

Expanding Beyond Payments

By Barry Parker

Key players in the freight payment business have moved beyond its roots to offer far more than the traditional outsourcing of payment and auditing functions. The industry's history extends back to the early days of trucking regulation when bills needed to be paid within strict timeframes and processes were entirely paper based.

These days, industry participants, such as CT Logistics, nVision Global Technology Solutions, CTSI and Cass Information Systems, offer a vast array of services from provision of modern logistics software to aggregating clients and actually booking truck freight for shipper customers. In the background, back-office solutions specialist Infinity International Processing Services, which is not a freight payment vendor, provides support to five of the top seven industry payment providers. Infinity also works with non-vessel-operating common carriers, third-party logistics providers and freight forwarders via a hub in Maryland and facilities in India, China and the Phillipines, said Chuck Mehta, president.

For the last year, the severe recession and the subsequent downturn in shipments throughout the industry have affected the freight payment industry. A pair of indices compiled by Cass show the dramatic downturn in expenditures and shipment volumes from third-quarter 2008 through first-quarter 2009,

when they bottomed out. Memphis-based CTSI maintains indices based on customer activity that are now showing a slight upward trend, said Clifford Lynch, executive vice president.

"Quite simply, transportation and logistics are getting more scrutiny than ever before," said Keith Snively, nVision's vice president of North American sales. "There has been a decrease in overall freight volumes, but our business has actually increased. Companies really are looking for better intelligence to help them manage their global spending on transportation," he said, adding, "That's the crux of our business; in addition to audit and payment services, we offer analytical tools so that clients can manipulate the data."

This data analysis is even more valuable in a climate where every dollar needs to be considered.

"With the recession, there's been a renewed interest in gaining actionable business information," Lynch said. Cass's Marketing Director Tom Zygmunt concurred. "With revenues being squeezed, shippers want to know where else they can squeeze some costs out of their process."

After salary and inventory cost, freight spend is generally the third-largest shipper expense so it is vital that they examine their freight bills carefully, Mehta said.

Major strategic decisions could be driven by the intelligence functions,

he said. "Shipper companies can also see their inbound, outbound shipment patterns, decide whether they are using the right carrier, compare lanes and carriers, and they can even decide whether plants or distribution centers should be closed down or relocated."

Allan Miner, CT Logistics president, discussed the impact in an environment where consumers are very cautious about purchases, and where premium brands may have suffered at the hands of discount merchandise.

"A lot of our clients are focusing on the intelligence applications that we offer," Miner said. "For example, our LCR ('least-cost routing') service — available to shippers who participate in our TransSaver program for small and medium-sized companies — lets clients evaluate a host of trade-offs that will get them to the cheapest rate."

A user of TransSaver, which is aimed at small stores seeking the buying power of much larger shippers through pooling, might point a customer toward slightly increasing a LTL load to make a full truckload, gaining quicker service time at a cheaper price, he said.

Usage of TransSaver (powered by the FreightRater™ processing engine) has picked up, Miner said. "The product offers savings of 5 percent to 15 percent and sometimes more."



Intelligence and analytics support growth of freight payment sector

Business intelligence is important for timing issues as well, Lynch said, citing the example of DVD distributors that need product arrival in stores to coincide exactly with release date and studio advertising campaign and promotional appearance schedules. “We work closely with FedEx, which has its hub right here in Memphis, to manage the client’s parcel shipping program and track the many small parcels,” Lynch said.

Detailed analytics benefit management of inbound shipments. “We have a number of customers who’ve used our CassPort service to focus on inbound freight — they have contracts where their vendor arranges the freight,” Zygmunt said. “With CassPort, they’ve been able to identify cases where vendors chose carriers that caused the cost to be higher, and our customers have billed back those excesses.” For outbound shipments, Zygmunt stressed that clients can negotiate better rates and discounts. “The carrier can sharpen its pencil if the shipper provides more information.”

Shippers reviewing their payment and auditing strategies can focus on specific areas. “Duplication, overcharges in terms of accessorial, fuel surcharge, class, weight



and distances are typical gray areas where money can be saved. If a shipper client has an in-house freight payment department, it may be worthwhile to put their in-house rating software to the test by outsourcing already rated bills to another independent freight payment company," Mehta said.

A leading trend this year is shippers' desire to optimize, Snavely said. "Optimization is ongoing, but the biggest thing this year is benchmarking of rates." Customers seek answers to questions such as how their rates compare with others making moves in similar lanes with similar carriers. "Of course, we keep it all anonymous, but that's part of the value of having a big system. People are looking for immediate results; we work on a worldwide scale and can offer the benefits of benchmarking to our customers," he said.

