How to justify the cost of a TMS by automating freight audit and payment

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Executive summary

Many companies that employ an on-demand transportation management system (TMS) to automate their transportation processes realize double digit savings on their total transportation spend within the first year. Better yet, when a TMS is delivered as-a-service (SasS), companies begin reaping potential benefits within weeks, without the high cost of entry or long implementation cycles.

With so little to risk and so much to gain, it would seem C-level decision makers would be quick to adopt TMS technology. But, in fact, almost 40 percent of the companies that stand to benefit most from a TMS actually use one.[1] While some of this can be blamed on recent economic doldrums, the truth is, even in the best of times, transportation departments typically have to fight harder than others for available funds.

One strategy for success is to start small, demonstrate the value of a single module, and allow the savings from the first module to fund the next. In fact, some companies have discovered that the savings from a single TMS module – freight audit and payment (FAP) – can help offset their entire TMS investment. Likewise, companies that already use a TMS are often surprised to discover how much more they can save by adding this single module and bringing freight settlement processes back in house.

The business case for automating freight audits and payments is a compelling one because, while not everyone has to get a great deal on everything they buy, no one likes to deliberately and repeatedly pay too much, or pay for services they don't receive. This is the kind of excess spending a freight audit and payment module will eliminate.

Bottom line savings from a freight audit and payment system come from two general areas: (**1**) pre- and post-audits that help enforce carrier compliance from carrier contracts and (**2**) accelerated processes that lower overhead. FAP systems blaze through complex tasks such as tracking freight accruals, reconciling planned and unplanned surcharges, and managing the flow of approvals, vouchers and remittance advice among transportation departments, accounts payable departments, freight carriers and third party freight payment service providers. The result is an approximate 20 percent reduction in the cost of processing freight invoices.

Indirect savings come from improved business relations with carriers. Prompt and accurate bill payment leads to preferred shipper status, which makes it easier to safeguard capacity. In an October 2010 study, Gartner reported that freight rates and competition for capacity are once again on the rise; therefore, they recommended companies "lock in capacity during upcoming freight sourcing negotiations to ensure there is adequate capacity reserved for peak shipping seasons."

Freight audit and payment systems deliver these "soft" potential benefits as well, and will ultimately impact your service levels to customers.

Although the freight market during the previous two years was shipper-favorable, current transportation market conditions threaten to propel logistics costs higher. These conditions, which include fuel price volatility, a looming freight-capacity supply and demand imbalance and more stringent operating rules, will permit an increase in transportation costs that will remain high for several years.[2]

The challenge

Factors that impact savings include whether your current transportation operations are centralized or fragmented, how many less-than-truckload shipments (LTLs) can be consolidated, and your current level of automation for tasks such as load tendering, dock scheduling, contract management, and, most importantly, freight audit and payment.

Service-based or on-demand TMS solutions are both more affordable and faster to implement than on-premise solutions. And, of course, instead of paying a large license fee up front, you pay a periodic subscription fee, **converting what was once a capital investment into an operating expense**.

Yet, for many companies, selling TMS to upper management remains a challenge. In his article *A TMS is Too Expensive and Other Excuses*, Adrian Gonzalez of the ARC Advisory Group acknowledges that transportation departments are often at the bottom of the priority list when it comes to getting IT funding and support. Said Gonzalez, "This reality has prevented many transportation departments from implementing a TMS in the past, and it remains a stumbling block today."

Gonzalez suggests that instead of taking a 'big bang' approach, companies deploy (and pay for) a TMS one module at a time, thus reducing implementation time from months to weeks. "In many cases," he said, "companies use the savings achieved from the initial implementation to fund future ones."

Where the savings originate

Companies overpay for shipping not because carriers are dishonest but because high-volume, global shipping operations generate too much data for manual processes to absorb. The number of carrier invoices, the level of detail on each invoice, and the variance in charges, rates, services and billing practices create an impossible task to manage without automation. The larger the shipping volume, the higher the potential is for billing errors. So even with very competent staff, money continues to go out the door. It's primarily when you move all this data through a single freight audit and payment application that you discover how much you're overpaying and why.

