Cass Information Systems, Inc.

WHITE PAPER

Assess the Quality of Your Transportation Data

The 4 vital insights it must give you

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Introduction

In recent years, high-volume shipping organizations have been putting greater emphasis on gaining more precise visibility of their transportation costs in order to make better decisions and improve planning. A business process that has proven itself to be an invaluable source of information is the freight audit and payment process.

> Always design a thing by considering it in its next larger context.
>
> **- Eliel Saarinen, architect**

Now more than ever before, companies are investing in their freight payment process. A best-in-class solution not only keeps costs under control by eliminating overcharges and duplicate payments, but also yields accurate and granular data that can be used to understand costs and drive efficiencies (not to mention meet the reporting requirements of other stakeholder groups).

With a greater awareness of the value that can be realized from advanced freight invoice processing, shippers are scrutinizing their selection of freight audit and payment solutions more carefully. Organizations with millions of dollars in annual transportation spend cannot afford to:

1. Continue manual processes that produce unreliable or inadequate data.
2. Manage freight audit & payment using anything but best-in-class standards of performance.
3. Under-invest in freight audit & payment or select a solution (software or outsourced) based on price alone.

At a faster clip than ever, shippers are elevating their transportation spend management practices by moving away from outdated processing systems, and investing more resources on the front end to implement a long-term, key enabler of its logistics strategy. Leading organizations are insisting on certain standards – and they all have their eye on the potential that can be brought about by continuous investments in their system.

This paper will help you evaluate your current solution/provider in terms of data outputs. Whether you are already aware of insufficiencies in your current system, or you are simply curious about what gaps might exist between your current state and best practices, you will take away knowledge of what other best-in-class companies are achieving.

