WHITE PAPER

9 Reasons Logistics & Finance Leaders Don't Rely on TMS for Freight Audit & Payment (FAP)

Although implementing the freight payment module of your TMS may seem like a logical evolution, it comes with risks that may not be entirely evident. That's why today's shippers continue to rely on their TMS to automate logistical functions and a freight audit & payment (FAP) provider to preserve strong financial processes & controls, excellent carrier relations and accurate visibility to data.

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Introduction

Shippers today rely on Transportation Management System (TMS) solutions to drive down distribution costs and realize competitive advantage.

While a TMS is a vital platform for planning, route optimization, carrier selection and tendering, most supply chain leaders are not utilizing TMS modules to perform freight audit and payment (FAP). Instead, they prefer to outsource freight payment functions to third parties that deliver an integrated solution. Why? Shippers have many reasons, all depending upon their particular supply chains.

This paper details the various reasons large and small shippers combine both solutions – a TMS and an outsourced FAP arrangement. The overarching reasons a shipper outsources freight payment are not just that the process delivers reliable results at an exceedingly low cost, but also because using an FAP provider mitigates risk, improves data quality and allows shippers to be more agile.

The Evolution of TMS and FAP – the Road to Simplicity

> FAP outsourcing delivers a whole solution – software, systems and human capital.

Today's supply chains are more complex than ever.

Stressed by both globalization and successive years of increased ecommerce demand, most shippers are actualizing large-scale transformations in their supply chains. Such changes include building more distribution centers in secondary markets and re-engineering last mile delivery due to higher volumes of small shipments to consumers. TMS solutions have evolved to rescue shippers overburdened by today's complexity. Even small shippers can now benefit from TMS offerings that are cloud-based and less cumbersome to deploy.

Initially, shippers relied on a TMS to provide freight load tendering (electronic order management). These systems evolved from simple ordering to load planning and carrier selection for outbound shipments. Today, some TMS solutions are more sophisticated platforms that address inbound and outbound; multiple transportation modes (truckload, less-than-truckload, ocean, air, rail and expedited parcels); and optimization of complex moves (continuous moves, route splitting, hub-and-spoke, etc.).

Comparing best of breed TMS and FAP solutions

Generally speaking, TMS solutions still deliver the most value at the front end of the process – ordering and optimization – while FAP providers specialize in the back end – invoice audit and secure payment transactions. FAP solutions are technology-based, with the core application running largely behind the scenes to match order records with incoming invoices; apply logic to validate the invoice; audit the amount against contract provisions and rate tables; apply GL logic and generate GL files; make payments; and manage carrier inquiries and disputes. A key differentiator between TMS and FAP solutions is that, while a TMS comprises only technology (on premise or cloud-delivered software), FAP outsourcing delivers a whole solution – the software, systems and human capital to deliver end results.

People are a big factor in the overall FAP value proposition.

Specialized teams within the freight payment provider operate the systems and software, work proactively with freight carriers to reduce invoice errors and paper documents, and provide client consultation on how to continuously improve the business process. FAP staff ensure updated rate tables are loaded into the system; they manage a universe of freight carrier profiles; they set up and test facilities to exchange EDI; they manage exception processes so that any valid invoice gets paid accurately and on time – even if the shipment was never tendered through TMS.

TMS and freight payment outsourcing are both vital to the success of today's shippers. Here are the reasons it's become a best practice for shippers to combine these solutions.

REASON #1

Complexity Doesn't Breed a One-Platform-Fits-All Reality

Some logistics experts envision a utopian supply chain in which a single, global TMS manages an organization's entire universe of shipments. In that scenario, the same platform might theoretically be used to manage audit and payment – and eliminate the need for an FAP provider. In practice, however, centralized control of logistics is not typically achieved through the use of a single software platform (ERP or TMS) for a variety of reasons.

Today's supply chains are too complex and too dynamic. And just because a TMS is *capable* of managing a particular mode or shipment type doesn't mean the shipper finds it *feasible* to use one TMS for everything – all modes, all geographies, all business units, etc. In practice, businesses have specialized processes to fit unique situations.

What about shipments managed outside the TMS?

As an example, the business may have a very small percentage of shipments via a particular mode, so those shipments are handled separately. Or, they have very high volumes in another mode which might make an alternative process more practical. Or, everything in North America runs through one platform, but South America is different. Or they just acquired a company with a different TMS, so they operate with two. Or, they have a separate process for reverse logistics. Or separate divisions operate with different TMS solutions because there is no cost justification to migrate to a single platform. Very often, inbound shipments are managed outside the TMS. These special circumstances abound in every supply chain. Even smaller shippers usually have enough diversity in their supply chain to prevent a "one-platform-fits-all" operation.

Multiple systems feed the supply chain control tower.

