White Paper

The Six Best Practices in
Freight Audit & Payment

Like many other groups within the organization, transportation and logistics are feeling the pressure to get more done in an increasingly complicated environment, while simultaneously finding new ways to control expenses and manage the movement of goods more efficiently.

A great opportunity for expense control and process improvement lies within the auditing and paying of freight bills. Well-designed, implemented and maintained systems and processes for managing freight bills produce significant benefits far beyond successful rate audits and on-time payments. They also provide the most accurate and in-depth data for required reporting and advanced analytical use.

Learn how to:

- achieve the most accurate invoice audits
- improve your percent of rated records
- eliminate duplicate payments
- improve accrual accuracy
- capture higher volumes of data for reporting and analysis
- schedule carrier payments at the optimal time

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Provided in this paper is a collection of best practices for the design and use of a freight audit and payment system. These apply whether you have an outsourced provider or process internally through a TMS/ERP or other type of system.

Unfortunately, the use of these best practices is not widespread, as evidenced by some startling facts in a 2010 American Shipper report. In a survey of American shippers, almost half of respondents gave their current method/system a grade of 'fair' or lower. This statistic is reinforced by the fact that almost half of $1B plus companies reported plans to implement a new solution within the next five years, while almost one third of medium-sized companies ($100M-$1B) did as well.

Many of these companies also reported their specific intentions to outsource the freight audit and payment process. This is the result of two trends occurring with in-house solutions. Like many types of systems that are not best of breed, TMS/ERP systems can rarely handle the complexity that companies are requiring of them. These types of freight audit & payment systems were quite possibly insufficient from the moment of implementation, or companies have outgrown the capabilities that once met their needs. Secondly, few companies with in-house systems are dedicating the resources necessary to keep up with their evolving operations. Too often, the longer an in-house audit/payment system is in place, the more it atrophies, and the more companies are realizing that a third-party – one who is committed to the care and growth of their system – can provide up-to-date solutions, ongoing development resources, and scalability.

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Getting to best practices may require devoting additional resources to system improvement or may necessitate the implementation of an entirely new solution. However you get there, your new practices will mimic those of North America's leading shipping organizations and propel your logistics organization to a new level of efficiency and performance.

Best practices include:

1. Maximizing the use of electronic invoicing
2. Investing in a highly developed and integrated matchpay system
3. Actively managing your freight rating system
4. Use of advanced duplicate protection controls
5. Taking full advantage of payment terms
6. Maximizing the value of the data

Maximize the Use of Electronic Invoicing

We have yet to meet a logistics group that doesn't have a long wish list of IT projects. But the initiative to move carriers to transmission of invoices and related documentation via EDI or other form of electronic invoicing is a project that should make the top of that list. Its effects are far-reaching and will quickly show a payback. In addition to achieving immediate process improvements, automated invoice receipt also sets the stage for improved outcomes throughout the rest of the process and beyond.

The benefits of electronic invoice receipt are many, including:

- Elimination of data entry (and the risk of input mistakes)
- Elimination of paper documents and filing
- Timeliness of invoice receipt (eliminating mail and processing time)
- More accurate and thorough audits
- Fewer freight bill exceptions which require manual review
- More efficient, detailed and accurate cost allocations
- Greater amount of data available for reporting and analytics

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The additional data captured from electronic invoicing is not trivial. Some of this data is simply not included on paper documents, while other data isn't a priority in data entry because of the excessive cost.

The quest towards greater automation in invoice document receipt requires a long-term commitment, willing carriers and internal technical support (or a proactive outsourced partner). When constraints within these areas make EDI impossible, any electronic format is better than paper and usually still achieves most of the desired results. Set out to use the highest level of automation possible.

Convert your highest-volume carriers first, and you'll make huge strides quickly. If you are torn between competing IT projects, this is a sound place to devote resources for quick results and obvious ROI.

Invest in a Highly Developed Matchpay System

Matchpay refers to the process of validating freight movements by matching invoice files to shipment files. In addition to validation, matchpay systems provide tighter processing controls, better quality and increased volumes of data, and expanded options for cost allocation at various levels.

