Freight Payment: The Final Link in End-to-End Supply Chain Visibility

By: Rick Erickson, Global Director of Freight Payment Solutions, U.S. Bank, in collaboration with Jane Malin, Owner and Executive Consultant, Bridge Consulting

INTRODUCTION

As companies face increasingly complex global supply chains, end-to-end visibility is critical to keeping businesses healthy, providing high-quality customer service and turning supply chains into competitive advantages. Supply chain managers work diligently to design and manage extended supply chains, while minimizing operating costs and enhancing the customer experience. They balance supply and demand, promote sustainability and drive innovation while wrestling with ever-changing technology and regulatory landscapes.

One aspect of supply chain management that often falls through the 'operational cracks' is managing the corresponding *financial* supply chain. Orchestrating the end-to-end cash flow velocity and supporting transactions is critical to improve working capital, reduce risk and enhance margins and efficiencies. In today's global supply chains with numerous partners — transportation providers and financial institutions — all stakeholders need visibility into the transactions, parameters and results of the financial supply chain. This is particularly germane when looking at logistics, freight and freight spend. Today's automated freight payment and audit systems offer businesses flexible tracking and financing programs which accelerate cash flow without impacting balance sheets.

This white paper addresses two key measures in today's quest for supply chain transformation, and provides insights on how automated freight payment and audit systems can help improve your bottom line in ways you may not have considered.

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Freight Payment Visibility is Mission-Critical for Supply Chain Transformation

Supply chain managers are responsible for communicating, negotiating and coordinating transactions with business partners and service firms across a wide range of sectors, including transportation. Increasingly, they use automated information and distribution management solutions to measure their results and accomplish their goals.

Visibility into freight payments is an important part of the equation. An electronic invoice processing and payment solution can help meet the complex challenge of managing and optimizing global operations by providing visibility across facilities, countries, divisions and cost centers.

Freight Payment systems show true landed costs and provide the ability to measure freight costs at the product level. Because transportation is procured like any other service, its impact on the supply chain — and the company's bottom line — must be measurable in order to be managed effectively and optimized successfully.

For example, in January you put together an RFP with the aim of saving 15% this year by re-bidding all your freight contracts. At the end of the year, how do you know if you delivered? The visibility you get with an end-to-end electronic freight payment solution can paint a complete picture of the costs, allowing you to benchmark your performance against your own actual data, and set future procurement budgets with a laser-sharp focus.

Getting a balanced view of overall freight payments impacts two critical metrics for today's supply chain professional: Cash-to-Cash cycle time, and Perfect Order Fulfillment. This paper will further explore those measures, but first, consider why it's important to drill down to this level of detail to understand the impact of transportation spend.

Changing the Focus to an End-to-End Perspective

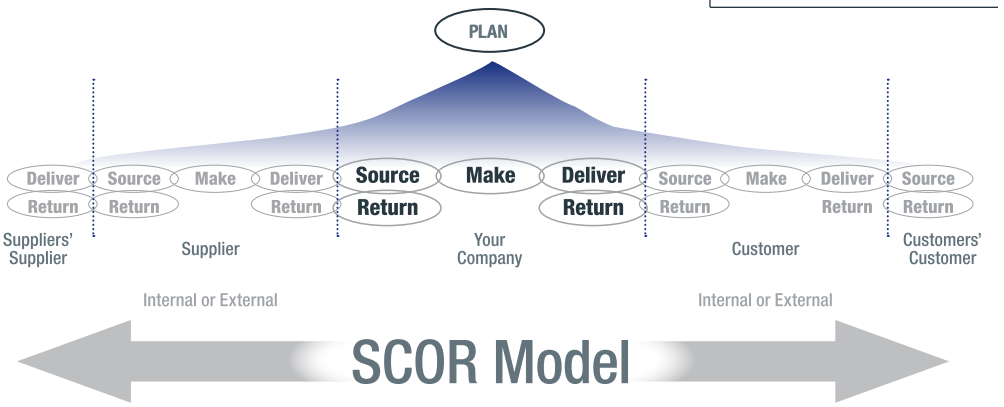
To only look at acquiring resources such as inventory, people and equipment into a facility, reduces focus to just the acquisition piece of the supply chain. Instead, today's big-picture thinkers realize the need to look at supply chain management from a holistic, end-to-end perspective; one that is driven primarily by the customer's needs and expectations. The Supply Chain Council (SCC) is a global nonprofit organization whose Supply Chain Operations Reference (SCOR®) Model provides a world-standard framework to help organizations make dramatic, rapid, measurable and sustainable improvements in supply chain performance. The SCOR Model provides a blueprint which enables all stakeholders to address issues, improve performance and communicate across all segments of the supply chain.

