

The cost-savings benefits of outsourcing freight bill payment and audit are well-documented. But it's the decision-support data these third parties provide that delivers the real payoff.

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Freight Payment Services Add Up

Shippers say it costs an average of \$10 to process a freight bill internally, according to an Aberdeen Group report, *Winning Strategies for Transportation Procurement & Payment*, February, 2007.

A freight payment outsourcer can do it for one-tenth that amount.

That no-brainer math has been a major reason shippers turn to freight payment providers to handle bill auditing and payment. Such activity falls outside most shippers' core competency and requires considerable staff.

But it's the ability to provide information, not just reduce overhead, that's currently driving growth in the freight payment outsourcing industry.

"It's more about providing business analytics," says Adrian Gonzalez, director, Logistics Executive Council, for ARC Advisory Group. "Through the use of spreadsheets and online tools, freight payment companies provide good business analytics to shippers, enabling them to look at how their costs break down and where variability is coming from."

Approximately 55 percent of shippers currently outsource to freight payment providers, according to the *11th Annual*

Third Party Logistics Study by Capgemini. That percentage will grow as shippers catch on to the impact such value-added services have on their business, predicts Clifford Lynch, author, consultant, and principal of C.F. Lynch & Associates. Providers are racing to compete on the sophistication of their technology and the insights it can provide.

Mining for Minutiae

To a billing clerk, the occasional address correction fee from a parcel carrier may not be particularly noticeable. But a well-oiled analysis tool may turn up the fact that a bad customer ZIP code is amounting to thousands of dollars each month in fees.

"Those details fall through the cracks unless thorough analysis uncovers them," says Gonzalez.

Or, analysis may uncover potential economies by scrutinizing traffic lane patterns for truckload shipments. Shipment data analysis can uncover new cost-cutting opportunities and drive future procurement and contracting activities.

Respondents to the Aberdeen Group *Winning Strategies* survey say they want "better quality information and improved visibility to exact audit and payment criteria from their

outsourcing providers." Companies report they can shave an average of 8.8 percent off their overall freight budget by using a more sophisticated procurement or payment/audit system, whether in-house or outsourced, according to the report.

Leading freight payment providers are investing in powerful transportation management systems and other tools that they can provide piecemeal to shippers as they need it. "With this approach, shippers don't have to invest in 10 applications when they only need two," says Lynch. "Freight payment providers can offer a menu of modules," with charges built into shippers' transaction fees.

While some shippers have begun to invest in their own freight transportation management systems and brought freight bill payment in-house, others are finding a better value in purchasing transportation management services à la carte, or combining an in-house TMS with outsourcing for the back end of the transportation cycle.

A freight payment/supply chain provider's value-added information services may include freight data consolidation, EDI, manual entry, imaging, freight bill processing, bill convergence, dispute resolution, carrier selection, order management,

event management, shipment tracking, pre- and post-freight bill audit, claims management, and load optimization, as well as benchmarking, modeling, and dashboards. Freight payment providers can make real-time data available via a Web portal, and integrate with shippers' back-end systems.

The Right Formula

Shippers use freight bill providers in myriad ways. Some combine their services with internal capabilities, and those of 3PLs and other supply chain providers, to hit on the right formula for cost cutting and control.

Even those companies that have moved to self-payment of freight bills – negotiating rates with carriers and generating their own payments based on proof of delivery rather than waiting for an invoice – are using freight payment providers to make the calculations or to generate the check. Freight payment outsourcers run the gamut from small shippers to multinational firms, and across all vertical markets.

"Unlike other logistics services, outsourcing freight payment demonstrates a clear return on investment," says Lynch. "As industry tries to get more lean, freight bill

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payment is one place they can look.”

Maximizing the benefits freight payment providers can offer, however, requires diligence on the part of the shipper. A rash of bankruptcies and less-than-honorable business practices uncovered in 2003 left some wary of trusting third parties with their freight payment cash, but it also served to weed out poorly managed operations, notes Lynch.

Still, shippers are advised to thoroughly vet potential freight bill payment partners.

“I recommend that shippers research their potential partner’s experience and the resources they have to support the

business, check out their financial stability, and make sure they’re able to operate in the different regions your company operates in,” says Gonzalez. He also advises talking to current customers who can point to real benefits.

Even shippers who process their own freight bills are beginning to turn to outsourcers who can demonstrate secure process controls to ensure Sarbanes-Oxley compliance. “Shippers need a clear and accurate picture of financial accounting,” says Gonzalez. “It’s crucial for compliance.”

