WHITE PAPER

Taking Freight Payment Around the Globe

The challenges, rewards, and how to move forward

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Introduction

Today more than ever, logistics leaders are taking an increasingly global approach towards transportation management. The establishment of formal control towers, which provide centralized oversight, guidelines, and often procurement support, is a testament to this. And with transportation costs increasing around the world, cost controls and visibility are more important than ever.

Freight audit and payment—the process of putting controls in place around the auditing and paying of freight invoices, as well as extracting the data to create detailed visibility into spend and shipment activity—is a practice that has historically been limited to North American companies and practiced within the confines of those borders. Shippers who have a solution in place overwhelmingly testify that it is an essential management tool. Yet as global managers look to standardize practices for managing costs and gaining global visibility to spend, they come face to face with several challenges. Gaining spend visibility and consistent spend management processes outside of North America is surprisingly elusive. One reason for this is that the standard North American business model, in many ways, does not quite work elsewhere.

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> **Freight payment services continue to go global. Freight audit and payment services are well-established in the U.S. and are becoming a more common concept in many markets across the world. Shippers are increasingly extending their supply chains into new markets around the globe and taking their expectations about freight audit and payment along with them.** [1]
>
> Gartner

Within the last ten years, shippers have begun in earnest to export their expectations for disciplined invoice management processes, cost controls, and visibility to freight costs.

1. De Muynck, “Market Guide for Freight Audit and Payment Providers,” Gartner, 12 Septemberr 2018, p. 9

But freight payment solutions—whether implemented internally, in even rudimentary ways, or outsourced to a specialist provider—are still surprisingly rare outside North America. In Europe, the concept of outsourcing business processes in general, let alone freight payment, is still gaining mainstream acceptance. Freight payment providers have been offering services in Europe for a couple of decades and today are seeing adoption rates pick up, but market penetration is still low. In APAC and South America, freight payment is almost unheard of. In the rare instance it is practiced, the shipper is guaranteed to be headquartered elsewhere.

Shippers can implement freight payment throughout their global enterprise a few different ways. They can partner with local providers (although hard to find in some parts of the world) who may have more experience in that market than providers headquartered elsewhere. Another option is to implement a single-provider solution that spans the client's global operations. Or of course, the shipper could patch together a combination of both strategies. No matter which approach is taken, the shipper will gain a great deal of process control, cost savings, and visibility. But only the single-source approach delivers single-platform global visibility, a uniform dataset, and process consistency (to the greatest extent possible) around the world.

The challenges leaders face when bringing their global counterparts up to the high standards they expect from a freight audit & payment solution are multifaceted and significant. They include cultural resistance, lack of standards in invoice format, and widely varying regulations. Executing the plan will have hurdles; there will be fits and starts. But it will put in place long-term improvements for cost management, procurement, freight accounting and any decision that relies on data. Basically, it is the only efficient way to get a global perspective on freight activity and costs. Perhaps surprisingly, shipment activity data can be better than TMS data because the freight payment platform reflects actual rather than planned shipment activity.

This whitepaper discusses the challenges of solution expansion, the dramatic impact of gaining global visibility and controls, and criteria to consider when evaluating global FAP providers.

Challenges to Implementing a Global Freight Audit & Payment

As executives look to implement greater spend control, visibility, and process standardization around the world, the challenges of taking freight payment global begin to emerge. Some of the biggest issues are described below.

Challenge #1

Lack of Invoicing Standards Outside North America

In North America, many freight carriers are capable of ANSI standard EDI billing, and that is the one format that is accepted and followed. This standard provides a high degree of efficiency and a rather smooth process for both the carrier and recipient. The data—usually very detailed—feeds a data warehouse and enables normalization of data and in-depth reporting.

But in all regions outside North America, there is no universal or even predominant invoicing protocol; rather, invoicing formats often vary to the degree of the individual carrier and its own preferences. Invoicing

remains largely paper-based or electronic but rudimentary (images or Excel). Even global logistics services providers use different billing formats in each country. One global parcel provider, for example, invoices via EDI, but each of its billing entities (sometimes one per country) use a different EDI version. The global shipper who's trying to bring some consistency to invoice and data management is in a weak position against this chaos. It's obvious why they often pay invoices as presented and don't capture anything more than rudimentary data.

