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Freight audit and payment companies help shippers find the hidden cash in their supply chains by eliminating overbilling, and paying invoices accurately and quickly.

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Only one in 10 freight invoices is accurate, according to Rick Erickson, global director of Freight Payment Solutions at Minneapolis-based U.S. Bank.

And, as a result, thousands of shippers around the world are leaving money on the table.

This loss in profit is understandable, to a degree. After all, the payment and auditing of invoices can be a complex and confusing process — from product classification coding, to duplicate billings, to detailed general ledgers.

But, thankfully, there is a solution: Shippers can partner with freight bill audit and payment (FBAP) firms to automate their processes, thereby auditing 100 percent of invoices prior to payment.

“Our customers realize a two- to four-percent savings in monthly freight spend by catching invoice errors with our prepayment audit,” Erickson says.

Allan Miner, president of Cleveland-based CT Logistics, and Ken Hazen, president and CEO of Memphis, Tenn.-based CTSI-Global, agree, noting that shippers can save anywhere between two and 15 percent of their total freight expenditures by outsourcing their audits.

“And, another eight- to 10-percent savings is possible from benchmarking rates the first year that shippers outsource,” Hazen adds.

The most considerable savings — the use of data captured by outsourcers’ analytical tools during the freight audit process — is not as obvious.

“Shippers that successfully capture all of their invoice details, including the breakdown of the charges, and then match that data with their shipment data, can leverage

this combined dataset and transition freight from a tactical necessity into a strategic asset,” says Shannon Vaillancourt, president of Madison, Wis.-based RateLinx.

“The savings that shippers receive from correcting overbilling mistakes is dwarfed by the savings they can receive through the strategic use of the data,” he adds.

ECONOMIES OF SCALE

Shippers’ outsourcing initiatives, whether they are hiring FBAP firms or other logistics services providers, have increased recently. In fact, according to Capgemini Consulting’s *Annual Third Party Logistics Study*, 72 percent of shippers surveyed augmented their use of outsourced logistics in 2015. And, 36 percent of their total logistics expenditures were related to outsourcing.

Yet, many shippers, particularly outside the United States, are still not taking advantage of the wide array of benefits that FBAP firms can provide. Approximately 60 percent of U.S. firms outsource their FBAP projects, according to Hazen. Internationally, that figure drops considerably — to roughly 10 percent.

“I encourage more shippers to take advantage of a third-party FBAP firm’s economies of scale, as well as their extensive audit capabilities, data capture, and robust analytical tools,” says Keith Snavely, senior vice president, global sales and marketing of McDonough, Ga.-based nVision Global Technology Solutions, Inc. “The data protection that third parties provide is

one of the primary benefits of their services, especially when shippers have a sizeable volume of invoices.”

Throughout his career in logistics, Tom Zygmunt, manager of marketing and business development for St. Louis-based Cass Information Systems, has personally witnessed the following benefits that FBAP firms provide to their clients, in addition to data protection:

■ **Lower processing expenses.** The cost to process an invoice through internal payables systems ranges between \$4 and \$10. “But with an FBAP firm performing the payment and reporting functions, the internal expenses associated with paying freight invoices are significantly reduced,” Zygmunt says.

■ **Fewer overcharges.** Aside from the costs related to invoice processing, accidental duplicate payments can account for 0.5 to 1.5 percent of shippers’ transportation expenses, according to Zygmunt. But these expenses are eliminated entirely through the assistance of FBAP firms. Zygmunt has also found that FBAP firms’ pre-audit services provide shippers an additional one- to five-percent reduction in expenses.

■ **Information for transportation management.** “The information that FBAP firms provide — including carrier usage, customers, and traffic lane data, as well as accounting information that allows shippers to be proactive in managing their expenses — can further reduce transportation expenses,” Zygmunt explains. “This data helps not only in shipment planning, but also in carrier negotiations. By actively managing this data, FBAP firms can lower shippers’ expenses by another 10 to 15 percent.”



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■ **A twofold process.** “As shippers pay their freight invoices, their need is twofold,” Zygmunt says. “First, they require proper documentation for the payment process. Second, they need to report their transportation costs and configure their accounting systems. Outsourcing to FBAP firms fulfills both those needs.”

FUNDAMENTAL AND STRATEGIC

“Automated freight payment and audit is a fundamental, strategic component of a competitive supply chain,” Erickson says.

