The Importance of Integrated Freight Audit and Pay Services

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EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: The Importance of Integrated Freight Audit and Pay Services

As organizations take steps to control and reduce costs across their supply chain, freight audit and pay automation can quickly contribute to these goals by confirming invoice validity and speeding payment to transportation and logistics partners. Removing a labor-intensive and error prone task from logistics practitioners allows them to refocus their energies on more value-added tasks that make the supply chain more efficient, resilient, and sustainable.

Key Takeaways

- Typically assessed as a small per invoice fee, the tools and functionality to automate freight audit and pay processes can quickly provide a return on the investment multiple times over.
- The complexities of global, multi-modal transportation leads to errors in up to 25% of invoices. When not identified, this can inflate transportation spend by as much as 15%, straining budgets and organizational profitability.
- Labor availability poses the greatest risk to the supply chain over the next decade. Augmenting practitioners with the tools to remove cumbersome and error prone tasks makes them more productive as their focus returns to collaborating with transportation partners to improve service levels.

Recommended Actions

- Find the right freight audit and pay solution for your organization. Whether delivered through extended functionality of a TMS or as a point solution, these tools can quickly begin to provide visibility to spend while instilling confidence that freight spend is under control.
- Leverage the data generated from freight audit to improve transportation procurement activities, helping to reduce costs while making the supply chain more agile.
- Become a shipper of choice by making the freight payment process more consistent and predictable. Paying on-time and with confidence makes organizations a better partner to their logistics service providers and allows operational teams to focus on improving service levels that make the supply chain more cost competitive and resilient.

Source: IDC, 2024

SITUATION OVERVIEW

Transportation and logistics is a key element of the supply chain, forming the connections that link suppliers, manufacturers, and retailers to each other and to their customers. Supported by 3PLs, 4PLs, and asset owners and operators, the contracts for transportation and logistics services can be very complex to provide the range of services that give supply chains the opportunity to remain agile in a fast-changing environment.

Designed with the intent of delivering the most flexibility to support evolving business needs, managing the complexities of the invoices generated as a result of securing these services is a tedious, error-prone, and time-consuming task. Too often it is managed manually by operations practitioners who are close enough to the business to validate expenses but without the time, resources, and energy to effectively manage the sheer volume of invoices involved. This commonly results in cost overruns when teams are incapable of challenging the validity of the range of charges in a freight invoice and it has the potential to significantly inflate freight invoices above planned costs. Too frequently, busy workloads interfere with the processing of invoicing leading to inaccurate approvals or parked and blocked invoices when timely processing is not possible. Strained relationships with logistics partners are often the result when invoices are held for payment due to a lack of clarity around the validity of charges without the proper resources to resolve them in a timely manner and payment becomes delayed.

There is an opportunity to automate back-end processes like freight audit and pay capabilities to better align the costs for transportation services with planned costs that were projected during the procurement cycle, helping to reign in cost overruns that plague transportation and logistics teams and increasing the value they deliver to the supply chain. Even as organizations prioritize resilient supply-chain networks in a post-COVID-19 world, reigning in cost overruns remains the top priority for teams whose transportation budgets have been wrecked in recent years. Fifty-eight percent of respondents to IDC's *Global Supply Chain Survey* indicate that increased costs for transportation services remains the top impact that global disruption has had on their supply chain. Reigning in overruns can be supported by freight audit and pay services that help teams to better manage their freight spend, ensuring that invoices are audited for errors or discrepancies, that costs are in compliance with contracted terms, and that payment to carriers and logistics service providers is processed in a timely manner.

Freight Audit and Pay

Ensuring alignment to contracted rates and terms is a difficult task for high-volume operations with complex, multimodal global transportation contracts. Freight audit can help automate this task to ensure accuracy and compliance with contracted terms. Verifying that rates, discounts, and charges applied to each shipment are correct given the time, location, and equipment utilized to execute each move is difficult and becomes even more challenging when organizations move to more dynamic pricing models such as mini bids where rates shift more frequently.

This is not only error prone when accomplished manually but also an extremely labor-intensive and time-consuming task that absorbs the energies of practitioners whose time would be better served working with logistics partners on how to better deploy resources and gain efficiencies that deliver value across transportation networks. Easing the workload on operational teams is a top priority for supply chain leaders, of which 46% indicate that labor availability poses the top risk to global supply chains over the next decade. Further, when asked where labor shortages are most acute, 64.1% indicate that it is among supply chain planners and schedulers — precisely those who are most often

tasked with verifying freight invoices due to their proximity to the business and familiarity with the daily operational decisions that directly impact the cost of transportation services.

Automated payment processing speeds the clearance of invoices, helping logistics service providers to receive payment in alignment with agreed payment terms and conditions while helping bring potential billing discrepancies to a resolution by identifying and resolving erroneous charges. Door-to-door transportation and logistics services commonly include numerous subcontractors such as terminal operators, port authorities, drayage providers, storage facilities, and inland truck-and-rail service providers. Consolidating the charges from all these parties into a single invoice for door-to-door services often leads to errors which are contained in up to 25% of freight invoices. When missed, these fees result in shippers overpaying for logistics services by as much as 15%, significantly impacting supply-chain competitiveness as a persistent drag on profitability. Driving consistency across their charge base can be accomplished by automating the freight audit and pay process, helping organizations to validate that they are only paying for services and surcharges that are relevant to a particular shipment.