High-performing supply chains push the boundaries from suppliers' suppliers to your customers' customers

End-to-End Supply Chain Visibility

The SCOR Model

Source: International Supply Chain Council, 12320 Barker Cypress Rd., Suite 600, PMB 321, Cypress, TX 77429-8329



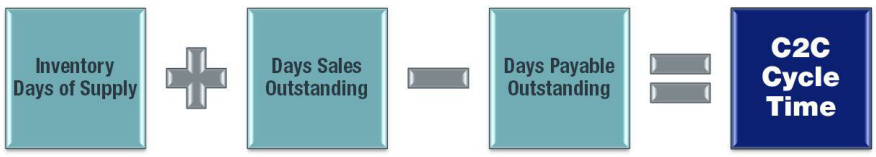
The SCOR Model demonstrates that if an organization is not delivering something that the customer is willing to pay for at every step in the supply chain, then the organization is not as efficient or cost-effective as it could be.

How Do You Measure Success?

The SCOR Model provides several metrics, including two balanced (internal vs. external) key performance metrics. Cash-to-Cash cycle time is an internally focused measure of how well a company is managing its cash and other assets. Perfect Order Fulfillment has an external focus on how the customer perceives that company's performance. Together, these two measures offer a balanced view of how well supply chain goals are met… and how freight payment factors into the equation.

Cash-to-Cash Cycle Time > Internal Measure

The SCC's SCOR Model defines Cash-to-Cash (C2C) cycle time as the time it takes for an investment to flow back into the company after it has been spent for raw materials. In the case of services, this represents the time from the point where a company pays for the resources consumed in performing the service, to the time the company receives payment from the customer for those services.



"When Net 30 becomes Net 60 or greater, imagine how that positively impacts your C2C cycle"

– Jane H. Malin
Bridge Consulting

"High-performing supply chains minimize the number of days between the time you pay your suppliers (cash out) and the time you receive payment from your customers (cash in)," says Jane H. Malin, owner of Bridge Consulting, an industry expert on supply chain excellence.

The bottom line: the shorter the C2C cycle, the more cash is accessible and the more net working capital is available for investment. In today's business environment, it is critical to keep working capital healthy and flowing smoothly. This includes transportation spend.

An automated freight payment system can be used in conjunction with a trade finance feature that targets Days Payable Outstanding (DPO) for shippers by lengthening the payment terms for their transactions with freight carriers. Shippers pay carriers according to their original terms (and maintain their critical service relationships) while not having to pay the cash out until later. "When Net 30 becomes Net 60 or greater, imagine how that positively impacts your C2C cycle," says Malin.

Let's look at a simple example. If you pay $100 million annually in transportation, consider the value of having access to that money for an additional 30 or 60 days to your typical 30.

Assumptions:

- The organization has a Weighted Average Cost of Capital (WACC) at 10%
- 100% of transportation payments are extended

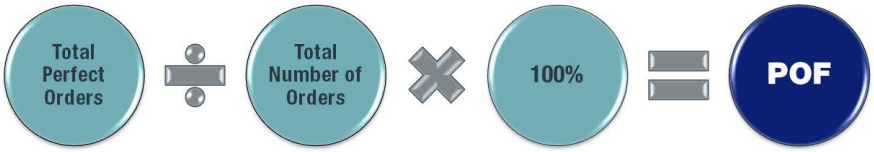


Perfect Order Fulfillment > Customer-Focused Measure

The SCOR Model defines Perfect Order Fulfillment (POF) as the percentage of orders meeting flawless delivery performance and product quality, with complete and accurate documentation and no delivery damage. Components include all items and quantities delivered on-time — using the customer's definition of on-time — and all documentation such as packing slips, bills of lading and invoices.

