

REFP

Useful insights for procurement of
freight audit and freight payment services



A Smart Decision — Outsourcing Freight Bill Payment and Audit

A growing number of businesses in the United States and around the world are now outsourcing their freight audit and freight payment (FAFP) processes. The cost-savings, process-efficiency, and business-intelligence benefits realized by outsourcing these services are indisputable. In fact, many SSI clients achieve a greater than 4-to-1 ROI (achieving four dollars or more in savings for every dollar invested into the service).

However, in the nearly three decades since SSI was founded, a profusion of “me-too” providers have entered the marketplace. The presence of multiple vendors making similar claims can muddy the water for decision makers who seek to maximize their gains through outsourced freight audit and freight payment solutions.

It is ironic and unfortunate how some finance and logistics professionals come to realize after program implementation that choosing the low-cost FAFP supplier can result in a frustrating, resource-depleting, and costly experience. For most businesses, it is imperative to identify the optimal provider who is most

capable of delivering spot-on solutions to meet their unique global requirements today, while also providing scalable solutions to meet future projected growth needs.

Why is finding the ideal partner so difficult? We find many RFPs are structured as if freight audit and freight payment services are commodity offerings where the lowest price wins. Admittedly, there are some discount providers who offer the same cookie-cutter service to every client. Yet, often in the freight audit and payment market, the lowest price supplier is not actually delivering the best value. Why? Because the majority of complex, fast-paced, multinational businesses need a custom-tailored solution that dovetails with their transportation, supply chain, and operational systems. This white paper explains how to identify the optimal provider who will deliver the best overall value to your business.

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Laying the Foundation for Selecting your Partner

Understanding the industry

All too often, companies submitting RFPs to freight audit and freight payment providers will initiate a bid with the same mindset by which they select carriers. Of course, it is logical to pay the lowest available price to get a shipment from Point A to Point B. However, traditional transportation procurement strategies are unlikely to deliver the desired result when applied to freight audit and payment. As mentioned previously, some firms offer custom solutions and others apply the same basic solution to all their customers. Even within the custom solutions, you will find some firms rely on manual processes, others who utilize automated audit processes, and still others that provide specialized software for freight-audit automation that is supported by well-qualified human intelligence. In fact, automation, manual intervention, custom programming, reporting, and even customer-service tools all play into the crafting of unique, custom solutions.

Your challenge is to find a reliable process by which to evaluate, measure, and conclude which provider delivers the best overall value and suits your unique needs.

There are other factors to consider as well. Some firms thoroughly audit 100% of your freight bills and others perform less rigorous audits or simply perform spot audits. Vendors providing freight payment services may offer pricing arrangements that take into account the float income they hold during the timespan between receiving and disbursing funds. In addition, beyond their core offering, some firms offer beneficial value-added consulting services which can deliver in-depth analysis and recommendations to drive supply-chain and distribution-network efficiencies and savings.

Traditional RFP outcomes, where the lowest price wins the bid, may seem wise in the short term. However, over time, the firm delivering the most thorough audits, based on your unique needs and supply-chain strategy, will recoup the greatest savings. Also, vendors providing specialized software and customizable solutions should provide helpful data-visualization tools for business intelligence. Tapping into these useful data insights may help you achieve continuous improvements yielding sizable efficiency savings in your supply chain network.

Ultimately, your challenge is to find a reliable process by which to evaluate, measure, and conclude which provider delivers the best overall value and suits your unique needs.

Laying the Foundation for Selecting your Partner *(continued)*

Understanding the pricing models

The most common pricing model among the major players in this industry is per-transaction. This refers to the actual cost to process, audit, allocate, and pay a single transaction. Less common, but favored by some small-to-medium sized businesses (SMBs), is contingency-basis pricing.

Per-transaction pricing

A transaction can be an airway bill (AWB) or waybill for small parcel shipments (FedEx and UPS) or an invoice (e.g., LTL, TL, etc.). Do not confuse a transaction as exclusively an invoice, especially if you want package-level detail, allocation, and auditing of your small parcel. Be mindful that small parcel invoices may include multiple shipments (transactions) on a single invoice. As such, suppliers will likely submit per-transaction proposals that have a price point for all electronic (or EDI) transactions and all paper transactions. This may be broken down into a third price point for high-volume small-parcel shipments where sheer volume may merit an additional price break. In general, you should expect at least two, and probably three, price points in the per-transaction model.