Challenge #2

Government Regulations Impacting Payments Vary from Country to Country

Another major factor that adds to the complexity is that most countries (and sometimes regions within a country) have their own set of tax, toll, insurance, compliance, and privacy rules. These influence the fees that appear on invoices, how invoices may be paid, what data must be captured, and more.

Consider these examples around the globe:

- Almost every country outside of the U.S. has some form, and often multiple forms, of taxation that appears on freight invoices.
- Short-payment of invoices, while a common practice in the U.S. and Canada, is not permitted anywhere else. So that taxes can be properly collected, invoices must reflect the final amount (the amount that will be paid). Instead of short-paying, therefore, a variety of processes are used to gain agreement on the correct invoice and payment amount. A debit/credit process is most common in Europe. In China, when shippers have an audit process in place, a carrier issues a pre-invoice so the shipper or payment provider can execute edits before the final invoice is presented. In most regions, shippers and carriers collaborate using a detailed back and forth process to come up with a final invoice amount.
- In Europe, the VAT audit is consistent across the EU member states. But tolls, insurance, and other regulation can still vary from one country to the next.
- This is also true in Latin America. In Brazil, for example, to ensure that taxes are paid in full (i.e. to combat corruption), carriers must file invoices with the Brazilian tax authority, who in turn issues a CTe (Conhecimento de Transporte, or transportation invoice) to the shipper. Brazil is one of the most complicated places to audit a freight bill because it can include federal, regional, and city taxes, plus tolls and insurance. An audit system must be sophisticated

enough to calculate these charges (often based on to/from combination) in order to derive the carrier's invoiced rate. If the shipper or its designate disputes an invoice, it must reject the bill and wait for a new one to be issued.

- In some Asian countries, one invoice may contain hundreds of shipments. And compared to Europe, where there is a harmonized legislation on VAT (EU Directive), this is not the case in APAC. This means that each country has its own tax regulation.
- Trade agreements between different countries add yet another layer of complexity, with a direct impact on what data points need to be captured and accounted for on any given freight bill.

All of this demonstrates why there is no such thing as a standard global freight payment process. Providers have no choice but to implement regional procedures while providing as much global consistency as possible.

Challenge #3

Cultural Norms Can Create Resistance

Before addressing regional differences in processes, the first headwind executives will face is the resistance to change, especially where freight payment is a relatively new concept. Selling the idea will be the first leg in the journey towards global standardization. The executives leading this project should not underestimate the strategic thought and intentional communications necessary to break down barriers and gain buy-in.

In-country managers often struggle with an expected loss of control when adoption of standardized practices (much less outsourcing that process to a third party) is mandated. This is especially the case where there has historically been a lack of process or discipline around administration, documentation, and adherence to business rules and processes.

There are still places, for example, where business is consummated with the quintessential hand shake. Nepotism, vendor favoritism, and even bribery still happen, even at the largest companies. Many times, clear, auditable contracts don't exist. So, this lack of documentation and accountability creates hurdles. For example, in a culture of not wanting to unsettle a relationship, disputing an invoice would be considered rude. However, when a non-biased third party enters the mix, the shipper no longer has to be the bad guy. The new processes are what they are, and if everyone simply does their part, everyone will be happy.

The introduction of accountability extends to all parties:.

- Detailed carrier contracts outline clear rate structures and other contractual obligations for carriers; there is no ambiguity. Carriers must make best efforts to invoice according to the contact.
- If 3PLs do the billing, they are also accountable for accuracy.
- Local logistics staff are relieved of the pressure or ability to overpay.
- The audit and payment provider is also held to well-defined processes; again, these are unambiguous and consistent across all logistical services providers.

Finally, many countries have deep cultural practices about using nationalist suppliers and vendors. Where these beliefs run deepest, the freight payment companies need to face this head on by investing in local offices with local employees and operations.

The good news is this: Even where the process starts with resistance and requires a change management effort, in-country managers become converts once they begin to see how much more powerfully they will be able to manage their own operations.