POF is a binary decision. "There's no middle ground when it comes to perfection. It's either perfect or it's not," says Malin. It is achieved if order fulfillment, delivery, documentation and quality are perfect, period. When businesses are looking at a customer-centric measure like this, they are looking at whether the customer received what he ordered, when he wanted it, in perfect condition and all aspects of that order,

including invoicing and payment were executed perfectly. This perfection inherently extends to all documentation and transactions within the financial supply chain as well: order pricing, order confirmations, invoices, cash application, freight invoices, letters of credit, export documentation, etc.



While some components of the metric may be able to be sustained at very high rates, true POF is very difficult to achieve. Today's supply chain managers are constantly looking for help to improve, and measure their improvement, at every step along the way.

Perceptive supply chain managers have changed their frame of reference to focus on the customer. They know that the end of their supply chain isn't the product going out the door, it's the receiving and using of that product by the customer — and that customer wants a perfect order experience.

An important piece of POF — and one that may have been under appreciated for too long — is making sure the delivery is perfect. Perfect delivery means the product is on time, shipped with the right carrier, charged at the right amount, and paid correctly.

An automated freight payment solution speaks to the delivery portion of the quest for POF, providing a fine level of granularity into tracking the time and accuracy elements of freight payment, invoicing and cash application steps in the order process. Further, a reliable, timely freight payment system supports strong carrier relationships through payments that meet contracted terms.

Putting It All Together

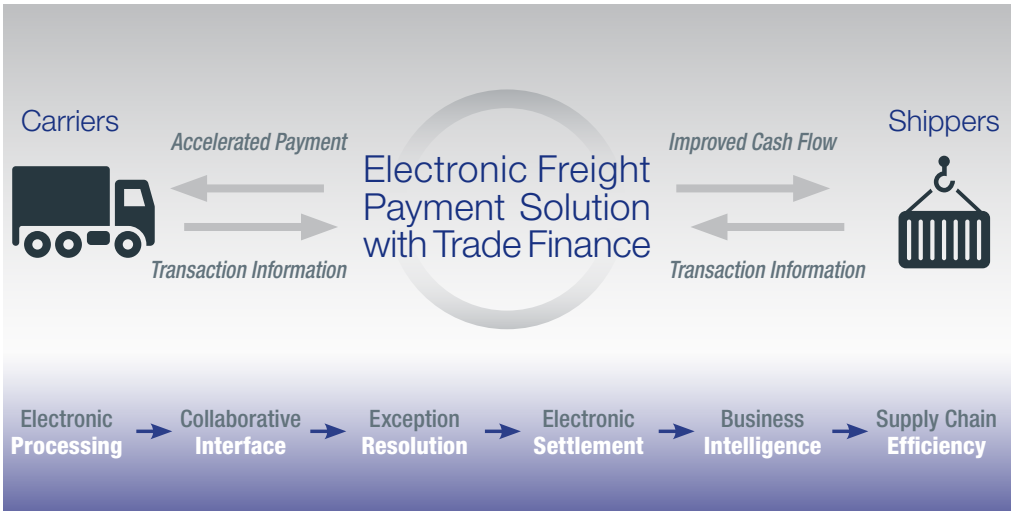
C2C and POF measurements show the importance of looking at the whole picture of the financial supply chain as well as the physical supply chain. An automated freight payment solution can help organize and provide clarity to the freight aspects of sourcing and acquisition, as well as distribution.

Material Sourcing and Acquisition

Consider inbound freight management. "Clearly from a C2C perspective, you always want to negotiate payables terms for as long a period of time as possible," says Malin. "The Days Payables Outstanding portion of the C2C equation is subtracted, so the longer the terms, the more it improves your C2C cycle time."

For instance, typical terms are Net 30 days. If terms can be increased to Net 60 days or even 90, working capital is not committed as quickly. It remains available for use for a longer period of time. By leveraging trade finance with a freight payment solution, shippers can extend their payment terms while accelerating payment to the carrier. For example, a shipper can take 30, 60 or even 90 days to pay, but the carrier can get paid as soon as the shipper approves the invoice. Leveraging trade finance in this way removes a potential friction point — longer payment cycles — from the working relationship.

