

SWG

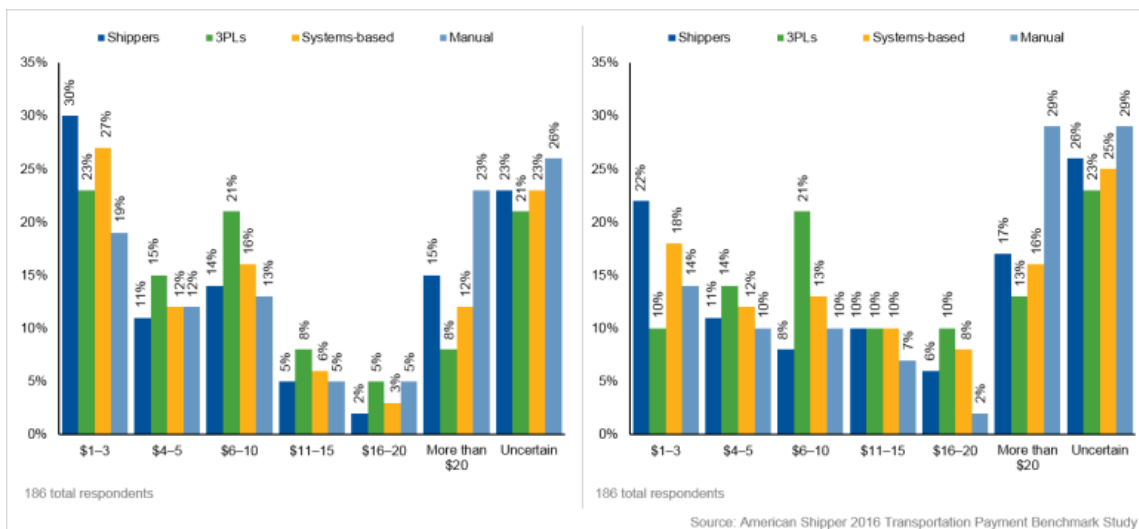
White paper: How automated payment processes will cut costs for shippers and forwarders and create healthier relationships

The practise of outsourcing the audit of freight payments, or alternatively using freight payment audit platforms, began in the US – primarily by shippers of parcels who had high volumes of consignments that were individually invoiced. After the freight payment market was regulated in the US and the National Association of Freight Payment Banks formed, adoption of auditing systems became more common amongst the largest US shippers. Gradually, that trend has spread to other types of cargo owners and other geographic regions such as Europe and Asia.

Small parcel shippers discovered that by automating the invoice checking process, next-day deliveries were either achieved, or they could pursue refunds from their transport suppliers – which effectively meant investment in the platforms was self-funding.

The need for cargo owners to audit their freight and logistic spend has never been greater. As global supply chains increase in their complexity, the costs of operating these supply chains show little signs of diminishing, and extensive research has shown that firms waste huge sums of money not only paying invoices that are often incorrect, but also auditing the self-same invoices.

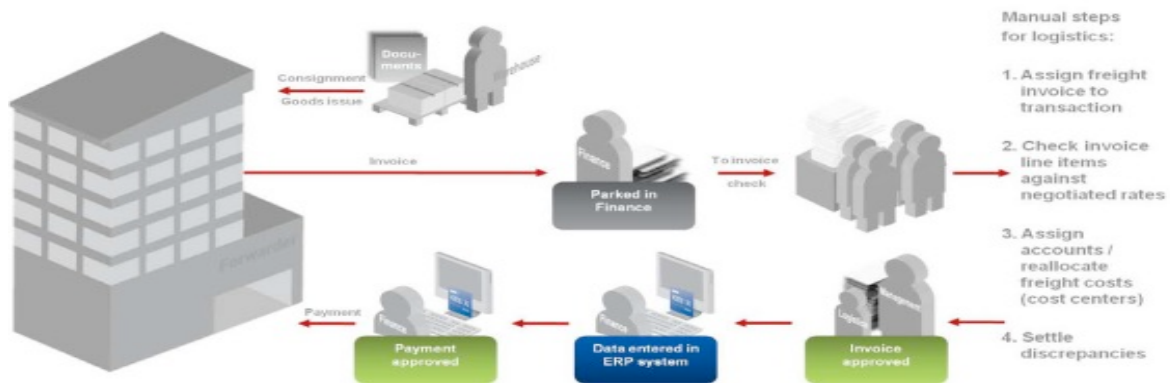
And recent research shows that considerable numbers of shippers have yet to automate payment processes, as the below figure from *American Shipper* demonstrates.



Source: American Shipper 2016

Market research shows that as much as 70% 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. However, breakthroughs in state-of-the-art cloud technology mean that audit software - with huge implications for supply chain intelligence - are now readily available.

Transport advisory firm AEB recently wrote in a white paper that there are three main ways for a cargo owner to audit supply chain invoices – manually in its own accounts department; outsourcing that function to a third-party audit firm; and deploying specifically designed freight audit payment software.



Source: AEB

What's the issue?

According to Swedish logistics and supply chain consultancy Sonat, just 17% of all freight invoices are actually accurate, with the remaining 83% of inaccurate invoices resulting in the overcharging of freight costs by 2-6%.

Sonat said there are a variety of reasons for this – the continued widespread use of manual invoicing systems – both on the part of issuers and receivers of invoices and the continued deployment of outdated IT systems.

“Furthermore, different carriers have many different cost-models, tariff structures, terms and conditions that further complicate things. Generally, there are many logistics providers and services included in a single invoice and invoices often look very different, are specified in different ways, are based on different parameters, and have varying degrees of detail. And the invoices are received via EDI, e-mail, as well as by post as physical invoices.

