

Freight Payment Services

# BOOSTING INVOICE IQ



**Freight payment/audit providers scrutinize shipper invoices using detailed reporting, sophisticated technology, and international capabilities. Here's a close-up look at how they discover savings and efficiencies.**

In today's economy, freight charges represent up to 10 percent of a company's total expenses. Fuel surcharges are driving that cost even higher, and shippers are looking to get a handle on the numerous expenses that are adding to their freight costs.

Many shippers are turning to freight bill payment and auditing services to gain insight. Traditionally a misunderstood part of the supply chain, freight bill audit and payment (FBAP) may be viewed as a mundane clerical process, but smart shippers recognize it as a source of business intelligence. While some choose to maintain control of this process internally, industry data shows that outsourcing freight payment is becoming the preferred option.

In 2008, approximately 54 percent of North American firms outsourced some part of their freight payment activity, according to *The State of Logistics Outsourcing*, a third-party logistics services survey conducted by Capgemini, the Georgia Institute of Technology, Oracle, and DHL. This figure is up from 45 percent in 2006, indicating that shippers appreciate how outsourcing FBAP can contribute to service improvements and reduced transportation costs.

The benefits of FBAP boil down to simple math. It costs a large company about \$11 in fully allocated costs to pay a freight bill internally. If the FBAP pays the same bill, the cost to the company will be five to 10 percent of the internal expenses. Subtract another two to five percent by reducing incorrect or duplicate bills, and the savings can be significant. In fact, most shippers claim that outsourcing FBAP helps them recover three to five percent on their overall freight spend, according to data from supply chain consulting firm Spinnaker Management.

It's no wonder that more companies are giving FBAP services their business. "In this economy, cost cutting is a motivator," says Clifford F. Lynch, executive vice president of Memphis-based CTSI,

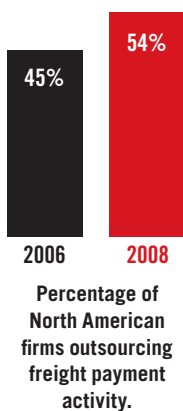
a global supply chain technology and services company. "The overcharges we uncover in freight bill audits provide significant cost savings."

**HOW IT WORKS**

To begin the auditing process, a freight bill payment company receives its clients' freight bills directly from carriers. When the bills are received, either via electronic data interchange (EDI) or manually, they are entered into the contractor's system, providing immediate visibility. Once the bills are entered, they are audited for accuracy. Auditors verify the bills' validity, mileage, duplicate payments, accessorial charges, and use of correct tariffs. After auditing, the charges are coded and reconciled, and the bills are paid.

Shippers reap the benefits of this close attention to their bills. "It's imperative today that a company audit its freight invoices," says Garry Oswald, vice president of sales and marketing for National Traffic Service, a freight audit and bill payment service provider located in Amherst, N.Y. "Too many benefits are missed by skipping this process."

One key benefit a provider can offer customers is robust reporting and data flow of transportation activities. FBAP



# Tough Economic Times Call For Freight Audit and Payment

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Company Number: 1875842135

**TAX INVOICE**

DATE: 3409 PO/DC# : 000180715784  
TERMS: 45 NET  
ACAP

BILL TO:  
CTSI  
c/o ABC Manufacturing Company  
5100 Poplar Avenue, 15th Floor  
Memphis, TN 38137 (901) 766-1500

Details

VESSEL/VOYAGE : CARRIER ATLAS/ V41E51 ETD : 18-3-08  
HBL/MBL NO : 580049913380 / NYKS3006012310 POL / PCD : SINGAPORE / DALLAS  
FCL : 20FT X 1 <sup>3670</sup>  
40FT X 2 <sup>4619 X 2</sup>  
40FT X 1 <sup>5174</sup>

REMARKS

JOB NUMBER : 5800J08305789

DESCRIPTION	CHARGES	GST
BUNKER ADJUSTMENT FACTOR	1570 -3,512.57	Z BAF
BILL OF LADING FEE	N/A -39.46	Z BLC
PERMIT FEE	N/A -26.31	Z PER
DEPOT HANDLING	N/A -26.31	Z HTH
UNCRATE, CRATE & PAC	N/A -10,676.82	Z PUK
OCEAN FREIGHT	18,082.00	Z
AMS AMENDMENTS FEES	40.00	Z
PSA-LOLO	N/A -282.49	Z PSA
STUFFING CONTAINER CHARGE	N/A -1,315.44	Z SFC
SURRENDERED BL FEE	N/A -39.40	Z
TERMINA HANDLING CHARGE	652.46	Z
TRUCKING CHARGE	420.94	Z
STANDARD RATED AMOUNT	66,854.89	
ZERO RATED AMOUNT		
G. S. T. @ 7% ON STANDARD-RATED AMOUNT		
<b>GRAND TOTAL</b>	<b>49,314.00</b>	

Note: Payable in USD. Any additional charges by carriers/ports will be billed to you at cost rate. All business is transacted in accordance with The Standard Trading Conditions as stated overall.