Technology offerings vary among freight bill payment providers, so shippers must ensure their chosen partners

can furnish the reporting and analysis tools they’re seeking.

Moving from paper-based to EDI and other electronic freight bill payment processes also helps boost payment accuracy and reduce the administrative load, no matter who handles the payment reconciliation process.

“The learning curve is still moving in this industry,” says Lynch. “Many companies are just now catching on to the advantages of outsourcing freight bill payment and audit.”

Still not convinced? The following case studies illustrate the benefits that leading freight payment providers bring to outsourcers. ■

NATIONAL TRAFFIC SERVICE

Service Plus Software

You may know that National Traffic Service invests thousands of dollars in creating and upgrading its state-of-the-art carrier rating software to support its industry-leading freight audit and payment services. What you may not know is that the same software is available to those who choose to process their payments in house.

That’s just the tack WestPoint Home, a 200-year-old premier manufacturer and marketer of bed and bath home fashions, took to manage the 2,000 to 3,000 truckload and less-than-truckload invoices it processes each month.

“The majority of our clients want freight audit and payment as a service, but some companies still choose to manage freight bills in-house,” says Garry Oswald, vice president, sales and marketing for National Traffic, Amherst, N.Y.

WestPoint had tried outsourcing freight bill payment to another provider, “but it didn’t work out well,” notes Denisa Bell, freight payment supervisor for WestPoint. “We book directly to our general ledger, and it was hard to get other people to understand how invoices need to be processed.”

But the company still needed to replace its manual operations, which were managed by two full-time staffers. So it made sense to invest in a system that could efficiently manage payments and include the latest technical developments and updates, such as fluctuating carrier rates and fuel surcharges. National Traffic

Service’s mainframe system processes 800,000 freight bills each week, representing more than \$40 million in freight expenses for its 200-plus outsourcing clients. The company’s PC-based freight payment solution includes the same capabilities.

WestPoint’s wish list included EDI capability, quality training and support, sophisticated reporting, and seamless integration with its current in-house accounting and shipping systems.

“National Traffic Service’s *TrafficPro* software is report-friendly,” says Bell. “We can easily pick a field and define records.” Other query types include carrier, account code, customer, vendor, and shipping lane.

WestPoint uses reporting to benchmark, forecast, and analyze all aspects of its logistics expenses to discover cost-cutting opportunities at its facilities – the same methodology National Traffic used to save its customers more than \$40 million in potential overcharges last year.

“We can tell in minutes how many times a vendor ships to a facility or a customer, and consolidate those shipments,” Bell says. With the system automatically matching payments to invoices, Bell and her colleagues can spend their time addressing exceptions and performing analyses.

“The freight bill payment company we used previously charged us by volume,” she says. “Some weeks we paid more, some less. With this system, we know exactly what our costs are.” National Traffic also sets up EDI relationships on behalf of *TrafficPro* users.

Shippers choosing in-house payment can also benefit from National Traffic’s 51 years of experience by tapping into the same technology used to process their own bills – performing less work, saving money, and accessing a complete database of logistics information for future reporting, trend analysis, and carrier negotiations.

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CASS INFORMATION SYSTEMS

Leveraging Data for Insight

The secret to controlling freight costs is knowing how freight dollars are being spent. Using a third-party freight bill audit and payment provider is one way to easily attain visibility to freight spending across the entire company.

That was the strategy behind Rock-Tenn Company's decision to turn to Cass Information Systems, St. Louis, Mo.

"We had just centralized our freight management processes and wanted to gain a better understanding of freight spend and manage rising costs," says Chris Cavin, director of transportation for Rock-Tenn, a packaging firm that maintains 85 sites, all making their own shipping choices for lanes across the United States using individual accounting systems and codes.

"We wanted a complete understanding of freight spend, and the impact of lane usage and fuel costs," Cavin adds.

Cass software was already in place at five plants the company had acquired, and came out on top through Rock-Tenn's RFP process. Rock-Tenn also liked Cass' extensive reporting tools with customized views providing deep insight into shipping patterns and sources of excess cost.

Shippers also find such records helpful in attaining Sarbanes-Oxley compliance.

"As a publicly traded bank holding company, we are subject

to Sarbanes-Oxley and other regulatory institutions requiring additional audits and security," says Tom Zygmunt, manager of marketing and business development for Cass. "That's a big difference between Cass and other providers."