“Against this background it is easy to see that freight cost calculation and control and management is an ordeal and is becoming increasingly complex.”

Moreover, these issues affect all parts of the supply chain, as John Harvey CBE, currently chairman of Keswick Enterprises and one of the architects of modern supply chains, explains: “The changes underway in the global logistics industry are more extreme than I have witnessed in decades. Shippers and their logistics providers are under pressure from multiple sources – end markets are changing due to e-commerce and other factors; production and sourcing patterns are being transformed; even transportation methods are being revolutionised. In this context it is more important than ever for businesses to retain a vice-like grip on their supply chain spend and invoicing processes.

“Automating these processes using platforms developed by industry experts, such as that established by Steve Walker as an example, creates a unique opportunity for shippers and their logistics partners alike to focus on responding to the challenges in their core businesses and marketplaces.”

What do shippers stand to gain?

There are several direct and indirect benefits from deploying a freight audit system. Firstly, there are the direct costs, which naturally vary depending on shipper's freight spend. However, a cursory calculation can be made using the Sonat data – even a relatively small freight budget of say, \$100,000 (and many shippers have budgets

hundreds of times that level), spent on 100 individual shipments of a container from China to Europe at a cost of \$1,000 per shipment would see a shipper overcharged by at least \$1,600, and by as much as \$4,980.

Secondly, there are the direct staff costs currently associated with processing invoices. "The internal costs of managing and checking freight invoices can also be reduced by approximately 50-70% if outsourced to a professional service firm," Sonat noted, and it is clear that automated payment audit systems allow companies considerable scope for reducing their labour costs – as well as reducing the need to outsource that function to a third-party.

A more professional and prompt handling of freight invoices also provides a better cash flow since shipping costs can be invoiced as early as the shipment date. In other words; the potential for substantial cost reduction is considerable.

IBM subsidiary Sterling Commerce puts it succinctly: "Bottom line savings from a freight audit and payment system come from two general areas: (1) pre- and post-audits that enforce carrier compliance from carrier contracts and (2) accelerated processes that lower overhead. FAP [freight audit payment] 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% reduction in the cost of processing freight invoices."

There are also the non-financial benefits that the systems provide – in many cases supply chain departments are under-resourced, a hangover from the staff reduction programmes that took place in the aftermath of the global financial crisis. Taking away the job of checking invoices – and not doing it with nearly the same accuracy of a system – allows firms to redeploy staff to functions that add far more value.

This advantage comes in tandem with the associated benefit that an audit system hands real control of its supply chain to a shipper – the automated systems allows shippers to review the billing performance of a service provider; and achieve incentive schemes by monitoring freight spend by lane, mode or provider. In fact, these systems provide a level of spend transparency throughout a supply chain that previously could really only be provided by, and with far less accuracy, logistics providers' transport management systems (TMS).

The most important implication of this is that freight audit systems represent a critical new business intelligence tool that can be employed in shippers' negotiations with transport and logistics providers – but one that works in several ways, not just allowing customers to pull up their providers when service levels dip, but also in allowing the two to develop far healthier relationships. For example, "Indirect savings come from improved business relations with carriers. Prompt and accurate bill payment leads to preferred shipper status, which makes it easier to secure capacity," Sterling Commerce noted.

The advantages for freight forwarders

It is fair to say that much of the proposition offered by freight audit payment systems threaten freight forwarders, but the above paragraph ought to illustrate that forwarders have almost as much to gain by deploying freight audit payment systems as shippers do.

As the intermediaries between shippers and carriers, forwarders have as many invoices to process as shippers do, and as result are subject to the same levels of overcharging and invoice inaccuracy as their customers and means they could be set to win both the same financial and non-financial benefits.

In a similar way that freight auditing subjects carriers and forwarders to some degree of supplier compliance by cargo owners, auditing platforms confer to forwarders many of the same benefits –freight forwarders know all too well the problems posed by incorrect invoicing from carriers, how prevalent a practice it is, and how time- and cost-consuming it is to resolve disputes.

And for many freight forwarders, which have proved so resilient to so many business cycles due to their asset-light nature, freight auditing platforms represent a response to the new challenge posed by the new generation of cloud-based "digital logistics operators" – they offer forwarders the chance to seriously reduce their

headcount, or at least redeploy it. In most freight forwarding operations, staff represents both the single largest direct cost and the most valuable assets. By taking staff off the manual tasks of checking invoices (with limited accuracy levels, as we have seen), auditing platforms allow freight forwarders either to cut costs, or the chance to assign staff to roles where people are at their most valuable – customer relations, imaginative problem-solving and creative roles.

But there is an added dimension, insofar as adopting these systems also represents an answer to the digital disruption that is beginning to sweep through the forwarding industry. Adopting freight audit payment technology can provide logistics operators with the chance to offer their customers the sort of transparency that genuinely adds value to their supply chains.

[SWG](#) has developed a completely unique approach for cargo owners and freight forwarders to respond to the increasingly complex challenge of auditing freight payments and invoicing. Developed by a team of freight forwarders who have decades of experience in designing, developing and operating international supply chains, the SWG platform enables shippers and their logistics providers to demystify their 21st century supply chains.

At SWG we can assist Small, Medium and Global service providers in complying with accurate freight billing for strategic Key Accounts. Utilizing our freight audit platform in sync with your TMS, we validate all outgoing billings, centralize and maintain the complete rate structure, and make sure your service commitment is aligned with client expectations.

SWG was created by industry veteran Steve Walker to facilitate the future of freight forwarding as it evolves into the digital age. His exceptional depth of experience ranges over 40 years and spans three continents. He has helped a wide range of clients achieve success by focusing on building and selling companies, supporting management teams and mentoring senior executives.

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