A matchpay system should also offer tightly-controlled, rules-based processes to audit and account for different and sometimes complex scenarios – for example, handling pool shipments, stop-offs, milk runs, intermodal shipments, Rule 11, and a variety of industry-specific movement types. This, along with the ability to process multiple invoices against a single shipment (for situations such as balance dues or separately billed accessorials, for example), will result in fewer exceptions as well as an increased ability to understand total cost for multiple-invoice shipments.

Matchpay systems use more sources of data than non-matchpay. Greater possibilities, therefore, are created within the realm of business intelligence. Product data, for example, may be completely unnecessary for audit purposes but can be extremely valuable when captured for reporting and analytics purposes.

Our last comment on matchpay is that tremendous advancements in ERP and TMS systems in recent years have enabled parallel advancements in matchpay systems. As shippers gain unprecedented control over their supply chains and transportation expense, they are building matchpay solutions to handle more than just outbound shipments.

Some of today's most progressive shippers are leading the way, using matchpay controls for all their modes and for movement types including inbound and outbound for both domestic and international shipments.

Actively Manage Your Freight Rating System

A freight rating system is a necessary component of the larger system being discussed. Rating shipment records serves two main functions: enabling the audit of carrier invoices and generating freight accruals.

A rating system is only as good as the transportation pricing agreements whose data must populate this rules-based system. In other words, freight agreements need to be auditable, clearly and completely stating how freight charges are to be calculated. For example, if rates or accessorials are on a per mile basis, the agreement should state the mileage source, version and any parameters that may apply (trailer length, for example).

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Accurate and complete shipment information needs to be gathered and sent to the rating system. This can be tricky as well. If pricing is dependent on certain equipment, for example, then the shipment details sent into the rating system need to include equipment information. The ability to upload contract data will streamline the rate loading and rate maintenance process.

Rating for Accurate Audits

A rating system needs to produce audit-quality rating results. This calls for accurate calculations of freight charges at a line-item level with each charge component broken out separately. To produce these calculations, the system needs to be versatile enough to accommodate the various pricing agreements used within the organization.

Additionally, shipments should be rated twice – first when the shipment takes place and second when the invoice arrives. The first rating is based on the Bill of Lading and is done mainly for accruals, but sometimes for other purposes as well, such as pre-pay and add. The second rating is necessary because additional shipment details may become available – for example, the carrier may provide additional services such as unloading that were previously unknown.

The rated shipment record allows for an automated audit of the freight bill when it is presented for payment. Invoice amounts are systematically verified against a shipment's rated amount. Invoices that match within specified tolerance limits can be processed for payment without manual intervention. Only exception invoices will need further review. In reviewing exceptions, you will quickly discover which of your rate tables are outdated and incomplete, and then be able to correct those accordingly. Staying on top of this will continue to reduce exception occurrences and improve the quality of your accruals.

By passing shipment files through the freight rating engine, each shipment will have an associated recorded expense. Recording these as they occur, rather than waiting until payment is made, provides a more accurate picture of business liabilities. Because not all shipments made within a month will be paid in the same month, the rated shipment record forms your transportation expense accrual, allowing for financial management that adequately funds future liabilities.

Implement Advanced Duplicate Protection Controls

Freight carriers are commonly known for issuing duplicate bills for payment. For shippers receiving tens of thousands of freight invoices per year, it is almost guaranteed that duplicate invoices will slip through if advanced controls aren't in place to catch them.

The average freight auditing system includes controls to flag an invoice if the system finds an identical combination of carrier, pro number, and possibly dollar amount. The problem with this approach is that it's only partially successful. For instance, a carrier may reinvoice on an altered (using prefixes or suffixes) or completely different pro number. In these systems, that second invoice runs a very high risk of being paid.

Duplicate controls in most systems are only partially successful.

Best practice controls in duplicate protection include:

1. Expanding the logic to include additional data fields, such as Bill of Lading (BL) number, Purchase Order (PO) number, type of invoice (line-haul vs. balance due vs. separately billed accessorials), shipment date, and type of charge (service, accessorial, etc.).

2. Using sophisticated logic to detect "suspect invoices"–those in which data points match closely but not exactly. This provides the extra level of protection to detect anomalies in invoice numbering that could represent duplicate billings.

3. Setting up an invoice number data mask which enforces the pro number pattern for each carrier (including pro number variations). This is important to (1) know that you received or entered a valid pro number and (2) help determine when an invoice is a re-invoice or duplicate.

