



Rail Logistics Services Insights & Opinions

Moving Industry
in the Right Direction

Service Offerings

RSI provides a range of rail logistics services including:

- Rail rate benchmarking and cost analysis
- Rate negotiation and business case development
- Contract, quote, and tariff management
- Fleet management
- Freight bill auditing and payment
- Equipment leasing and subleasing

Managing Rail Freight Payment

Rail freight invoice reconciliation is a costly, labor intensive and difficult, if not impossible task for most companies. The move by rail carriers into a more dynamic tariff environment has significantly increased the rail manager's workload in a number of ways not the least of which has been on the freight reconciliation and payment side. While reconciling freight bills is more difficult when rates are constantly changing, there are also a number of other challenges inherent in managing rail freight payments.

Like it is in so many other ways, rail shipping is unique when it comes to the billing process. At the beginning of the 20th century, rates were based upon rail tariff structures. These structures were highly complex, difficult to work with and required specially trained people or "Rate Clerks". They were charged with the responsibility of accurately assigning freight charges to waybills and quoting freight rates to customers. It took years of experience and a great deal of training before one could achieve the title of Rate Clerk. It wasn't long before shippers found they needed equally talented transportation personnel to represent their interests. Following industry deregulation with the Staggers Act (1980), tariff rates gave way to contract rates and seemed to simplify the freight payment process. However, over the last several years rail carriers have moved back to the public tariff structure. This migration back to tariffs has further complicated the freight payment process for shippers.

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One of the first challenges facing modern day shippers is the sheer volume of railcar invoices. Rail invoices come in on a transactional basis at the shipment level as opposed to most other weekly or monthly bills that the typical accounts payable department is used to. Consider a medium sized company with 4,000 carload shipments per year. Carloads are generally invoiced individually and a single move on an individual lane may be associated with an invoice from more than one carrier, as in the case of rule-11 shipments. Even that medium sized shipper can easily have 6,000 rail invoices to reconcile annually.

Rate complexity is a second challenge. There are a number of rate types and a plethora of variables to track including multiple rate vehicles or authorities, rate increases/decreases, unabsorbed switching, and multiple fuel surcharge scales. To further compound the confusion, there may be differing rates based on two or three carload minimum weights. The volume and complexity associated with rail car billings not only makes reconciling payments more difficult, it also naturally increases the error rate on invoices coming from the carriers. This by the way, means that it's even more important for you to reconcile your rail bills.

Auditing against discrete carrier rates and matching invoices is difficult for the typical A/P department. Add in the demand for specialized knowledge and tools specific to rail, and it's usually downright impossible for most companies to perform diligent audits of rail invoices. Most companies, and most freight payment services, simply match freight bills to predefined rates (which may not even be up-to-date). They are not able to match rail invoices against all of the relevant aspects of actual shipments.

If you are simply paying what carriers invoice, you are overpaying. For instance as RSI monitors client freight bills,

we record the cause and dollar value of all errors. In a recent review, the error rate ranged from 5% to 20% depending upon the carrier and shipper. Particular commodities suffered from even higher error rates. Errors favored the carrier approximately 70% of the time. Considering that the medium sized shipper in the example above recouped approximately \$250,000 from billing errors over the past year, the amount gained from catching invoice errors is not trivial even for low volume shippers. While error rates will vary greatly depending upon the dynamics of a company's shipping patterns, aggressively monitoring and contesting rail billing errors will often result in a 2%-3% savings.

Short and strict carrier payment terms are another challenge for rail shippers. Although the major carriers have always had fairly strict payment terms, they really began enforcing them more consistently about 5 years ago. All of the carriers have payment terms of net 15 days of the invoice date. Generally the invoice date is the same as or near the ship date, depending upon the freight terms used. This means that the freight payment can be due before the product arrives at its destination and the shipper is able to invoice their customers. A number of the carriers currently assess a finance charge APR of 12% on customer accounts that exceed the 15 day payment term. Another stipulation unique to rail is that carriers have up to three years to correct or dispute invoiced charges. Most carriers perform two customer account audits per year (typically in June and December). During these audits, carriers amass all of the open freight invoices and many of the previously disputed invoices and go to their customers with a mandate for immediate payment.

The challenges discussed thus far suggest that an efficient rail freight payment program include six elements.

- *Expertise.* What firms learned a hundred years ago is still true today. You stay competitive by employing people with deep industry knowledge and a motivation to fight for your interests.

- *An efficient means for storing and accessing the data.*

Shipment and rate data needs to be accessible to individuals in multiple departments, kept up-to-date, and stored for at least three years. You cannot contest a carrier's billing without the proper documentation.

- *Automatic reconciliation.* Given the volume of shipment, rate, and invoice data, shippers can properly reconcile freight invoices only if they have an automated process in place.

The system should ideally match up-to-date rail rates and actual shipment data to freight invoices. It should not simply match carrier supplied data to carrier supplied invoices. An automated system should be able to handle parameters unique to your industry. For example, your system may need to know that shipping 178,000 lbs. of steel qualifies to be billed at the rate associated with the 180,000 lbs. minimum weight.

- *Pre-payment audit.* It is much more efficient to correct an unfavorable billing error before the payment is made rather than afterwards. Since rail invoices have a significant error rate, it is important to be able to quickly audit your rail bills before the payment is made.

- *Electronic Data Interchange with carriers.* EDI capability is necessary for the timely sharing of data with the carriers. Across their business platform, carriers are increasingly requiring customers to use submit their data electronically.

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- *Corporate financial system integration and robust reporting.*

While a specialized transportation system is necessary to handle the requirements for properly managing rail freight, it also needs to supply the corporate general ledger system with freight costs. Detailed reporting should provide data that allocates costs by variables such as customer, product, plant location, as well as the different components that make up the rail cost including fuel surcharge, switching costs, and accessorial charges.

Does your freight payment process contain all of these elements in an efficient and cost effective process? In 1997, the Institute of Management and Administration, a New York City-based newsletter publishing house, estimated that an average accounts payable department spent \$16.54 to process each payment. That figure is probably on the high side. Nonetheless, if you are managing your rail freight payment in-house, you are probably spending more than is necessary to process the invoices, and missing billing errors that are adding to your transportation costs. Outsourcing may be the solution. Firms can leverage the volume that 3PLs handle and the sophisticated technology they have in place to match freight bills and capture valuable data. Many companies have found that it's much more cost-effective to outsource the processing and spend their time and financial resources developing their own core business. If you are already outsourcing, you're probably enjoying a lower processing cost, but you may still be overpaying through billing errors if your vendor isn't checking invoices against actual shipment data.



RSI Logistics makes it simpler and more cost effective for organizations to ship by rail. Our rate management services include rate benchmarking and cost analysis, tariff/contract management, and freight accrual and payment. Our freight accrual and payment services reduce errors and overpayments, eliminate paperwork, and provides customers with superior logistics reporting. Contact us if you would like to learn more.