By outsourcing this function to FBAP firms, shippers will reap the following additional benefits:

■ **A single solution.** “Outsourcing to an FBAP firm enables a single freight payment and audit solution for all transportation invoices, which provides visibility across different units and geographies,” Erickson says.

■ **Payment extension.** FBAP firms offer innovative cash management solutions that allow shippers to extend their payments for up to 90 days — without having to renegotiate terms or negatively affect their relationships with carriers.

■ **All modes considered.** FBAP firms not only uncover savings for their clients through a 100-percent prepayment audit of invoices, but they also provide these services to every transportation mode, from ocean, to air, to LTL.

■ **Online collaboration.** “FBAP firms enable shippers to act upon strategic supply chain opportunities while collaborating online with carriers to process, pay, and quickly resolve exceptions,” Erickson says.

Aside from the cost savings, collaboration, and visibility that outsourced FBAP

services provide to shippers, one primary benefit stands alone: the data itself.

“Business intelligence reporting and metrics are delivered to clients via graphic, actionable data so that they can react quickly to their changing logistics needs,” Miner says. “This data is real-time, and typically delivered weekly, allowing for quick action on specific areas of concern.”

As FBAP firms receive data from carriers, enterprise resource planning (ERP) systems, and suppliers, they can quickly consolidate this information and provide it to shippers.

“Outsourcers’ business intelligence capabilities enable shippers to obtain instant access to data, identify any developments in their logistics operations, and then make proper business decisions based upon this data,” Hazen says.

Vaillancourt agrees this data allows shippers to verify whether or not their cost estimates are accurate, which helps them improve their budget projections in the future.

“The freight audit services provided by FBAP firms are the final pieces of the puzzle for a shipper,” he says. “By using these services, shippers can capture their actual costs, compare them to their shipping systems’ estimated costs, and then see how they are complying with their own internal rules.

“By capturing the actual costs from their invoices, and comparing them to their transportation management data, shippers can verify that the estimates used during the routing phase are accurate enough that they do not affect the transportation management system’s carrier choice.”

As shippers seek potential partners to assist them with their FBAP initiatives, they

should also consider a variety of intangibles, including the financial stability and security of the firms they are most interested in.

“While cost is an important factor in shippers’ outsourcing decisions, an FBAP partner’s lack of financial stability can produce unexpected costs that far outweigh the false savings of a low-price provider,” Zygmunt warns. “When shippers consider the large dollar value of the transactions being processed, the financial stability of firms, along with the security they provide, should be key factors in the outsourcing decision.”

ISO METRICS

Miner explains that this security can be proven through firms’ audited financial statements and International Organization for Standardization (ISO) certification, including ISO 9000 (quality management), 31000 (risk management), and 27001 (information security management). Firms should also have annual Service Organization Control (SOC) 2 Report reviews, and a \$1-million Employee Dishonesty Bond, at minimum.

“It is also important that FBAP providers are not dependent upon only a few people for business continuity,” Zygmunt says. “The firms should be large enough that they can continue to provide adequate services in the midst of employee turnover.”

The FBAP firm’s personnel should be well-versed in the transportation industry, as the audit, payment, and information processing of freight invoices should not be their only core competency.

“With industry experience in implementing complex processing systems, firms are also able to meet the unique

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internal requirements of large companies,” Zygmunt adds.

Global scalability is also important in this day and age of constantly evolving technological applications.

“FBAP firms should have full-service processing centers around the world to not only fulfill shippers’ regional requirements, but their global requirements as well,” Snavelly states. “To do so, firms must be bonded, and use a single application to process on a global scale.”

FBAP firms’ technology should also be scalable and continuously enhanced. As

a further sign of stability, firms must also have the financial resources required for regular technology upgrades.

“By utilizing proprietary software that performs freight accounting metrics, including coding, editing, and validation within their own processes, FBAP firms can eliminate the shipper’s need to perform such functions within internal accounting departments,” Miner says.

In addition to the comprehensiveness of their software, Miner says FBAP firms’ shipper data and business intelligence reporting should be accessible online, 24/7. The firms’

sites should also include standard and ad-hoc reports, client-driven report scheduling, and onscreen and email report delivery.

Furthermore, firms should scan all hard copies of carrier invoices, and provide shippers online access to the images for at least seven years. The images should also be available on DVD and CD.

