

# The evolution of Freight Audit



What is Freight Audit?

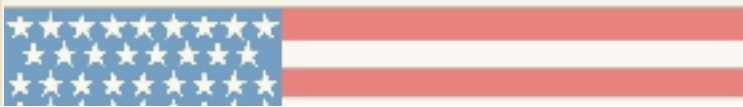
ControlPay Presents

Freight audit is the process of examining and verifying freight bills for accuracy



## Freight Audit History

1950-1975



You shall read

The freight payment industry was actually formed in the US by a series of Banks when the transportation marketplace was heavily



### Deregulation of the transportation industry in 1980



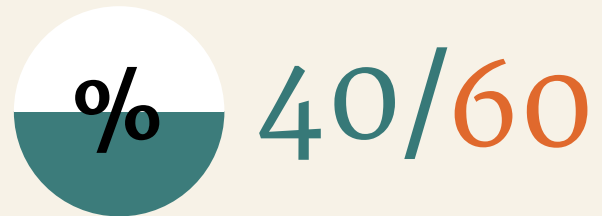
Credit terms could be negotiated between shippers and carriers for more reasonable periods of time. Deregulation also ushered in an era of unprecedented competition among providers of transportation services. The market was open and a free-for-all with carriers (transportation service providers) being able to compete based upon price for the first time. Previously, motor carriers had been compelled to set pricing collectively through rate bureaus. This frenzy of discounting presented an opportunity. Per statute at the time, a shipper could collect on an overcharge from a carrier for up to three years after payment of the invoice on which the overcharge was detected. There arose a cottage industry of “post auditors” who were former pricing specialists for major carriers. They would work on a contingency basis whereby they would collect 40-60% of all overcharges recovered by their auditing the last three years of bills (post audit). If they recovered no overcharges, they were not paid. Eventually, this post audit transformed into a pre-audit where the shipper paid a provider a flat fee per bill for checking the bills for overcharges prior to payment. This pre-audit service became a core value-add process upon which the freight payment process was built. As a note, post audit services are still widely utilized by most large shippers today where detailed freight audits are performed after payments are made.

transportation marketplace was heavily regulated. Motor carrier bills had to be paid within 7 days and rail bills needed to be paid within 5 days. To meet this requirement the banking community, shippers, and carriers formed what was known as The National Association of Freight Payment Banks. At that time the emphasis was on settlement of carrier bills within the regulated parameters for credit extension. If settlement was not made, the carrier was required by law to place the shipper on a cash basis. This was not an idle threat and large Fortune 500 companies would often have the freight held because bills were not paid on time.

### The National Association of Freight Payment Banks



### Post Audit



3 Years

## PAST & CURRENT

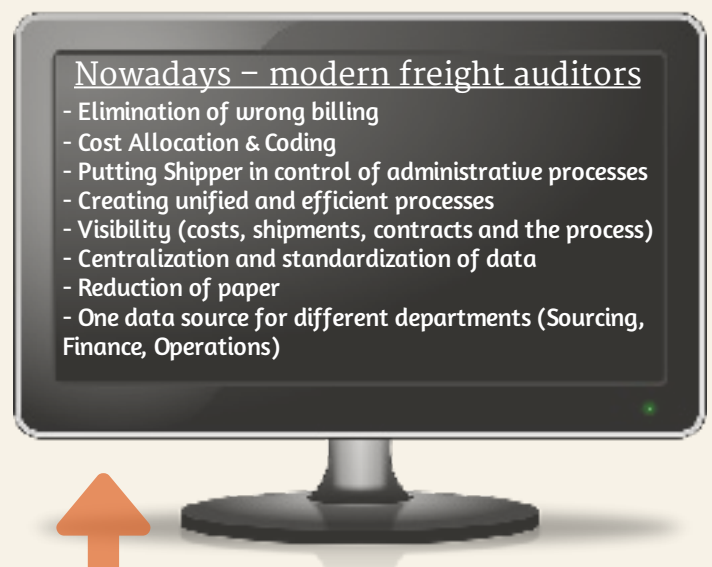
### Traditional

- Freight invoice processing (first invoice than audit)
- Recovery of Over Billing
- Cost Allocation & Coding
- Freight Payment Solution