In recessionary times, outsourcing comes under scrutiny. The moves of tasks such as freight payments and auditing in house, "which are supposed to reduce variable costs, are very short-sighted," Miner said.

"You likely won't perform the tasks as effectively, and you certainly won't work as efficiently as a top provider in the industry." Mehta concurred, "Various studies have revealed that it costs more than \$10 per freight bill to pay an invoice if paid through in-house resources. When this function is outsourced, cost comes down by one-tenth or one-fifteenth depending upon paper or EDI bills." Lynch, who is also an author of multiple books on supply chain management, noted that mandates to lower costs during economic downturns are reflected in companies throughout the supply chain outsourcing more and that CTSI has certainly seen more inquiry in recent months.

At least half of the large companies are outsourcing freight

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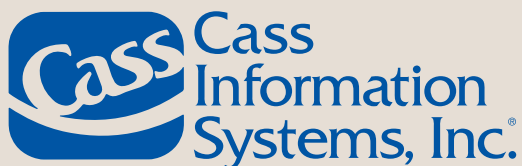
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payment and auditing and asking the questions: "When a company takes the in-house route, how robust are those internal systems? Do they keep up with technology, or are they stuck in time?" Zygumt said. "Often, in-house efforts may be designed to pay invoices in a timely manner, but where's the business intelligence? You need to have the processes in place that can convert raw data into usable information."

Technology is playing a pivotal role in the business of each of the providers interviewed. An internal effort is under way at CT Logistics to streamline the presentation of numerous applications with a common look and feel. "We are very pleased with the Microsoft.net environment," Miner said. The use of electronic data interchange is fundamental to moving forward.

"There is still a lot of paper, and we are using the Internet more and more to deliver business intelligence," Zygumt said.

CTSI is pushing carriers to use EDI more, Lynch said, adding that as the big carriers now offer satellite tracking, it is seeing a greater emphasis on metrics — for example, answering questions about timing throughout the entire supply chain.

Mehta provided an outside perspective on EDI saying, "Most LTL carriers are sophisticated and they have the technology to produce EDI bills. Conversion of paper to EDI also requires a certain minimum volume per week. Most truckload mom-and-pop carriers do not have capabilities to convert to EDI. However, we can still get a 'close-to-EDI' format from truckload carriers, in the form of an Excel sheet. Infinity has been helping freight payment

companies to convert such Excel files into EDI 210 formats." The company also supports EDI consultants or specialists. "Infinity has provided trained EDI experts to manage day-to-day EDI issues faced by the freight payment department. For example, finalizing EDI segments for a new client, conducting the test, etc.," Mehta said.

The business is expanding geographically as well. nVision has recently purchased a Costa Rica facility that will be turned into a processing center. Data entry and auditing will be handled there for the Latin American region, Snavelly said. "As we continue to grow and expand, we are adding processing centers. We are also opening a facility in Shenyang, northeast of Beijing, in China. Clients are looking for a service provider that can offer a data warehouse on a global scale."

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"We are seeing many more European and international logistics people embrace the North American freight payment model," Miner said. "Clients are bringing in their European divisions

— they want one database that offers visibility for all their shipments. Top management can get a comprehensive view of activity in one place." Miner explained that European service agreements differ from those in North America, but was quick to add that "FreitRater is an expert system, so we can apply the contractual details, even if the units are different — for example, euros instead of dollars."

Mehta is keenly aware of the growing international component to the business. "Our exposure to various software helps us in recommending improvement either in software or in workflow on the client's end. We also have quite a bit of exposure to European freight bills. International bills have challenges such as currency, weight, duties and taxes," he said.

While much of the auditing and payments attention is focused on motor carriers, shippers are also dealing with steamship lines and ocean freight. Ocean freight is the niche that Infinity fills, Mehta said.

"Auditing of ocean invoices is far more complex than LTL and truckload invoices. There are specialized freight auditing companies that exclusively perform

ocean auditing. If you select the right partner, your savings could be as high as \$20 to \$100 per invoice," he said.

Ocean invoices can be tricky because "various surcharges, port charges and bunker charges can be complex to understand. Infinity has helped several freight forwarders in partnership with ocean auditing companies," Mehta said.

Cass, a Nasdaq-listed company, was originally founded as a St. Louis-based bank. This "very strong commercial bank, with no real estate or TARP involvement," is now a Cass subsidiary, Zygmunt said. The banking connection underscores the deep and long-standing company expertise in handling payments.

CTSI, which began as an auditor (by hand) of motor freight bills, at one time boasted "the most computing power in Memphis," Lynch said. "When the economy is down, all of the logistics providers have a tremendous opportunity to enhance their business. But you need to have the people, the skills and the resources to be able to take advantage of these opportunities." ■

Contact Barry Parker at bdp1@conconnect.com.

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