Cass developed a customized solution, including a 100-page report documenting Rock-Tenn's processes, standard operating procedures and rules of engagement. It integrated its services with Rock-Tenn's financial software, creating a three-way match for every invoice. "We communicate with the trading partner, they send back a tender, we send it to Cass, who rates it and sends it to us," Cavin explains.

Cass handles both truckload and LTL payments for Rock-Tenn, as well as parcel – a growing area of interest for many customers. Cass is also expanding its international services for domestic companies operating in Europe.

The project unified Rock-Tenn's business processes and established EDI invoicing and payment relationships with 25 percent of its carriers to date. "We knew we'd save in bill processing costs, but our main objective was to standardize and improve processes," Cavin says. "The cost savings are definitely there, and the audit savings easily cover what Cass charges us."

The implementation made it easier for Rock-Tenn to deploy a transportation management system, integrated with the Cass system. "Cass does a good job developing technology specifications for new processes, and advising us on industry best practices," Cavin says.

Rock-Tenn is more than pleased with the Cass system since its implementation in December 2006, and particularly with the standardization of business processes and enterprise view of shipping activity. "It has been a great tool for us," Cavin says.

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CT LOGISTICS

A Wide Breadth of Solutions

Shippers often need help managing the auditing and processing of freight bills. But many also need help finding ways to drive those costs down and make more intelligent supply chain decisions.

Those needs are behind the full-service approach at CT Logistics, whose three divisions – The Commercial Traffic Company, a third-party freight audit and freight payment firm; Commercial

All Freight Payment Services are Not Equal!



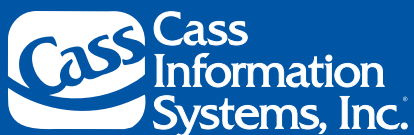
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Transportation Services, which develops, sells, and supports its *FreitRater* software; and Commercial Transportation Management Services Inc., a 3PL offering on-site freight under management, inbound freight coordination, control, and dispatching. The company is based in Cleveland, Ohio.

Chalfant Manufacturing, a mid-size manufacturer of loading dock equipment, faced just those sorts of challenges. Chalfant ships LTL to its dealer and end-user customers across the United States, but volume wasn't high enough to qualify for favorable carrier rates.

The company was already using CT Logistics to provide pre-audit and payment services for its shipments, so it was the logical choice to help Chalfant negotiate better rates. Chalfant enrolled in CT Logistics' TranSaver co-op buying program that lets companies leverage their collective freight tonnage and revenue to obtain premium discounts and rates. CT maintains relationships with 24 carriers who bid on the combined business.

Along with freight audit and payment, the quick-response bid service means CT saves the manufacturer considerable freight costs. Pre-audit and freight payment customers have historically saved more than \$6.50 per one dollar of service fees paid, based upon audit savings, duplicate payment detection, and administrative time, which amounts to a 550-percent return on investment.

Such a broad array of services means CT Logistics customers can attain these savings in the way that makes the most sense. For example, some choose to outsource freight payment, while others elect to perform this function in-house. CT Logistics enables these customers to buy the same *FreitRater*

software they use internally, the way they want to buy it: licensing it, hosting their own instance of the software at CT's data center, or providing software via the application services model, for example. *FreitRater* software customers typically recognize a quick two to three month ROI on their initial software investment based upon the use of the system's Least Cost Carrier rating and routing capabilities.

"The spectrum of how much or how little service we provide is up to the client," says Allan Miner, president of CT Logistics. "We're not a cookie-cutter company. We customize processes to fit each client's needs."

CT also offers access to its transportation management systems, relieving customers of the cost of purchasing the software while enabling them to seek favorable carrier rates.

Clients such as Chalfant also access very detailed reporting to better anticipate and control their freight bills. Demand is also up for analysis of accessorials and data mining to better understand spending and pinpoint areas for improvement.

The pre-audit and payment processing services also cleanse shipment data, so clients get an accurate picture of their costs. "Clients tell us they see a two-percent savings after due diligence," Miner says. CT Logistics also offers consulting services to further drive savings, rounding out the company's full-service product suite.

TECHNICAL TRAFFIC

Maintaining a Tight Focus

Eighty percent of Technical Traffic customers come to the freight pre-audit and payment firm after trying another provider. Few leave, and it's not uncommon for those who do to come back.

The difference comes from a laser-like focus on the job at hand. "We have no ties to a third party, we're not interested in controlling freight or influencing payment, we're not brokers," says John N. Mecchella, Esq., president of Technical Traffic, based in Congers, N.Y. "Under Sarbanes-Oxley, that's a conflict of interest." The company is compliant with the SAS 70 auditing standard.