### Nowadays – modern freight auditors

- Elimination of wrong billing
- Cost Allocation & Coding
- Putting Shipper in control of administrative processes
- Creating unified and efficient processes
- Visibility (costs, shipments, contracts and the process)
- Centralization and standardization of data
- Reduction of paper
- One data source for different departments (Sourcing, Finance, Operations)





## Rising benefits:

- Data centralization
- Reporting and BI tool

# US vs EUROPE



## Characteristics US

- Freight Audit commonly adopted, widely spread and well-known concept
- Many freight audit providers (also post-auditors auditing the auditor)
- Standardization of rate table structures
- Standardization in data integration
- Payment is commonly part of the service (Freight Audit & Pay)
- Short-Paying of invoices
- Payment by checks or bank transfer, only domestic payments
- Only 1 Currency (USD)
- VAT does not exist
- Most common: Two-way match – not comparing with data from the Shipper
- Complexity: Low – Average
- The service is seen as a commodity



## Characteristics Europe

- Freight Audit concept not widely known, many companies not aware of the service and its benefits
- Limited number of Freight Audit providers
- No standardization in rate structures
- No standardization in data integration
- Credit note settlement; short-paying is not allowed
- International payments – bank transfers
- Multiple currencies
- VAT applies
- Actual payment is often kept in house and only audit is outsourced
- Complexity: High (due to complex logistical solutions, VAT, multiple currencies, complex rate structures and business rules)

Freight Audit in Europe does not have a regulatory history and is therefore less common and not known as a concept. However there are several German companies who offer Freight Audit services to the German market already since the eighties. The companies that started to use Freight Audit services in Europe were the US companies that were expanding in Europe and that already were using Freight Audit in the US. This started at the end of the nineties, beginning of 2000. From 2000 to 2009 there was rather a slow growth in the Freight Audit market although more US customers in Europe found an audit provider and quite some European companies picked it up. Since 2010 the growth has accelerated, mainly because international complexities in logistics are driving the need to have a freight auditor. This is driven by lack of visibility, the need for control, cost savings and

# INHOUSE vs OUTOURCED

## INHOUSE

Own staff checking, processing, coding and paying freight invoices. Manually or with the use of inhouse software.

■ Maintaining knowledge, understanding and sharing the specifics p/carrier.

■ High workload on Invoices.

■ Different type of processes and workarounds.

■ Necessity for larger tolerances.

■ Many invoices falling out due to high variety of reasons.

## Typical issues InHouse solution:

■ No insight in the breakdown of the costs.

■ Process dependent on carrier's admin performance.

■ Difficult to manually audit freight due to complex rules (consolidation, rounding,

■ Admin conditions blocking Bulk



conversion,  
complex cost  
calculation rules,  
etc.)

invoicing.

# OUTSOURCED

A third party checking, processing,  
coding and paying freight invoices  
on customer's behalf.

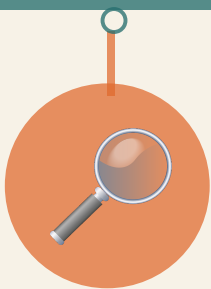


## The result of working with a professional Freight audit provider

- No more inhouse staff needed for freight invoice audit related tasks
- Standardized processes
- Giving the desired visibility in multiple areas (shipments, spend, process)
- 100% correct payment
- Controlled environment
- Business rules and calculation rules maintained by a third party
- Use of software capable of dealing with auditing complex business and calculation rules
- Advanced reporting and often business intelligence tools available
- Transparent audit trail
- Inhouse staff focusing on core tasks

## Freight Audit types

Post-Audit



Pre-audit



Parcel rate check



Self-billing

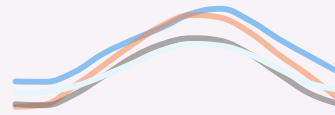


## Advanced Reporting

### ADVANCED REPORTING

Common reports in use in daily business

Common reports in use in daily business  
Geographical activity  
Carrier activity  
Cost-to-Serve  
Order behavior  
Truck utilization  
Benchmarking between BU's  
Average drop-size and costs p/drop  
Extra cost reporting  
Tradelane analysis for network  
optimization  
KPI reporting



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