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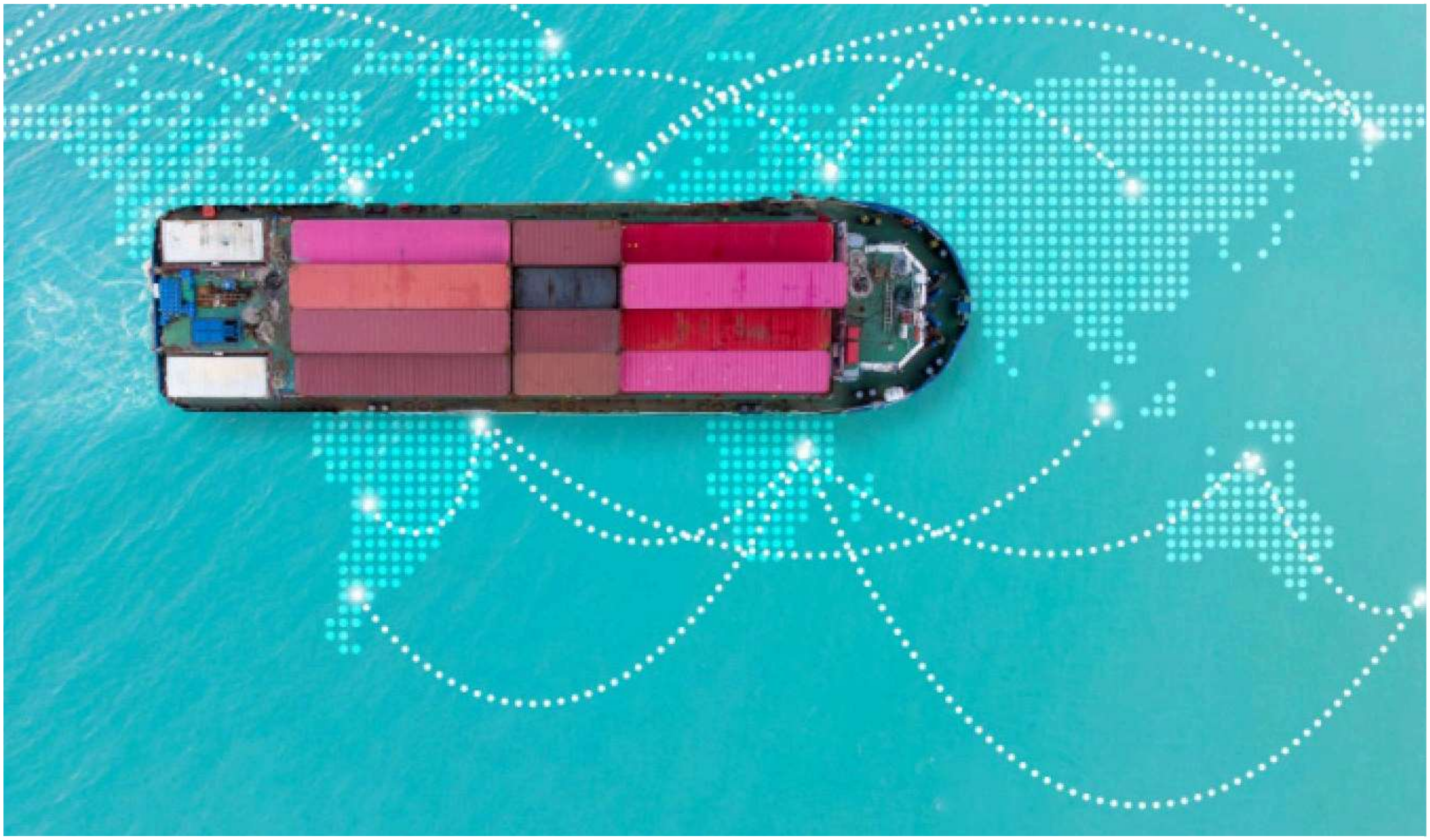
Shippers urged to tether rate management with freight invoice processes to cut errors



Most rate management tools have been built for forwarders, who have the challenge of coordinating rates across their shippers' customer base. Photo credit: CC7 / Shutterstock.com.

Eric Johnson, Senior Technology Editor | Jan 26, 2024, 8:00 AM EST

Incremental advances in international logistics digitization could lead shippers to better connect freight rate management with invoice auditing and payment, technology vendors tell the *Journal of Commerce*.

The idea of using rate management to minimize invoice errors for shippers seems logical in theory, but in practice, it's been inhibited by the reality that rate management software has mostly been sold to forwarders, not shippers.

"Traditionally rate management tools have been aimed mainly at freight forwarders," said Graham Parker, CEO of Ship Angel, which sells rate management tools specifically to beneficial cargo owners (BCOs). "That makes sense, because if you're a forwarder you have everyone's rates to manage. If you're a BCO, you only have your own rates."

But Parker, who launched Ship Angel in 2023, said an important aspect of digitizing the logistics industry is weaning shippers off a reliance on Excel spreadsheets to manage their rates.