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Companies without access to a TMS, and even some that do employ TMS technology, may outsource their freight audit and payment operations to third parties. But this adds another layer of expense without eliminating all of the work. Shippers still have to manage the outsourcing relationship, negotiate rates, manually update carrier contracts, and resolve invoice discrepancies.

On the other hand, companies that have used a TMS to automate their freight payment processes have eliminated so much wasteful spending, they were able to fully offset the cost of their TMS. Market research shows that as much as 70 percent of all invoice processing costs are wrapped up in document handling, auditing and payment processes, driving the cost of invoice processing to a range of $15 to $50 per invoice. While fully-automated invoices average $3.50 or less to process[2]. This difference in invoice processing costs comes from your ability to:

- Eliminate errors and duplicate payments across virtually all modes of transportation
- Identify out-of-tolerance conditions (carriers who charge too much or who add assessorial charges that should be contested)
- Compare carrier invoices against contracted rates and help enforce carrier compliance with contracts and SLAs
- Compare carrier rates and assessorial charges against industry norms to improve purchasing decisions
- Automate audits to decrease overhead and increase the accuracy of results
- Automate payments to build even better carrier relationships and faster acceptance rates during load tendering
- Enable rate management best practices
- Enable innovative payment strategies such as auto pay
- Eliminate the need to rely on third parties for FAP services

These savings will be discussed in more detail throughout the paper. But first, it is important to look at a strategy that will increase your savings overall.

Taking control of your total transportation spend

When you take control of the freight payment process, the first thing you'll realize is that centralization is key.

In many companies, load tendering happens at the local or departmental level and is based on legacy carrier relationships. This activity is often tracked manually in different departments and recorded with simple accounting tools such as spreadsheets. Even in large companies, where transportation purchasing is done electronically, the data is stored in local silos and is not shared across the organization. Without centralization, it is difficult to gain a true picture of your overall transportation spend.

Today's on-demand TMS make the process of data consolidation much easier than it has been in the past. Essentially, they sit on top of your existing ERP and B2B systems to aggregate data from multiple departments and create a holistic view of what you pay for transportation. They also safeguard Web portals to automate data collection, communications and negotiations with carriers. Gaining a global view of your total transportation spend is an essential first step towards managing it.

How it works

With an on-demand FAP you can better streamline freight payment processes, build even better relationships with carriers, and make certain freight invoices are in line with contracted rates. TMS freight audit and payment modules use a flexible rating engine to check invoices against shipments, rate and carrier contracts, automate invoice processing and payment approvals. Interested parties such as transportation managers, accounts payable and carriers, work from a single Web interface with role-based views. The illustrations below show two basic data flows between carriers, transportation managers and accounts payable departments.

Match Pay process

In the Match Pay process, the carrier uses the TMS portal or some form of electronic file transfer to submit invoice information (freight bills) and shipment status updates to the transportation department. The transportation manager then uses the TMS to perform pre- and post-audits, address any out-of-tolerance charges from the carrier, and approve the freight invoice to send to accounts payable. The TMS gives accounts payable a view into pre- and post-audit results. It also sends the invoice payment approval to accounts payable from the transportation department. The accounts payable system then sends payment instructions to the bank to transfer funds, and sends details of the payment (remittance advice) back to the TMS.