Be mindful of extra charges for other services. Some providers will bury these into per-transaction rates while others choose to provide clarity by itemizing these services (e.g., matching, per-payment fees, implementation fees, etc.). SSI recommends you request itemization and avoid requiring an all-in price per transaction. Estimating and bundling the total expense into a per transaction cost forces suppliers to hedge on pricing to reduce their risk of losing money on your business. You need a fair price and yet, you do not want your supplier to lose money in this long-term relationship. Any arrangement which is not “win-win”, may create an adversarial relationship in which no one wins.

Further, custom programming should be itemized separately. If you can build some programming allowance, or credit, into your proposal, this helps in budgeting. However, red flags should pop up with any provider that claims unlimited or free custom programming beyond an implementation period. Programmers are not cheap and either your supplier is going to pass this charge on to you a-la-carte (or when you need it), or they will offer programming for “free” but may under-deliver in other areas such as timeliness or quality of service.

One of the biggest benefits of per-transaction pricing is that the company can budget resources for the service. A budgeted service is a known expense that can be measured against your return (audit savings). It typically does not fluctuate much unless there are large sways in shipping/transactional volume.

Contingency pricing

Contingency pricing is less common but still viable for SMBs looking to audit freight bills with minimal-to-no out-of-pocket expense. Contingency pricing shares in the audit results, splitting what is saved at a pre-negotiated percentage (e.g., a 50/50 split).

This pricing model works well if the company is committed to saving money, has limited internal resources to review freight activity, and lacks the budget to outsource. Be mindful that the supplier's incentive is based on audit performance and as such will likely have fewer analytical tools and customization than a provider that audits on a per-transaction basis.

A Statement of Work — the Critical Tool for a Successful Bidding Process

To be effective in finding the best provider for your company, SSI recommends you establish a thorough statement of work (SOW) before submitting an RFP.

You may be wondering how that helps. Doesn't a well-crafted series of questions deliver the same result? Unfortunately, no. Your questions alone, albeit well-crafted and centered on your company's desired solution, can be honestly misunderstood, or misconstrued by prospective vendors. Further, you run the risk of your in-depth questions being answered with a simple, "Yes" response. Unfortunately, this sometimes happens because potential suppliers fear that too many "no" answers may raise a red flag and eliminate them from contention.

Of course, relevant questions should be asked and answered in the RFP process. However, a SOW provides solid context for your team to evaluate each vendor's answers to your questions.

The process of establishing a detailed SOW may also help you thoroughly document and understand the existing processes you have in place and identify pain-points and opportunities for improvements. When you go out to bid, the SOW will level the playing field by effectively communicating the expectations for the vendor and your business. Organizing a SOW improves the likelihood that each vendor is bidding on the same required deliverables. As a result, your company can properly value the supplier's tools, processes, and solutions in meeting your company's predefined requirements and priorities.

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Your SOW may be different than what is outlined below and depending on your unique needs that is to be expected. At a minimum, the SOW should include a shipping breakdown of key carrier activity as well as specific requirements associated with your desired solution. Ultimately, by formulating a detailed and accurate SOW, you will increase the likelihood of zeroing in on the freight audit and freight payment provider best suited to serve your business needs.

Transactional volume breakdown

To start, provide the freight audit and payment firm a detailed breakdown of shipping activity. DO NOT leave this information blank or summarized; provide as much detail as possible.

In other words, provide your invited suppliers at least one current year's worth of SPECIFIC CARRIER data, along with their SPECIFIC TRANSACTIONAL VOLUME and DOLLAR SPEND. Don't worry about whether you have EDI or electronic partnerships with any of them. A qualified supplier will readily identify EDI or electronic remittance opportunities just by seeing the carrier list along with transactional volume. Likewise, don't worry about breaking your dollar spend out by mode unless you are concerned about the audit capability of the supplier (e.g. small parcel, LTL, TL, ocean).

By providing an annualized and specific dollar spend by carrier, the supplier will be able to validate the transaction/invoice count you provided by calculating their average cost per invoice.

A Statement of Work *(continued)*

Core elements of a statement of work

In addition to providing the transactional-volume breakdown outlined above, we recommend including the following details to your SOW as a baseline for success.

DATA CAPTURE & RECORDING

- A. Required NUMBER OF DAYS to capture electronic and manual invoice data.
- B. Required DATA ELEMENTS TO CAPTURE.
- C. Required CARRIERS TO BE SET UP ON EDI / ELECTRONIC INVOICING.
- D. DIGITAL IMAGING of freight bills (Required or Optional?).

AUTHENTICATION

- A. Bill of Lading MATCH (from client shipping/TMS system) to validate shipment, terms, and/or coding (Required or Optional?).
- B. ROUTING GUIDE or Carrier Compliance rules (Required or Optional?).