A more common practice among supply chain leaders is to adopt a "supply chain control tower." In a control tower model, the shipper relies on a number of business partners and systems – with accurate data being shared among systems that feed the control tower.

REASON #2

More Than Ever, You Really Want to Pay Your Carriers On Time

With today's improving economy and a shortage of truck drivers, capacity in the freight market is tight. More than ever, shippers face the urgency of getting carriers paid on time and accurately. Why? For two reasons: First, you want to keep your carriers in business. Many logistical service providers are small business owners. More than 90% of U.S. trucking companies operate six or fewer trucks. And if you are one of their key clients, inefficiencies in your TMS payment automation could actually put a small carrier out of business, particularly if slow payment becomes systemic. Second, you want carriers to view your company as a shipper of choice so you can utilize the transportation industry's best providers. A company that over-taxes the carrier's accounts receivable staff and is chronically late making payment is not the carrier's friend.

A best-of-breed FAP system generates high-volume, “touchless” throughput and a small, manageable number of exceptions. Many carriers prefer working with freight payment providers – they use EDI standards, their processes are already known, payments are more reliable – which puts less strain on their accounts receivable teams. A shipper with an inefficient process can create a significant backlog of aging receivables, forcing carriers to chase down their payments. Most shippers realize that creating payment friction is no way to treat their valued supply chain partners – particularly in this tight transportation market.

What can possibly go wrong?

A few Cass clients that experimented with using a TMS for freight invoice processing have reported that, so far, these projects have either stalled or have been scrapped due to inefficiencies and lack of throughput.

One large manufacturer, using an internal FAP process powered by its TMS, said they simply could not manage the complexity of rates and the volume of exceptions. Invoice exceptions were routed to a web portal where both the carrier and shipper collaboratively resolved each issue. The shipper found that carriers were exceedingly slow to work the exceptions. A large backlog of exceptions (3,000-4,000 invoices) were stalled in the queue at any given time.

Exceptions can be caused by either party. Timely management of exceptions on the shipper side (caused by missing GL codes, for example) can be handled by the FAP provider, so that only a smaller subset of issues remain for the shipper to address.

Because timely, accurate payment is paramount, shippers are staying with the specialized services of FAP providers rather than put the process at risk by re-engineering their TMS platforms to process and pay invoices internally. FAP providers work toward continuous improvement and even lower their own costs when they improve system throughput.

Additionally, the carrier saves money. A small carrier with 20 clients has a much easier time visiting the Cass portal, for perhaps 10 of its customers, and other FAP provider’s portals for 3-5 others – instead of having to log on to 20 individual customer portals to resolve payment issues. Cass and other FAP providers maximize processing and payment efficiencies, which serves both shippers and carriers.

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REASON #3

Maintaining "Audit Quality" Rate Tables in a TMS Isn't Feasible

> Setting the tolerance level too high will cost big money – millions over time.

Comparing rating engines of TMS & FAP systems

Both TMS and FAP systems use rate tables, but the data is not identical. The TMS rate tables are usually maintained at a level to support route planning, carrier selection and ordering. In contrast, the FAP system's rate tables are maintained at a much more detailed level to enforce tight financial controls.

A good way to appreciate the distinction between these two types of rate tables is to think of rates as being either planned or unplanned. The TMS will maintain data for planned costs such as basic linehaul rates and a few others such as refrigeration or special handling. In contrast, the FAP system's rate tables support automation to adjudicate just about any line item cost – planned or unplanned – that might show up on an invoice.

Every carrier contract specifies a long list of "accessorial" fees. Such fees include: tolls, palette shrink wrapping, detention, stop-offs, re-weigh, loading/unloading, out-of-route deliveries, after-hour deliveries, tailgate lift service, re-consignment charge, diversion, dead head miles, or fees for a truck ordered not used (TONU). These rates must be distilled from individual vendor contracts because carriers all publish their own unique lists.

Is the rating engine really this important? Yes!

A precise, audit-grade rating engine enables an automated process whereby shippers can reject or short pay invoices within a small variance of the estimated charge. For example, you can set your tolerance level so that the system approves payment of any invoice that is within $10 of the estimated amount for truckload or $5 for LTL. With accurate data and a sophisticated rating engine – one that calculates linehaul rates, fuel and accessorial charges – you can set a small tolerance level for each mode. This is a core competency of FAP outsourcers – the audit.

If you don't have sophisticated freight rating capabilities, your rating engine will produce rates that are way off the actual invoice amounts. And unless you set high tolerances for these discrepancies, the system will flag too many invoices as disputes. But setting the tolerance level too high will cost big money – millions over time. (An added $25 tolerance allowed on 100,000 invoices will cost you a quarter of a million dollars.)

