



## **Transportation Spend Management**

**Steven C Beda**  
**Executive Vice President, Accuship**



Today's more complicated global movements coupled with a shift from basic transportation costs to a more base plus accessorial or backend charges type billing standard has made managing transportation budgets extremely challenging. The good news is this cloud has a silver lining – it is called Transportation Spend Management or TSM.

TSM is simply targeting specific areas before, during and after the shipment execution to effectively lower one's overall transportation spend. The three main areas of focus are: contract management, shipment management, and payment management and how they interact and influence the overall objectives of spend management. Information management plays a major role in all of these areas and in the end will be the "scorekeeper" that will illustrate where one has been effective at reducing transportation spend and expose further opportunities within the shipment lifecycle. A logical way to divide and conquer TSM is to break the problem in to smaller parts – we will address each part in turn focusing on the benefits offered by implementing the process and technology solutions recommended. Remember, the concepts mentioned here apply globally to production and non-production shipping and for both inbound and outbound traffic.

### **Contract Management**

The logical place to start the TSM journey is contract management – the guidelines that define the services, performance levels, and pricing details between a buyer of services and a provider of services. Transportation providers, from local couriers to a multi-modal global carrier like FedEx, usually provide a contract of terms, conditions, service levels and pricing that can be used to manage the relationship. The problem most companies have, however, is combining someone with skills in the area of transportation contracts with the information at a detail level to fully understand the actual shipping profile of your organization. Without information, even the best negotiator is blindly considering pricing based on industry standards and best guesses versus using actual data. Apply this to global shipping profiles where total landed cost formulas are complicated and things get really messy. Another common problem is not considering total costs which include accessorial charges – these are negotiable as well. While preventing accessorial charges in the first place is probably a better approach, the fact is they exist and you didn't order them. So what does all of this have to do with TSM? TSM promotes usage of best practice and technology when it comes to contract management by:

#### **Providing a Central Contract Repository**

Contracts are stored in two forms: the original digital image and a converted rule-based version for validation and analysis. The rule-based version will play an important role in the other areas of TSM and allow for an automated validation against invoice data. Making this information available to your procurement and logistics organizations is important – these two groups must work well together and interact to effectively manage carriers and meet specific service standards of the business.

#### **Promoting Contract Change Control Procedures**

Most large organizations segregate duties to better manage risk and comply with Sarbanes Oxley type policies and procedures. From a contract perspective, this may mean associating



certain transportation providers with relationship managers, establishing change approval procedures, and enforcing role-based access privileges within different departments of the organization. Lastly, you should review your contracts on an ongoing basis to ensure you are taking advantage of changes in the market, changes to your shipping profile, and or other changes that impact pricing levels on contracts.

#### Providing Tools for Analysis

Fully understanding the impact of a rate change with the same carrier and / or the differences between two or more carriers is important during rate negotiation or when carriers impose annual increases for all customers. While these tools only estimate the impact, they do highlight opportunities that can be further researched and provide the necessary information to build a solid case for negotiation.

Potential return on investment in this area is significant based on the number of contracts and the volume of shipping transactions. Organizations have been known to save anywhere from 5-15% of their annual transportation in this area alone.

#### Shipment Management

Shipment management includes those activities involved in executing a shipment in addition to the visibility and management of events from pickup to delivery. Let's start with shipment execution – both from the non-production side which includes the desktop and small mailrooms to production shipping from larger mailroom operations, warehouses, distribution centers and other high volume facilities. Regardless of the volume, many of the core processes are the same. TSM promotes the following activities at the point of execution: routing guide compliance, address verification, denied parties screening, confirmation of cost allocation, international documentation including import / export license, SED, NAFTA, commercial invoice and other specific business rules by country. The bottom line is shipping can vary from a few easy steps to a complicated set of requirements that if not met lead to carrier accessorial charges, delays in delivery, and even worse unforeseen legal battles if the package content is a controlled substance or hazardous material. A rules-based shipment execution tool is necessary to ensure all parties, whether the casual desktop shipper, the mailroom manager, or even the distribution center's WMS follows a series of consistent, pre-authorized steps to avoid the problems mentioned above.

#### Supporting the Routing Guide

Enforcing the business rules set forth in the routing guide is a critical part of shipment management. Some organizations mandate compliance by restricting carrier service options completely, others factor in restrictions by specific lanes, and others allow users to gain visibility to carrier service pricing variances but promote the "best choice" by presentation order or score. Whatever the means, case studies have shown corporate routing guides and pricing visibility reduce overall transportation spend without impacting service for both production and non-production shipping.

#### Facilitating International Trade

Keeping track of what documents are required for each country is a daunting task. If you fail to complete the appropriate documentation your package could easily get held up in



customs. TSM promotes a workflow-based approach to ensure the appropriate documentation is generated based on the origin and destination country. Electronic filing with the appropriate authority is also important to reduce costs and avoid delays.