AUDIT

- A. AUDIT REQUIREMENTS (Rate Errors? Duplicate Bills? Accessorials? If so, which ones? Service Failures?).
- B. Additional CUSTOM AUDIT REQUIREMENTS (requiring carrier data delivery).

COST ALLOCATION of FREIGHT COSTS

- A. COST ALLOCATION REQUIREMENTS (Predetermined tables, matrices, lists and/or logic to cost-allocate freight charges to cost-centers/general ledger accounts).
- B. GL CODING EXAMPLES.

PAY CARRIERS

- A. CARRIER PAYMENT REQUIREMENTS (Daily? Weekly? Bi-Monthly?).
- B. PAYMENT BATCH REQUEST DAY.
- C. PAYMENT FILE REQUIREMENTS and SPECIFICATIONS. (Compatible with company enterprise or accounts payable system which is—ORACLE? SAP?).
- D. CARRIER PAYMENT REMITTANCE MONITORING (Online? Fund clearance monitoring? Check imaging?).
- E. Carrier Payment Inquiry Management and SUPPORT REQUIREMENTS.
- F. CARRIER PAYMENT REQUIREMENTS (Number of Days to pay?).

DATA RETENTION and REPORTING

- A. DATA RETENTION REQUIREMENTS (Number of Months? Years?).
- B. REQUIRED REPORTS with Report Delivery REQUIREMENTS (File Type? Online? Frequency—Weekly? Monthly?).
- C. CUSTOM PROGRAMMING SUPPORT (Number of Hours?).

CUSTOMER SERVICE SUPPORT

- A. CUSTOMER SUPPORT REQUIREMENTS. (Dedicated? Team? Time zone? International training/support?).
- B. BUSINESS REVIEWS. (Frequency? Quarterly? Bi-Annual? Annual? Onsite? Teleconference?).

TRAINING SUPPORT

- A. IMPLEMENTATION and TRAINING REQUIREMENTS. (Onsite? Teleconference/Online? Number of Employees?).

5 Bonus Tips for preparing a freight audit and freight payment RFP

After developing a detailed SOW and formulating relevant questions for which you need answers, you may think you are ready to send out your RFP. Almost. We recommend you also incorporate into your plan several RFP best practices for freight audit and freight payment procurement that, when followed, will increase the likelihood of contracting with the optimal provider which is best-suited for your company. Here are 5 important recommendations.

TIP #1 Measure ROI and gain senior management support

Whether outsourcing for the first time, or transitioning away from an existing provider, an important early step is to measure the ROI of your existing program and gain senior management buy-in to evaluate other options. Why? Because implementing a freight audit / freight payment solution is an important decision and usually requires the approval of a senior manager. When senior managers understand the potential value of making a change, and that your goal is to better identify savings, improve efficiencies, receive business intelligence, and ultimately add dollars to the bottom line, then you will gain essential management support. In essence, you are identifying and removing potential roadblocks before even starting the trip. Importantly, the procurement project and future implementation process will become a business priority with broad internal support.

TIP #2 Form a cross-functional team

One of the biggest mistakes we have seen individuals make when they send out an RFP is that they fail to internally collaborate before requesting a proposal. Freight bill auditing and payment is ultimately a cross-departmental endeavor. So, gain input and buy-in early from those departments who will be most involved in the usage and implementation of the solution.

Your decision team may include a key transportation, logistics, finance, and IT manager from within your business. Also, be sure to keep the senior executive decision maker in the loop with periodic updates. Gaining involvement up-front can be challenging, however, hitting roadblock after roadblock after decisions are made – or worse – after program implementation begins, is a much greater headache.

To be clear, we are not suggesting you invite a large group of people to write the statement of work and detailed RFP questions. However, key decision makers should provide relevant insights and be provided the opportunity to sit in on the supplier presentations, as appropriate. Clear communication is essential in keeping internal stakeholders informed throughout the decision-making process and also maintaining their engagement during the implementation process.

5 Bonus Tips *(continued)*

TIP #3 Set deadlines and steadfastly stick to your timeline

Often, after developing the SOW and RFP, the bidding and selection process to identify the ideal freight audit / payment provider takes 45 to 60 days ... and sometimes longer. Unfortunately, an elongated process that stretches beyond 60 days will run the risk of losing momentum and causing decision makers to go stale with hazy recollections of supplier capabilities. Be cognizant of schedules, vacations, and holidays and plan accordingly.