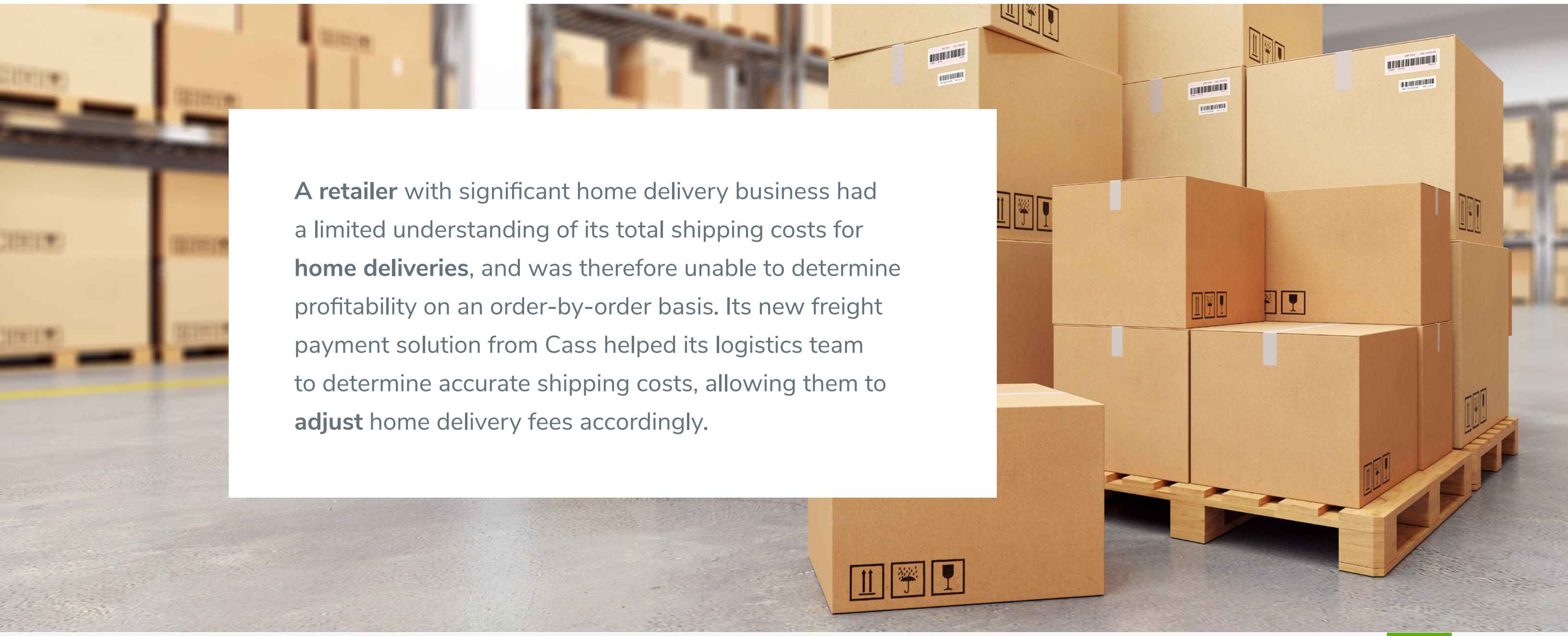
CRITERIA
#1

You Are Able to Calculate Landed Costs

Many downstream decisions rest on the quality of your data, and there is one piece of data that several groups need: unit landed costs. Procurement needs it to make sourcing decisions. Product management may use it for pricing decisions. Sales management needs it to calculate margins and commissions.

Unfortunately, unit landed costs are often some of the most challenging numbers to determine, due to either a lack of data, or a lack of reliable data. Too often then, financial decisions are based on estimates rather than facts. To determine landed costs, at the most basic level, you need to be able to match total costs for a move – or series of moves – to product quantity or weight in that load. You also need to know how these numbers change to calculate a working average, understanding the effects of volatile fuel prices and other cost elements that may vary. This analysis is also necessary to track your progress in decreasing per-unit shipping expense.

With an advanced rules-based freight payment system that captures granular move and cost details, you will know your line-item costs for the move, accessorials, and other fees. To achieve this, make sure your system can match multiple invoices to one shipment and accommodate complexities such as intermodal or interline moves (for example, when a load moves from port to drayage to truckload).



A retailer with significant home delivery business had a limited understanding of its total shipping costs for **home deliveries**, and was therefore unable to determine profitability on an order-by-order basis. Its new freight payment solution from Cass helped its logistics team to determine accurate shipping costs, allowing them to **adjust** home delivery fees accordingly.

CRITERIA #2

The data leads you to significant savings opportunities

With detailed, organized business intelligence at their fingertips, logistics managers will discover opportunities to cut costs in a number of ways, including by taking a stronger stance in negotiations.

Consider the following cost savings that these U.S. shippers achieved using data from their Cass freight payment solution:

- Only after moving from a dated software solution did a Midwest equipment manufacturer discover that its most expensive traffic lane was valued at $30 million. Sharing this information with carriers led to aggressive competition for this business, and more favorable contracts reduced annual spend for this lane alone by $5 million.
- A frozen food manufacturer used historical lane costs from its freight payment system, in conjunction with rating engine calculations, to determine where to locate a new distribution facility.
- A Fortune 100 consumer products manufacturer cut $2 million off one accessorial cost after evaluating six months' worth of historical, granular charge information.
- A chemical producer added carrier metrics to its monthly carrier scorecards. Reviewing these scorecards with each carrier – as well as sharing that carrier's ranking among its peers – continues to challenge them to achieve performance improvement goals.

Many conditions must be present to produce such valuable data. Among them are sophisticated rules that enrich and normalize data and a multidimensional database structure.

A multidimensional database structure and powerful business analytics tools are the standards of reporting when hundreds of data fields and high volumes of data must be integrated. Clearly, reporting that provides unlimited drill-down and filtering functionality is much more powerful than a set of standard reports.

With these and many other technical capabilities (EDI, matchpay), best practice systems should capture and provide the following data:

- Shipment details (including origin, destination, mode, weight, stop-off detail, etc.)
- Line-item expense detail
- Cost allocation detail for each move, commodity type/product class, SKU, etc.
- Payment details (including ACH/check number, adjustment amount and reason, scheduled payments, etc.)
- Invoice and supporting document images, including templates for invoices received electronically

> “ Reporting should provide unlimited drill-down and filtering capabilities.

