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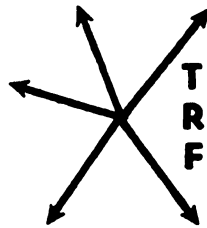
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TRANSPORTATION RESEARCH FORUM

An Examination of the Traffic Consultant's Role in a Changing Regulatory Environment

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I. ABSTRACT

THIS STUDY examines the commercial traffic consultant industry which is often an overlooked segment of the entire transportation industry. It is intended (1) to provide the composition and nature of the traffic consulting industry, (2) analyze the role played by them in the 17 most common services they routinely provide to carriers and shippers, and (3) review their perceptions as to what business and employment impacts might occur to them within the realm of repeal of motor carrier collective rate making antitrust immunity. The paper is primarily based upon a nationwide survey and interview study conducted in 1979.

Traffic consultants serve both shippers and carriers as rate auditors, tariff compilers and with a host of other services. They have grown in the past two decades in both scope and magnitude in the transportation community. While many are small, others employ large staffs, serve national firms and have billings of several million dollars per year. It is a service that is becoming increasingly depended upon by the industry. This study analyzes their role.

The prospect of antitrust immunity repeal in motor carriage raises a specter of fear in some consultants while a few welcome it as a cause for potential growth. These firms provide service for carriers and shippers that generally find it uneconomical to perform in-house. Thus any policy change in the rate area that might impact upon the consultants will likely impact upon many carriers and shippers as well.

II. TRAFFIC CONSULTANTS

The term traffic consultant as used in this paper applies to those individuals and firms that provide routine traffic and transportation services on a for-profit basis at the shipper-carrier, carrier-consignee, and carrier-regulatory agency interfaces. In their basic form these are the firms often sought by manufacturers

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and carriers for rate auditing and watching services as well as tariff publishing. Not included in this study are consulting firms that primarily offer specialized one-time studies or projects regarding such areas as altered transportation methods distribution system design, or organizational change.

III. METHODOLOGY

This study is based upon interviews and mail surveys conducted during mid-1979. The interviews were utilized to develop a background about this industry that provided the input in developing the mail questionnaire. The mail questionnaire was sent to 100 firms. Though the number of firms appears small, it comprises a comprehensive list of all firms found in the 1979 Directory of Commercial and Traffic Executives, trade magazines, and the ICC's List of Intermediaries. Out of the 100 surveys, three were returned as undeliverable, three were not returned at all, and 21 completed usable forms (or 21%) were received back. The study is based upon a small number of responses, but it is directed toward a relatively small but important industry to those firms utilizing them.

IV. COMPOSITION AND NATURE OF THE INDUSTRY

The industry consists of firms having a wide range of sizes. The responding firms ranged in revenue from \$16 thousand to \$34 million per year with a median of \$300 thousand. Employees range from one to 200 with the median of 11. The primary activities of these firms consists of rate auditing and watching services for carriers and/or shippers and tariff compiling for motor carriers. The two top firms primarily conduct auditing services only. The industry is concentrated to the extent that the top four firms (19.0%) received 65.1% of the latest year reported revenues.

There appears to be one type of general employee-to-revenue relationship for all firms except two, while another rough relationship exists for those two. These last two firms offer computerized rate banks for auditing services. All firms except these two present an em-

TABLE 1
PERCEIVED IMPACT UPON THE
CONSULTING FIRMS FROM REPEAL
OF SECTIONS 10706

Type of Change	# Firms Responding
Shut down	5
Decrease 75% - 99%	5
Decrease 50% - 74%	1
Decrease 25% - 49%	1
Decrease 1% - 24%	—
No Change	4
Increase - extent unknown	4
No response	1

ployee-to-revenue R^2 of .898. A second functional relationship no doubt exists for the computerized firms but it is too early and there are too few firms to indicate that as yet.

V. PERCEPTIONS OF REGULATORY CHANGE—COLLECTIVE RATE MAKING

The surveys inquired about the perceptions of these firms with regard to the antitrust immunity of motor carrier rate bureaus as exist in Section 10706 of the Revised Interstate Commerce Act.¹ Since the firms are providing rate and tariff services that require the use of tariffs, any regulatory change in this area would no doubt affect their operations.

The potential for change in the motor carrier tariff area is highlighted in a related study which was also conducted in 1979.² That research indicates that if Section 10706 of the Revised Interstate Commerce Act was repealed, the number of motor carrier tariff pages in effect in the U.S. could increase by a factor of 2.49 (median) times the present number with a third-fourth quartile point factor of 1.02 and a first-second quartile point of 6.47. Thus, the ability of the tariff consulting industry to continue to function in the future with its current methods is cloudy.

Of the 21 firms, 19 wish to have the antitrust immunity continued, and 2 indicated a desire to have it repealed. The perceived effects upon the total business of the responding firms of this repeal is shown in Table 1.

The firms wishing to see the motor carrier rate bureau antitrust immunity repealed are firms which derive their income exclusively from tariff publishing. This regulatory change would no doubt become a greater business opportunity

as long as tariff publishing remained a regulatory requirement after Section 10706 repeal.