*Handwritten notes on invoice:*  
Check Area(s) Approved 3/18  
Blno # 151  
Administrative  
Commercials  
Accessorial Fees  
Balance Due  
Pay As Presented

*Handwritten circled total:* \$20,765.40

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# FBAP@WORK



**INVOICES RECEIVED FROM CARRIER**



**INVOICE ENTRY**



**ACCURACY AUDIT**



**PAYMENT ISSUED TO CARRIER**



**CHARGE CODING & RECONCILIATION**

1100100101001001  
0101110100010101  
1000110110101011  
001011010111100  
1100100101001001  
0101110100101001  
1000110110101011  
001011010111100  
1100100101001001



**SHIPPER DECISION-MAKING POWER**

**REPORTING & ANALYSIS**

Here's how freight bill audit and payment services work. First, carriers send their invoices directly to the freight bill payment company, which enters the bills into its system. The company then audits the bills for accuracy. Next, the service provider codes and reconciles the charges and pays the bills. Information about transportation activity is delivered to shippers, allowing them to make intelligent business decisions.

companies deliver information in usable forms, such as graphs and charts, so that more intelligent business decisions can be made concerning transportation activity. Providers are able to drill down the shipping data to generate reports about how much each carrier is paid, how much is being spent in each transportation lane, whether the correct mode/carrier is being used, the potential savings of using parcel versus LTL (and vice versa), and how much is being spent on individual product groups. Shippers can then adjust their business decisions accordingly.

"Getting down to these granular levels allows us to provide clients with intelligent data," says John Mecchella, president and owner of Technical Traffic Consultants, Congers, N.Y., a third-generation, family-owned-and-operated

company that provides customized FBAP to clients. "We capture and report information in a way that allows clients to make the most appropriate business decisions for their organization. This is where the true savings are generated."

In many cases, this information is accessible to the shipper via a Web-based portal. For instance, CassPort Internet Reporting Services, from Cass Information Systems Inc., a Missouri-based bank holding company, provides standard and customized reporting, data files, metrics, and transportation/financial analysis through the Internet. "This makes it extremely easy to share information with customers," says Tom Zygmunt, marketing executive at Cass.

CassPort condenses data into one display, at the summary level for a day, week, month, or year. If additional data

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“We report information that helps companies make appropriate business decisions. This is where true savings are generated.”

John Mecchella,  
president and owner,  
Technical Traffic Consultants

is required, the shipper can click on the links to drill down into more detailed information.

In addition to providing FBAP services like these, CTSI offers customers the benefits of a transportation management system (TMS), which helps select carriers, route shipments, plan loads, and handle delivery notices. “Companies won’t suffer if their freight payment provider doesn’t market a TMS, but it’s a sophisticated supply chain tool,” Lynch says.

Somerville, N.J.-based The TransVantage Group also offers the power of TMS capabilities. For one customer looking to shift from a decentralized distribution footprint to a centralized one, TransVantage was able to calculate the cost of making that move.

“The customer initially thought the cost of a single location would increase spend, but the TMS showed the costs would decrease due to proximity to customers and more just-in-time shipments,” says Ken Pehanick, executive vice president of technology for TransVantage.


“Many companies are looking for more than a freight payment and audit provider,” he adds. “Technology such as EDI and TMS can move them in that direction.”