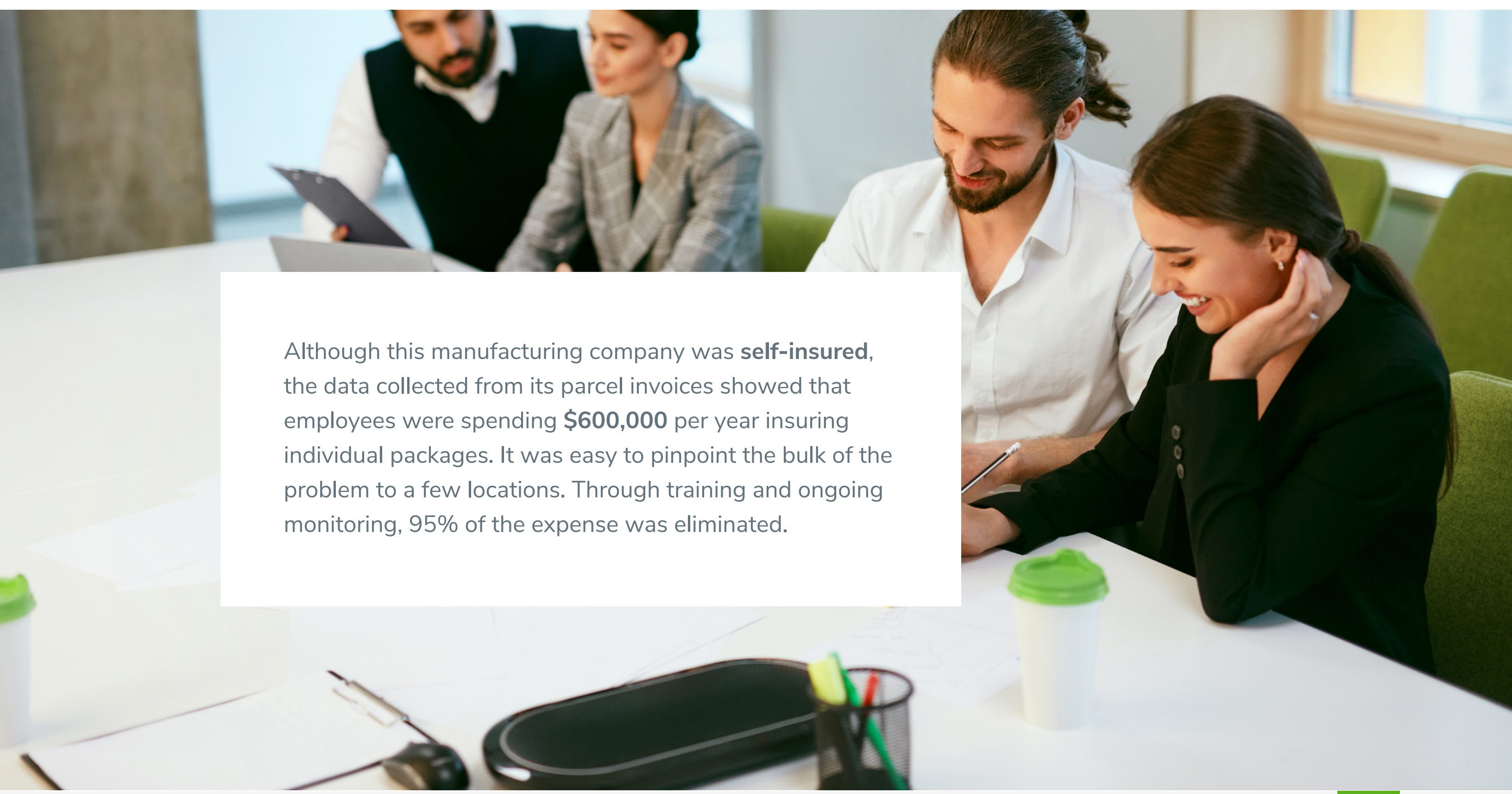
CRITERIA
#3

Shipping data enables guideline compliance

It's for good reason that logistics groups create procedural guides and operating standards. For example, you have a routing guide that vendors are instructed to follow. Documents such as this lose effectiveness when they can't be monitored and enforced. While you can't always stop infractions before they occur, having systems in place that can report on infractions is the next best thing.