The nature of perceived change within the industry from such repeal is shown in Table 2. Indicated there are those activities which the firms perceive to change or remain the same after Section 10706 repeal.

Rate auditing, recoveries, and watching for shippers and carriers are perceived as major areas that will be affected. A number of the firms indicated that in the event tariffs became exclusively individual publications (one carrier-one tariff), the cost and effort of determining rates and rate changes would be prohibitive. This same point follows through to the inability to prepare rate guides or perform rate analysis. The responding firms also expect that, in this possible event, rate protests would no longer be a major activity nor would representing clients before regulatory agencies. Two firms, however, indicate the possibility of initiating rate watching services, and two others foresee an opportunity in tariff publishing.

One of the firms favoring collective rate making abolishment is currently conducting tariff publishing activities and sees this as a major boost to its activities if Section 10706 was repealed. The second respondent indicated that he personally favors the repeal because it would bring about a favorable climate for small carriers. But, the same person perceives that repeal would eventually result in his firm halting operations.

VI. CONCLUSIONS

This particular industry performs rate and tariff services for shippers and carriers (not belonging to rate bureaus) that do not possess the scale of operations that permit these services to be economically performed in-house. This industry has grown through the past two decades as the entire transportation industry has grown in magnitude and become more complex. But, the consulting firms do not perceive a favorable climate for themselves if motor carrier rate bureau antitrust immunity was abolished.

The implications surrounding this industry relate to rate making policy. Specifically, the role the industry will play in the future is tied to the future of collective rate making. Three scenarios are presently possible in the current regulatory state of flux.

The first possible outcome is continuation of collective rate making in its present form. While the rail industry increased the total number of tariffs in use after passage of the single line immu-

TABLE 2

**PERCEIVED CHANGES IN CONSULTING FIRMS' ACTIVITIES
IF SECTION 10706 IS REPEALED**

Activity	Firms Performing Now		Firms Not Performing Now	
	Will Continue	Will Discontinue	Will Not Start	Will Start
Rate Auditing, etc.				
Auditing	10	2	9	—
Filing Recoveries	8	2	11	—
Rate Watching	7	4	8	2
Watching Competing Firms' Rates	9	3	7	2
Tariff Publishing				
Compilation	10	—	9	2
Printing	10	—	10	—
Mailing	10	—	10	—
Filing	11	—	9	2
Other Activities				
Prepare Rate Guides	9	2	9	1
Rate Analysis for Clients	14	3	4	—
Prepare Rate Protests	5	4	11	1
Prepare Operating Rights Applications	5	1	14	1
Watch Authority Applications	4	3	14	—
Represent Clients Before Regulatory Agencies	16	2	3	—
Brokerage of Operating Rights	3	1	17	—
Prepare Loss and Damage Claims for Clients	8	1	12	—
Maintain DOT Driver Logs	1	—	20	—

nity change following the 4-R Act of 1976, the industry's tariffs are relatively stable in number or stand to decline with the merger movement. With only 600-plus railroads in the country, shippers and auditors can determine the lowest, legally applicable rates for given movements. However, the motor carrier industry, with continuation of Section 10706 of the Revised Interstate Commerce Act, might pose some difficulty. The for-hire motor carrier industry is represented by approximately 16,000 firms and the number is increasing under the ICC's relaxed entry standards. Small and new firms tend to publish individual tariffs. This causes greater difficulty for shippers and consignees to determine the lowest possible rates for all carriers in a given market lane.

The second possible future rate making scenario is that of collective rate making for interline movements only and repeal of anti-trust immunity for single line rates. This will no doubt increase the number of tariffs in use. In

the Cavinato and Kogon study the median firm received 97% of revenue from rate bureau tariffs while interline traffic represented a median of 20% of total revenue.³ Repeal of single line rate making immunity will greatly increase the number of tariffs in effect, thus impacting upon the ability of the consulting industry to perform services for its users.

The third possible scenario is complete collective rate making abolishment. The prospect of over 16,000 firms publishing complete individual tariffs is discussed in the above study. The projected change in the number of tariffs is shown to be an increase by a median factor of 2.49 with high and low quartiles of 6.47 and 1.02 respectively. One part of the tariff consulting industry provides tariff publishing services for motor carriers. This activity would no doubt increase as a carrier service. On the other hand, approximately half of the consultants provide rate searching, watching and auditing services for shippers and consignees

only. In this capacity these firms presently provide a service of determining the lowest possible cost routings for shippers (i.e., it is a medium of "perfect knowledge" about the market). The inability of performing the same services in a total individual tariff environment is reflected in the perceived disappearance of these firm services. A related study on computerized rate substantiates this perception for these firms as well.⁴ Computerized rate firms foresee an inability to provide current services under complete rate deregulation.

The choices remaining for shippers are, then, (1) use of many carriers with a high cost of rate determination or (2) use of very few carriers with a low cost of rate knowledge—or a high cost of rate ignorance. In either situation, a deregulated rate making environment, shippers and receivers are faced with a higher cost of obtaining "perfect rate knowledge." This study has shown that the tariff consulting industry will no doubt

not be a source of this knowledge, in the future if rate making in its present form is abolished.

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