

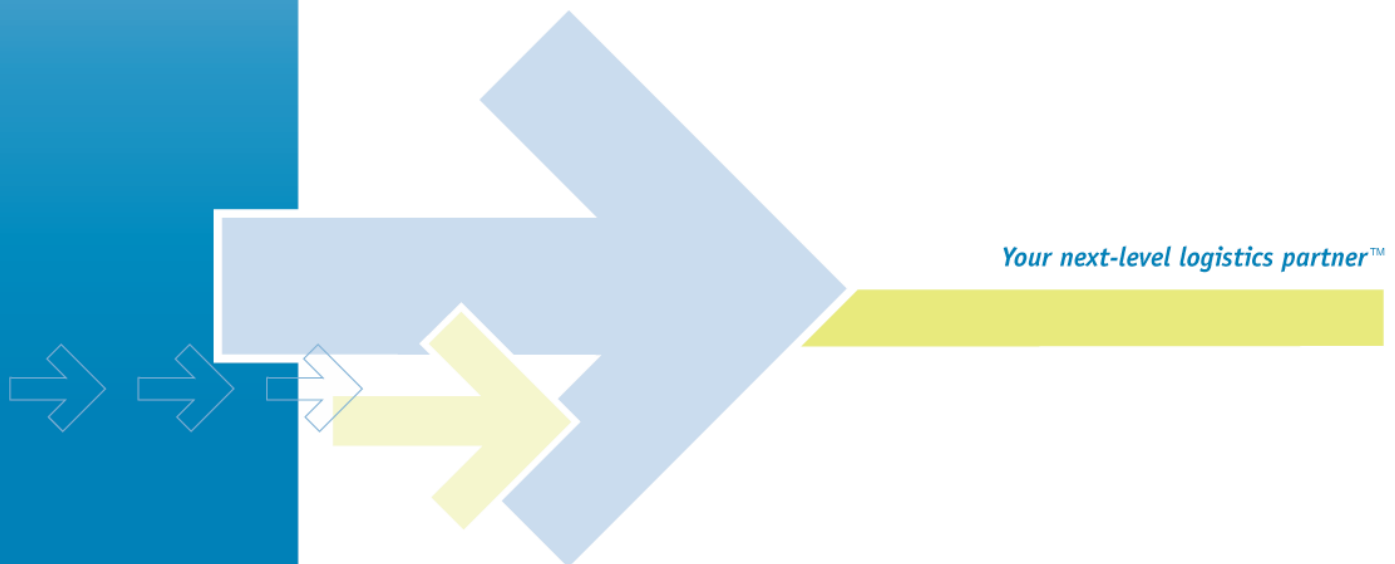


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Why Best Practices in Freight Audit and Payment?

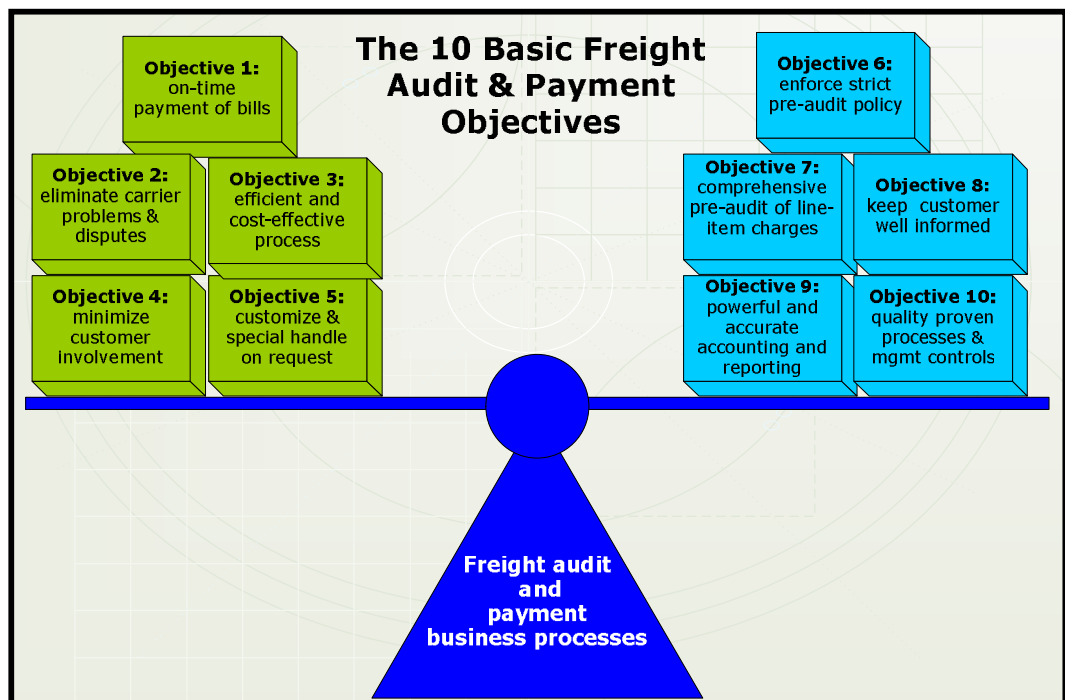
Part 1 of the 5 part series:
Best Practices in Freight Audit and Payment



Approaching the Project

As you shop for a freight audit and payment partner it just makes sense to become familiar with the industry best practices and then choose a firm that actively supports them. If you don't approach the project that way then you're probably about as likely to partner with the firm with the worst practices as you are to partner with the one with the best.

