I. A DAY IN THE LIFE OF A LOGISTICS AGENT

Note: The following includes a fictional narrative based on the realities faced daily by hundreds of Logistics professionals in America who have dreams of carving out their piece of the $150B industry.

John was at the office just as the sun was rising, wiping sleep from his eyes after getting a few hours of shut-eye the night before. Not an uncommon day for John since he had become a Sales Agent for a Logistics company, but he was hopeful the late nights he put in now would pay dividends for him and his family in the years to come. His career had changed a lot of the last few years, going from being a seasoned Sales Executive at a less-than-truckload carrier to a Sales Agent for a Logistics company after he lost his job during the Great Recession. With 15 years of industry experience, he should have been sitting in an executive suite at a large company by now. Instead, he was now a 1099 logistics sales contractor, working harder than ever and making a lot less money.

As he thought back on the years behind him, he could remember a few major events that got him to where he sat today. The Financial Crisis in 2008 had forced his former employer to trim costs to cope with the reduced freight levels in their networks, leaving him without a job. At the same time there was a huge growth of Third-Party Logistics companies entering the market in the LTL space, offering guys like him prospects to be a Sales Agent and have unlimited earning potential, autonomy and the ability to "be your own boss." As the programs evolved, however, he and many of the others that joined the Sales Agent programs with him found that most of the promises made to them were never to be realized.

John was now going into his fifth year of the program, working with a fairly well-known Logistics company as a Sales Agent moving LTL and some Truckload freight. He handled the majority of the upfront shipping process and issues that came up like re-bills or missed pickups. The company handled the collections efforts and carrier payment, as well as all the investment in the technology platforms he used. For that effort they shared in the Gross Profits on shipments, with a little bit more going to the company if he moved Truckloads through them for their efforts on the ops side.

A few of the other Agents in the program were often highlighted as the "success" stories of what others should aspire to be. John started out strong, but it was because he brought in his book of business with him than anything he was doing above and beyond his competition. The guys that were held up today seemed to be there more because of marketing to bring on new Agents than anything else. Marketing videos talked about how they could work for a few hours a day, entertain clients and golf five times a week. John's clubs were picking up a lot of dust from lack of use, but he was always careful never to admit how hard he had to work to keep up his modest book of business.

Nine months earlier, John made the move to a small office not far from his house and invested in two new employees that he initially brought on as interns. He made the move because an Agent Development Specialist urged him to invest in a Sales Agency, get out of working from his home and bring on new talent to help grow his book of business. So far it had been a tremendously unprofitable move, but he still trusted the advice and hoped to get a return on investment from it. He liked the guys he brought on to help grow the Sales Agency, but he could tell that they were already getting frustrated from the compensation structure. No matter how hard they worked, they could never really get comfortable financially after the Company took nearly half of the profit for their support expenses.

When John was evaluating joining the Agent program he had also been evaluating a Logistics Franchise program that had been presented to him around the same time. He was dissuaded by the small upfront Franchise fee that he would need to put into the business and how he would need to perform more of the revenue collection activities, but he could now see how much more of a costly path he had gone down. John thought he had done his homework on evaluating the Agent program. He spoke with current Agents and recruiters, and did a handful of demos of their TMS platform. But now he was totally dependent upon the Company and completely at risk of them taking his customers and coding them to internal Account Executives if he and the Company ever went different directions.

There were a lot of Agents that had gotten into nasty tangles with the Company about who really owned the book of business at the end of it all. The Agent Agreements were vague and there was little legal precedence on the subject. None of the other Agents liked to talk about it, but most of them felt the same way: they had been presented a happy, rosy picture of what could be and were left in a world that was dark and painful. The agreements they signed had no protection for them like were customary in Franchise Agreements, and they were completely subjected to the mercy or wrath of the company if they were to speak up about changes that they'd like to have to make the arrangement more profitable for their businesses.

