

Freight Operations: Seven Paths to a Working Capital Goldmine

This white paper examines the valuable role visibility and data quality play within the realm of global freight transportation processes. It outlines seven ways an organization can mine global freight spend and improve cross-functional business decisions.

Authored By:

Bernie Hart

Global Trade Services Product Executive – Logistics Management

J.P. Morgan

Effective management of freight services challenges most global companies -- particularly those that have not embraced automation. Advances in technology have brought visibility into global transportation freight spend. When applied to a company's freight spend, the combination of visibility and data quality can uncover a hidden gold mine.

Time for Visibility

In a world where technology has streamlined mundane processes, an organization that continues to manually handle the paper-intensive procurement and payment of freight services can experience a negative impact to their bottom line. As it's difficult to track multiple carriers in multiple countries with varying tariff schedules and currencies, inaccurate service rates and duplicate invoices abound -- testing supplier relationships and increasing the need to conduct verification and audits with numerous logistics providers.

Companies managing freight manually should note that times have changed, and that technological changes related to automating paper flows have yielded another benefit -- visibility into global transportation freight spend.

With the help of the new Trade technology, a company's transportation operation can collect information that allows formal root cause analysis and the development of decision support data. Quality data helps companies identify problems within their internal operations and pare their supply chain, curtailing costs while providing companies with an opportunity to shorten their billing cycle from months to weeks. With the right information at hand, companies can implement a closed-loop process that drives lower negotiated rates, improves service, and realizes significant freight savings.

The Power of Seeing

Visibility into the "who, what and where" of freight spend empowers freight service professionals, giving them a new ability to promote efficiencies and reduce costs through modeling and impact analysis.

Prior to the introduction of electronic processes, managers could only catch errors and address problems after they had occurred. Problems often recurred until they were identified, with lag time running into weeks and the overpayment of duplicate invoices adding up to thousands of dollars. Astonishingly, many global businesses still operate in this manner.

Today's automation and decision-support technology provide almost real-time visibility into global freight payment processes. Managers can get a comprehensive picture of their global freight spend and gain better control of freight costs, because

*Visibility and Data
Quality are critical
to effective
analysis of freight
transportation*

Freight Operations – Seven Paths to a Working Capital Goldmine

they know exactly *how* their freight dollars are being spent. Moreover, automation facilitates the collection and storage of global spend in one place thereby enabling streamlined analysis. Easy access and analysis provide the ability to spot volume and cost trends on a global basis -- which in turn allows managers the ability to leverage spend and carrier selection at a time when the skyrocketing cost of fuel is sharpening everyone's awareness of costs.

Promoting Data Quality

Inaccurate data is the bane of any freight service operation. Errors initiate a cycle of time-consuming disputes that can almost stop the billing process. The quality of the data entered into a system is critical. If data is no good, there is risk that an automated system will speed the errors of a broken process and compound the challenges of managing freight spend on a global basis. Quality data serves as a boon to freight service companies and their customers: it can drive cost reductions in the form of accurately reporting spend and shedding light on potential efficiency opportunities. Companies can then quantify their inappropriate or unnecessary spend, control sometimes unwieldy transportation processes, closely monitor vendor relationships, and more precisely forecast future expenditures. For example, cost and on-time delivery information comparing different carriers for the same route provides vital insight into which carrier is best serving a business's needs. This data can then be leveraged to force improved service and better pricing from the poorly performing carrier, or reward the better carrier with more business, creating the potential for volume discounts.

The Working Capital Goldmine – Seven Benefits

Visibility combined with quality data is the hidden vein of gold in any supply chain. Freight movement is frequently targeted for cost reduction because it is a large portion of overall supply chain costs. It is also a good place to institute operational and financial efficiencies that contribute to bottom line improvement.

There are seven ways the combination of visibility and data quality allows companies to mine freight transportation spend and improve cross-functional business decisions:

1. Promotes Invoice Accuracy

Accurate information directly effects the cash utilization associated with transportation spend. Even so, duplicate billing or inaccurate rates are common. A rush delivery may require alternative shipment methods; however, the carrier may bill for the normally contracted method per the contract in addition to the rush delivery service. In another example, wrong rates can be applied to specialized kinds of freight that don't move frequently, or require different routing treatment. These problems gain complexity when the invoice and payment cross in the course of a normal 30-day billing cycle. Valuable staff time is devoted to determining

Freight Operations – Seven Paths to a Working Capital Goldmine

whether the invoice used the appropriate rate and was valid in the first place, and whether payment was made. The situation becomes especially challenging when companies are dealing with financial systems and processes that automatically pay “expected” or “anticipated” invoices.