Utilizing the data generated from the audit process can help transportation procurement teams to identify trends and opportunities that might otherwise be overlooked, better aligning transportation into the supply chain from a service and cost perspective. Cultivating an intelligence pipeline that can be leveraged to improve operations and strengthen contract negotiations benefits organizations whose supply chains are being continuously recalibrated to accommodate shifting trade alliances, geopolitical conflicts, natural disasters, and the pursuit of resilient operations in the face of these challenges. According to IDC's 2023 *C-Suite Tech Survey,* procurement analytics, spend analysis, and transaction processing are top operational priorities for executive leadership teams over the next 12 months (see Figure 2). Automating intelligence generation to improve supply-chain capabilities is a key initiative as organizations look to become more data driven to improve decision accuracy and consistency across transportation activities. Teams can discover opportunities to identify operational efficiencies that save money, strengthen relationships with transportation partners, and improve root-cause analysis of expedited shipments by tying them to operational drivers. This helps to draw lines of accountability and create an environment where teams can work collaboratively to rectify persistent failures and reduce their reliance on costly and carbon-intensive expedites.

Utilizing freight audit data provides teams with the objective footing that allows them to drive compliance toward incoterm alignment to become more transparent and improve accountability around transportation and logistics activities. A better understanding of where handoffs occur and where liability for the costs and the condition of freight exists allows teams to open a dialogue toward discovering opportunities to better control or reduce costs where these capabilities may not have existed before. An example of this is dialing in cargo insurance, an area where organizations often overinsure by as much as 50% due to a lack of clarity around where liability begins and ends for each party in the end-to-end logistics process.

FIGURE 2

Top Operational Priorities for Transportation and Logistics Teams Over the Next 12 Months

Q.   Thinking about operations' top priorities in the next 12 months, please rank the top operations initiatives in order of importance.
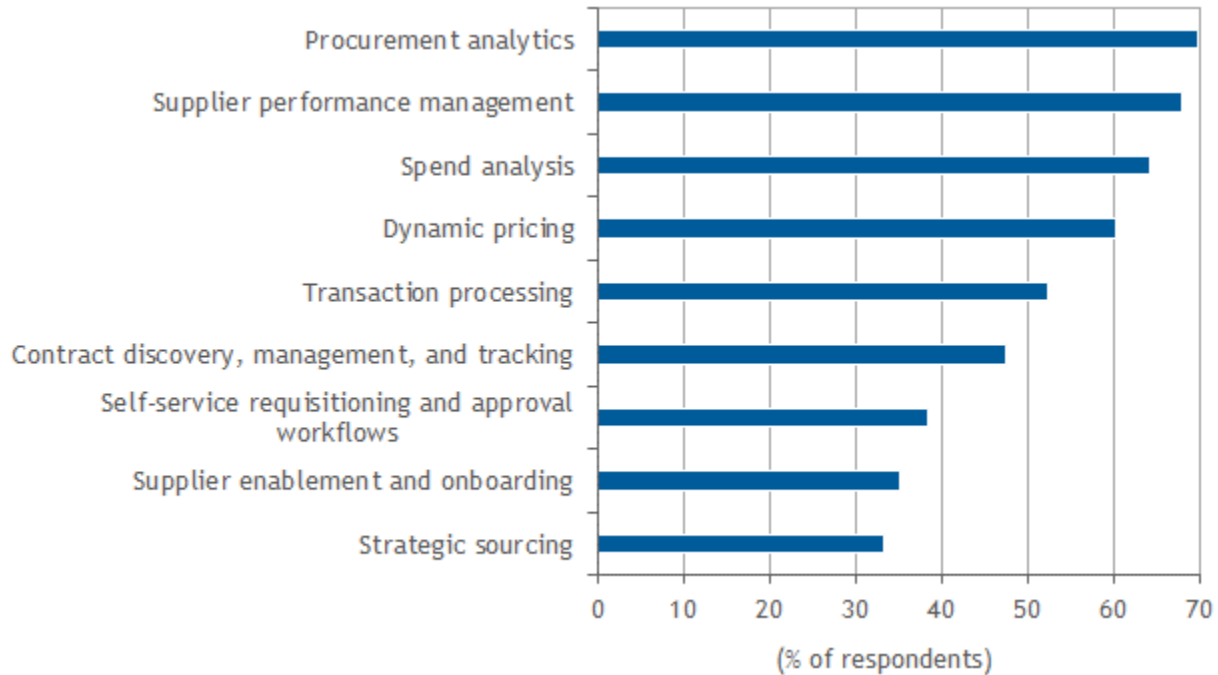
n = 11

Source: IDC's *C-Suite Tech Survey,* August 2023

Benefits

The most direct benefit of automating freight audit and pay for transportation is cost savings. Identifying and addressing billing errors, duplicate invoices, or accessorial fees that do not apply helps teams to only pay for services that were rendered. This can generate significant savings over time, allowing organizations to control and reduce freight spend and make their supply chain more competitive.

