Logistics Network, Inc.
P.O. Box 382
Dumont, NJ 07628-0382

Phone: (201) 387-9420
Fax: (201) 586-0407

www.logisticsnetwork.net
sales@logisticsnetwork.net

An Outsourcing Nightmare

By Michael B. Stroh

Third-party freight bill payment is one of the most common categories of outsourced logistics activities. At a 30,000-foot level the concept is great. For most companies, this function is not a core competency. The process is labor-intensive and, as such, expensive to perform in-house. As well, most organizations are not set-up to capture all the relevant shipment data and provide the extensive reporting offered by most freight pay companies. Additionally, most freight pay companies can provide an easy means for EDI transmission of freight bills: always an attraction for the major carriers. So far, so good. Oh, if only it were that simple.

Over the past six years, I have been personally involved in the selection and management of three different providers, all of whom had significant service issues. Is it just me, or is this industry-segment itself questionable? For those of you that make use of one of these vendors, how many times have you or you carriers been given the line, “We have no record of that freight bill,” when inquiring after the status of an open invoice? How infuriating is that when you know you have previously provided the invoice in question?

Don’t get me wrong. I understand that this is a very low-margin business. The data capture process is boring, tedious and performed by people that are not receiving the highest rate of pay. In fact, I know of at least one provider that subcontracts their data entry to certain third-world countries in an effort to further keep their costs down. As well, I am fully aware that the transaction cost charged by the freight pay companies is significantly lower than what it would cost to do the same activity in house. That is why we outsource the process. But geez, at least provide the service that is represented in the sales pitch. Unanswered carrier or customer inquiries and excessive manipulation of the “float” only creates a climate of dissatisfaction and mistrust.

And then we have the Computrex debacle from a few months ago. What a pall that cast over the industry. There must be a significant level of trust on the part of the client to disburse hundreds of thousands of dollars on a weekly basis, with the expectation that these funds will be appropriately and accurately applied in a timely manner. The last thing a logistics manager wants to hear is that their freight pay company has gone belly-up and their funds are now part of a bankruptcy settlement, or worse.

You may be saying to yourself, “Oh, this couldn’t happen to me.” Don’t be fooled, my friend. Despite all your due diligence efforts: the formal RFQ process, the site visits, the weekly conference calls, etc., it’s more likely than you think.

Visualize this hypothetical scenario for a minute. You work for a mid-size manufacturing company with an annual freight spend of $10,000,000. You have selected one of the household-name freight pay companies to handle your freight bill management process. You selected them by a committee of in-house experts that conducted pre-selection supplier interviews, pre- and post-selection on-site visits, reference checks and weekly implementation conference calls. This provider seemingly had all the features one looks for in a freight pay provider: great technology, low-cost, good reputation, etc. So you sign the contract and the show begins.

Several months into the relationship, some of the technology featured in the sales pitch has yet to materialize. Week after week, you keep getting a later date for its roll-out. You fund the provider approximately $200,000 per week yet the dunning calls from you carriers are on the rise. Your carriers inform you that their inquiries go unanswered. You find that you have a great deal of difficulty in reaching your customer service representatives yourself.

Now comes the scary part. Your carriers are starting to shut you off due to non-payment of invoices. You find that checks have not been issued to your carriers in several weeks. Then the unthinkable happens. Some checks start to bounce. "Reasons" are provided and a corrective action is put in place, but you do not see the quick reaction you expect. Still you find it difficult to get a representative on the phone to address your concerns. At this point you really start to panic. You're thinking "Computrex redux." Now what do you do? If you stop funding, your carriers will certainly not get paid and more will stop providing service. If you continue to fund with no real proof that your carriers are being paid, you only open yourself to greater exposure.

Where does this story go from here? The finish is not yet written. But if you think that a scenario like this couldn't happen to you, you are only fooling yourself.

What should you do to minimize your financial exposure? I would strongly recommend setting-up a trust account for your funds. The account is in your name and the freight pay company issues checks on your check stock to pay your carriers. Is this perfect? No, because in effect you are giving your payment company a blank check. But at least is does protect you in the event of a bankruptcy because the funds are in your account. Obviously, it will not protect you from out-and-out theft or fraud. As far as customer service issues are concerned, freight payment companies require close management on your part. If you think this is a completely transparent process, you are in for a rude awakening.

Third-party freight bill payment companies provide a vital service to our industry, but they need to dramatically improve their image and their performance. In the shipper community, a common assessment of one's freight payment provider is "..oh, yea, so-and-so, they stink, but they stink less than everybody else." Talk about a less-than-stirring vote of support. Freight pay company, heal thyself...