II. MARKET CONDITIONS THAT LED US TO TODAY

The Financial Crisis in the late 2000's left many hardworking Americans with freight experience without work and desperate to finding a way to support their families. Around this same time, a handful of Logistics companies began to offer Sales Agent opportunities to former Sales Executives at freight companies with promises of big paydays and the chance to build a company if they brought over their book of business. These 1099 programs were marketed as the "new normal" of business, where a man or woman would never have to rely on a big company for a paycheck again and be able to make as much money as they'd like if they "hustled and weren't a loser," as many were told. These Agent programs grew in size and the Agent-based Logistics companies began to claim their place next to established W2-based or Franchise-based companies in the space.

As these Agent-based programs grew, they made big promises to prospective Agents on income opportunity, stability and autonomy. On face value the promises look very good, particularly to somebody who was in dire circumstances to support their family. But as time went on, the promise that the major messages "sold" to prospective Agents were quite different from the realities that actually occurred.

- **Income Opportunity**
  - Promise: "Make as much money as you want – we will never cap your income as a Sales Agent."
  - Reality: The splits of Gross Profit (often being 50/50), generally don't provide sufficient capital to run a business, unless they are just using the rates to complement and larger, more profitable business unit where the split does not exist (e.g. Truckload brokerage not moving through the Company)

- **Business Stability**
  - Promise: "We will give you the resources you need to grow a stable business where you focus on Sales and we handle the Operations."
  - Reality: The support provided to handle the things that take 80% of the time (e.g. re-classes, missed pickups) are so poor that the Agent takes this burden themselves, without having sufficient capital to hire an employee to handle the issues (i.e. lots of time at the office cleaning up messes)

- **Professional Autonomy**
  - o Promise: "If the Agent program doesn't work for you we'll never force you to stick around. You're not an employee and you can leave whenever you want to."
  - o Reality: Well, this is true. Agents can generally leave when they want to. However, when they leave they will not be taking with them their customers, who will generally be coded to a Company employed Account Executive

There's a big reason for these companies to make such big promises: the enormous opportunity within the domestic transportation and warehousing industry for those who carved out market share quickly is extraordinary. The industry attracts to it thousands of professionals and entrepreneurs, many who find success by creating value for customers and outcompeting peers. In 2013, data from the Bureau of Economic Analysis suggests the industry will have generated $480B in revenue and employed over 4.5M people. In 2014 it may eclipse $500B in revenue and 5M employees.

The fastest growing sector of the Transportation industry is in Logistics, which industry experts such as Armstrong & Associates, a 3PL Consultancy, have forecasted will have totaled over $150B in 2013. When industry professionals discuss Logistics they are generally referring to services provided to shippers by third-party logistics companies who specialize in a specific supply chain practice, such as international freight forwarding or warehousing and distribution.

Domestic Transportation Management, the largest and fastest growing sector in Logistics, is expected to have grown to $49.2B in 2013 and to continue at a 7%-9% annual growth rate for the next few years. In the mid-2000's the companies offering these services cemented their place in the industry. Carriers used them to reach new customers and smaller shippers warmed to having a third-party manage their shipping, all while TMS platforms dropped in price and were available to Logistics companies without large IT budgets. These factors allowed then-unknown Logistics companies like BlueGrace, Coyote, Echo Global, FreightQuote and Worldwide Express to grow and compete with established brands like C.H. Robinson.

III. MOMENT OF TRUTH: W2, FRANCHISE OR AGENT?

Companies that chose to invest in W2 Employees or Franchises generally had more control in their market activities, but their growth could often take longer to yield payoffs because of the investment they required. Labor practices and proper governance of employment and franchise agreements took time to build into Company processes, but ensured there were clear and fair rules of engagement for the Company and its Employees or Franchisees.