Collaborative Network Solution



Distribution

Distribution is a key area where visibility into the freight and transportation logistics is critical to supply chain results.

Businesses negotiate account receivables terms to be as short as possible, with the goal of receiving payments from customers quickly, thus turning cash more quickly. In order to do that, one needs to understand how much is being paid and when. That requires detailed visibility into freight charges and cycles, and an understanding of how to maximize load efficiency and routing.

Freight introduces a number of complex variables: Multiple shipping vendors; the risks inherent in global infrastructure and geopolitical issues; and the challenges of visibility across multiple systems and transactions. It is an ongoing challenge to keep control and maximize perfection for each component. Solutions that can assist in doing this are valuable to optimizing C2C cycle time and POF rates.

Putting the Right Solutions in Place

An integrated, fully electronic freight payment system can help businesses uncover cost savings, increase financial control and gain valuable insight into freight expenditures with more detailed information at a very fine level of granularity, helping to achieve your Cash-to-Cash and Perfect Order Fulfillment goals.

Benefits for Shippers

- Uncover cost savings.
- Increase financial control.
- Gain valuable insight.

Shippers of goods always strive to strengthen their supply chain, reduce costs and increase efficiency. By providing greater control over the freight payment and audit process, an outsourced, electronic freight payment system is designed to make more effective use of time and resources, lowering costs for shipping and improving relationships with their partnering carriers.

For shippers, the holy grail is getting one system to process and pay all transactions, providing full visibility at all points of the process to both shipper and carrier. That journey starts with the basics: 100% auditing of transactions, ensuring 100% accuracy. Chances are, if shippers are processing paper transactions manually, they're not checking each invoice; thus leaving money on the table and never achieving maximum POF. They need a way to audit every invoice and rate, making sure the carrier is charging an accurate amount. That's the kind of support an outsourced, electronic audit engine, like U.S. Bank Freight Payment, can provide.

U.S. Bank Freight Payment transactional history shows that prepayment audit saves their customers 2% to 4% of their monthly transportation costs.

	Domestic	International
Outsourced	$3.33	$6.24
In-house Systems	$5.23	$7.89
In-house Manual	$11.05	$15.18

Cost to Process and Pay an Invoice

Source: 2013 American Shipper Transportation Benchmark Study

Shippers who use an outsourced, electronic freight payment system:

- Increase efficiency and enhance control over freight payments while removing waste, reducing costs and elevating POF
- Eliminate invoicing errors with freight audit services which improves POF, eliminates rework, and improves C2C
- Collaborate online with carriers to process, pay and quickly resolve exceptions, enhancing both C2C and POF
- Improve the flow of data and payments, which is critical to improving visibility and POF across the supply chain
- Leverage innovative cash management solutions that allow carriers to receive payments faster without changing your payment terms and improving C2C
- Pay only once a month on a consolidated freight invoice reducing risks in POF
- Maximize small parcel value with improved visibility and control leveraging accuracy to provide improved customer service and improved POF

Benefits for your transportation suppliers

Freight carriers run a cash intensive business. Between dealing with driver shortages, managing the cost of rising fuel prices, and dealing with increasingly challenging hours-of-service regulations that increase costs to carriers, the last thing they need is to be chasing down payments from their shippers.

U.S. Bank Freight Payment is designed to help carriers avoid payment obstacles, reduce staff time in processing exceptions, and get paid quickly so they keep their businesses moving forward.

Carriers can:

- Decrease days sales outstanding on freight invoices to five or less which improves the C2C calculation
- Collaborate online with shippers to improve accuracy, shorten process time, receive accurate payments and resolve any exceptions as quickly as possible, all improving both C2C and POF
- Reduce non-payment risk with freight audit services
- Improve both C2C and POF by optimizing the flow of invoice processing and payments, critical to the financial supply chain
- Receive payments faster with innovative cash management solutions reducing C2C
- Resolve invoice inquiries with dedicated support service improving POF

Success Story:
Maximizing Cash Value with Trade Finance

A large manufacturer of protective paints and coatings saw an immediate advantage to improving their Cash-to-Cash cycle by taking advantage of trade financing for their transportation spend. Lengthening the amount of time they have to pay for their transportation costs allowed them to keep their cash working for them longer.