### Enforcing Compliance

Based on what you are shipping and to whom, non-compliance could result in as little as customs delays or as severe as major fines from local government (in the most severe cases you may even incur jail time). That said, when shipping internationally, it is very important to perform a denied parties screening, embargoed goods validation, identify hazardous materials and understand the unique shipping guidelines for each country. Again, a workflow-based approach works best here due to specific audit rules for each company. Maintaining a history of audits is also recommended to comply with many of the guidelines imposed by governments around the globe.

### Providing Event Management

Understanding how a product moves from A to B may not seem important if you are shipping from LA to Atlanta using one carrier; however, if you are shipping multi-modally from US to China event management plays a more significant role. Visibility of events has two very distinct perspectives – pro-active and re-active. Pro-active event management involves specific events driving specific actions by specific people in the supply chain. So what does this have to do with TSM? If one can pro-actively address delays resulting in extended demurrage, storage, or container usage, one can reduce their overall spend often seen as accessorial charges by carriers. Ongoing, keeping carriers on time using pro-active alerts to missed service level agreements will increase their percentage of on-time shipments and remove hours and even days from your cycle time.

### Payment Management

The contracts are negotiated, signed, scanned for imaging, and stored electronically as a series of business rules representing pricing scenarios and service guarantees. Your outbound shipping from warehouses is managed via a robust routing guide; international shipments are properly reviewed using trade compliance guidelines, proper approval via workflow, and accompanied by the appropriate paperwork. Your inbound traffic is managed by the same routing guide, however, it is up to your inbound suppliers (who use your shipping accounts) to adhere to the guide when fulfilling purchase orders. You basically have done everything right up to this point – so there should be no surprises when you pay the carriers transportation bills, right? Wrong. No matter how thorough one is using best practice and proactive means to reduce transportation spend upstream, especially considering inbound traffic, actual costs for transportation will vary anywhere from 5 to 15% and even higher from estimated or accrued transportation costs. So how does TSM address this problem? A process called payment management.

Payment management focuses on several key areas that manage the actual costs incurred during upstream shipment execution and carrier activity. The areas include:

### Automated Carrier Invoicing



Ultimately, carriers want to get paid accurately and on time. TSM promotes paying carriers accurately and on time. Improving carrier relations is important when negotiating better rates. Using electronic invoicing reduces overall cycle time for payment and ensures a higher quality of data transfer between the carrier and the payer. Electronic invoicing may take the form of flat files or ANSI X12 or even EDIFACT for non-US origins. Staying current on EDI standards is important as well to fully utilize the improvements of data quality and quantity that are a result of the upgrades. Verifying the quality of the data content and checking for duplicate billing are important at an early stage so as not to burden downstream processes with the same validation logic and provides baseline assumptions of data quality that increase efficiency.

#### Validate Carrier Contracts and Service Levels

Validating the carrier invoice with the carrier contract involves three distinct areas of comparison: basic freight rates, accessorial charges, and standard transit time commitments. Contracts must first be converted to a series of business rules that represent the various pricing scenarios and surcharge options that apply to transportation related charges. Some rates are based on volume discount levels that require an understanding of total volume at the time of invoicing. Clearly identifying discrepancies is important at this phase to properly communicate to the carrier partner the potential invoice claim adjustments.

#### Invoice Adjustment Claims

Now that you have identified potential invoice adjustment claims with the carrier it is imperative you ensure the carrier's AR system matches your AP system. Failure to keep the carrier in synch will result in subsequent billing requests for past due amounts which only adds to the volume of invoicing by the carrier. Establishing clearly defined procedures for invoice adjustments is important – things like specific codes that represent distinct variances so the types of adjustments can be archived in the data warehouse for later analysis. The carrier must approve the invoice adjustments and update their AR system to avoid past due situations that eat up time and energy after the fact.

#### Automated Cost Allocation

Cost allocation for transportation expenses is an area where the physical supply chain and the financial supply chain intersect. Often, accountability for these expenses is spread throughout the organization using a set of business rules that derive results from things like PO information, account information, origin/destination addresses, and other data inputs. Typically the complexity of cost allocation is compounded by various shipping systems, inbound shipments, lack of integration of order management information and shipping information, and payment information. No matter how good the business rules and supporting data are at allocating costs, there will be exceptions. Coding exceptions should be managed by the "owner" of the exception – usually the party responsible for the shipment execution. Providing online resolution to exceptions is important for timely correction of invoicing that is basically on-hold until allocation is approved. Many companies end up defaulting allocation due to the complexity of coding logic – a dangerous move knowing that typically Accounting will be required to re-allocate costs at some later date. The time spent in this area pays off tremendously in the end and moves you closer to achieving your objectives in transportation spend management.



### Compliance with a Routing Guide

While enforcing routing guide rules on shipment execution is a proactive way to reduce transportation expenses, the fact is not all execution is under your control. While recommendations are given to inbound suppliers and plant/DC managers, actual enforcement is challenging and often overlooked. Under certain circumstances and with proper approval, however, legitimate reasons apply for expediting service or choosing a carrier that is available for pickup. So, how do you sort through valid exceptions vs. non-compliance? Admittedly, payment management seems an unlikely place to validate compliance but in the end it is where the rubber meets the road. All billing should be reviewed by automated business rules that highlight exceptions. Based on your agreed upon process, you may elect to charge back suppliers that do not comply. Another alternative is to use reporting metrics to drive behavior – this approach works well when suppliers are competing for your business and are trying to establish a competitive edge.