We recommend you set a timeline for review, presentation, and selection and purposefully stick to the schedule. This allows for a decision that is based on fresh knowledge, but not rushed.

Once the decision is made, provide a post-mortem with the finalist(s) not selected. This is important, because it provides both parties feedback and insights in improving bidding and procurement practices in the future and it ensures relationships are maintained in the event you end up back in the market after a failed implementation or contract negotiation.

Afterwards, move quickly into a timely contract negotiation (if necessary). Lean on your company's legal department to expeditiously finalize the needed language, so you and your team may get the implementation underway.

Being definite in your vendor selection and implementation timeline will work to your benefit in that all of your company personnel are on the same page, resources are allocated appropriately, and the audit savings and efficiencies are implemented quickly. It's a win-win for everyone.

TIP #4 Use a scorecard with a blind review

Scorecards help you quantify a supplier's products and services, so you may identify the best fit and best value for your organization. If your firm has a dedicated supply chain buyer with expertise in transportation and logistics, the development of a simple but comprehensive scorecard should be straightforward.

Using a scorecard allows your company to rank answers and responses in accordance with company goals, objectives, and systems and should be based on a ranking system (e.g., 1-5). Organize the subjects by relevant criteria, which may include the following points of differentiation.

- Audit process
- Customer service and technical support
- Reporting capabilities
- Business intelligence and data visualization tools
- Customization capabilities
- Value added services offered
- Implementation
- Technology (specialized software, automation capabilities, secure backups, etc.)
- Global capabilities
- Scalable solutions
- Price
- Best overall value

During the review of supplier RFP answers, you can remove any potential bias held by internal team members toward a specific supplier if the service provider's name is removed from the RFP response. This is referred to as a blind review. Your team will invest time and effort to score the supplier responses accurately if they know the priority is in identifying the best value, rather than simply the lowest price. Your collective team effort in this scoring process will increase the likelihood you select the optimal provider for your needs.

5 Bonus Tips (continued) and Summary

TIP #5 Perform an onsite visit

Over the course of a long-term agreement, your company may spend tens of thousands of dollars with a freight audit and payment company. So, during the procurement process, be sure to budget enough time and money to travel and visit your top two finalists onsite. Do not skimp here - make the trip.

Freight audit and freight payment comprise both a technology offering and a professional-services offering. In fact, in a crunch, the vendor's staff may prove crucial to your satisfaction. An onsite visit will allow your company to validate first hand a vendor's capabilities and evaluate the cultural fit between the organizations. A visit may also provide an opportunity to meet the company's senior executives and see with your own eyes the security protocols for both the supplier's building and technology. Witnessing the inner workings of your potential partner is the best way to get an accurate picture.

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Summary

By following the guidelines outlined in this white paper, you and your decision-making team will greatly increase the likelihood of identifying the ideal freight audit and freight payment provider for your business. Here is a brief summary of all the knowledge, information, and insight, you now have at your disposal:

- Outsourcing freight audit and payment is a smart decision.
- There are two types of pricing models in freight auditing (per-transaction and contingency).
- These services are not a commodity purchase and the best savings, service, and value for your business may not come from the low-cost bidder.
- Custom-tailored solutions often best meet the needs of complex, fast-paced, multinational businesses.
- These customized solutions should provide data visualization tools to highlight helpful business intelligence insights that drive increased supply chain efficiencies.
- Scalable solutions provide assurance your needs will be met in the future.
- Most freight audit and payment companies are built differently from one another and their areas of expertise effect service, cost and savings.
- When you organize a formal bid, create a statement of work for the prospective suppliers. Doing so will minimize misunderstandings and provide clarity as you evaluate proposals.
- Measure your current ROI and gain senior-management support early.
- Organize and collaborate with the right internal team of decision makers, including representation from transportation, logistics, finance, and IT.
- Create a timeline for review and selection of a freight audit and payment supplier and then stick to the timetable.
- Review, record, and quantify supplier RFP responses using a scorecard with a blind review.
- Schedule an onsite visit with your top two finalists.



ABOUT SSI:

SSI transforms the complexity of freight audit and freight payment into cash savings and business intelligence, providing actionable insights to maximize your profit potential. The company's specialized software for freight audit and freight payment, delivers a competitive edge to C-level executives and global supply-chain operation professionals.

- Customizable solution scales with your growing business
- Automated freight audit drives savings to the bottom line
- Modern data visualization facilitates analysis
- Relevant business intelligence supports decisive action

SSI also offers consulting services that unlock freight and supply-chain savings. Since 1989, our team of dedicated professionals have possessed a passion for helping companies save money and operate lean.

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