JOC
THE JOURNAL OF COMMERCE

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- AND THEN SOME

Inaccurate invoices cost ocean shippers time, money and aggravation. Carriers and 3PLs are trying to improve the process, but rate volatility is roiling the waters.

David Biederman | Nov 08, 2013

When Maersk Line CEO Soren Skou told the JOC's TPM Conference in March that nearly 12 percent of container industry invoices are inaccurate, shippers took notice. It has been, after all, Maersk Line's "highest customer service issue for some time," one that potentially costs ocean carrier customers millions of dollars a year.

With rate volatility only intensifying, be it on the spot market or through the various general rate increases carriers have imposed with varying degrees of success, the challenge to ensure accuracy in billing is only getting tougher. Errors and discrepancies are rampant and drive up costs for shippers, who say carriers could be doing a lot more to improve the invoicing process.

Ocean freight rate volatility kicked into high gear with the huge drop in demand that followed the 2008-09 recession, prompting carriers to try almost anything to maintain market share. The cycle of volatility shows no sign of abating, said Sheila Hewitt, vice president of Transplace, a third-party logistics provider that offers transportation outsourcing and brokerage services.

Skou's 12 percent inaccuracy rate actually looks excellent compared to a recent Transplace survey in which shipper customers found that bills of lading are seldom accurate. Some estimates of an error rate of up to 25 percent in ocean freight invoicing are said to be too conservative. Rates often differ on booking confirmations, bills of lading, invoices and other documents, none of which may agree with the contracted rate.

The results can be damaging. Shippers can incur detention and demurrage charges, and their credit with carriers can be put on hold. "It can be very frustrating and time consuming," Hewitt said.

So how can shippers mitigate their risk? Transplace reduces invoice errors by including contracted rate data in the original booking. By initiating a dialogue between shippers and carriers up front, discrepancies in rate changes, assessorials and other charges can be recognized early on.

Reconciling invoice data requires on-staff experts who can interpret contract language, and understand assessorial charges and international rates.

In an extended pilot program with a large shipper customer, Transplace developed key performance indicators and metrics to identify the impact of freight invoice errors. Transplace maintained the customer's ocean rate database and electronic routing guide, and provided freight forwarding, customs brokerage, reporting and analytics services.

Using the metrics, the shipper was able to reduce errors, contract amendments and harmful impacts such as credit holds, and increase visibility into rates. Initially, only 2 percent of freight bills were error-free or required no further action. Eight months into the program, that woeful number had vastly improved.

"There is a lot of value and power in freight rate data," Hewitt said.

Compounding the low success rate was the freight payer's inability to maintain accurate rate assessments and keep up with contract changes and addendums.

Shippers and carriers often end up working at cross purposes because of inefficient processes and repetitive requests for inputs and rate data. There are also frequent disconnects between carriers' finance and operational groups, and a lack of automation in carrier accounts receivables.

"A lot of the time there is no centralized mechanism for managing rate activity," Hewitt said. "There's a lot of frivolous activity."

Neil Barni, president of CargoSphere, a provider of rate management software and systems, estimates a freight invoicing error rate of about 30 percent. "With rate volatility clearly up, it has become a business imperative to have a system for managing freight rates and payments," he said.

CargoSphere customers incur as many as 150 contract amendments a year. Amendments could apply to a single shipment or thousands, so the stakes are high.

CargoSphere has 520 separate surcharges in its database from the major steamship lines, including at least 25 variations on bunker surcharges. Adding to complexity are general rate increases that may or may not be mitigated, and tariffs that may or may not apply.

Shippers, while waiting for arrival notices to arrive, can incur any number of surcharges. "All of those moving parts lend themselves to a lot of errors," Barni said. "If you don't deconstruct the puzzle just right, the whole system is subject to error."

CargoSphere offers a cloud-based global rate management solution that allows users to manage their own carrier contracts. It aggregates rates and enhances visibility to simplify and speed up invoicing and dispute-resolution processes.

In July, CargoSphere rolled out SUDS, or Smart Upload and Diagnostics Solution, a technology that loads rate data directly from carrier contract formats into a rate system database. Using advanced algorithms, it extracts and organizes contract rates and amendments, which can include thousands of rates from multiple trade lanes.

"Using SUDS, we were able to enter an ocean contract with more than 22,000 rates in just a few hours, which previously took up to 20 hours," said Troy Nary, pricing analyst for Seattle-based Jacobson Global Logistics.

The frequency with which non-vessel-operating common carriers and freight forwarders change contracts is a factor driving the steady stream of invoicing discrepancies, said Alex Campbell, senior manager of e-solutions for Maersk Line.