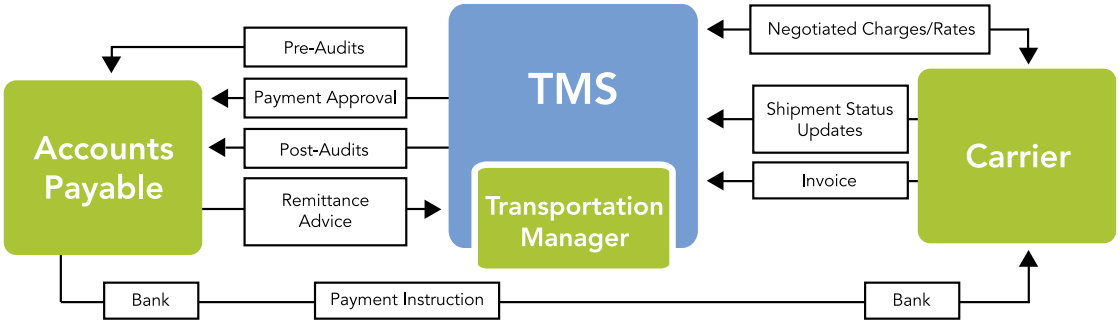


Figure 1

Auto Pay process

The Auto Pay process eliminates the need for carriers to submit invoices. Each load is pre-approved for a certain amount, based on contracted rates, and payments are triggered automatically when the load is delivered. Any unplanned charges are negotiated separately. Unplanned charges are only approved by the shipper and may be used to trigger an exception notification. This enables the transportation manager to manage exceptions based on the freight invoice audit and approval process. As in the Match Pay process, the TMS gives accounts payable a view into pre- and post-audit results. The accounts payable system then sends payment instructions to the bank to transfer funds, and sends details of the payment (remittance advice) back to the TMS.

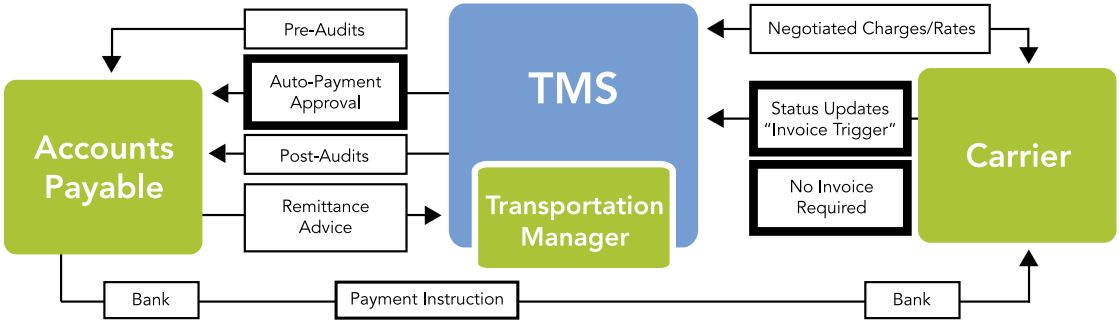


Figure 2

A closer look at the potential benefits

Earlier we listed factors that contribute to the savings you can achieve by using a TMS to automate your freight payment process. Here is a closer examination of four ways FAP modules cut costs.

1. **Faster and more accurate audits** – Some of the most time-consuming and error prone tasks associated with freight settlement have to do with conducting pre- and post-payment audits, keeping track of freight accruals, and reconciling planned and unplanned assessorial charges. Planned accessorial charges include items such as stop-off charges, fuel surcharges, out-of-route miles and continuous move discounts. An automated FAP will reference current fuel indices from your contracted agreement with the carrier to help ensure you are not overpaying for fuel. It will also simplify reconciliation of unplanned accessorial charges such as detention costs, unloading charges and re-consignment charges. You can also set up alerts to notify you of unplanned charges, establish authorized limits, or chose to manually review charges over a certain amount. If the charge exceeds contracted rates or industry norms for comparable services, you can negotiate a more reasonable rate.

2. **Improved carrier compliance with contracts** – Since carrier contracts are already loaded into the TMS, an FAP module can help you understand where you are paying competitive rates and where you are paying too much. You can compare your rates with lane averages to spot overpayments and gain an accurate point of reference to improve carrier rates. You can also improve the level of service you receive from carriers. By requiring real-time updates as shipments progress, and tying these updates to the payment process, you will gain increased visibility into shipments and reduce occurrences of late invoices and surcharges.

3. **Improved planning and greater leverage in negotiations** – An FAP module provides an always up-to-date view of what it should cost to move goods from one point to another in a shipping lane. Using an average rate calculator, computes historical freight costs for each traffic lane; showing carrier, base, and average rates. These costs can be queried and viewed by transportation planners and freight cost analysts for more accurate budgeting. They are also useful as a reference point when negotiating contracts with carriers.