Agent programs – the cheapest of the three channels to build – offered a "quick high" for companies with goals to scale quickly without investing much capital. The Company could recruit new Agents at a fast pace and faced little exposure if the Agent didn't perform since their compensation was based on generating Gross Profit. While the Agent sold, the Company focused on collecting revenue, paying carriers and managing the technology. The Company could easily code customers to employee sales reps or to another Agent at a more favorable split for the Company if the Agent left or was asked to leave the Program. The growth of these fragmented networks, however, came at the expense of centralized control and often led to poor and inconsistent experiences for carriers and shippers alike.

For prospective Agents capable of generating $10,000 to $15,000 in Gross Profit per month the Agent arrangement can be ideal. They don't have to manage a technology platform or be responsible for any back-end operations. They can focus on what they know: selling freight services to shippers. However, Agents with goals to build larger companies – like John in the story above – often become frustrated by the lack of support from the Company to provide a best-in-class customer experience. Many Agents attempt to provide services like W&I support, customer service and administrative tasks in an effort to bridge the gap, but quickly find they lack the resources to fund the personnel required after the Company takes its split. They jump at any opportunity to distance themselves from the Company, with many Agents finding loopholes to move freight on their own brokerage authority or leaving the Agent Program completely.

Agent-based Companies eventually hit a wall in recruiting new Agents after getting a poor reputation from Agents who weren't successful or because the pool of good Agents simply dries up. The Company will become desperate in their efforts to recruit talent and begin offering incentive programs similar to multi-level marketing where existing Agents can "get a piece" of results from new Agents they recruit. When those attempts fail, the Company will lay the foundation for a direct sales channel that will compete with its own Agents. If an Agent complains about what's happening they find little protection in the Agent Agreements they signed and are left helpless in protecting their customers as the Company controls the meaningful touch points with them. Agents who leave the Agent Program are unable to sell their books of business, which instead become warm lead lists for the Company. Most former Agents end up restarting with nothing or leaving the industry completely.

IV. FRANCHISING: A STRONG ALTERNATIVE

An alternative option for ambitious entrepreneurs in Logistics has come in the form of Franchising. The model has been around in other industries for decades, but has been proven in Logistics during the past ten years. Two of Transport Topic's Top 25 Freight Brokerages have Franchise-based roots, Worldwide Express and Unishippers, and other quickly growing companies like BlueGrace Logistics have laid the foundation to grow in this channel as well. For many business professionals drawn to the size and growth of the Logistics sector, becoming a Franchise for an established company in the space is a proven way to build a business they control with a blueprint that has been successful for other Franchisees.

For those familiar with the Franchise sector, perhaps the convergence of Franchising and Logistics isn't a surprise. Franchising has become a huge contributor to the U.S. GDP output and a strong source for job creation in the country. The International Franchise Association has estimated that the total GDP contribution from Franchises will be $471B in 2013, or roughly 3.4% of the U.S. GDP. These Franchises have been a big source of new jobs, adding approximately 18,000 positions each month to the economy in 2013. ADP, a Payroll Services company, reported in collaboration with Moody's that approximately 6% of the 215,000 new jobs created in November 2013 came from Franchises. The growth and continued contribution of Franchises to the economy has been remarkable across numerous industries.

The platforms built for Franchises in Logistics have been a strong entry point for many business professionals who experienced challenges in Agent Programs or are from outside the industry and see the opportunity in the fast-growing $150B industry. It may not be the option for someone seeking to make a modest living off a small book of business, but franchising can be a lucrative career for those with the desire to build a company with the guidance of proven processes and an established brand.

Due to Franchising's use across many industries and the regulatory environment governing Franchising practices, Logistics Franchise programs operate in a cleaner and more professional format than that of typical Agent programs, with:

- The Franchisee performing the key touch points with shippers (e.g. setting prices, point of sale, revenue collection)
- The Franchisor providing a robust technology back-end, centralized carrier procurement and carrier use policies
- Strict legal agreements between the Franchisor and the Franchisee clearly defining rules for the arrangement, responsibilities and compensation for each party
- The Franchisee keeping 84% to 78% of the Gross Profit, depending on the back-end support services they choose to use
- State-governed agencies handling oversight of conduct and any disputes between the Franchisor and its Franchisees
- The Franchisee having the ability to sell their Franchise within or outside the Franchise network if they choose to

This structure allows Logistics Franchisees to scale with few concerns of the Franchisor interfering with their business and more capital to deploy on business development than in an Agent program. When an Agent hits a certain level of annual revenue, generally around $1M, most find it makes more economical sense from an ownership standpoint to be a Franchisee. Not only does the business create more income for the owner, but it can be sold to someone within or outside the Franchise network.

