deliver a shipment on time.

Providing shipment status information is common in the LTL industry, but Bob Messemer, director of logistics procurement for Odyssey, said providing a reason why a shipment is not picked up “is a new and innovative application for the 3PL industry.”

Automating the pickup status process also saves time and reduces the cost of doing business with Southeastern, Vick said.

Freight forwarders typically handle international air and ocean shipments and differ from brokers by purchasing and reselling capacity rather than taking a commission on each load, as most brokers do. Forwarders also have seen a strong uptick in business as global trade volume recovers.

Expeditors International of Washington, Seattle, said net revenue for its airfreight services jumped 31% in 2010, while ocean freight net revenue rose 19%.

Chairman Peter Rose said the company’s no-layoff policy during the economic downturn helped the company bounce back strongly.

“One can park planes and ships, but one cannot park people,” he said in a letter to shareholders. “What’s paying off for us now, and what customers are increasingly looking to us for, are our financial stability, our information technology prowess and the tenure of our people.”

UTi Worldwide, Tortola, British Virgin Islands, reported a 27% increase in gross revenue for its air and ocean freight forwarding and customs-brokerage services for the fiscal year that ended Jan. 31.

“We anticipate modest volume growth in fiscal 2012,” said Eric Kirchner, chief executive officer of UTi Worldwide.

The first quarter will be hurt by higher fuel costs, harsh winter weather, geopolitical events and disruption caused by the events in Japan, but the company is “targeting growth ahead of the market which has returned to historical levels and is more stable than we have seen in recent years,” Kirchner said.