4. **Lower overhead through automated payments and self-invoicing** – A good FAP module will allow you to select from several freight payment options and use the best option for each shipping mode. For example, the cost to carry a TL (truck load), based on a specific lane or cost per mile, is moderately stable which makes it a good candidate for self-invoicing or auto pay. On the other hand, an LTL shipment is based on weight, which varies, and so is better suited to tolerance matching or "match pay." Following are four payment methods with a brief summary of how they save you money.

   - **Match Pay** - (*see Figure 1*) the Match Pay process compares system-rated charges to carrier-submitted charges and automatically generates payment vouchers for charges that fall within an acceptable threshold (which you define). You can also set freight payment triggers to determine when to authorize a payment voucher. For example, you can refuse to pay freight invoices until carriers provide you with delivery status, or until you receive proof of delivery (POD). Match Pay saves money by allowing you to manage payments by exception. In other words, invoices that are accurate and that fall within expected parameters can be processed without human intervention; you will only need human resources for out-of-tolerance cases.

   - **Self-invoicing** is a more proactive approach to billing. With self-invoicing, shippers bill themselves what they owe to carriers according to the terms of their carrier agreements and their own record of shipping events. Once the carrier confirms the invoice, a payment voucher is issued. Any additional charges can be invoiced separately.

     Self-invoicing benefits carriers because they receive payment faster, reducing the cost of doing business with you. Shippers benefit because paying bills quickly fosters strong carrier relationships, which in turn makes it easier to safeguard capacity.

   - **Auto Pay** – (*see Figure 2*) is similar to self-invoicing except that each load is automatically approved for a planned amount and confirmed deliveries trigger automatic payments. If any unplanned charges were encountered during the route, the carrier can invoice the shipper for that amount at a later date.

Here again, the carrier's cash flow improves because receiving partial payment immediately is better than having an entire payment held up over a disputed unplanned surcharge. Shippers, of course, benefit from relationship gains, just as in self-invoicing.

- **Working with third parties.** Your FAP module should also have the flexibility to support callouts to third-party rating, auditing and payment systems, providing the option to electronically submit shipment and rating information to third-party providers for payments, reconciliation or both. For example, if you use a third party for payments only, the FAP should be able to manage virtually all the pre-audits and approvals, and simply issue payment vouchers to the third party. If you use a third party for audits only, the system should be able to issue payment vouchers internally and supply reference data for the audits. In either case, you will lower your overhead by automating third-party communications that would normally require management-level staff.

Case study

Church & Dwight Co. is the manufacturer and marketer of the ARM & HAMMER brand, known the world over for a broad range of consumer products. Every year, the company manages over 100,000 shipments across the U.S. and Canada, servicing multiple distribution centers, co-packers and vendors.

When Church & Dwight implemented IBM's TMS solution to automate their basic transportation operations, they continued to outsource their freight payment processes. The TMS increased their visibility into in-transit shipments and allowed them to fully automate load tendering. It also improved dock scheduling, reduced wait times and detention fees and improved carrier on-time performance across the network.

Church & Dwight had been outsourcing their freight audits and payments. However, after implementing the TMS, they realized they had virtually all the data they needed to bring the FAP process back in house at a considerable savings. By adding the FAP module, they were able to improve carrier service levels even as they cut invoice processing costs, eliminated over-payments and lowered the cost of resolving disputes.

While the cost savings from these operations exceeded their expectations, Church & Dwight saw yet another opportunity to lower their transportation costs. They had been outsourcing their freight audits and payments. However, after implementing the TMS, they realized they had virtually all the data they needed to bring the freight auditing process back in house at a considerable savings. They were already connected to their entire carrier base electronically. Virtually all the contracts were at their fingertips and they were already receiving shipment status updates through the TMS. One of the only things they needed to do was add the FAP module to run audits and checks against data that was already on hand. By adding the FAP module, they were able to improve carrier service levels even as they cut invoice processing costs, eliminated over-payments and lowered the cost of resolving disputes.