In order to perform audits within a TMS, you will require more labor to maintain audit-level rates. Maintenance needs are high because audit-quality rate data is more extensive, but also because these rates will change with every new contract, as you add new lanes, with new carriers, etc.

And how many carrier rates do you maintain today within the TMS? Often shippers load only their core carriers' rates – and not the rates of carriers used in lanes with little or no competition. And again, what about invoices outside the TMS process? All of these, too, must be rated and paid. So now you're talking about a significant amount of additional labor to track more data from more carriers, and you'll need to hire more TMS support staff.

Maybe the answer is simply to make the investment in staff and software to beef up the data quality of your TMS rate tables. So what if you incur the added cost to maintain this data? In the final analysis, maintaining audit-quality rate tables is specialized and labor intensive, and it's better to obtain this value through outsourcing than to pay for it internally or operate without the control.

REASON
#4

FAPs Take Accountability for Data Quality

Data quality is essential. By using a managed FAP service, shippers are enlisting a team of experts to normalize data from disparate systems. As mentioned before, many organizations are challenged to tender all shipments through their TMS. Intercompany shipments and inbound shipments often originate outside the TMS. And it's very common for organizations to use multiple TMS solutions. For the company that has grown through acquisitions, operating separate systems may be most practical for a short or even extended period.

For most shippers, the options are (1) to outsource to an FAP provider that will normalize data from their disparate systems, or (2) centralize and normalize all data internally. The FAP provider has the people, experience and best-practice systems to normalize data from different geographies, business units and currencies. Most supply chain leaders push all their shipments through a single FAP provider to cost effectively derive a centralized view of their costs.

REASON
#5

No One Wants to Contaminate the General Ledger with Bad Data

Bad data hurts the whole organization – especially if it's fed back into your ERP or other core systems. Cass works with each client to produce a highly customized level of GL mapping so that every customer is able to analyze costs in a way that is meaningful to their organization.

Companies estimate the cost of their shipments for accrual purposes. But when invoices are paid, and the actual costs are different from the planned costs, many companies simply adjust the accrual amount, but they may not be able to preserve detailed information about the reason for the discrepancy. When this level of information is lost; your visibility is diminished. You may think one carrier outperforms another on cost, but the truth may be hiding somewhere in information you can't see.

Visibility to actual vs. "planned" costs

Shippers need to know why actual costs differ from the originally projected "planned" costs. Remember that the domain of the TMS has been the upfront plan and not the backend settlement. In some other procure-to-pay processes, the delta between original PO amount and final invoice may be a small factor. Not so in freight, where 25% of your shipments might require reweighs. Or 11% incur unexpected tolls. Or 70% of last month's shipments were affected by weather-related re-routing and detention. Or certain routes always incur 15% additional costs for unloading.

> "You can't have accurate accruals when you have incomplete or inaccurate rates.

And back to the topic of maintaining complete rate tables. You can't have accurate accruals when you have incomplete or inaccurate rates. And how do you accrue for shipments managed outside the TMS?

A good FAP provider can build the exact GL customization you want. This painstaking aspect of freight payment drives superior data quality that supports accurate cost allocations and sophisticated supply chain analysis. A best-practice FAP solution provides visibility to accurate freight cost data – the real cost, broken into its component parts – including fuel and accessorial costs. FAP solutions provide actual costs by lane, carrier, division, product, and down to the SKU if desired. It also allows analysis of linehaul rates versus all types of accessorial costs.

As mentioned earlier, an FAP solution comprises human capital. So the FAP provider consults with its clients to establish GL allocation logic for all types of transportation moves – not just those tendered through the TMS. Then the FAP system applies these business rules. Similarly, during a TMS deployment, consultants work with the shipper to establish these same GL routines. However, what about cost allocations for any shipments that are managed outside the TMS? The shipper must identify all transportation moves across the supply chain to ensure data from disparate processes are included in a master view.

REASON
#6

Outsourcing Allows You to Leverage Expert Human Capital

As stated earlier, an important distinction between FAP and TMS solutions is that a TMS is a technology platform, while an FAP solution is a managed service comprising expert human capital. Compared to any one shipper, Cass works with a larger universe of freight carriers, a larger universe of shipments, and a larger universe of modes. We see more situations across more companies. We know what situations fit within the norms of freight payment and which do not, and we are able to advise our clients accordingly and provide meaningful benchmarks.

So if you are using a TMS and managing FAP internally, you will encounter staffing needs at various steps in the process: paper invoice processing, EDI set up and testing, exception management, GL coding, rate maintenance, audit, escalation, payment inquiries, carrier electronic payment set up, reconciliations, payment executions.

For shippers that experience seasonal business, outsourcing is a means of harnessing specialized talent without a high, year-round cost. FAP solutions are scalable; once established, you can reduce or increase your volume levels much more readily than managing fluctuating needs for full-time logistics staff.

