Broker margin transparency: Expect unexpected consequences

By Ken Adamo, Chief of Analytics, DAT Freight & Analytics

DAT Freight & Analytics operates the largest freight marketplace in North America. We also have a market-leading analytics consortium with over $1 trillion in verified historical freight transactions. Our customer base encompasses all three core contingencies of the North American freight industry: shippers, carriers and brokers. I have personally spent nearly 15 years in pricing science focused on deregulated markets, with over a decade specifically in freight.

The FMCSA has issued a notice of proposed rulemaking that seeks to change multiple components of 49 CFR 371.3 which stipulates that brokers must make available the records that they keep on their freight transactions. Key to this issue is the difference between the shipper revenue and carrier cost. This is known in the industry as gross margin, gross profit, broker margin, or purchased transportation.

We believe that our position as a neutral third party at the center of the freight economy, combined with our extensive amount of data, allows us an opportunity to look at the issue of broker margin transparency with an unmatched level of comprehensiveness and neutrality. There are multiple aspects to consider, but for the sake of this document, I will outline the ones that I feel are most important.

Brokers and carriers are price takers

A price taker is a market participant who must accept the prevailing market rate for their goods or services. By definition, they do not individually have the power to influence the market clearing price. Their decision-making revolves around how much to produce (or service to provide) at the prices available in the market.

In the spot market, brokers are price takers when selling their services to shippers, and carriers are price takers when selling their services to brokers or shippers. We are confident in this claim because price takers have four key characteristics:

- **Commoditization:** Market participants provide a very similar service. In the traditional sense, we would refer to an identical product such as oil or currency. Freight isn't purely commoditized, but it's close enough to fit this criterion. While there are differences in the cost to move freight based on things like lead time and requirements, carriers are still largely selling pace and space.

- **Barriers:** Barriers to entry and exit are very low. Getting set up as a broker or carrier doesn't require large capital outlays or lengthy specialized training. This leads to many brokers and carriers entering and exiting the market each month as market conditions ebb and flow.
- **Market fragmentation:** There are many market participants with no single firm achieving a scale that would afford them market influence. Over 90% of 300k+ carriers are considered small carriers and there isn't a single broker in the population of 20k+ with over 10% market share.

- **"Perfect" information:** Access to perfect information is probably the least fitting criteria as it demands that all participants have a current view of prices, costs, and value. Analytics providers such as DAT and others offer access to market insights, but given the heterogeneity amongst loads and lanes, it's far from perfect information. We believe that there's enough data in the market for buyers and sellers to make informed decisions.

Post-settlement margin transparency will have limited to no effect on future clearing prices because carriers are price takers. A carrier dissatisfied with the negotiated rate upon learning the broker's margins will not influence the next transaction: another carrier — one of 300k+ active in the spot market — will simply accept and haul the load.

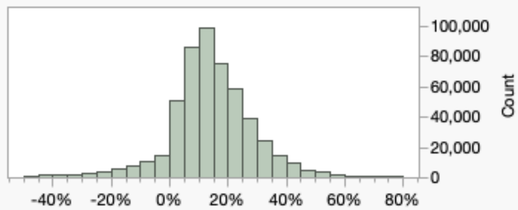
Rates and margins are highly variable

Some of the loudest pro-transparency voices believe that brokers make obscene and unfair margins on shipments based on hasty generalizations from a small number of high-margin loads that they extrapolate to the entire marketplace.

In reality, freight brokers average 12-18% gross margins depending on market cycle, specialization, and geography. This can be observed in the public financial statements of freight brokerages and also in the data collected by DAT.

Distributions

Gross Margin %



Quantiles

100.0%	maximum	75%
99.5%		53%
97.5%		42%
90.0%		31%
75.0%	quartile	22%
50.0%	median	14%
25.0%	quartile	7%
10.0%		1%
2.5%		-15%
0.5%		-33%
0.0%	minimum	-50%

Summary Statistics

Mean	14.3%
Std Dev	13.3%
Std Err Mean	0.0%
Upper 95% Mean	14.3%
Lower 95% Mean	14.3%

The 2024 sample of 500k randomly sampled DAT verified transactions shows not only that margins averaged 14.3%, but also that they're highly dispersed. Brokers certainly make 40%+ margins on some loads (<2.5%), but they also lose money on a similar number of loads. The variability compounds into unpredictability as prior margins are not indicative of future margins on similar loads due to distributed buying/selling behaviors within a brokerage.

Carrier re-use rates and industry turnover are also contributing factors in the inconsistency and unpredictability of broker margins over time. A 2024 study by DAT of ~8m brokered loads showed that nearly 50% of carriers completed just one load in the calendar year per broker, with 80% of carriers completing five or fewer loads over the same time period.

Margins are minimally correlated to carrier rates

While shippers attempt to minimize cost (and maximize service) and carriers seek to maximize revenue, freight brokers attempt to optimize two separate parts of their businesses. Their overall goal is to charge as much as they can for their services and pay as little as they can for reliable, quality capacity services from carriers.