**FINDING A PROVIDER**


Choosing an FBAP company requires some research. Once you assemble a list of possible service providers, learn as much as you can about them. Some issues to consider include:

- **Financial stability.** This factor is especially important in today’s economy, as a lot of money will flow through the operation. How long has the provider been in business? Does it have the resources to survive economic downturns?
- **Business experience.** What is the provider’s experience in the industry and with other clients? How many bills does it pay annually and for whom?
- **Commitment to technology.** Is the provider committed to offering the most current technology and maintaining systems that can be integrated with the clients’ solutions? Is the technology scalable? Does the company have the resources to continually invest in updated solutions?
- **Reputation with other clients.** Ask for a client list of five names with contacts and telephone numbers. Also, don’t be afraid to request the names of former clients to find out why they no longer conduct business with the provider.
- **Continuous improvement programs.** Is there a formal quality or performance enhancement program in place?
- **Growth potential.** Is the payment company in a position to support growth through excess capacity or new services?
- **Security.** Information systems must be fully protected from outsiders. If your company is publicly traded, it is bound by the Sarbanes-Oxley (SOX) Act. While the provider is not bound by the act (unless it is publicly traded), make sure it is SOX-compliant.

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■ **Customer support.** Will an individual account representative be assigned to your company? Do you need to schedule an appointment to get assistance or is daily help available?

■ **Corporate culture.** Find a provider that shares your business philosophy.

■ **Employee-to-customer ratio.** Does the provider have enough employees to support all its customers?

FBAP is in the service and the business intelligence that you receive.”

## GLOBAL VIEW

One additional capability to consider is whether the freight payment company specializes in global payment and auditing.

“It used to be difficult for shippers to gain visibility of overseas freight forwarders, carriers, and brokers,” says Allan Miner, president of CT Logistics, which offers FBAP capabilities from its international headquarters in Birmingham, UK. “And international bills are very complex, with multiple lines of charges. Shippers had a hard time determining if their bills were accurate.”

To improve the situation, CT Logistics developed an international module for its *FreitRater* software system. The tool helps audit and process international shipments anywhere in the world, in any language. “It’s amazing how many errors we find in international shipments,” notes Miner.

As shippers clamor for international FBAP, providers are answering that call with increasingly streamlined processes. “Shippers want one provider—not multiple providers—to process bills and perform audits on a global scale,” says Keith Snavely, vice president of sales, North America, at nVision Global Technology Solutions, headquartered in Atlanta.

nVision currently conducts business in 190 countries and remits payment in 45 currencies. “About 350 freight payment companies are in operation; only about five can do this,” he notes.

## RATE EXPECTATIONS

Once you’ve selected a service provider that meets your domestic and international needs, the next step is negotiating a contract. This document ensures your company and the FBAP service provider know what’s expected

## PURPOSEFUL REPORTING

Ampacet Corporation, a manufacturer of masterbatches (pellets used to form plastic products) based in Tarrytown, N.Y., has been working with freight bill payment and audit services provider Technical Traffic Consultants, Congers, N.Y., for more than eight years. The company values Technical Traffic’s ability to provide customized solutions. For example, the vendor’s transportation data reports let Ampacet gather specific information for a particular purpose. “Technical Traffic can pull figures on our volume per shipping lane, which we can then use to negotiate with our carriers for more favorable rates in high-volume lanes,” says John Picyk, Ampacet’s manager of corporate distribution.

Another tool Ampacet uses is the “Ad Hoc Query” capability. With this Web-based reporting tool, the company can log on to Technical Traffic’s site and perform freight bill inquiries on the fly. Reports can range from simple lane queries to freight as a percent of sale for individual product lines by customer.

Finally, Technical Traffic’s in-house transportation attorney provides Ampacet with guidance on regulatory and legal issues, and consults on matters such as structuring contracts and filing loss and damage claims.

Much more than just handling Ampacet’s bills, Technical Traffic helps the manufacturer create a more efficient business environment.

What about cost? Experts say FBAP service pricing should not be the foremost consideration. “When shopping for a new car, you wouldn’t buy the cheapest one on the lot,” says Mecchella. “The same holds true when shopping for a FBAP company.”

Consider cost along with all the other information you’ve gathered about your prospective providers. “Don’t base the decision on cost alone,” says Lynch. “Don’t give your business to the lowest-cost provider. The value of outsourcing



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# SHIPPERS TAKE MATTERS INTO THEIR OWN HANDS

While many shippers are outsourcing FBAP, others choose to take advantage of an alternative solution: insourcing the activity. Companies choose this route to maintain control of the coding and payment functions, or to avoid transferring funds to an outside vendor for carrier payment.

In-house processing assumes a certain level of expertise and requires the shipper to invest both time and resources. If bills will be processed manually, shippers have to ensure there is someone on staff with the technical knowledge to perform a satisfactory audit. And if capturing data from the invoices and bills of lading is important, the company will need data entry personnel.