"We implemented trade finance very successfully. Over time the customer also began to see the advantages of our solution for providing greater visibility and coordination," says Scott Kairies, Relationship Manager, U.S. Bank Transportation Solutions.

In addition to trade finance, U.S. Bank Freight Payment provided the client a fully automated payment solution that tracks and reports delivery performance, conducts pre- and post-payment audits, processes and pays invoices and provides detailed reports highlighting savings opportunities.

Seeing the advantages U.S. Bank Freight Payment delivered, the company began harnessing the power of the automated freight payment solution for its other entities. "They brought on four subsidiaries to centralize their freight audit and payment into one location," says Kairies. Soon they began working toward getting the solution integrated into the holding company. "They saw the advantage of having a global payment company to centralize everything, which would allow them to leverage their global freight spend to get better rates."

The solution provides this manufacturer with the ease of connecting multiple enterprise reporting systems for the holding company into a single platform, for one-stop reporting and managing multiple currencies. "As their supply chain has become more sophisticated, we've been able to complement them in other ways as well, like accommodating multiple transportation management systems into a single platform."

CONCLUSION

Today's supply chain is long, complex and ultimately leads to the customer. To be successful, supply chain practitioners need to manage and measure every activity from procurement of raw materials to the point of consumption by the end user. The sophisticated supply chain represents not only a flow of materials and products, but a flow of financial information that connects all the major business functions in an organization. End-to-end visibility into these processes and the information flowing between them is key to measuring, maximizing and transforming a supply chain into a true competitive advantage.

A global supply chain is actually made up of many smaller supply chains and sub-supply chains. In a constant quest for perfection, supply chain professionals are now identifying and evaluating each component for optimization and efficiency.

The financial supply chain — the financial processes that are tied to the physical supply chain — can also be measured and improved. The SCOR model uses metrics like Cash-to-Cash (C2C) and Perfect Order Fulfillment (POF) to measure the financial flows related to distribution. Specifically invoice processing and payment for transportation services. Improving this financial supply chain can yield significant operational efficiencies and savings. Even more importantly, optimizing the working capital within a company's supply chain can have a direct positive impact to the bottom line.

A best-in-class financial supply chain is the final link to supply chain transformation. It delivers efficiencies and optimization, measured by C2C and POF, as well as end-to-end visibility. The U.S. Bank Freight Payment solution provides best-in-class freight audit and payment, with Internet-based invoice processing and payment that meets the complex challenge of managing and optimizing global operations. Coupled with trade finance to optimize working capital in the supply chain, this end-to-end solution plays an important role in today's supply chain transformation.

About the Authors

Rick Erickson, Global Director of Freight Payment Solutions, U.S. Bank Corporate Payment Systems brings more than 20 years in transportation and logistics industry to U.S. Bank. He is responsible for developing and executing market strategy and new products and services delivery for the freight payment business. Prior to his current role, Rick served as global transportation products director for Syncada, the global payment platform that was acquired by U.S. Bank in August 2013.

Jane Malin, Owner and Executive Consultant, Bridge Consulting has more than 30 years' experience in hardening and optimizing domestic and international supply chains for the commercial industry, healthcare and the U.S. Department of Defense. An Industrial Engineer, Lean Sensei Master, Six Sigma Black Belt, and Project Management Professional, Ms. Malin has held a seat on the international Supply Chain Council's North American Leadership Board for over 10 years, and is a nationally-recognized practitioner of the SCOR Model. She serves as a national speaker on supply chain excellence, total lifecycle management and sustainment. jane.malin@bridgeconsultingny.com

About U.S. Bank

As a leading global transportation solution provider, U.S. Bank processes millions of freight invoices annually for some of the largest corporations and government agencies in the world. With U.S. Bank Freight Payment, commercial and government customers access industry-leading technology and services designed to bring unparalleled efficiency, visibility and financial control into their financial supply chains.

Minneapolis-based U.S. Bancorp ("USB"), with $364 billion in assets as of December 31, 2013, is the parent company of U.S. Bank National Association, the 5th-largest commercial bank in the United States. The company operates 3,081 banking offices in 25 states and 4,906 ATMs and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions. Visit U.S. Bank Corporate Payment Systems on the web at www.usbpayment.com.

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