For this reason, margins have very little empirical correlation to shipper revenue or carrier cost. In some organizational formats, the amount a broker "has in the load" in terms of shipper revenue can weigh heavily on their buying strategies; however, the overall goal is still to buy as cheaply as possible for the quality of service needed.

In the same 500k sample cited earlier, the variability in gross margin explained by total carrier cost or total shipper revenue ranges from 0-5%. Even when you isolate a specific high-traffic lane such as Chicago to Atlanta, the relationship isn't very strong, ranging from 10-15% of margin variability explained by the rates. All of this means that compressing broker margins will very likely have little to no standalone effect on the rates carriers see in the market.

Compliance could consolidate market

Our team at DAT is very familiar with the cost to keep and maintain data security. The proposed changes to the transparency regulations would not change the strict confidentiality clauses that exist today between all parties in a transaction. Shifting to electronic disclosure does not mean that brokers will email this confidential information to any carrier that requests it. Given the sensitive and confidential nature of this data, sending it via unsecured methods would not be advisable.

The truth is that brokers will need to build secure transfer portals to ensure that carriers can access this information securely and with auditability. Most large brokers will build this themselves, but we suspect that opportunities may arise for third parties to build platforms that facilitate the flow of information.

With over 20k freight brokers in business today, we suspect that very few outside of the top 100-200 have the ability to build this themselves. Smaller players are unlikely to afford new solutions that emerge to solve the problem. This could lead to industry consolidation which could put upward pricing pressure on shippers and limit optionality for carriers in the market.

Margin compression is deflationary for carriers

We've established that the spot market is composed of price takers operating in a mostly commoditized transactional market driven by supply and demand. One of the hallmarks of competitive markets is that prices are elastic. The more a firm charges, the less volume they receive and vice versa. Prevailing thinking on the pro-transparency side is that higher margins will get compressed once made visible.

Given that the market is competitive, we do not believe that pricing behavior will change, but what if it does? The sample illustrated in a previous section shows that high margins make up a predictably small portion of the total distribution. If you presume that carriers who access margin data on prior loads can pressure brokers into lower margins on future loads, where would those dollars go?

In a competitive and elastic market, brokers would have every incentive to offer those shaved margin dollars as savings for shippers in exchange for more volume. It's very unlikely and makes bad business sense to simply pay the adjusted amount to carriers. Since the margin on the transaction won't be made available until after completion of the negotiation, carriers will not be able to use the knowledge in that specific negotiation rendering the information unhelpful.

The overall effect of this behavior will be deflationary for carriers. Brokers would be forced to choose either: A) lowering their overall volume by more closely managing their overall margins, or B) curtailing the upper end of their margin distribution to generate more volume into their networks.

Carrier prioritization and waivers

It is our understanding that the FMCSA has not prohibited waivers in their proposed rulemaking. Given that our expertise is in analytics and not in legal/regulatory interpretation, we will leave that to the experts. If it is determined that brokers can still require waivers in their carrier agreements, we feel that this regulation effectively remains inconsequential.

Regardless of waivers, brokers still have autonomy over who they offer freight and choose to maintain in their carrier networks. It is our belief that carriers who request transparency records will be deprioritized by brokers when freight is available that meets their desired criteria. This will harm the carrier, as it limits their access to revenue being a less attractive partner to brokers.

Risk of back solicitation and breach of confidentiality

The data required to be disclosed by the FMCSA is some of the most confidential and highly protected in the industry. For many brokers, it represents their competitive playbook to win shippers. Shippers certainly would not want their unblinded data getting into the public record. These risks are very real with the proposed regulations.

DAT has been collecting, aggregating, and anonymizing data for over 12 years. We know that all segments of the industry put a very high priority on their data being kept safe and secure. It requires hardened processes and controls to ensure data is kept secure. It is unlikely that small brokers and carriers will be able to deploy the same controls, making data leakage seem probable. If shippers become concerned with this at scale, it may reduce overall broker volumes which would financially harm both brokers and carriers.

Conclusion

These are some of the core reasons why we believe that the proposed rulemaking would be detrimental for the market as a whole. DAT has a customer base of 100k+ carriers, 10k brokers, and 1k shippers. We serve each of these segments equally and operate a neutral marketplace.

The fundamental mission of DAT is to provide market-level transparency and take the uncertainty out of freight. Access to cost and price transparency benefits all market participants. Peering into the P&Ls of brokers only serves as a red herring and will have just as little effect as knowing a shipper's transportation budget or a carrier's operating cost days after a deal is done.

The lack of expected impact on carrier rates and the increased administrative burden on brokers seem like well-meaning regulation with a high risk of unintended negative consequences. We feel that there are many more important issues that the FMCSA should prioritize that would impact all participants in the marketplace. Some of these issues are freight fraud, carrier identity modernization, insurance requirements, and broker liability reform.