“At times, shippers’ freight bills, which require client approval, will need to be edited—an in-process function that should be completed online, 24/7, either by the carrier or the shipper, and accessible on FBAP firms’ websites,” Miner says. “The

PARCEL SHIPMENT AUDITS: E-COMMERCE GETS ON BOARD

Online sales totaled \$304.9 billion in 2014, an increase of 15.4 percent, when compared to 2013’s aggregate, according to the U.S. Department of Commerce.

And the growth of the e-commerce industry is even more apparent upon further review of prior statistics—for example, in 2004, online sales “only” totaled \$72.3 billion.

“E-commerce business has exploded, and, along with it, so has the use of parcel carriers to deliver goods to individual purchasers,” says John N. Mecchella, Esq., president of Congers, N.Y.-based Technical Traffic. “As a result, the volume of shipments made—and the dollars spent by shippers using parcel carriers—has risen dramatically.”

At the same time, the average size of overall shipments has decreased, while the average cost per pound of transportation has increased.

“Due to this rise in volume, scrutiny is also increasing,” Mecchella explains. “Consumers have become accustomed to ‘free’ shipping, along with some additional costs if they request a priority service. In many instances, these costs, along with unexpected accessorial and dimensional weight charges, create a sale that is marginal,

at best, to the shipper. Therefore, today’s audit of a parcel shipment goes well beyond validating the zone and the negotiated rate.”

In response, Mecchella believes FBAP firms should be capable of performing an analysis of opportunities within a shipper’s existing shipping methodologies to help secure soft savings—savings resulting from a change in shipping practices, coupled with an understanding of the accessorial charges that influence costs.

Because the U.S. Department of Commerce projects e-commerce sales will continue to rise by 12 to 15 percent annually until 2017, Mecchella also says shippers will benefit from data-driven perspectives on parcel costs, especially if they are interested in profiting from this continuous increase in sales.

“By understanding the true cost impact of certain avoidable accessorial charges, or the increased dimensional weight costs of overpacking an item, shippers can potentially reduce their freight as a percent of sale,” Mecchella says. “This allows shippers to be more profitable and competitively sharp in the increasingly popular world of e-commerce.”



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images of the freight bills, along with all supporting documentation to resolve the issues being questioned, should be easy to view, too, so that errors can be fixed quickly.”

TOP-NOTCH CUSTOMER SERVICE

“While all firms provide some type of customer service support, the depth of that service, along with the supporting processes, separate some firms from others,” Zygmunt says. “This depth of support is crucial when shippers seek outsourcers to fulfill their FBAP services.”

To provide the best customer service possible, FBAP firms should also field all carrier payment calls, meet with carriers to resolve issues, and create efficiencies that benefit

both carriers and suppliers. And, FBAP firm staff members should be committed to maintaining outstanding relationships with carriers and suppliers alike.

“Firms should also have the ability to audit all modes of transportation for shippers, including parcel shipments,” Miner says. “And they should meet carriers’ requirements to obtain refunds for late delivery shipments that are manifested, but not moved; provide address correction; and break down all miscellaneous charges.

“In doing so, certain firms still stand out from the crowd as shippers determine which providers best meet their FBAP needs,” he adds.

Overbilling is one main cause of budget

deterioration, and is a primary concern of shippers as they outsource FBAP services. Yet, due to firms’ rate management systems, which should be customizable to shippers’ unique requirements, audits are 100-percent prepaid. In addition, shippers and carriers are allowed to collaborate online to approve and pay invoices. The result: complete elimination of overbilling.

“Accurate and up-to-date processing and business intelligence systems are key to freight invoice processing and payment,” Zygmunt notes. “To prevent overcharges and eliminate duplicate payments, these systems must be kept current with carrier prices. They should also be able to rate shipments.”

INVOICE ACCURACY: PART AND PARCEL OF THE JOB

As a result of the increasingly complex nature of small parcel shipments, it is difficult for shippers to ensure their invoices are accurate and timely as they fulfill their commitments to carriers.

“High volumes and multiple surcharges, along with contracted delivery guarantees and limited access to information, result in a complicated invoicing process that’s rife with potential opportunities for inaccurate and unnecessary costs,” says Rick Erickson, global director of Freight Payment Solutions at Minneapolis-based U.S. Bank.

