Paying the bills

Automated freight payment pioneer starts new venture to further refine process.

By Chris Gillis

With today's available automation, it would appear that paying the right carrier the right amount at the right time should be a straightforward process for shippers, but that's still far from reality.

"Unfortunately, transportation payments are very complicated when one considers the number of potential exceptions that can occur," said Richard G. Langer, managing partner of newly formed consulting firm Quetica, which specializes in helping shippers and carriers with their automated freight payment inefficiencies. "This complexity causes shippers to pay in error, resulting from duplicate, erroneous and overbilled invoices.

Langer

"It's not uncommon to see shippers paying 5 to 9 percent of their transportation spend in error," he said.

The difficult nature of transportation payments results in issues for carriers as well. Langer estimated that 2 percent to 4 percent of a carrier's receivables are billed below the contracted rate or not billed at all.

"Most underbilled invoices are simply paid as billed by a shipper's payment process," he explained. "As a result, the carrier rarely knows they have even been short-paid, because they think they charged the right amount."

Carriers also struggle with bills that don't pass the shipper's pre-audit or accounting criteria, causing long hold periods. "The impact on a carrier's day sales outstanding and the resulting unpredictability of cash flow can have a significant impact on the financial health of the carrier," Langer said.

Langer has been studying and implementing automated freight payment systems for more than 15 years. Previously he was part of a digital document sharing and print startup firm in Minnesota in 1995. What perplexed him was how many companies still transacted the payment process with paper invoices.

"I told myself 'there's got to be an easier way,' and developed a business plan," Langer said. "While I shopped the plan around, I focused on the freight transportation niche, which already had a long history of outsourcing payment audits."

In 1997, First Bank (now U.S. Bank) agreed to fund Langer's business plan and its startup, which led to the formation of PowerTrack. "Unlike the other players who told companies to send us your paper and we'll audit and process it off the paper, we said why not automate the entire process end to end."

PowerTrack quickly attracted some large shippers, such as Wal-Mart, Best Buy, Honeywell, Nissan, Ford, BP, Sunoco and Home Depot, and even led to the U.S. Defense Department declaring the system its sole automated system for paying carriers in 1998. The system's business increased a whopping 50 percent a year.

In 2009, U.S. Bank decided to create a joint venture with Visa using the PowerTrack technology. With the Visa joint venture, PowerTrack became Syncada. As part of the transition, Langer departed as chief operating officer at the beginning of 2011 to pursue new activities.

"I've always enjoyed the startup phase of organizational development," he said.

Today Syncada connects with about 46,000 users and processes more than $15 billion in freight invoices. The company has a presence in 48 countries and manages transactions in 14 currencies.

There are also several large freight payment vendors, including U.S. Bank and Cass Information Systems, but the majority of the market manages payments either via their transportation management systems, enterprise resource planning systems, or manually with the help of spreadsheets.

Other large banks and investment firms, such as Citigroup, JPMorgan and American Express, have taken an increased interest in the financial side of the supply chain business. The U.S. transportation spend is estimated to be about $750 billion a year, and only about 10 percent of that is outsourced, so there's plenty of room for these firms to grow.

However, problems with delivering accurate billing and freight payment remain a pervasive problem for many shippers and transportation providers. "There are potential failure points throughout the end-to-end process," Langer said.

For domestic freight, the process generally starts when the carrier receives a tender for shipment. In this case, the trucker enters the tender into its dispatch system. The driver picks up and delivers the load. The signed paper shipping documents, such as the bill of lading, scale tickets, and accessorial proof, is returned to the trucker's billing department. The trucker's accounts receivable clerk must review the information and prepare the invoice.

"Problems occur because carriers lose shipment documentation, lack effective pricing processes, have difficulty mapping and sending electronic invoice data, or leave out additional charges that could be disputed to avoid payment delays," Langer said.

Next, the shipper receives an invoice, often in paper form, and prepares it for processing. The invoice needs to be loaded into a system configured for processing the payment between the shipper and carrier. Issues arise because the carrier's billing system uses different data definitions and values than the payment processor's system. The shipper's system may define units of measure and accessorial charges that are different from the trucker.