Compelling Reasons for a Single-Provider Global FAP Solution

It is clear there are many challenges for global companies who wish to gain control over transportation costs, but there are many high-value reasons to act.

Wherever the global logistics management team sits, it is tasked with understanding and influencing transportation costs in all regions. Yet in 2019, it is still not uncommon for a shipper to say, “We have a general idea of how much we’re spending, but don’t ask me to tell you how the money is being spent.” And oftentimes, once an audit and payment solution is implemented, they discover that their general idea was low by a rather high percentage.

Business practices generally dictate that where it makes sense, vendor consolidation is a smart move. In this case that certainly holds true. One solution—which ideally will offer a global account management team—can deliver a high level of consistency in data and payment management while customizing processes to meet regional requirements. Additionally, having payments flowing through a single provider delivers stronger financial management and controls for the client organization.

In contrast, with multiple, more regional providers, the extraordinary benefits of freight audit and payment are (or should be) achieved. But the business intelligence and reporting must be accessed through disparate portals. Level of granularity, reporting capabilities, and data formats will differ. And if the shipper has successfully implemented a global ERP, it must now integrate with multiple suppliers instead of one. The shipper will also have different levels of risk exposure by using payment providers with varying degrees of financial safeguards.

Following is an overview of the transformative benefits of a single-provider freight payment approach.

Global Spend Visibility, in a Single Platform

In 2018, Gartner reported, “The biggest value of an FAP solution, however, is added through the business intelligence that a freight bill payment provider generates, as well as the key insights into the customer’s freight spend … It is essential for companies to know their true cost per shipment at the line-item level.” [2]

The most obvious advantage of a global freight payment rollout is having anywhere, anytime access to transportation costs in a single system. Most providers are adept at providing reporting down to the carrier, plant, accessorial, cost center, or just about any other criteria.

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2. DeMuynck, “Market Guide for Freight Audit and Payment Providers,” Gartner, 12 September 2018, p 11

Such visibility allows for understanding. It provides answers when questions are asked. The data can explain why shipping costs are up even though sales are flat. Or it can help a shipper decide when to move to rail because truckload prices are relentlessly rising.

Because the shipper knows how the data was extracted, integrated, and accounted for, the system becomes a trusted and reliable record of payments. The rich dataset provides an unprecedented opportunity to constantly gain insights that allow them to operate more efficiently and streamline transportation and operations around the world. As a result, global companies can focus more attention to strategic transportation initiatives that drive tangible benefits over the long term.

Reliable, paid data delivered by an FAP provider improves the performance of global and regional logistics and accounting groups resulting in a significant return on investment for implementing a global solution.

- **Better planning and forecasting.** Rigorous analysis of the data can provide a strong foundation for planning, budgeting, and forecasting. It becomes possible to forecast the cost repercussions of change. Here is a small but meaningful example. New regulations are set to go into effect on January 1, 2020, mandating reduced sulfur emissions from container ships. Projections suggest that the increase in the cost of ship fuel – and the cost passed on to ocean shippers – could be as much 50%. To plan for the impact of this, the shipper needs to understand its ocean fuel surcharges in 2019.

- **Informed, global procurement events.** The procurement process for transportation services can't be managed effectively if the shipper lacks the information carriers need to submit their best bids. A global business intelligence platform allows you understand spend per lane, number of moves per lane, LTL vs truckload usage, accessorial costs, the total opportunity being bid on, and so on. Shippers will also have added insight of existing carrier performance, such as amount spent on unplanned accessorials and frequency of invoicing errors. If the freight payment provider also processes the company's freight claims, this can also be incorporated into the bid.

- **Global contracts.** Shippers often have a few logistics providers they use across multiple countries (at least for parcel, if nothing else). Why not put one global contract in place instead of one contract per country? A global manufacturer of electric components did this for its parcel and ocean services and, by leveraging the spend volumes of the entire organization, reduced costs by several million dollars/Euros.

- **Understanding of costs at the product level.** With cost allocations taken care of through systematic rules, calculation of landed costs is possible, thus providing a better understanding of margins and profitability at the product level.