An Agent, on the other hand, has trouble selling their book of business to third-parties as it is easy for the Company offering the Agent program to claim and transfer it to another Agent or to Company employees. As a result of those factors, a $5M Agent would be worth very little to a buyer, whereas a $5M Franchise would be much more valuable in a sale because of their Franchise Agreements and greater split of Gross Profit.

Owner Income Scenarios for a $5M Logistics Company

Income Statement Projection	Agent	Franchise
Gross Revenue	$5,000,000	$5,000,000
Purchased Transportation	($3,950,000)	($3,950,000)
Gross Profit	**$1,050,000**	**$1,050,000**
Split to the Company	**($577,500)**	**($199,500)**
Agent / Franchise Revenue	**$472,500**	**$850,500**
Selling, General & Administrative	($437,247)	($666,027)
Operating Income for Owner	**$35,253**	**$184,473**
Potential Company Value	**$0 - $35K**	**$750K - $1.5M**

Note: Same sales structure for A/F; Franchise has back-office FTEs to handle AR/AP functions; Operating Income is remaining profit before owner compensation; Value based on market research on private transactions of Logistics Franchises

With the option to grow or sell their business, many Franchise owners have become multi-millionaires through this channel. Some of the owners have made it by growing their business to spin off millions of dollars in EBITDA for themselves, while others have made it in sales of their Franchise after it grows to a certain size. A Logistics Franchisor shared that, "Our average Franchise sale is about $1.4M, with many that have gone for much higher numbers. We believe that we have made more millionaires in our system than any other Logistics program in the market."

But being a Franchisee also comes with some restrictions for the Franchise owner, including performance requirements and non-competes that do not allow them to simply leave for another Logistics company if they don't have quick success. However, the monetary awards, ability to work off proven practices and autonomy to build a self-sustaining business can be worth the partnership for an ambitious entrepreneur.

IV. BUILDING A BUSINESS IN LOGISTICS

For a current Logistics Agent or someone from outside the industry enticed by the opportunity in Logistics they have a choice on the path they can go down. The Agent model is quickly deteriorating in quality and standing among industry professionals. But, if the goals of the business professional are to build a small business that provides for "mailbox money" it may be a viable option. The clear alternative to an entrepreneurially-minded professional is in exploring Logistics Franchises.

Though, it's important that Logistics Sales Agents or someone from outside the industry do their homework on Franchise opportunities before getting into a new program. Certainly not every Franchising opportunity is made alike and there are many companies that offer something "similar to being a Franchise" but without the rules and regulatory environment to protect the Franchisee.

Before getting into any agreements, the prospective Franchisee should evaluate the:

- Franchisor's ability to offer services across multiple modes (e.g. LTL, Truckload, International, Parcel) and strength of their back-end processes, internal support staff, technology and reputation
- Franchise agreement quality, the Franchisor's compliance within the Franchising industry and status of existing franchise network
- Principles and resources the Franchisor commits to growing new and existing Franchisees, including training for the owner and their employees, as well as guides to evolving the business at different growth stages

Becoming a Franchisee in Logistics requires an investor's mindset, but can be an extraordinary and life-changing path. There is generally an upfront fee to join the network, liquidity requirements and agreements that the owner signs prohibiting movement in the industry. If they aren't willing to make those investments the opportunity isn't for them. But for those who don't want to be a W2 and understand the payoff of working with a company that can share the blueprint for success. can be an extraordinary and life-changing path. Just as long as they don't get themselves stuck in an Agent-trap along the way.