Instead, the company has 185 employees, including nine full-time programmers focused on pre-audit, reasoning that quality pre-audit

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negates the need for post-audit.

The high level of scrutiny that helps Technical Traffic execute on that mission appeals to Scholastic Corporation, New York, which needed to improve its visibility and management of freight bills for parcel shipments to international containers.

"We worked closely with Technical Traffic to put controls and measures in place to address those issues," says Scott Eber, director of global logistics for Scholastic. Technical Traffic devised a custom solution to meet Scholastic's needs, including Internet reporting designed to meet the publisher's specs.

"We use the Web site religiously for reporting and analysis of freight bill patterns," says Eber. Scholastic also occasionally uses Technical Traffic's benchmarking service to confirm that it is attaining the best possible rates for its shipments.

Customization extends to payments; payments to carriers are never commingled with those of another client and are timed according to individual needs. Each account is assigned to a processing team that consists of a supervisor, senior and assistant team leaders, and audit, clerical, and data entry personnel. This team is charged with the responsibility of not just paying a customer's freight bills, but also understanding their unique needs.

Another distinguishing feature is the legal perspective that Mecchella brings to Technical Traffic's clientele, helping them understand that transportation remains a regulated industry. Mecchella also seeks to help them gain a deeper understanding of issues such as contracts, which need to be structured in specific ways. Services may include drafting of the addendum.

In addition to legal advice, Technical Traffic offers customers a variety of logistics consulting services, both domestic and international. Technical Traffic's in-house transportation attorney enables the company's heavy emphasis on regulatory law.

Technical Traffic clients typically save three percent to five percent on freight bills. But perhaps the biggest benefit is alleviating the burden of staying educated on freight payment issues and how to best process them.

nVISION GLOBAL

Tapping a Global Footprint

As business grows increasingly global, so too must the reach of freight audit and payment firms. Maintaining a physical presence across the globe is a priority for nVision Global Technology Solutions, which has rebranded from its prior identity, TSI Logistics, to place that emphasis front and center.

As an international company, telecom giant Alcatel-Lucent shares that perspective. The company's Enterprise

Solutions Division does heavy volume with Hong Kong and maintains a large export business, in addition to domestic traffic. Alcatel-Lucent taps all modes - from air to ocean to LTL and parcel - and needs a freight audit and payment firm that can support that breadth.

The ability to analyze costs is essential to clients such as Alcatel-Lucent. To enhance that capability, nVision, McDonough, Ga., recently debuted a powerful, state-of-the-art iDashboard that includes global mapping, so users can see graphic representations of their supply chains, then drill down into maps to activate reports and graph trends.

"It gives you the whole picture - a snapshot of what is going on that week," says Omar Jubran, Alcatel-Lucent's logistics manager. "You can look at freight expenses from all angles, and determine your heaviest, most expensive lanes. Then you can import as a PDF or Excel file and create reports."

Such capabilities help nVision Global stand apart, Jubran says. "Any company can do freight payment. But nVision provides the tools to dissect and examine my costs in many different ways."

iDashboard enables clients to gain a full view of their transportation expenses and patterns, allowing them to streamline and optimize their supply chains, from major mode change decisions to finding out the company is shipping separately, overnight, to two floors in the same building. Solutions are customized to each client's specific needs.

nVision also provides consulting services. Jubran is currently engaging the firm to advise on open bidding to freight forwarders and carriers, helping the company do rate comparisons. Consulting services also include benchmarking, rate negotiation, warehouse location studies, and load planning and optimization. In addition, the company offers brokerage services, loss and damage claim software, and modeling applications to enable clients to do what-if scenarios related to transportation history or payment. nVision Global also markets logistics and supply chain software.

"Some companies using various freight payment providers have this data segmented," says Keith Snavelly, vice president of sales for nVision Global. "We're a single source for all data, so companies can better optimize their supply chain with a more global view."

"Savings are a big part of the solution," says Jubran. "In the freight business a carrier can quote a rate, but that's just part of the price. The rest are accessorial charges. nVision controls the charges via contracts with carriers, and if a rate seems out of the norm, they get backup paperwork or seek my approval before payment."

nVision Global also prides itself on a high level of customer service, which it maintains by catering to a relatively small roster of 120 clients. It's a goal Jubran can attest has been reached.

"nVision Global is highly refined and responsive. Its people excel at providing the data I need," Jubran says.