"We kept hearing about advancements in procurement and visibility but there's this piece in the middle where shippers are managing rates, and of the 100 shippers we spoke to when we were researching the industry, 82 were using Excel, and I was blown away," he said.

"Sitting with a lot of shippers, rates have become more complicated, with more surcharges, and rates in multiple currencies," Parker added. "When you try to manage that in Excel, it just becomes too difficult."

Parker related a story of watching a shipper access its rates from forwarders and container lines.

"They would click on the file and there would be week numbers, one to 52," he said. "They would click on week seven and there would be 15 rate files, and an Excel compiling those 15 rate files, just for that week. And it was clear it was getting too complex for them to understand what the rate was, what the surcharges were, and how do you pick the best option?

"If you're looking at a large Excel sheet and you're trying to find the fastest transit, or if the rate is good versus a benchmark, or to measure CO2 between two sailings, it's impossible to do that in Excel," he added.

Parker said moving rate management for shippers from Excel to a more intuitive web-based platform is part of a larger transition that he called "the unbundling of Excel," with a prime example being how Salesforce took customer relationship management (CRM) from Excel to specialized software.

"Now everybody uses a CRM instead of a spreadsheet," he said. "You've had a similar journey with project management tools like Asana."

Rate to invoice digitization

That digitization would translate into a more efficient invoice auditing and payment process for shippers because a shipper could then compare an incoming invoice with a digitized contract rate or confirmed spot quote from the rate management system.

In that scenario, data from the invoice would be extracted and digitized by software so that it was comparable to the data in the rate management system.

Raghav Viswanathan, CEO of rate management software vendor Freightify, said there has been demand from his customers to build invoice auditing capability using just that process. Freightify primarily sells to forwarders, but the product could theoretically be used by shippers as well.

"We've definitely had customers ask if we can do invoice reconciliation," he said. "They'll say, 'you've given us rates and now can you help us compare it to the invoice?'"

The comfort factor

The challenge is often more political than technical, however. Rate management software providers establish relationships with container lines to get direct feeds for ocean rates. Those feeds are piped to forwarders, who then convey the container line rates to shippers, with a margin added.

If the rate management provider is then helping a shipper streamline its invoice auditing process by connecting rate data to the invoice received, that could potentially ruffle feathers with both the carrier and forwarder. The carrier would be concerned that invoice reconciliation only benefits the cargo owner who might have overpaid, and not instances when the carrier has underbilled. And forwarders might be concerned that their margin is exposed if the shipper can see the underlying container line rate.

There are ways to shield that data to make forwarders and carriers comfortable yet still allow shippers to streamline their auditing and payment process. But the trick is in overcoming the perception that shippers will see data that wouldn't be available to them.

Plus, there's the added reality that freight rate and forwarder margin transparency is as strong as it's ever been due to the proliferation of price discovery tools and rate indexes.

Viswanathan, for his part, believes the digitization of rates will eventually help the situation.

"Invoice errors will eventually go down as more rates and quotes become digital," he said.

Single solution option

There's also the matter of whether shippers are set up to piece together a point rate management system with an invoice auditing solution. Another option is to use a software suite that includes rate management and invoice auditing. Generally, those suites are built around transportation management, such as those offered by the likes of Infor Nexus, e2open or Descartes.

Some shippers are fine with what Steve Ontiveros, supply chain solution consultant at Infor Nexus, called a basic two-way match in which the invoice is compared with the rate in a contract or spot quote. But a three-way match allows shippers to consider a range of details associated with the shipment. That includes whether service levels were adhered to, whether accessorial charges were incorrectly applied and specifics about the route the shipment took.

"If you're able to understand what the route is, and whether it traveled that route, and were there accessorials assessed that were allowed, that allows you to flag a shipment in a way you couldn't in a two-way match," he said.

Ontiveros acknowledged that freight rate management has not been at the top of the priority list for shippers, primarily because most vendors in the space are point solutions that are focused on the logistics intermediary market as customers. Instead, Infor Nexus focuses on shippers using rate management to make better procurement decisions that feed into more streamlined downstream activities, including invoice auditing and payment.

"In a sense we have to create demand [for the rate management tool] and our differentiator is tying it into execution," he said. "When you have the rates on Nexus, those rates can be exposed to our optimizer, which examines carrier and forwarder contracts."

The optimizer allows a shipper to compare "what if" scenarios on which contract rate to use for a given shipment or whether the shipper should go to the spot market. The rate acted upon flows directly into the audit and pay process, minimizing errors associated with spreadsheet-based rate management.

"That optimization piece is where the real gold is," Ontiveros said. "The default for shippers has been to turn to the NVO market and get updated spot rates every month, and that's harmful because it's not a smooth process."

The through line between rate management and payment is especially notable for enterprise customers that are stitching together a "patchwork of systems, often through acquisitions," Ontiveros said, where aligning contracted rates and confirmed spot quotes with the payment process can get clunky.

"If you have a TMS … we're not going to resell you that," he said. "But we can take a feed from your TMS, and in that case, we're more agnostic. It's freight rate management combined with execution. The market has broadly coalesced itself around settling for [rate management] point solutions."

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