Digitalization and Advancement in Technology Drive Traditional Freight Brokers to Digitize

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By Analyst(s): Carly West, Bart De Muynck

Initiatives: Supply Chain Technology Strategy and Selection; Logistics and Customer Fulfillment

Traditional freight brokerage historically required a lot of manual work. To stay relevant and competitive, brokers need to turn to digital business models, which require digitization of their solutions. Supply chain technology leaders can use this research to assess the market and options for technology.

Overview

Impacts

- Brokerages have been around for more than half a century, however, continued capacity constraints and increasing prices have pushed more shippers to use brokers in recent years. The continued wave of digitalization is also forcing traditional brokers to review and update their operating models and technologies.

- Shippers’ and carriers’ needs continue to evolve, impacting how freight brokers should interact with their partners.

- Digitized freight models have appeared in the market in the past few years, creating a source of competition for traditional freight brokers.

Recommendations

Supply chain technology leaders responsible for technology strategy and selection for supply chain and operations in transportation should:

- Identify the opportunities that new digital business models provide in the freight industry by exploring gaps in your current business process. Take advantage of these opportunities and create a business strategy for the future.
Introduction

The history of brokerage goes back to the first half of the 20th century. In the U.S., the Motor Carrier Act passed by Congress in 1935 meant that small transportation players couldn’t enter the market with ease. In 1980, the trucking industry was deregulated, opening the sector to new players and new configurations. The deregulation made the entry of small businesses into the logistics world possible, creating new competition for larger, more established companies. The sudden influx of service providers naturally decreased shipping costs. Shippers could now shop around for more cost-effective and/or reliable carriers. Increasing globalization and lower trade barriers allowed manufacturers the opportunity to ship their products farther and wider. In this environment, freight brokers began to thrive and flourish. Aside from traditional brokers, Gartner has also seen an increase in manufacturers with large private fleets and transportation networks starting brokerage departments in the last couple of decades (for example, PepsiCo).

Historically, brokerage operations have heavily relied on manual processes to execute day-to-day operations. While most large brokerage companies today use a form of transportation management system (TMS), some of the smaller companies are still relying on more manual processes for tender, acceptance, and track-and-trace activities. Even those with technology are often relying on electronic data interchange (EDI) transactions for location and status, often being reactive and receiving the information after the event. Many of the operations require phone calls or emails to find capacity in order to match power and equipment to their customers’ loads.

- Improve communication and collaboration to position your company as a key partner to both shipper and carrier communities by selecting and adopting new technology options identified in this research.
- Compete with these new digitized freight networks and stay relevant in the market by assessing new strategies based on customer feedback in combination with newly adopted technologies.
- Use technology to optimize and automate available load and capacity matching as well as real-time rating to combat the expected continuation of tight capacity and inflated rates.
Once the capacity is secured, companies often rely again on phone calls and emails to get order status and tracking information on the in-transit shipments. This extremely manual effort requires a large, costly staff to execute. With a push for streamlined communication and speed of information, identifying the appropriate digital business models will help brokers build more sustainable business models for the future.

Leaders of freight brokerage organizations can use this information to help plan for the future, leverage technology to digitize and remain competitive in the market. Supply chain technology leaders at shippers, carriers and end customers who interact with brokers can use this information to understand how the market is changing and how they can leverage their relationships for more automation and partnerships for the future.

Impacts and Recommendations

The Current Wave of Digitization Is Forcing Traditional Freight Brokers to Review Their Models and Technologies

A broker is a person or firm who arranges transactions between a buyer and a seller for a commission when a deal is executed. The same is true for a freight broker. A freight broker is a nonasset freight provider entity that arranges transportation of property on a shipper's behalf for compensation. A broker does not have the assets to transport the property itself and does not assume responsibility for the property. Therefore, the broker is secondary on insurance through a contingent cargo insurance policy. Co-broking is a legal practice used to ensure there is an available truck to transport freight. A fourth-party logistics (4PL) may use a third-party logistics (3PL) broker to match loads with trucks, with a shipper's knowledge. The primary broker will take a lesser amount of the fee and the secondary broker will book the load for transport, receiving a larger share of the same fee. Double brokering or rebrokering is illegal and occurs when a broker charges a fee and then contracts the load to a second broker that will reduce the freight charge.