To take control of parcel expenses, high-volume, small parcel shippers are now seeking complete visibility into their parcel usage and expense details. Parcel invoice auditing—at the package level—provides this visibility.

“Best-practice management in the parcel payment process hinges on the ability to extract and audit line-item data on actual parcel shipments and costs,” says Tom Zygmunt, manager of marketing and business development for St. Louis-based Cass Information Systems. “The more data that

can be extracted, the greater the ability to audit and analyze costs to uncover savings opportunities.”

Through line-item data, shippers can then allocate these costs to the proper general ledger accounts, resulting in more accountability at the transactional level, according to Allan Miner, president of Cleveland-based CT Logistics.

To remove the complexity from small parcel audit and payment, Erickson believes FBAP firms should also offer the following services:

- Fully automated solutions that track and report delivery performance
- Pre- and post-payment audits
- Cost recovery automation—without manual intervention
- Identification of incorrect addresses and location coding, thereby preventing repetitive fees
- Invoice processing and payment
- Identification of cost savings opportunities with real-time, dynamic reporting that provides industry-leading visibility into shipment details

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Hazen also advises shippers to build matrix systems to properly manage cash and receivables, so that they do not pay providers too soon or too late. Snavelly agrees, adding that invoices should be aged to the negotiated payment terms so that providers receive payments on or before their due dates.

“By utilizing third-party providers, shippers can ensure timely invoice processing and payment through advanced systems,” he says.

Negotiating Terms

Aside from using rate management systems, shippers can also negotiate with their carriers.

“As shippers negotiate contracts, rates, and tariffs, they can discuss ways to minimize rate structures and diminish accessorial, potentially reducing overbilling issues even further,” Snavelly states.

In the meantime, FBAP firms should also address the ways in which transportation costs vary by mode and industry. Firms should not only have expertise in a variety of industries, according to Zygmunt, they should also understand the rate structures for different types of carrier modes.

Web-based analytical tools are critical as well. “FBAP firms should be adept at identifying the line-item detail costs that shippers incur—and then better manage these costs through each of their analytical tools,” Snavelly adds.

The process of choosing an FBAP firm can be challenging. After all, as competition increases, firms throughout the United States are improving their technological capabilities, financial stability and security, and customer service. But as

suppliers conduct their searches, Hazen advises them to consider outsourcing to firms that have multiple capabilities, such as LTL, TL, small parcel, ocean, and rail, along with the audit of domestic and international bills.

“The ability to capture data from all modes and countries, and then combine this information into one common database, is paramount to success,” he says.

At the same time, firms should also allocate freight expenses down to shippers’ specific account codes, including, but not limited to, their departments, products, and stockkeeping units.

“FBAP firms should know how shippers

handle their funds and when carriers get paid,” Erickson says. “And they should conduct audits before payments so that money does not have to be recouped later on.”

Firms should also enable shippers to interact more collaboratively with their carriers. This collaboration will become increasingly important in the future as the supply of drivers continues to decline. In fact, due to a combination of fewer candidates and more rigorous Hours-of-Service rules, the transportation industry is expected to have a shortage of roughly 240,000 drivers by 2022, according to the American Trucking Associations.

“This undersupply will provide carriers

TMS REIGNS SUPREME

As a whole, transportation management systems have had a positive impact on the FBAP industry, especially in recent years.

“Due to the numerous options that TMS provides, shippers of all sizes can now afford to implement solutions and reap the benefits of not only TMS functionality, but also integrating TMS data in the freight payment process,” says Craig Cameron, vice president of sales and marketing at Memphis, Tenn.-based A3 Freight Payment.

According to Cameron, shippers can use the electronic source data that TMS provides in a variety of ways, including, but not limited to:

■ **Invoice verification.** “By ‘matching’ freight invoices to TMS source data, shippers can reliably authenticate each invoice,” he says.

■ **Elimination of paper invoices.** TMS data enables shippers to transition from paper invoicing to electronic data interchange (EDI) invoicing, as the source data eliminates the need for traditional paper documentation, such as a bill of lading.

■ **Data validation.** “TMS can be used to validate a wide array of data elements for audit purposes, including class, weight, origin, and destination,” Cameron adds.

■ **Enhancement of data reporting.** “By combining TMS data elements and freight payment data into one reporting system, shippers can also enhance their data reporting capabilities,” he says. “They also enable accrual reporting.”