Common infractions that shippers routinely seek to identify via data from their freight payment solution are unapproved carrier selection on inbound carrier selection and unnecessary service selections (parcel). Running a quick report of carrier usage will lead you to the source of problems rather quickly, giving you greater control over vendor/facility shipping decisions. Similarly, if you have minimum weight restrictions or similar guidelines, putting a few filters on a dynamic report should bring these to the surface so they can be addressed.

The bottom line: monitoring compliance can result in substantial savings that would have continued to slip through the cracks.



Although this manufacturing company was **self-insured**, the data collected from its parcel invoices showed that employees were spending **$600,000** per year insuring individual packages. It was easy to pinpoint the bulk of the problem to a few locations. Through training and ongoing monitoring, 95% of the expense was eliminated.

CRITERIA #4

Your internal customers have the data they need

Many groups within your company – non-logistics stakeholders such as accounting, product management, finance and procurement – rely on transportation and shipping data.

You can assess the competency of your freight payment system on its ability to meet their information needs as much as any other criteria.

> Are your internal stakeholders - accounting, supply chain and procurement - satisfied with the shipping data they receive?

Accounting has Accurate, Timely Allocations and Accruals

Accounting relies on transportation to provide accurate expense, accrual and general ledger information. When you compound these needs with the additional need for timeliness, many transportation executives find this as a challenging task.

In order to satisfy accounting needs, your freight payment solution should:

1. Be fully integrated with your company's accounting/ERP system. Accounting files should be generated and transferred automatically from either your outsourced vendor or internal system. Transportation staff should spend very little time doing accounting work.
2. Allow for seamless transition from invoice approval to payment.
3. Follow rules that allow for accurate cost allocations and accruals. Whether your accounting rules require general ledger coding based on commodity type, move type, destination or any other piece of data (or combination thereof), a detailed, rules-based processing system should be able to handle the task without manual review. A rating engine that accommodates electronic rate uploads – in tandem with a matchpay system – should generate accruals automatically. With both these abilities in place, accounting should be able to rely on you for accruals and coded expenses in a timely fashion.

If done right, automated processes replace time-consuming manual methods, and very little data transferred to accounting will require manual intervention.

Supply Chain Analysts have Shipment Data

Transportation data used in supply chain analysis typically includes unit volume data, destinations, and shipment frequencies. Often, your freight payment system is your only source of consolidated shipping and expense data – for domestic & international; inbound and outbound; intra-company, etc. If your solution fails to properly consolidate and normalize these numbers, you will be back to square one, going to multiple sources – many of which don't contain actual spend data or other needed information.

Procurement has Actual Spend Data

When procurement is involved in carrier selection and negotiation, they expect a lot of data from you to support their efforts. If you cannot provide the following data points, they have to operate in handcuffs:

1. Net transportation costs and all contributing factors
2. Annual spend per lane
3. Spend per carrier, broken into lane, accessorial, etc.
4. Carrier performance measurements (some basic ones, such as percent of invoices with errors, should be easily available)

Whatever the upstream roadmap for the data, your invoice payment system needs to be a reliable contributor to corporate analyses and reporting requirements.

Wrapping Up

In this paper, we've shown four ways the data derived from a best-practice freight payment process can provide significant value. Today's leading shippers invest continually in process improvement to reach this state and hone it indefinitely. If you find a gap between your data assets and the ones described here, it will be well worth it to investigate whether the deficiency is coming from the process or system limitations, then block and tackle. Even small improvements can sometimes go a long way.

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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 pays more than $25 billion to logistical providers each year on behalf of its clients.

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