

# CSCMP hottopics

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## The (fragile) state of freight invoice processes and audits

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For those not involved in shipping, a freight invoice is a detailed bill which includes information regarding the transportation of a company's goods from one place to the other. It also includes the amount of charges, weight, due dates, complete goods' description, contact information, and names of both the receiver and the shipper, freight rates, assessorial charges, etc.

It's a lot of information, so how do we know it's all accurate?

A freight audit is the process of examining, adjusting, and verifying freight invoices for accuracy. Freight invoice audits protect shippers from overpaying. They are also useful tools to help optimize their shipping processes by cutting down on other inefficiencies.

There are three ways to perform a freight audit:

- Using freight audit software
- Via a third-party logistics team
- Having the audit conducted in-house

### WHY DO YOU NEED FREIGHT INVOICE AUDITS?

The supply chain is essential to business; it must continue to function despite uncertainty, disruption, and tight budgets. Unfortunately, the freight market – worth roughly \$800 billion annually to the U.S. economy – is still reliant on legacy systems and methods of operation.

In fact, an overwhelming 80 percent of carrier invoices contain some kind of discrepancy, according to American Shipper. And 15 to 20 percent of the freight invoice inaccuracies were overcharges by the carrier.

Additionally, they cited the typical freight overcharge equals eight to 10 percent more than the correct amount, or three percent of total freight spend. This is a huge issue that costs many forwarders and shippers \$50,000 to \$150,000 a year.

The liner shipping industry alone is exposed to \$34.4 billion in invoice and payment processing inefficiencies, according to recent research by Drewry Supply Chain Advisors.

### BUSINESS PROCESS AUTOMATION

The good news is, you can solve these problems by utilizing business process automation. Shippers who don't audit their freight invoices prior to paying them are losing money and the benefit of data analysis.

For analytics purposes, a freight invoice audit can help you see market trends, forecast future freight costs, and strategize more efficient shipping routes.

Optimizing your routes and your shipping process can save you both money and time, and also benefit your relationship with your carrier. Also, acting on the insights gained from an audit can help you get an edge over competitors and anticipate changing trends in the market.

### THE COMPLEXITY OF FREIGHT AUDITS

The complexity of freight-related processes has been rising as technology, rates, transportation modes, and fluctuating prices for resources (such as fuel) have added new layers to logistics. Meanwhile, with the increasing complexity of freight cost and billing, human error has become a serious factor in low-technology review processes.

## About CSCMP Hot Topics

Issues of *CSCMP Hot Topics* may include early results from ongoing research being conducted for CSCMP or other organizations; new supply chain practices, thought-provoking ideas, or emerging trends; discussions of changes in the broader business and regulatory environment that may impact the supply chain and logistics field.



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Together, these issues produce a significant danger of high overpayments for expenses that never actually occurred or are incorrectly evaluated.

And, since, freight cost verifications are vulnerable to human and process errors, they require proper auditing to ensure your organization does not overpay for services it did not incur.

## FREIGHT INVOICE AUDITS REQUIRE THE RIGHT TECHNOLOGY

Without the proper AP technology in place, organizations struggle to maintain efficient invoicing processes, according to survey data from the 2020 Level Research Payables report.

The report indicated that the top four challenges organizations listed were:

1. Manual data entry and inefficient processes
2. Manual routing of invoices for approval
3. Lost or missing invoices
4. Receipt of the majority of invoices in paper format

When asked to describe their biggest AP-related challenges in their own words, respondents cited many difficulties. These related to having fully manual AP departments, but they also related to dealing with inadequate, outdated AP software. Many using an enterprise resource planning (ERP) or homegrown tool for managing invoice processes criticized their software for requiring manual input of invoice data.

ERPs are best suited as financial repositories and are incapable of truly automating the AP function, as they don't have the robust capabilities of software designed solely for this purpose. There are also gaps in user satisfaction with these kinds of tools. Many respondents using an ERP-based tool said that they wanted a solution that was "more automated" and that their current software fell short, particularly in the workflow and imaging aspects.

## FREIGHT AUTOMATION AND AUDIT SOLUTIONS

With the right transportation and logistics solution, you can automate documents like freight invoices, bills of lading, and certificates of origin by instantly capturing, extracting, and digitizing shipping documents in any form.

Look for a solution that provides no-code integration capabilities with multiple business applications and live data integrations with TMS systems like SAP Global Transportation, Oracle TMS, and ERP systems such as SAP Infor/Lawson, Dynamics, and Oracle as well as various rate engines.

These solutions accept invoices in multiple formats including images, PDF, XLS, XML, and EDI, and can be submitted by fax, email, FTP, and via the web. This technology can capture line-item details and handwritten characters.

Once captured, workflow automation compares the line items against the rates in the TMS system to ensure accuracy. If there is an error, the invoice will be automatically routed to dispute management for resolution before the payment is made. Additionally, analytics reporting on freight invoice errors and disputed cases will identify bad performing vendors, providing insights and help in evaluations when contracts are up for renewal.

By automating key AP business processes – including routing to appropriate business units, two- and three-way matching, approval hierarchies, dispute management, and posting to accounting applications – your organization can drive efficiencies, reduce processing costs, and improve business with your partners.