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Vendor Comparison

By: Jason Kirkpatrick (Article appeared in the March 2007 issue of "The Logistics Journal")

In a world fueled by technical change and innovation, business leaders, including third party logistics providers, are increasingly challenged to change outdated business practices that no longer serve the needs of their customers or vendors. Because change has negative connotations, modifying core business processes is a slow and sometimes painful process. When it occurs, it's the result of a thoughtful decision maker, who takes the time to identify and implement systems that are more efficient.

For years, many third party logistics providers have looked for ways to eliminate paper, and make accounts payable processing more efficient. Some companies have become "early adopters" of integrated payment systems and implemented them on their own. These companies have allocated time and resources to develop proprietary solutions with positive results. In lieu of these developments, there is a growing interest in electronic invoicing and payment solutions in the transportation industry, even among companies who think they are too small to reduce processing costs. This is because the benefits of electronic systems extend beyond process cost savings.

With electronic systems, carriers can exchange invoices, proof of delivery documents and payments and in the process reduce their collection period by up to 10 days. Third parties can reduce invoice processing time and because of the electronic format, extend discount options to their carriers. Because these systems benefit both sides of the transaction, they can be the foundation for a growing relationship between the parties.

Initially, most people focus on process cost savings as the primary benefit of electronic processing. They use these systems to reduce the time and cost of receiving, handling, approving, storing and paying invoices. For most companies these savings are substantial. Studies show that the time and cost of processing a paper invoice and remitting payment by check is higher than electronic alternatives. A recent study by the Aberdeen Group, for example, showed a savings of 30% to 60% when electronic methods are adopted. The study also showed that processing time for these invoices is reduced by an average of 65%.

Some companies believe they lack the size to lower processing costs. They see the majority of their costs as fixed and fail to see other opportunities to save. This causes them to ignore the real costs of receiving and handling mail, keying data, filing, auditing and managing invoice variances and exceptions. Without understanding these costs, they may elect not to consider electronic processing and in the end, overlook the other benefits of electronic processing.

As an early adopter of technology, General Electric was one of the first companies to develop electronic invoicing. For years, the company's vendors submitted invoices with discounted terms, but in most instances these discounts were missed. This was because General Electric couldn't process the invoices in time to take advantage of discounts. In a case study provided by the Institute of Management and Administration (IOMA), General Electric revealed that they missed more than 77% of the discounts offered by suppliers, at a cost of more than $240 million per year. By moving to an electronic invoicing solution, General Electric overcame its processing deficiencies and discounts were no longer lost.

A typical reaction to this case study is, "We're not General Electric". But in fact, almost any company can benefit by processing invoices more efficiently and earning discounts that would otherwise be missed. At a later date, we'll discuss the power of discounts and the effect they can have on your company's bottom line. For now, consider that the net effect of discounts makes the value of the discounts part of your company's profit instead of part of your cost. In cases where third parties fail to offer alternative payment terms, they end up with higher costs and a bottom line that is substantially reduced.

In the transportation industry, relationships between third parties and their carriers is built on trust. The right payment policy can go a long way towards building trust and thus a better relationship with carriers. Third parties can be proactive by adopting more efficient processing methods, which can reduce a carrier's billing cycle by up to 10 days. In many ways your company's payment policy is more important than the

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freight you offer or the rate you pay. The combination of reduced billing cycles coupled with early payment options is the best approach for third parties to retain and attract carriers and make future growth possible.

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