There are more than 17,000 freight brokers licensed in the U.S. Although a transportation brokerage is technically a third party to the relationship between shippers and carriers, it still closely resembles the carrier business. To buying customers, the broker acts as an optional carrier. To the actual carrier, the broker is a paying customer.

The brokerage model has seen continuous growth since 2000 (see Figure 1), where brokerage now takes up 20% of total freight in the U.S. The largest broker in the U.S. is C.H. Robinson, with total revenue of more than $11 billion, followed by Coyote Logistics, Total Quality Logistics (TQL), XPO Logistics and MODE Transportation. ¹
Gartner is seeing that the current market dynamics are increasing the urgency for digital optimization and transformation in many supply chains. This trend is being seen across the supply chain — transportation and brokerage are not spared. There is a need in the market to automate and digitize to make interactions and business transactions easier for customers and the companies themselves. Getting away from manual, labor-intensive processes are a driving force for many organizations. Brokers are in a position to look at current processes that have been in place in a long-standing industry to find more digital and automated processes to assist in their operations (see Figure 2).
The COVID-19 pandemic and other supply chain disruptions have brought a focus on automation and digitization as well. With remote work options, it’s even more critical to digitize and automate processes for many industries, but in order to compete and continue winning business, it’s becoming mandatory for freight brokers. Brokers need to be able to work in their homes with technology to enable communication, tendering, track and trace, and customer service. These changes in work locations have pushed this focus even more. Fewer people in the office to manage the previous manual workloads will require innovation and solutions to maintain the business operations.

Market conditions in 2021 in transportation show increasing volumes, tender rejections and costs. In order to keep their shipments moving, many shippers partner with brokers. In order to source more capacity in a shrinking market, brokers must digitize and automate the process of matching shipments to available trucks. The volume and demand is too great for manual processes to continue being effective and allow brokers to be competitive.
It is now more prevalent with these developments that, in order to stay in business, remain competitive and win over some of the more digitized options, freight brokers need to focus on long-term strategies and digitization.

Recommendations:

- Identify opportunities that the new digital business models provide in the freight industry by exploring gaps in your current business process. Take advantage of these opportunities and create a business strategy for the future.

- Drive your business forward and seize new opportunities in the market by taking advantage of the current focus on automation and digitization.

- Increase workforce retention by investing in technology that would allow employees to work remotely.

Shippers’ and Carriers’ Needs Continue to Evolve, Impacting How Brokers Should Interact With Their Partners

Shippers’ needs evolve and require more out of their partners than in the past. Shippers want to continue to rely on brokerage companies they have worked with as partners for many years and that offer a solution for their freight needs. Shippers demand access to rates and capacity in real time.

With the emergence of digital freight platforms, in conjunction with the driver shortage, shippers want assurance that the capacity they are booking is actually available and not just a rate with no truck attached to it. The days of relying on finding a truck after confirming a rate are quickly becoming a thing of the past. Shippers want the ease of use with a broker, getting real-time or close to real-time rates and capacity confirmed so that they can move onto value-added and revenue-generating efforts for their business.

Shippers are also looking for reliability and proactive in-transit information. Once they book a load with a broker, they want to know where that truck is and when it will arrive. They want proactive information on delays, and they want to be able to rely on the accuracy of that in-transit information. With all of the digitization in transportation, shippers are becoming less willing to wait for callbacks and lengthy response times to find out locations and estimated time of arrivals (ETAs).

Carriers also have increased needs for “ease of doing business” with brokers. Technology is an enabler to automate the way the process between brokers and carriers is executed:
Brokers should focus on the following technologies to align with the expectations of their customers (shippers as well as carriers):

- **Brokerage-specific TMS solutions** (also known as a brokerage operating system)
- **Real-time transportation visibility platforms (RTTVPs)**
- **Useful carrier apps for brokers** (for example, that provide insights into parking, rest stops and fuel locations)
- **Freight bill and payment automation**

**Brokerage-Specific TMS Solutions**
Brokerage TMS solutions are a type of TMS that is geared specifically to brokers with capabilities such as many-to-many customer and/or carrier rates, order management, invoicing and planning (see How to Select the TMS, Provider and Solution Best Suited for Your Strategic Capabilities and see Note 1 and Table 2 for examples of vendors). These solutions have capabilities that include quick load tendering, efficient capacity sourcing, tools for customer and carrier onboarding, carrier and customer communications, market rate comparisons, track and trace, reportings, and freight payment. The use of brokerage TMS solutions helps brokers move away from the historical manual efforts into much more streamlined, automated efforts. These solutions enable easy communication among brokers, their customers and their carriers. As the brokerage market evolves, there are newer brokerage TMS providers entering the market leveraging more technology to automate brokerage operations.