When managing costs, it's crucial to catch duplications and ensure that invoices list the appropriate rate, taxes and surcharges according to contracted stipulations. Businesses not only want to know they are getting what they paid for, but are also insisting that freight service companies provide the true landed cost of bringing their product to market.

2. Centralizes Spend and Information

As global companies grow through acquisition, they combine multiple and often incompatible “legacy” technology systems. Disparate systems operating out of multiple offices worldwide may be employed to manage freight operations with multiple carriers. For true efficiency and cost savings, information from multiple computer systems, payment centers and all carriers must be centrally housed in a global database. This not only allows carrier negotiations to take place globally rather than locally; but it also increases companies’ buying power, since they know their true spending patterns and actual routing and carrier needs. In addition, centralized data enables insight into event management so that a company can create automatic alerts to flag problems such as inconsistent routing requirements, poor service delivery, and constant billing inaccuracies.

3. Measures Supplier Service Level Agreements (SLA)

Did the supplier meet its service level agreement? Were routing instructions followed? Are you using expedited services unnecessarily? All these issues can be traced to the service level agreement (SLA) established with each carrier. To keep up with the super-heated global marketplace, shippers and freight service professionals need the ability to very quickly scope SLAs for answers to these questions. They must determine how often exceptions are used and whether too many “drop” shipments signal defects in their overall supply chain operation. Having the ability to flag and address problems quickly allows businesses the ability to assess carrier performance and address operational flaws before they compound.

4. Improves Supplier Relationships

Relationships between carriers and their corporate customers are important. To be successful and mutually beneficial, relationships should be actively nurtured by corporates. One way to do this is to ensure invoices are paid on time since carriers are less likely to offer good rates or provide excellent service when their payments are frequently delayed. Businesses enjoying good relations with their carriers are more likely to make an effort to understand the overall situation when service issues do occur. For example, a specialized regional supplier may lack the financial strength to consistently provide service to a critical route. If this is known, the business may be able to negotiate different payments terms, or possibly extend their

Seven ways the combination of visibility and data quality allows companies to mine freight transportation spend and improve cross-functional business decisions.

Freight Operations – Seven Paths to a Working Capital Goldmine

own credit to help the carrier obtain the capital needed to ensure ongoing service. This allows a cash-strapped carrier earlier access to funds that will settle their debts. A business with a good grasp of their suppliers' needs can promote strategies that sustain the viability of their suppliers.

5. Provides Documentation and Compliance with Internal Accounting Procedures

What global company isn't feeling overwhelmed by compliance and regulatory requirements that include demands for onerous record-keeping? Sarbanes-Oxley compliance in the United States requires processes and procedures for how financial information is recorded, along with the deployment of appropriate controls to ensure money is adequately tracked. The European Union's AEO supply chain security program requires an audit to ensure a company has controls over its financial and physical supply chain processes. It's only a matter of time before countries in Asia roll out their own supply chain security programs in line with the World Customs Organization's SAFE Framework, which calls for securing and facilitating global trade. The regulatory bodies for these large trading blocs require greater accountability and control over supply chain-related data.

An effective freight payment and audit process helps meet regulatory reporting requirements by consolidating global transportation spend into a single repository from which reports can be drawn showing spend by commodity, route, region, and carrier. Businesses also have access to supplementary documentation that serves as evidence of specific commodities moved, assessed taxes and duty charges, and details on payments issued.

6. Improves Cash Flow Management

Visibility and data quality facilitate the payment of freight and transportation vouchers. A centralized system that connects carrier invoices with a business's payment systems creates an opportunity to improve cash flow. Carriers have the option to discount invoices in order to receive payment earlier than negotiated terms, while businesses can speed the invoice approval and payment process to shorten the overall billing/collection cycle. For example, a carrier may send a bill for \$10,000, based on a 60-to-90 days credit basis. Banks and financial institutions check the invoice, approve it, then submit it to their customer for authorization to debit the customer account. They then present the carrier with two payment options: the invoice can be paid in full at \$10,000 in 60 days, or payment can be made within 10 days at a discounted rate. For a cash-strapped provider, the financial institution discounts the invoice and the carrier gets paid earlier – all based on the credit-worthiness of the client to guarantee the carrier's debt.