Church & Dwight's specific goals for the FAP module were to:

- Help enforce contract rate compliance
- Reduce costs through electronic invoicing
- Automate their audit processes
- Gain insight to their total transportation spend through detailed payment reporting

They began by issuing automatic payment vouchers for their truckload shipments only, requiring carriers to submit unplanned charges separately. In Phase 2, they automated payments for their less-than-truckload (LTL) shipments, using a match pay process. Carriers based their rates on estimated weights and invoiced based on actual weights.

Within months, Church & Dwight was able to significantly increase their ROI and meet their project goals.

- By requiring shipment status updates before issuing payment vouchers, they increased visibility into their shipments.
- Through automatic pre-auditing of carrier freight bills, truckload payment vouchers and setting Match Pay tolerances for LTL, they improved carrier compliance with contracts.
- By using auto-pay thresholds for common charges, they eliminated redundant approvals. They also reduced the number of calls to accounts payable and the number of resources required to resolve discrepancies.
- Through partial payments for planned charges and faster payments overall, they were able to increase carrier loyalty, even as they cut freight costs.

Capabilities to look for

Not all TMS solutions are alike. Before you select a TMS solution, or add a freight audit and payment module to your existing TMS, make sure it is able to:

- **Manage contracts** – Make sure tariff and shipment costs can be maintained on a network and are more easily available both to you and your carriers. This can help enforce carrier compliance with contracted payment terms and eliminate dual maintenance of multiple copies or versions of carrier contracts.
- **Reconcile both planned and unplanned accessorial charges** – Carriers should be able to request rate changes and report unplanned assessorial charges online. Shippers must be able to receive the changes in real-time and accept or reject them. If accepted, new rates should be added to the contract automatically and old rates expired.
- **Provide real-time visibility into transportation spend** – Shippers, carriers, and accounts payable should be able to view allocated shipment costs online.
- **Support virtually all relevant EDI transactions** – Carriers typically use EDI to send electronic invoices, shipment status updates and rate changes to shippers. This is much more efficient than sending information manually.
- **Support both direct pay and match pay options** – You should be able to customize payments to your own requirements, select preferred payment methods and define triggers for voucher creation.
- **Configure thresholds** – You should be able to define cost variance tolerances for unplanned accessorial charges. You should also be able to manually review and approve virtually any charges that are out of tolerance with these thresholds.
- **Operate with third-parties** – If you plan to outsource any part of the freight audit and payment process, make sure the system has the flexibility to pass information such as payment terms and rates to third party service providers.
- **Communicate with internal financial applications** – If you will be working with an internal accounts payable department, make sure the TMS can better communicate with financial applications to approve payments.

Summary

In their October 2010 report, Transportation Management: an Imperative for Return to Growth, Gartner warned that "freight cost increases will negatively impact profitability and shareholder value for companies that don't take steps to minimize the impact of transportation cost increases." Considering virtually all the ways it can help reduce your transportation spend, implementing a service based TMS, together with a well designed freight audit and payment module, should be one of the first steps on your agenda.

IBM Sterling Transportation Management System

Sterling Transportation Management System (Sterling TMS) ranks among the most comprehensive and easier-to-use TMS solutions available today. With Sterling TMS, you can better manage virtually all your day to day transportation operations, such as load optimization, carrier tendering, and dock scheduling, and also tap into one of the most flexible solutions on the market for freight audit and payment. Sterling TMS integrates more easily with existing EDI and ERP systems and allows multiple transportation processes to leverage the same information, thus eliminating duplication of work.

By connecting electronically with your carriers, Sterling TMS manages invoice approvals against contracted rates and initiates payment from your accounts payable system. Whether your goal is to automate and manage the process internally or continue to use a third-party freight audit or payment company for final auditing and payment, you can more easily configure Sterling TMS to manage freight settlement for virtually all of your transportation modes and payment processes.

Sterling TMS will also support your entire carrier base, virtually regardless of their technical capabilities. Carriers who are not EDI capable can better communicate with you through a web-based portal.



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1 Transportation best practices: Sargento's finely-aged TMS upgrade", Logistics Management 2011.

2 *Source:* Gartner Group "Transportation Management: an Imperative for Return to Growth" October, 2010.



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