- **Cost-cutting initiatives.** It's only when you can see problems that you can act on them. With an abundance of actionable data to analyze, shippers will not run out of cost-cutting projects. These often include projects such as decreasing a particular accessorial charge, educating employees on the impact of selecting unnecessary parcel services, or consolidating carriers.

Sizeable Audit Savings

While shippers agree the biggest savings are derived through using the data, audit savings are also impressive. Companies can expect to save 1-4% of their total freight spend solely by identifying overcharges and eliminating duplicate payments. For every $50 million in spend and a conservative 1.5% cost reduction, the savings are $750,000. This alone should exceed provider fees and will be enough to drive a positive ROI.

Process Efficiency, Discipline, & Improvement

A third-party freight payment provider will introduce a well-documented and systematic process into your logistics operations, creating process efficiency, discipline and accountability. Rather than multiple full-time resources struggling with paper invoices, locating supporting documentation, answering calls from carriers about payment status, and the many other tasks that come with managing thousands of freight bills, this is all offloaded and automated.

A new process like this creates discipline for shippers and carriers. Carriers will improve their billing accuracy; shippers will keep their rate tables current; and the only way to pay freight bills will be through this process. Process automation creates access to process metrics. Knowing the number of exceptions, invoice rates by carrier, or which high-volume carriers can be targeted for EDI billing all creates the opportunity for continual process improvement, which can reduce freight payment fees, improve first-time throughput, and increase the number of on-time payments.

Maximization of Working Capital

The longer a company can hold onto its cash, the greater the impact on cash flow. But consider a situation where a shipper lacks the controls to cycle carrier invoices to terms, and therefore pays its carriers far too early on a regular basis. If its annual freight spend is $100 million, but invoices are paid, on average, 10 days early, then getting those 10 days back will increase working capital by $2.7 million.

Freight payment solutions provide this discipline, of course. Some of the providers in the space also offer specific programs to boost working capital. One example is supply chain finance—where shippers extend terms and carriers are provided early payment options.

Carrier Visibility and Support

Besides frequently paying carriers too early, shippers also frequently pay their carriers too late. Making a habit of this makes you a less desirable client and puts your supply chain at risk.

To support carriers, FAP providers also provide portals and support centers so that carrier accounts receivable staffs can get quick answers on invoice status and other questions they have about payments. This saves the shipper from fielding these calls, and it improves the carrier experience by getting more timely answers to their questions.

9 Criteria for Choosing a Global FAP Partner

As a vital link in the supply chain (ongoing carrier payments keep trucks moving), selection of a global FAP partner is a strategic decision. To help shippers evaluate their options, here is a list of key criteria to look for when evaluating vendors.

Global Experience

Look for an FAP partner that currently services clients in your global regions. Request information on number of invoices processed, amount paid, and currencies paid. Ensure an understanding of all modes by asking how they process each one. Also, find out if these processes are clearly documented.

Global Physical Presence

Select a partner with an established global presence. They may not have offices in every country but should be spread out enough to provide support in the necessary regions. Where you know your constituents will require a regional physical presence, see if this is currently in place.

Payment Security

How much spend will your freight payment partner be collecting and passing to your logistics providers? With this amount in mind, it's clear why strong financial controls are critical. The freight payment market can be differentiated into two types of providers: those who have financial and accounting controls that conform to government regulations (because they are public or a bank) and privately held providers. Those in the regulated category must conform to detailed accounting requirements, maintain required capital levels, have a board audit committee in place, and file regular financial statements available for public inspection at any time. Because this industry has seen multiple instances of the misuse of shipper funds, we recommend reading this post for further understanding.

FreightWaves writer John Paul Hampstead, when writing about one provider's bankruptcy in early 2019, may have said it best:

> “One of the questions that remains to be answered is why large publicly traded enterprises would entrust a large freight spend with a small, opaque payments services company rather than with a regulated financial institution with deep pockets of its own.”