Real-Time Transportation Visibility Platforms

RTTVPs are solutions that provide insights as to where the truck and the load are, as well as predict, with a high degree of accuracy, the ETA.

RTTVPs provide commercial customers and consumers with real-time insights into their orders and shipments, once they have left the brand owner's, supplier's or service provider's warehouse. Such platforms, owned and managed by third-party software vendors, represent a part of the end-to-end supply chain visibility market, predominantly — but not solely — addressing the domestic road transportation mode. RTTVPs obtain data through integration (for example, API or EDI) with carrier systems, direct feeds from telematics (for example, in-cab or trailer devices) or other devices (for example, mobile devices or smartphones).

Brokers can use this technology as a way to differentiate themselves in the market and increase their value proposition to their customers. By requiring underlying carriers to connect to the broker's chosen RTTVP, brokers can offer customer real-time visibility, which has historically been one major challenge to brokerage solutions. There are some platforms that focus specifically on brokers and carriers, such as Parade or Trucker Tools, while many of the other RTTVP vendors also solve for brokerage in addition to the other modes they service, such as FourKites, MacroPoint and project44.

Dynamic API Rating

With the challenges transportation has been facing in 2021, shippers need more real-time dynamic rates provided via APIs. Dynamic API rating provides a real-time API connection that connects shippers to capacity at market responsive rates which allows more efficient freight procurement and streamlined sourcing operations.
This allows shippers to:

- See and compare market-responsive rates in real time
- Get instant quotes for contracted and uncontracted freight
- Get access to guaranteed capacity (possibly for multiple modes, such as full truckload [FTL], less than truckload [LTL] and flatbed)
- Predict pricing based on market conditions and avoid overpaying through premium rates
- Automate decision-making and tendering workflows

Gartner identifies these solutions as being offered by:

- TMS technology providers, such as 3Gtms, Blue Yonder, BluJay Solutions and Oracle
- Visibility platforms, such as project44
- 3PLs, such as Redwood Logistics
- Freight brokers, such as Surge Transportation
- Digital freight platforms, such as Convoy, Emerge and Uber Freight

**Useful Carrier Apps for Brokers**

Brokers could differentiate themselves by offering technology services to assist drivers with needs along the road. These services can range from turn-by-turn directions, and locations of open rest areas and fuel areas along routes. Drivers need to know where these stops can be made most optimally while they are in transit. Many telematics and route-planning technologies offer these solutions today, and incorporating these types of offerings into applications as additional add-on services for brokers can help them to differentiate in the market and increase efficiencies. By ensuring that the apps offer driver-friendly and driver-motivating features, these providers are actually able to combat some of the app fatigue issues in other solutions and increase driver usage (example vendors are Trucker Path and Trucker Tools).

**Freight Bill and Payment Automation**
A freight broker invoice is similar to a motor carrier invoice, with an added twist. With a freight broker, the ultimate financial responsibility is between the shipper and the carrier. Consequently, if the freight broker finds itself unable to pay the carrier, then the shipper is left with the responsibility to pay. This should be a big warning flag for shippers that do not fully vet their freight brokers for financial stability, because they may get stuck with several invoices where they find themselves ultimately paying for the load twice — once to the broker and another payment to the motor carrier.

Many brokerage TMS solutions have freight payment capabilities built in to assist with quicker approvals and automations within certain thresholds set by the broker. There are also stand-alone technologies that can help with automating and speeding the freight audit and payment process. Brokers that want to compete and attract the best carriers will utilize these services to help with ease of use for carriers. On the flip side, using technologies can help ensure accurate invoicing to their customers to help improve payment time from customer to broker. For vendors in this space see Market Guide for Freight Audit and Payment Providers.

Recommendations:

- Improve communication and collaboration to position your company as a key partner to both shipper and carrier communities by selecting and adopting new technology options identified in this research.

- Explore labor improvements and efficiencies that could be realized by using more technology.

- Increase driver retention rates and position as carrier partner of choice by leveraging technologies that help improve end-user experience and allow for faster payments.