Freight pre-audit and payment firms have been around for a long time and while the technology and methods that they use have changed dramatically over the years, the ten or so basic business objectives are nearly the same today as they were a decade or even two decades ago.



Balancing the Objectives

The first thing that most people notice about the diagram above is that the objectives do cover all of the bases. That is, nearly everything we seek to accomplish in terms of freight audit and payment are represented by one or more of the 10 key objectives. In fact, these objectives are so widely accepted and well understood that it leads some to conclude that the freight audit and payment service is merely a commodity. After all, every company that provides this service is attempting to meet the very same set of objectives. It seems logical to simply choose the lowest cost alternative that meets these objectives. This commodity view is deeply flawed as we'll later see.

A second less obvious point is that many of the objectives in the diagram are actually in conflict with one another. In other words, to implement a business process that ensures one objective will require that we compromise on another.

Take for example **Objective 6: enforce strict audit policy.** Here we seek to avoid payment of any bill that has a known billing error or that can't be strictly audited and thus sufficiently ensured to be error free. We can, of course, implement a process that does

just that. One approach might be to reject or otherwise except out billing errors and any bill that can't be audited based on some clear definition of a minimum audit. This seems like a reasonable approach, but there is still the matter of %Objective 1: on-time payment of bills+and %Objective 2: eliminate carrier problems and disputes.+

While it may be possible to meet Objective 6 without failing to meet Objective 1 and 2, we can't guarantee it. Just how well we meet the latter will depend on how strict the audit is, how many audit exceptions result, what exception process we follow, and how other parties respond.

The same argument can be made in the reverse. The best way to guarantee that we'll have on-time payment without carrier disputes is to simply pay every bill including those that can't be audited or that have errors. Of course we will then likely fail to meet Objective 6, etc. Upon close examination, it becomes obvious that this conflicting relationship is present in many, if not all, of the key objectives.

Outsource Objectives or Practices

A logical conclusion to all this is that there just isn't a business process that can guarantee every objective will be met every time. Likewise, when you enter into an agreement with a freight audit and payment firm you are not purchasing a product that meets all objectives. You are instead purchasing the business processes that the freight payment provider uses to achieve a particular balance among conflicting objectives. In other words, you're buying the %Practices+of the service provider. If you want to adopt the %Best Practices+and therefore the best possible outcome, then you'd want to select the service provider with the %Best Practices+. You could even say that when you outsource freight audit and payment you are, in effect, adopting the practices of the service provider as your own. It certainly serves your interests to adopt the best ones.

Comparing Costs

While most freight payment service providers seek to meet the same set of objectives, the actual practices and the resulting outcomes vary widely. A process that focuses on some objectives at the expense of others may also be much less expensive to support than a more balanced approach. The prior may give the illusion of being more cost effective, but actually generate far less value per total cost than the more balanced approach.

As an example, consider a process that does a good job of meeting Objective 1 and 2, but not a very good job of meeting Objective 6. This might be realized by limiting the audit to points that are well understood and rarely disputed. A process such as this can be implemented with relatively low service fees because Objectives 1 and 2 can be met with a systematic approach requiring little human intervention. An alternative approach that involves deeper audits and a stricter audit policy results in higher fees due to the additional human resources that are required to manage and resolve audit discrepancies. The second approach may initially appear more costly, but the greater value generated from the more thorough audit may actually result in a far more cost effective solution. From the manage-by-objective perspective, both processes appear equivalent. Only by examining the actual practices of each approach do the significant differences between the two become obvious.

Here again is the fatal flaw in viewing the freight audit and payment service as a commodity and one that can be outsourced and managed by objective alone. Perhaps Michael Dell, CEO of Dell Computers, said it best when he said:

"Ideas are a commodity. Execution of them is not." (Fortune, June 14, 1993)

Examining Current Practices

Even if you're not actively looking to improve your freight payment process, it's at least wise to examine your current practices whether they are internal or those of an outsourced provider. Are you satisfied with the results you're getting and are you proud to call those practices your own? If the answer to either is no, then perhaps it's time to make a change.

This article is Part 1 of a 5-part series titled [Best Practices in Freight Audit and Payment](#) by Software Solutions Unlimited, Inc an industry leader providing innovative freight audit and payment services to some of the greatest companies in the world since 1989. To learn more, visit us on the web at www.ssui.com.

Part 1 is titled [Why Best Practices in Freight Audit and Payment](#). Part 2 is titled [Generally Accepted Best Practices in Freight Audit and Payment](#). Part 3 is titled [Best Practices in Business Intelligence Reporting](#). Part 4 is titled [Best Practices in Auditing/SOX Compliance](#). Part 5 is titled [Best Practices in Customer Service](#).