The invoice is put through a tedious audit, such as determining if this carrier and invoice is a valid vendor for the shipper, and ensuring the shipper's bill of lading and the invoice data match. The audit also checks the contracted price of the line haul transportation, fuel and other surcharges, and valid accessorial charges. Then a further series of audits check valid origin/destination combinations, service levels, warehouse numbers, and duplicate checks on invoice and bill of lading numbers, and other relevant transportation data.

Once the invoice is validated, the shipper has to book the expense appropriately in its financial system. But getting the right information associated with the invoice isn't without its own complexity.

"A good automated freight payment system will be able to receive a feed of valid accounting codes from the shipper's financial system and configure rules by which general ledger codes can be automatically assigned to classify the type of expense and the cost center responsible for the payment," Langer said.

When discrepancies are found in the bill, they are held. "The result is a lot of manual work for the shipper and a strain on working capital for the carrier," he said.

Ideally, the carrier should be able to correct billing errors through online tools, generate new invoices and issue credit or debit memos. Combined with properly configured approval rules and workflow, a payment processing system could automate the approval of corrected invoices for payment within an approval limit and reasonable time. Langer said improper configuration can result in a much higher percentage of manual versus automated processing, reducing the benefits and increasing the costs of the process.

For payment, the automated freight payment provider will generally once a week request a funding file from the shipper for all payables scheduled to be paid (due or past due) the following week. The shipper sends a bulk payment electronically, funding the total of all payments due in the following week. The funds are held by the automated freight payment system until the due date when they are either disbursed by check or automated clearinghouse to the carriers.

"The challenge in the process is the shipper wants to hold onto the cash until the last possible moment and maximize their days payable outstanding," Langer said. "But this is at direct odds with the carrier's need to reduce their days sales outstanding and get paid as quickly as possible.

"Integrating a quick payment program, where the carriers can pay a fee for immediate payment, depending on their terms with the shipper, can alleviate that pressure," he said. "It can improve the financial health of the carrier, while allowing the shipper to continue to effectively manage their working capital."

An automated freight payment process requires detailed supply chain information for proper auditing and payment. This same information helps shippers make effective management decisions, including analyzing daily traffic, sourcing carriers and optimizing the supply chain network.

"The focus is on quickly getting to the key data that is needed to make informed decisions," Langer said. "Too much data, the wrong data and/or too much work to get at the data means the value is not being gained from the process and money is being left on the table. The information should be normalized by mode for traffic analysis, sourcing and network optimization."

Yet an automated transportation payment system is an extremely complex undertaking. It requires deep knowledge of transportation, technology, banking and payments, as well as project discipline.

"Most companies struggle to implement a solution, because they depend solely on the outsourced vendor or the software provider to have an optimized system," Langer said. "But they don't effectively implement it to get the value out of the tools to apply them to their process and needs. The result is they may be paying high fees to the provider, and still overpaying their freight bills."

Langer developed Quetica to help companies and automated transportation service providers to properly source and implement these audit and payment systems and their capabilities. "Our goal is to reduce that 5 to 9 percent of the total transportation spend that is still being paid in error, because organizations haven't leveraged the controls of a proper automated freight payment system," he said.

The company has attracted a number of banks, shipper clients, carriers and freight payment systems providers, such as Citibank.

"Over the past 15 years Citibank has successfully built one of the largest trade finance and payment solutions in the global supply chain. Quetica has been working with Citibank to help leverage their trade finance and payment solutions to provide a world class transportation payment, audit and carrier payment finance products for their commercial and government customers," Langer said.

Citibank has a long history in the international air cargo market and earlier this year signed an agreement to include Syncada's processing and payment capability in its working capital and supply chain management offering ("Citi, Syncada enter partnership," **www.AmericanShipper.com**).

Quetica is also launching a service to help carriers more effectively manage their receivables when interacting with automated transportation management programs.

"With complexity of different contracts, tariffs and accounting requirements, the 2 to 4 percent carrier unbilled or underbilled rate is not trivial," Langer said. "At the same time, carriers must have significant working capital to run their daily operations, with receivables outstanding for 45 days on average. With a typical margin for truckload companies ranging from 3 to 7 percent, it's easy to understand why effective management of receivables is a critical issue.

"We want to help carriers price correctly, bill electronically and collect on a timely basis," he said. "Helping carriers get access to more and flexible financing options is a critical component of this effort." ■