Rate volatility continues to drive errors, which tend to spike during contract season. In the midst of so much volatility and change, improved communications between supply chain partners is a prerequisite for greater accuracy. “We need to improve the speed at which we communicate with our customers to get it right,” Campbell said.

Customers can view their invoices on Maersk’s Web site and can interact directly with the carrier. If inaccuracies are discovered, teams are on board to fix them. Maersk provides extensive connectivity to freight audit and payment companies, which vary in size, quality of service and approach to the audit process.

Customers that tend to have the fewest errors are those for whom Maersk is providing EDI connections directly into the systems of freight payers who have best in class auditing capabilities.

Maersk’s goal is to drive simplicity in contracts. Reducing invoice-related errors is part of the carrier’s overall efforts to improve the customer experience. Maersk is in the low 90th-percentile in terms of invoice errors, which is not where it wants to be, said Kevin Hickey, senior director of economy and finance. Raising invoicing accuracy from the 88 percent level to 92 percent was one of eight customer service targets Skou unveiled at the March TPM Conference.

Complexity and rate volatility have always been a part of the ocean shipping industry. They were exacerbated by the recession, but at the end of the day it’s incumbent upon the industry to drive overall performance improvements. The best opportunity to do so rests with shippers and carriers working in tandem, and exchanging accurate information upfront.

“It’s no good for anyone to have such volatility,” Hickey said. “We focus on what we can control, which is on our relationships with our customers.”

Basic laws of supply and demand contribute to rate volatility. Voyages are fixed costs for carriers because vessels sail based on published schedules, whether they’re full or not. As a result, carriers become highly competitive, with rates sometimes fluctuating on a weekly basis, said Rick Brunett, vice president of client solutions for Transportation Insights, a logistics and freight payment company.

Not all GRIs end up being applied. This year, carriers have imposed several GRIs on voyages from Asia to the U.S., but few took hold because carriers dropped prices before and soon after implementation. On the spot market, rates measured by the benchmark Shanghai Containerized Freight Index started the year strong at $1,148 per 40-foot-equivalent unit, reached their 2013 peak of $1,246 in the January run-up to the Chinese New Year and then fell steadily to its yearly low of $882 in mid-October. Rates jumped back up last week on the back of an Asia-Europe GRI that was expected to be short-lived. The SCFI tracks pricing across 15 trade lanes originating in Shanghai.

A large percentage of invoice errors occur during GRI periods. Carriers are inclined to charge the increased rate on the effective date regardless of “in gate” status. “We catch quite a few errors during this period, resulting in savings for our clients,” Brunett said.

Shippers and receivers should keep a close eye on assessorial charges such as Importer Security Filing fees, which are often charged improperly.

Technology is critical to uncovering invoice errors and auditing freight bills. It’s a differentiator for freight payers and a huge value proposition for shippers, especially when coupled with industry knowledge, said Allan Miner, president of CT Logistics, a Cleveland-based freight payer.

The company has a new lane management tool, CT LION, for determining the lowest-cost shipping lane for freight movements by calculating all legs, modes, carriers, service types and equipment data simultaneously. The software works in tandem with CT Logistics’ FreitRater freight rating platform. “All of the little pieces that make it complicated now become a cog in the wheel of a solution,” Miner said.

Contract and invoice language rarely match. Assessorial charges fluctuate, and it's often unclear when they take effect, resulting in an error rate of about 25 percent, said Julia Fallon, auditing services coordinator for Cass Information Systems, a freight audit and payment company that manages more than $22 billion in annual freight spend.

One of the reasons invoice accuracy has improved so little over the years is that individual shippers lack the scale or clout to compel carriers to clean up their act. Carriers could benefit from increased accuracy, but they don't really lose out in the current system.

"A lot of errors aren't noticed by the carriers, and in many cases the carriers are underpaid, but the amounts are not significant," Fallon said.

In general, carriers aren't amending contracts much more than in the past, but those that are, are doing it a lot. Astute shippers are beginning to insist that carriers be restricted to quarterly amendments, or only allowing changes if lanes are changed or deleted.

Terminal handling charges and other assessorials aren't always referenced in ocean contracts, leaving carriers essentially free to charge what they want. Errors also occur when carriers don't identify the source for exchange rates. Without that data, shippers often pay more than market rate, said Donald Pesek, director of audit and rating services for Cass.

Cass takes a proactive approach to reducing invoice discrepancies. Account teams work with clients to extract rate information from contracts and loads the data into Ratemaker, the company's proprietary freight rating engine, to produce accurate rate tables. If customer engagement occurs during the contract period, when restructuring is difficult, Cass works with the shipper and carrier to align contract and invoice language.

"We strive to collaborate with all the parties," Pesek said. "If carriers are doing it correctly, that is less work for us."