Automating the in-house process also requires a substantial commitment of time and resources to set up and maintain these procedures. EDI has to be implemented to receive invoice data from carriers. And a rating program has to be developed to automatically audit freight invoices from high-volume carriers.

Freight auditing and payment products are available to streamline and automate the processes via EDI invoicing and auto-rating carrier invoices. Many of these products are marketed by FBAP service providers who already have carrier rating, EDI, and information processing expertise.

These products allow shippers to audit freight invoices, pay carriers, and analyze and report logistics information with minimal manual intervention. They typically offer the following features:

- **Ability to accept EDI invoices from carriers.** This is critical to reducing processing costs by eliminating extensive data entry of hard-copy bills.
- **Auto-rating of carrier invoices.** These programs have carrier rates built into a rating engine. As the freight bills are processed, they are compared to the shipper's contract rates and overcharges are identified.

from the arrangement and will yield smoother transactions.

"Both sides must view this as a partnership or the relationship will not take hold," says Snavely.

While each service agreement will vary in length and content, at a minimum it should provide the following:

- **Preliminary statements.** Define the parties involved and their intentions.

■ **Services.** This includes responsibilities the shipper expects such as pre-audit, bill payment, data capture, and reporting. Internet service can also be outlined in this section.

■ **Contract term.** Termination privileges should be outlined.

■ **Confidentiality clause.** Consider a formal ethics policy, or at least a code of ethics, to ensure that valuable information will not be divulged.

Next, agree on what the FBAP service provider will charge your business. Certainly, the partnership will not last long if both sides cannot agree on a fee schedule. While each provider will have its own formula, a shipper can expect to incur an implementation fee, which covers the cost of FBAP personnel visiting your site to develop specifications; loading rates into the provider's systems; customized programming; loading reference files; and other start-up activities.

In addition, charges for pre-auditing, processing, and payment of each individual bill could be included. And while certain reports will be provided at no



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■ **Automatic general ledger account coding.** Account codes can be automatically assigned to freight expenses through shipper-defined programmed logic.

■ **Ability to create carrier payments.** Once freight invoice data has been audited and processed, it is exported for carrier payment.

■ **Data analysis and reporting capabilities.** Probably the greatest benefit to these programs is the ability to easily query, analyze, report, and export logistics information. This function is invaluable for tracking freight costs including fuel expenses; allocating costs to account codes, customers, and vendors; and producing volume reports by shipping lane for carrier negotiations.

CT Logistics, Cleveland, Ohio, provides outsourcing as well as technology solutions for shippers that choose insourcing. "Some companies' senior management philosophies dictate FBAP as a core competency," says CT Logistics President Allan Miner.

Depending on their shipping volumes, some clients license CT

Logistics' *FreitRater* freight bill audit, payment, and management reporting system for in-house use, while others use *FreitRater* as a remotely accessed Software-as-a-Service solution. The system determines transportation rates both for pre-shipment routing and accrual information, and post-shipment pre-audit. It also checks for duplicate billings and matching processes for authorized shipments and freight payments.

ABC Logistics, Greensboro, N.C., blurs the lines between service provider and user: the company licenses National Traffic Service's *TrafficPro* software program to aid its own shipper customers. Electronically receiving and auditing invoices has produced significant results.

"The ability to receive invoices electronically via EDI transfer has saved countless hours of data entry," says Bryan Fary, vice president of ABC Logistics. "Since we've been using the product, it has nearly paid for itself in time and labor savings."

charge, customized reports or services may incur a nominal fee. There might also be monthly fees for Internet services or graphic and mapping reports.

"Reporting services will no doubt be the most valuable to clients," says Lynch. "The modern freight bill payment provider is a supply chain information company with a wealth of accumulated data about its clients' shipping practices."

"The cost savings realized from the data analysis and reporting services make them a wise decision for virtually any company," adds Oswald.

### CREATING A WIN-WIN

For many companies, outsourcing could be the most economical way to properly audit and process freight invoices.

"Once companies bring us in to process their bills, they wish they had done it a long time ago," says Bryan Fary, vice president, ABC Logistics Inc., Greensboro, N.C. "Companies with any number of freight invoices can benefit

from using a third-party freight payment company. ABC Logistics has customers with as few as 25 freight bills a week that see the advantages of using an FBAP company.

"Certainly, the customers with hundreds of freight invoices see the savings," he continues. "Outsourcing to a freight payment company is a win-win situation for shippers." ■

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