Digitized Freight Models Are Competing With Traditional Freight Brokers

Many new digital freight models have entered the market. A digital freight model is an open, fully connected freight marketplace that uses machine learning, automation and other software services to efficiently connect shippers and carriers. Digitized freight model's provide an alternative to traditional brokers, load boards and the spot market, which remain time-consuming and collect information from carriers and shippers, but often don't support true collaboration (see Table 1). These digitized freight models can help companies that are looking for real-time available capacity or looking to reduce transportation costs during the current market disruptions, as well as during future challenging times.
These solutions include smart freight analytics that use machine learning and cloud-based apps that truck drivers or container ship operators can access on their smartphones. With these tools, companies can move quickly and strategically to get in-demand goods to where they’re needed across alternative routes. These digital freight networks can tap into their networks, connecting shippers, carriers and distribution centers and, in particular, retain smaller or alternative organizations such as independent truckers or premium ocean liners. For more information and list of vendors in this market see Market Guide for Digital Freight Models for Road Transportation.

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Source: Gartner

Digital freight models help to make spot capacity easy for shippers. For example, by simply logging in and making a few selections, shippers are able to cover their loads. Freight brokers will need to find ways to compete with these easy-to-use technologies. They must essentially become easy to use as well and must provide the differentiating value to their customers.
Although traditional brokerage companies have been in the industry for around 40 years, the digital brokerage model has only entered the market within the past four to five years, making it much less mature. With digital freight models being in early stages of market penetration, their share of the overall brokerage market is still rather small. Although the digital brokerage model is newer and smaller, it brings some threats of disruption for traditional brokerage through technology investments. Traditional brokerage solutions often lack the technological advancements that the digital options provide, which can be a key attraction to shippers and customers.

There is another major difference between the two relationships. With their long-standing history in the market, traditional brokerage companies have contractual relationships with shippers and carriers that have been in place for years. The digital brokerage solutions, being newer and less developed, have not built the same strength in relationships with carriers and shippers as of yet. There are certainly opportunities for both types to grow and develop in these key areas (see Figure 3).

**Figure 3. Difference Between Digital Brokers and Traditional Brokers**

Gartner observed the following trends in digital freight in the past year:

- More mainstream use in the market
- Increased partnerships between TMS platforms and digital freight platforms
Recommendations:

- Compete with these new digitized freight networks and stay relevant in the market by assessing new strategies based on customer feedback in combination with newly adopted technologies.
- Identify the recent trends surrounding digital freight and ensure to align your company strategy with these trends.

Evidence

1. 2021 Essential Financial and Operating Information for the 50 Largest Logistics Companies in North America, Transport Topics.

Note 1: Brokerage TMSs

Brokerage TMSs are geared specifically to brokers with capabilities such as many-to-many customer and carrier rates, order management, invoicing and planning. These solutions have capabilities that include quick load tendering, efficient capacity sourcing, tools for customer and carrier onboarding, carrier and customer communications, market rate comparisons, track and trace, reportings, and freight payment. Table 2 lists some of the vendors available in the market for brokerage-specific TMS solutions.
Table 2: Sample List of TMS Brokerages and Products
(Enlarged table in Appendix)

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<td>Descartes</td>
<td>Descartes Axel</td>
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<tr>
<td>FreightPath</td>
<td>FreightPath TMS</td>
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<tr>
<td>McLeod Software</td>
<td>PowerBroker</td>
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<tr>
<td>MercuryGate</td>
<td>MercuryGate Transportation Management for Brokers</td>
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<td>Trimble</td>
<td>Innovative IES</td>
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Source: Gartner (September 2021)

Document Revision History

Digitalization and Advancements in Technology Are Forcing Traditional Freight Brokers to Digitize - 2 June 2020

Recommended by the Authors

Some documents may not be available as part of your current Gartner subscription.

How to Select the TMS, Provider and Solution Best Suited for Your Strategic Capabilities

Magic Quadrant for Transportation Management Systems

Gartner’s Model for Holistic Multimodal Transportation Management Systems — Part 1: Core Capabilities

Magic Quadrant for Real-Time Transportation Visibility Platforms

Video: Converging Physical and Digital Transportation Through Visibility and Digital Procurement of Freight — Land O’ Lakes Use Case

Market Guide for Digital Freight Models for Road Transportation
Improve Transportation Rate Management With Technology

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Table 1: Traditional Freight Models and Digital Freight Models

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