REASON
#7

Combining an FAP Solution with Your TMS Increases Your Agility

Most Cass FAP clients rely on a major ERP provider – SAP or Oracle – for core system needs, as well as one or more TMS platforms – where the TMS is an added ERP module or another commercial software product. Organizations continuously engaged in business transformation incur high costs to modify and re-deploy ERP and TMS platforms. These platforms are broadly encompassing, and the downstream consequences of making even a small tweak to the system can have unexpected or undesirable results.

When you use an FAP outsourced solution, you increase your agility. You can modify ERP or TMS platforms without affecting your payment process. You can change all your upstream processes without impact to the downstream (payment).

The ability to maintain strong financial controls during a cycle of major change is a strong incentive to outsource FAP. Cass provides a stable payment infrastructure so that clients can make transformative changes to other systems with the assurance of continuity in carrier relations and confidence that freight payments will not be disrupted.

REASON
#8

Working with an FAP Provider Creates Efficiencies in Managing Cash

Many organizations find value in the treasury management tools offered by the FAP provider. For example, the shipper makes one large payment to Cass; and Cass manages all of the smaller payments, settles payment disputes, and handles payment inquiries and escheatment. Cass maintains electronic payment facilities and EDI relationships with thousands of carriers. By doing so, Cass eliminates workload for its customers' accounts payable and treasury organizations.

Cass increases efficiencies for carriers as well; one large payment from Cass may cover multiple invoices for several of the carrier's customers, and it would include a detailed remittance making it easier for carriers' accounts receivable staff to accurately record the payments.

REASON #9

FAP Providers Lay the Foundation for Supply Chain Finance

Another advantage to FAP outsourcing is supply chain financing (SCF) – a tool for capital optimization that many organizations use to pay for raw materials and other large-dollar purchases. Generally speaking, SCF programs allow the buyer (shipper) to extend payment terms significantly – from 45 to 90 days, for example. Buyers would normally be reluctant to extend their terms and incur the risk of supplier friction or failure. However, when the shipper works with a large bank or other SCF partner, the bank/partner funds *early* payment to the supplier. And while the supplier can get paid early, the buyer doesn't have to give up its cash until day 90. The buyer is able to improve its capital ratios, and the carrier receives much-needed cash more quickly.

While SCF works well in some purchasing scenarios, it's difficult to use SCF for freight payments if the shipper is using a TMS-enabled internal process. Why? Because SCF programs are only feasible for large purchases. In transportation, the size of the invoice (small), the volume of the invoices (high), and the number of suppliers (carriers) further the challenges of managing a supply chain finance program. But because the Cass FAP system aggregates many small payments into larger ones, Cass offers clients opportunities in SCF for their transportation payables.

FAP Outsourcing Delivers Real Results

Imagine if your company had purchased a helicopterto reduce the cost of intracompany travel. In the first year, the helicopter saves the company money as compared to the cost of commercial airline flights. So in the second year, a policy is enacted to leverage the asset even further. More travel gets diverted to the helicopter. Soon, the helicopter is used to travel across town. Additional investments are made in helicopter landing pads. A cab or an Uber would have cost much, much less, but the policy was to route as much intracompany travel as possible through the helicopter. So the company kept customizing its helicopter infrastructure to support more use cases. Sound familiar?

The helicopter is analogous to a software asset. After corporations realize a positive return on their investment, they look for ways to leverage the asset even further. But all further "leveraging" of the asset should be evaluated against other options. Each decision should be supported by its own business case.

Getting the Best of Both Worlds

Even if your TMS *can* be configured to settle your freight payment transactions, will the new solution cost less to configure and maintain? Will it weaken your agility? Will it enable tight cost controls? Will it provide the granular level of detail you need? In general, will it deliver equal or better quality results as an FAP outsourcing arrangement?

In the real world, many companies have significant freight volumes that are not tendered through their TMS. And companies experience too many unplanned shipments, new lanes and emergencies that necessitate the use of other vendors and brokers whose rates haven't been loaded into the TMS. Valid invoices can arrive from unplanned situations as well as rogue purchasing.

The real world is where the FAP provider shines, in controlling these "management-resistant" situations, delivering maximum savings, paying legitimate expenses only, and then serving up information so the shipper has all the data it needs – for all of its shipments.

By splitting the front end (shipment planning, carrier selection, route optimization) from the backend activities (invoice audit, records matching, payment, financial controls, cost reporting, cash management) you can leverage a best-of-breed solution for each set of processes. Logistics and finance experts know this, and that's why they combine both solutions.

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www.cassinfo.com
US: 314-506-5500
Europe: 011 31 6310 10480

Cass Information Systems, Inc.