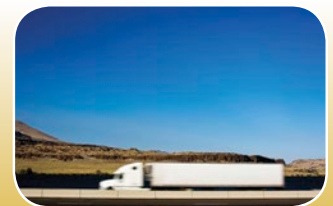
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more choices as they accept freight from shippers,” Erickson states. “Naturally, they will be attracted to the shippers who can work with them collaboratively and transparently. The extent to which firms help shippers become more collaborative and

transparent will be crucial in positioning them as ‘shippers of choice.’”

MEETING SHIPPER REQUIREMENTS

The value of firms’ global presence cannot be overstated. According to Snavely,

firms should have multilingual staff members, as well as extensive data capture, imaging technology, and robust exception and collaboration tools that accommodate shipper requirements as they perform their services and interact with carriers worldwide.

“For most shippers, a global solution is necessary,” Snavely explains. “To understand currency and time zone conversions, and effectively communicate with employees and carriers that speak other languages, FBAP firms should have brick-and-mortar, full-service processing centers around the globe.”

Miner also believes that experience counts, advising shippers to hire seasoned firms with proven track records over multiple decades.

Vaillancourt stresses the significance of technology. “Shippers should partner with FBAP firms that truly have the technology required to do the job, as well as the technical expertise on staff to make any enhancements or customizations that are required to implement shippers’ unique rules,” he says.

“Shippers should ask themselves: Do the firms have transportation management systems that are capable of rating all of invoices to ensure accurate payment? And can they perform the analytics that are required to help develop strategies to see beyond the data—and find the savings they’ve been looking for?” he adds.

GLOBAL DATA WAREHOUSE

As more shippers continue to realize the ways in which third-party providers can positively influence their bottom lines, the outsourcing of FBAP services is steadily rising.

INTEGRATION STATION

Although transportation management systems (TMS) provide various benefits to shippers—in particular, an efficient way to determine optimal transportation costs, delivery times, and service levels for shipments—they can be complex to maintain.

“In our experience, shippers who rely solely on their TMS to manage freight bill audits operate at a disadvantage,” says John N. Mecchella, Esq., president of Congers, N.Y.-based Technical Traffic. “When they only use a TMS audit to directly pay carriers, either internally or by outsourcing to third parties, they lose the advantages they would have acquired if carriers had been obligated to submit invoices based on contractual rate agreements.”

Not only are the checks and balances that exist—by having independent pre-audits performed against carrier-rated freight bills—lost, but the TMS audit function must also be supported with a carrier settlement process to reconcile any differences.

In addition, within many companies, TMS does not support all shipping activities, as logistics data can be fragmented at times and data consolidation is typically difficult to support.

The solution? Shippers should consider hiring FBAP firms to help alleviate the burden of managing this data.

“By coupling an existing TMS with an outsourcer that submits freight bills, shippers dramatically reduce administrative TMS expenses, and virtually eliminate and overpayments to carriers,” Mecchella says. “In addition, the accounts payable process is enhanced by the handling of freight payments, as well as the full reconciliation of carrier payment issues.”

The integration of shippers’ pre-existing TMS and ERP systems with FBAP firms’ services provides holistic views of transportation activities, as shippers also maintain accurate audits of their freight expenses.

“This integration also provides shippers cost allocations to item levels and highly accurate, independent freight accruals, among other benefits,” Mecchella adds.

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“Third-party providers offer a much greater volume of data,” Snavely says. “First, providers’ web-based analytical tools streamline and help customers save money on their supply chains. Second, third parties perform their services on a global scale so that shippers can expand their operations without worrying about the payment of invoices, foreign currencies, or language differences.”

For effective supply chain management, shippers will be looking to increase their visibility into global transportation spend as they continue to expand throughout the world. And the single best source for gaining this visibility, according to Zygmunt and Miner, is a robust, best-practice, global FBAP provider that has a presence in the

core geographic regions where the shippers operate.

“As businesses execute strategies that entail expansion in regions such as Latin America, nearshoring in Mexico, or even moving production back to the United States, there will be considerable supply chain impacts,” Erickson says. “Therefore, shippers are looking for third-party providers to partner with them as their strategies shift, understand their business operations, and work alongside them as they implement any necessary changes.”

Aside from having full-service, worldwide facilities to process, audit, and remit payment on a global scale, shippers are interested in receiving a single, global data warehouse of their transportation activity.