Of course, the use of a matchpay system as the first point of contact with the invoice, where each invoice is validated against shipment information, will provide the first and tightest controls against duplicate payments.

Take Full Advantage of Individual Invoice Payment Terms

Whether you are paying freight invoices in house or a partner is paying on your behalf, there is a decent chance that your payments are being scheduled based on invoice process date rather than due date. In other words, invoices are paid with complete disregard to due date. Two invoices processed the same day – consider an LTL invoice with 45 day terms and an ocean invoice with 10 day terms – will both be paid the same day.

Clearly, this setup is fundamentally flawed and creates real business problems. Early payments result in the loss of funds. Late payments can have a number of repercussions – the worst of them being a delayed movement or damage to a key carrier relationship. An inability to expedite payment – or having to spend hours figuring out how to circumvent the system – is incredibly frustrating.

Carrier payments need to be made according to the terms for each individual carrier – and sometimes even according to the needs of one particular invoice. Also note that before payment scheduling can take place, a system must be able to differentiate on when the clock starts ticking – invoice date, receipt date or ship date. If a carrier has 30 day terms and the clock begins on receipt date, your system should know this. If terms are 60 days from invoice date, payment date should be scheduled based on invoice date instead.

In outsourcing arrangements, this scenario is sometimes manifested through a practice called 'batch processing.' This is a procedure in which all invoices that are processed in one time frame (often a week) are batched for payment.

Scheduling based on process date is a practice that generally flies under the radar. If you are uncertain of your (or your provider's) practice, it warrants looking into.

Are you taking full advantage of negotiated payment terms?

Maximize the Value of the Data

If many of the previously defined best practices are in place, you are in a position to yield excellent data for analytics. You will have more accurate and greater amounts of data from increased EDI, matchpay processes, and accurate paid amounts. This data is the raw material for highly valuable business intelligence.

Those serious about cost control and process improvement need this visibility. A robust business intelligence platform, where data is normalized and presented in meaningful ways, will allow you to analyze your costs and procedures in search of expense control and process improvement opportunities. For example, with access to accessorial costs, carrier utilization, traffic lane patterns, shipment weight patterns and more, you will find ways to decrease landed costs and increase negotiating power. Knowing spend per lane will provide you the metrics needed to put traffic lanes out to bid or renegotiate existing contracts.

A best practice analytics platform should provide the following:

- Real-time or near-real-time visibility
- Cost allocation detail for each move, commodity type/product class, SKU, etc.
- Shipment details (including origin, destination, mode, weight, stop-off detail, etc.)
- Payment details (including ACH/check number, audit adjustments and reason, scheduled payment dates, etc.)
- Expense detail at the accessorial level
- Invoice and supporting document images, including templates for invoices received electronically

A Midwest manufacturer of large equipment replaced a failing freight audit and payment system (one that provided only rudimentary visibility into expenses) with a customized outsourced solution with an advanced, detailed and robust business intelligence platform. For the first time they had valuable, meaningful data at their fingertips. They learned, for example, that their largest volume traffic lane was valued at $30 million per year.

Providing lane forecasting information to their carriers led to aggressive competition for this business. New, more favorable contracts for this lane reduced annual spend - for that lane alone - by $5 million.

A multi-dimensional database structure and powerful business analytic tools are the standards for reporting when hundreds of data fields and high volumes of data must be integrated. Obviously, reporting that provides unlimited drill-down and filtering functionality is much more powerful than a set of standard reports.

Making Best Practices Work for Your Company

Best practice freight bill audit and payment processing is about process excellence and efficiency. When the movement of goods is one of an organization's top expenses, expert expense management should be an imperative, and this business process and subsequent business intelligence are vital means to that end.

There is no denying that implementation of a new system requires a significant time investment, but the resulting benefits are seen immediately and are wholeheartedly worthwhile. Investing time into developing the best system possible will deliver worthwhile results.

Cass Information Systems (Nasdaq: CASS) is North America's largest and leading provider of freight audit, payment and business intelligence services. Clients include Toyota, Unilever, The Hershey Company and Restoration Hardware. Cass pays more than $27 billion annually on behalf of its clients.

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