The result: greater transparency for third-party banks and financial institutions with access to the information, thereby mitigating the risk of foreign exchange movement or non-payment. Access to financing is enhanced as financial institutions make decisions based on the demonstrated strength of the buyer and seller. This kind of

Freight Operations – Seven Paths to a Working Capital Goldmine

visibility is particularly crucial for overseas buyers, where the risk of non-payment weighs more heavily in the assessment process.

7. 'Orchestrates' Your Unique Supply Chain

Freight transportation service providers are a critical link in the supply chain. Likewise, business process outsourcing (BPO) service providers for freight payments and audit services are capable of providing the information necessary for the efficient operation of a global supply chain. When data is transparent and readily available to all supply chain partners, it can be used to orchestrate the flow of finances that maintains the liquidity of the supply chain and allows a business to gain competitive edge in the global marketplace. A company can work with its upstream and downstream supply chain partners to achieve efficiencies in costs and time-to-market delivery for goods and services.

On a macro plane, visibility into data can tell an interesting story regarding existing supply chain operations. Analyses of carrier usage, routes and prices provide insight into potential operational flaws. Are distribution centers in the right place? Has your market shifted? Is there a better way to align your transportation operations to leverage multiple locations? Can materials pickup be consolidated with finished goods drop off? As sourcing and customer markets change, it is important to recognize the golden supply chain opportunities such change can bring.

Steps to Leveraging Freight Information

Besides providing insight into a business's overall freight spend, visibility and data quality can help identify opportunities for direct cost savings, pinpoint poor supplier relationships, and uncover inefficiencies in supply chain operations pertaining to physical goods movement. Companies with large-scale, global and decentralized transportation operations should consider consolidating freight spend data and leveraging the value of the information. Once the data is consolidated, a business should take these steps in order to leverage the information:

1. Normalize or standardize data. This includes geography (country and city names), units of measure, currency and charge codes.
2. Centralize information. A database with global inputs and access is ideal.
3. Streamline vendor payments. In order to build collaborative relationships, utilize electronic payments as much as possible to minimize delays (mailing of invoice and payment) and minimize use of paper due to costs (paper and postage) and negative impact to the environment which is important in an increasingly eco-conscious world.
4. Offer supplier financing. Support critical transportation vendors with discounting or financing programs.

Freight Operations – Seven Paths to a Working Capital Goldmine

5. Eliminate waste. Remedy transportation inefficiencies by eliminating the surplus, minimizing emergency drop shipments, and consistently utilizing the most cost-effective route and carrier. It is possible that this may lead to a complete re-design of the existing transportation network.
6. Select the right service providers. Determine which service providers have the right network and capability to support your business's supply chain needs.

About J.P. Morgan

The Global Trade Services group at J.P. Morgan is the worldwide leader in providing solutions for global trade management. The group provides logistics and trade finance solutions designed to help clients enhance physical and financial supply chain operations, improve compliance with government trade regulations and optimize working capital. Logistics solutions include trade management consulting, outsourced operations management, technology, and trade education and compliance training.

Global Trade Services is part of J.P. Morgan's Treasury Services business, a top-ranked, full-service provider of innovative payment, collection, liquidity and investment management, commercial card and information solutions. With more than 50,000 clients and a presence in 39 countries, Treasury Services is the world's largest provider of treasury management services.

About the Author

Bernie Hart, Global Trade Services Product Executive– Logistics Management

As the Global Product Executive for the logistics management solutions at J.P. Morgan, Bernie Hart leads a business that delivers end-to-end global risk management and operational solutions that drive cost savings, increase efficiency and provide best-in-class compliance across physical and financial supply chains. Mr. Hart joined the organization in October 1999 and created the company's Managed Services business model which enables the outsourcing of corporate international trade and supply chain operations. From 1985 to 1999 Mr. Hart held various management positions at IBM focused on international trade. As Senior Manager of IBM's North American Distribution Systems, Mr. Hart was responsible for the development of international logistics applications with more than two thousand users worldwide in support of the movement of twenty-billion dollars of goods annually.