### Establishing Payment Rules

To scale any solution to large volumes and to optimize efficiencies within your organization, you must institute processes that promote managing by exception. Managing millions of shipments annually requires this sort of scalability usually exposes weaknesses if processes are not well planned and considerate of exception management. Enforcing automated business rules that “decide” what invoices are ready for payment is an excellent way to ensure carriers are getting paid accurately and on time. Invoices that fall into exception status are properly reviewed and either approved by authorized staff or rejected back to the carrier with a thorough explanation. Some examples of this are: missing required elements like PO number, total invoice amount greater than x, total weight greater than y, and possibly usage of certain carrier services that are restricted.

### Integration into AP

Electronic integration into your AP system, whether it is part of an ERP solution or stand alone, is important to reduce costs and eliminate manual keying errors. Once the invoice passes the necessary criteria for approval and has been properly allocated to the correct general ledger entry, it is ready for payment and does not need further review. Most AP system can receive an electronic file in either EDI X12 or flat file format.

### Performing Electronic Disbursement

If you choose to in-source or outsource payment management it is highly recommended that you or your provider is SAS70 Type II certified by an independent auditor. Managing large amounts of payables is no task for a service group or organization that is not aware of best practices in accounting, Sarbanes Oxley standards and or SAS70 Type II control objectives. Among the many requirements are: segregation of duties, bank verification procedures and clearly defined control objectives. Furthermore, using ACH or wire are preferred methods over manual paper checks where applicable.

### **Information Management**

As the old saying goes, information is power. A robust and comprehensive data warehouse can bring tremendous value to an organization.



### Creating a “Dynamic “ Routing Guide

Most organizations negotiate rates and create a static routing guide that will be used to manage shipment execution. Typically, carrier service selection is driven by a set of business rules that involve lanes, weight, transit times and carrier availability. Furthermore, this static routing guide is only reviewed annually and sometimes even less often based on the volatility of the environment. TSM promotes the concept of a dynamic routing guide – using actual performance and billing data (both outbound and inbound) to develop routing guidelines on a more regular basis. Looking at the actual performance and billing information will produce a more accurate and timely set of business rules than can be ascertained by reviewing the contract alone. For instance, the total landed cost of transportation may vary greatly between contract, shipment execution, and payment. Experts in payment management realize that the true costs associated with a shipment must factor in all of the accessorial charges associated with the shipment – charges which may not occur within one billing cycle. The bottom line is organizations should be continuously monitoring actual performance and billing and more frequently be updating their routing guide information.

### Enabling Business Intelligence

In every organization, employees make hundreds of decisions each day. These decisions are sometimes based on facts but more often are based on experience, accumulated knowledge and existing heuristics that come from domain expertise. Transportation and its associated spend has historically not been at the top of the list of candidates for data warehouse projects. TSM brings analytics to the forefront making information management the very foundation that bridges various events in the shipment lifecycle. No longer can companies run with silos of information – creating a challenge for management to make informed decisions at the enterprise level. Additionally, the data must be available wherever and whenever it is needed on a 24 x 7 basis.

### Evaluating Carrier Performance

Continuously monitoring carrier performance is an important part of managing your supply chain and can impact your business both financially and from a customer service perspective. Carriers often report their performance metrics factoring in non-carrier caused exceptions – extending the transit time or disregarding those cases where this may apply. Examples are: address corrections, weather, business closed among many others. Looking at carrier performance from both the carrier perspective and your service perspective is important to understand how carriers can impact your supply chain.

### Effective Contract Negotiation

Effective contract negotiation assumes enough information is available to properly evaluate pricing and service levels offered by a carrier. Even more important, the information used to base your assumptions should not come from the carrier themselves but an independent non-biased source that is neutral. Careful review of the information combined with good industry knowledge is the most effective way to walk into a negotiation. Many industry consultants assist with contract negotiation as well so they can play a major role in being your advocate at the negotiating table. Even the best consultant, however, needs information to make informed decisions.



So where do you start? The good news is you have a lot of options and it would make sense to start in an area that has the most pain and/or an area that brings the highest return on investment. Performing a formal ROI analysis by area will guide you to a logical starting point. The appropriate level of information is important to any decision process so if this is a problem you probably want to start with payment management and work your way upstream. Payment management and more importantly the data that is collected by managing the payment process along with a robust data warehouse will provide the information you need to continue the journey through the shipment lifecycle looking for spend opportunities. You can begin benchmarking current processes to build your case for ROI in the other lifecycle areas. As solutions are integrated into your organization, you can show real results that support your suppositions and use this as further proof to facilitate change within your organization.

The bottom line – by not implementing best practice solutions using TSM guidelines you are leaving money on the table.