“This global data warehouse helps shippers easily review their financial figures, while also decreasing their costs of conducting business — two of the underlying reasons why shippers look to outsource in the first place,” Snavely explains.

CONSTANT EVOLUTION

Shippers are constantly evolving, whether they are moving into new markets, acquiring new companies, or adding parcel, carrier services, imports, or exports. And FBAP firms should react accordingly.

“FBAP firms should be responsive and collaborative, as they work alongside shippers to make this evolution as seamless as possible,” Erickson says.

This evolution began around 2007, as the global economic recession forced shippers to add further services at lower costs, according to Hazen.

“As shippers were poised to do more with less, they began to realize they wanted a single provider to perform their functions on a global scale,” Snavely says.

Information, and the ways in which it is provided to shippers, has also evolved throughout the past decade, as shippers have moved from the need for static reports to online reports, ad-hoc queries, dashboards, and business intelligence.

“This point in the evolution focuses heavily on analytics, giving shippers the ability to better predict changes to their supply chain, along with any costs that are associated with those changes,” Erickson explains.

This constant evolution in shippers’ markets and services, as well as information as a whole, reiterates Snavely’s focus on global data warehouses.

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Cash Is King

“Even though shippers’ average audit savings in North America vary between five and nine percent of their annual transportation expenditures, they are more interested in finding firms that perform FBAP services worldwide — and provide analytical tools to help them manage their global supply chains,” he says.

Vaillancourt believes that pricing pressures from carriers have influenced the evolution as well. “Shippers have to find a way to contain costs, while also providing a positive customer experience,” he says. “Consequently, the FBAP industry is beginning to be viewed more as a strategic service rather than a tactical settlement service.”

As strategic service providers, FBAP firms also use technology to further

automate the audit and payment process.

“This evolution includes data inputs and outputs, as well as the payment process, leading to an increase in business intelligence services such as reporting and benchmarking tools,” Zygmunt says. “And, as shippers’ interest in controlling global supply chain expenses continues to rise, the FBAP firms’ service offerings will only continue to increase as well, so that customer needs are met throughout the world.”

SIGNIFICANT SAVINGS

Unlike some industries, the 2007 global economic recession has, for the most part, had positive implications for FBAP firms providing outsourced services. And there are no signs that these effects on outsourcing will subside in the near future.

“Keeping the economy in mind, shippers will continue to outsource various functions,” Snively says. “Freight and auditing is a natural service to outsource as shippers look to further decrease their internal costs and realize long-term savings.”

Along with a reduction in costs, outsourcing also provides suppliers more time to focus on their core business activities, so that they no longer have to manage processes such as invoicing.

“FBAP firms offer technology and services that create value — by allowing shippers to concentrate only on their core businesses,” Snively adds. “Through the use of an FBAP firm’s products and services, shippers realize significant savings, even as their respective industries continue to evolve.” ■

DRILL DOWN TO DATA

While freight payment data unlocks key insights into operations, many FBAP companies fine-tune their services to allow for shippers to drill down even further. In response to customer feedback and requests, they continually develop new types of services, improve reporting capabilities, and add more revealing key performance indicators (KPIs). In fact, they customize projects for one customer and often offer that package to others for maximum benefit.

For example, Austin, Texas-based logistics IT service provider Fortigo receives frequent customer requests to conduct closed-loop audit services—cross-referencing freight data elements with corresponding information from their sourcing, visibility, or manifesting systems. While a freight invoice may seem accurate, cross-referencing can reveal discrepancies—for example, a service the shipper requested may be different from the service the carrier actually provided, calling for a chargeback.

Real-time reporting also tops the list of customer requests. This allows shippers to view KPIs online and drill down for more granular data, rather than waiting for periodic reports, notes George Kontoravdis, president of Fortigo.

Another common request is route optimization based on historical shipping data, which shippers can also use to improve the routing guides they issue to suppliers. “The freight audit process uncovers numerous findings shippers can funnel into their decision-making,” notes Kontoravdis.

“As a result, some freight payment companies provide a web portal for carriers to enter their invoices,” says Kontoravdis. “But carriers don’t like the double data entry, or potential for errors.

We developed a tool that enables carriers without EDI capability to export data from their accounting system, which streamlines processes and reduces errors and costs,” he adds.

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