Source: https://www.freightwaves.com/news/dissecting-the-ips-worldwide-bankruptcy

Robust Audit

In audit, there are universal best practices and regional best practices. Universal best practices include the use of matchpay systems, whereby invoices are matched against rated shipment files. A buyer should look for a robust rating engine that covers all your geographies and advanced duplicate protection controls that look at data fields such as bill of lading number, PO number, type of invoice (linehaul vs. balance due vs. separately billed accessorials), shipment date, and type of charge (service, accessorial, etc.). Ask about the provider’s full range of duplicate controls, which should go further than this.

Audits are regionally unique because of taxes, tolls, and the many other charge types we’ve highlighted. The requirements for best practices are too long to list here, but when a shipper compares providers, the differences in sophistication levels will become apparent.

Advanced Payment Capabilities

Today’s shippers demand more than a provider who can simply take in funds and pay carriers. They want flexibility that supports their financial priorities. For example, they may want to fund once a week, or five days a week. They are also looking for cash flow solutions for their carriers (early payment programs) and supply chain finance programs that make it easier for them to extend terms. These capabilities are typically provided by the bank providers who have the necessary infrastructure and financial savvy. Additionally, shippers should require transparency (for themselves and their carriers) into each payment made.

Financial Stability

Widely reported bankruptcies and financial irregularities among payment providers highlight the need to select a provider with long-term financial stability and a reputation for transparency. A third-party payment provider – regardless of the type of payments being made – should provide to its prospects and clients independently audited financial statements without hesitation (if not publicly available). Shippers should request operational and audit reports such as SSAE18 Type II, onsite visits and permission to conduct their own audit. With publicly held companies, quarterly and annual earnings reports are always available. Look at these quarterly. If trouble is in store, you'll see it long before it affects your operations.

Robust Reporting and Business Intelligence

Look for the ability to generate a full range of reports, from high level dashboards to detailed product, location, code cost, or accessorial reports. Integration with your ERP and/or accounting system (or multiple systems) should facilitate the automatic receipt of cost accounting and accrual information. The online portal should also allow for user access levels based on the user's role or region.

Full Carrier Onboarding

This is an important service to expect. Do not let a provider put it on you to drive carrier onboarding. Outside North America, this is time-consuming and difficult process, especially for carriers who have no experience with freight payment providers. Ask about the provider's commitment to bringing your carriers up properly. You also want to ensure the provider offers a library of billing file formats, so carriers are not forced into a highly impractical billing method.

Any FAP partner should be able to accept the entire range of data formats, from paper-based transactions to spreadsheets to comma separated value files and beyond. Ask specifically to see examples of how these are handled.

Data Security

Some of the sensitive data managed by your FAP partner will include carrier contracts, rates paid, shipper and carrier contact information, and shipper and carrier bank account numbers. Look for a strong investment in cyber-security.

Cass Global Capabilities

As freight audit and payment outsourcing gains growing acceptance around the world, Cass continues to grow its global presence. With six decades in the business and **over $28 billion in managed freight spend**, Cass has the experience and depth of knowledge to take on global FAP. Serving a diverse set of shippers with highly complex needs, we've become adept at solving the most complex auditing, data management, and accounting challenges.

Our advanced technology allows for extremely customizable and detailed cost allocations. Whatever level of granularity is necessary for you to accomplish your goals, Cass can deliver.

Regulated by the U.S. Federal Reserve and SEC, and the Dutch Central Bank, Cass provides unmatched security in terms of funds protection. Our sophisticated financial exchange capabilities include benefits such as precisely timed payments and unique supply chain finance and payment programs for both shippers and carriers. Through Cass's global electronic payment network, logistics service providers can be paid in 114 currencies.

Case Study: Schneider Electric Gains Global Visibility to Ocean, Air & Parcel

See how the data has enabled significant cost-cutting initiatives, and how the audit savings are making a real impact on transportation costs.

Read at www.cassinfo.com/resources.

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Cass Information Systems (NASDAQ: CASS) is North America's largest and leading provider of freight audit, payment and business intelligence services. Clients include Ford Motor Company, Emerson, The Hershey Company and Restoration Hardware. Cass processes more than $28 billion in freight spend each year on behalf of its clients.

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