Organizations also benefit by enhancing financial visibility and accountability by better aligning planning and execution across global transportation and logistics. Utilizing data generated from the audit function can significantly improve financial planning and analysis (FP&A), helping teams to improve forecasts and better adhere to budget figures. When this is not controlled it can have an outsized impact on quarterly or annual profits due to the size of spend for high-volume shippers. Minimizing unplanned overruns makes transportation a more trusted partner internally and strengthens the relationship between logistics and finance teams. In IDC's *Global Supply Chain Survey,* one in four respondents indicated that the top opportunity for collaboration that exists within their businesses is between supply chain and other functional departments. This is a significant pain point within many

organizations that have made improving visibility and collaboration internally a top opportunity area for businesses.

Improving external relationships with logistics service providers is also enabled when businesses become capable of paying transportation invoices on time and with confidence. Eliminating unpaid or late invoice payments provides an opportunity to become a shipper of choice, freeing teams to work together to identify and pursue opportunities to improve service levels rather than quibbling over disputed charges. Automating dispute resolution makes it a more streamlined, efficient, and consistent process, helping to reduce or eliminate finance fees on delayed payments and optimizing working capital across the supply chain by taking advantage of — or more consistently adhering to — contracted payment terms.

Data from the audit and payment process can also be utilized to cultivate actionable intelligence that can inform supply-chain strategy. When we asked transportation and logistics respondents to IDC's annual *Global Supply Chain Survey* about the gaps that will be most problematic if not addressed over the next 12 months, nearly half (48.7%) of respondents indicated the lack of robust data analytics and insight intelligence as their top response. Organizations striving to make more evidence-based decisions can tap this data to help them identify trends early, identify opportunities to generate efficiencies that control or reduce costs, and improve the transportation procurement process by becoming capable of assessing themselves against industry benchmarks.

Last, automating these processes drives accuracy but also frees logistics practitioners from rote, error-prone tasks. This is an ideal situation for technology to enhance the productivity of the logistics workforce to drive consistency and deliver with speed what it takes many people countless hours to accomplish when done manually. Freeing teams from tedious tasks helps to improve job satisfaction as teams are allowed to focus on more desirable and impactful tasks where their expertise can deliver value, like collaborating to improve service levels or driving sustainability initiatives into operations.

Note: All numbers in this document may not be exact due to rounding.

ADVICE FOR THE TECHNOLOGY BUYER

Freight audit and pay automation can be obtained through extended TMS functionality or by way of a point solution to help organizations drive out excess costs, align transportation budgets and spend, and become a better partner to the companies who provide transportation services. Typically assessed as a small per-invoice fee, the tools and functionality to automate these processes can quickly provide returns on the investment multiple times over.

Technology providers have solutions available with very short implementation cycles that will begin to deliver savings and insights intelligence in a matter of months. This can be very beneficial as the time value of money has gone up, leaving organizations to look for ways to optimize capital across the supply chain and to eliminate waste where it can be found. In addition, becoming a better partner to work with by accurately and consistently paying logistics service providers will make organizations who improve these capabilities more desirable to partner with. This opens the doors to increased competition for logistics service providers vying for your business that aligns with and complements their business goals.

As organizations remain focused on efforts to control and reduce costs, becoming more data driven helps advance these causes. An intelligence pipeline generated from freight audit and pay services

helps to more deeply align logistics execution with overall supply chain strategy, providing transportation and logistics procurement teams the knowledge they need to pursue and effectively advance cost, service, and sustainability goals across their supply chain.

LEARN MORE

Related Research

- *IDC MarketScape: Worldwide Transportation Management Systems Applications 2024 Vendor Assessment* (IDC #US51982224, April 2024)
- *IDC Market Glance: Transportation and Global Trade, 1Q24* (IDC #US51900524, March 2024)
- *Worldwide Supply Chain Logistics and Transportation Management Applications Market Shares, 2023: Logistics Visibility* (IDC #US51463723, December 2023)
- *Worldwide Supply Chain Management Applications Market Shares, 2022: Growth Maintained* (IDC #US51447923, December 2023)
- *Worldwide Supply Chain Logistics and Transportation Management Applications Software Forecast, 2023-2027* (IDC #US51434223, December 2023)
- *IDC FutureScape: Worldwide Supply Chain 2024 Predictions* (IDC #US50873823, October 2023)
- *IDC's Worldwide Digital Transformation Use Case Taxonomy, 2023: Transportation and Logistics* (IDC #US51218422, September 2023)

Synopsis

This IDC Perspective examines the benefits that freight audit and pay technology delivers to make the supply chain more agile and efficient.

"Identifying wasteful spending and strengthening competitive positioning with logistics service providers allows beneficial cargo owners to effectively leverage their freight volumes, improve capital management across the supply chain, and augment the productivity of logistics practitioners," says Travis Eide, research director, Transportation, Logistics, and Global Trade at IDC.

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