

Billing Discrepancies? Self-Invoicing is the Answer

Billing errors are arguably an inevitable fact of life for most businesses, but higher shipping volumes make the task of tracking down those errors more of a problem than usual. According to Niko Michas, President & CEO of BridgeNet Solutions, Inc., the concept of self-invoicing can help manage those issues beyond the typical budgeting process.

Niko Michas, Special Contributor -- Supply Chain Management Review, 3/17/2010

Companies with extremely high shipping volumes are finding the normal difficulties associated with locating and following up on billing errors even more burdensome than in the past. Their logistics departments are overwhelmed with requests to locate savings and make cutbacks in an economy that is keeping carriers from being able to grant them the kinds of rates or reduced charges they once may have been able to expect. As a result, it has become even more imperative for things like supply chain-related billing discrepancies to be resolved in as efficient and timely a manner as possible.

Typically, U.S.-based global shippers handle their billing cycle woes by **auditing** their carrier invoices through a third party **auditing** service. They do this not just because it has been proven to work, but because going through a third party is generally more cost-effective than hiring new staff and implementing (or even creating) new corresponding IT **auditing** and reporting solutions. While some **auditing** services are certainly better than others, most of them operate in similar fashion: They compare the charges on your carrier invoices with standard rates and policies and the volumes and rates outlined your company's carrier contract, identify billing discrepancies, and then make requests to the carrier to recover funds or obtain credits on your behalf.

Despite the success that many companies have had with **auditing**, because the process is reactive rather than proactive, it is not without its shortcomings. Refunds are only recovered once billing errors have occurred and resolutions have taken place, which means that companies that regularly request refunds from their carriers must continually wait to receive a portion of their own money-money that likely should not have gone to the carrier in the first place. Also, while **auditing** certainly helps to reduce the number of billing errors that go unresolved, it doesn't completely absorb them; there will always be those

discrepancies that, for one reason or another, go unchallenged or remain unresolved.

These shortcomings, which, arguably, might not be too great a cause for concern if economic times were better, are at least partly responsible for the increasing popularity of another billing cycle solution: self-invoicing.

Self-invoicing, or self-billing, isn't an entirely new alternative to **auditing**, and, if the economy were less volatile, would probably not be achieving the popularity it is achieving at as fast a rate. However, because of the current state of the economy, and because new technology is now giving companies the ability to increase **supply chain visibility** and more accurately map their logistics charges, self-invoicing is gaining new momentum.

Whenever any shipper self-invoices, they are essentially billing themselves what they owe of their carriers according to their internal shipping records and the terms of their carrier agreements. Costs can be determined even before orders are made and shipments are sent. The only real ongoing follow-up required will be a monthly review of any supplement charges that the carrier may send; the time-consuming tasks of requesting refunds and following up to make sure those refunds were received become obsolete.

The key to reaping the benefits of self-invoicing is much like the key to successfully implementing any initiative: integrating a well thought-out program from the onset. To integrate a self-invoicing program into your own logistics network, it will be necessary for you to:

- Access your carrier's public tariffs and gain an understanding of the individual accessorial charges therein.
- Obtain rate charts from your carriers that contain information on every possible shipping combination, including ship from, ship to, weight, and service information.
- Compile all possible charges into a controlled database or system that will receive and store information for each shipment that is being processed in your warehouse or distribution center.
- Cross-reference the detail of your daily shipments with your contracted rates and carrier tariffs in order to determine what the actual contractual charge should be for each shipment.
- Supply your carriers with the daily shipment manifest records, self-calculated contractual charges for each shipment, and **payment** in accordance with the **payment** guidelines dictated by your carrier agreement.
- Follow up on any supplemental charges that are requested by your carrier on a monthly basis. (Carriers should provide details that explain why extra charges have occurred.)

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The self-invoicing process can be compared to the way that some individuals reconcile their **credit** card bills or checkbook prior to receiving their statements. In time, all companies will be able to reconcile their carrier invoices similarly through the ability to accurately rate every shipment they send as soon as they send it. This will take the mystery out of potential charges and eliminate millions in overcharges that are often just too complicated for companies to figure out.

SAP, the world's largest software company, is a proponent of self-invoicing; or, at least, their accounting model, used by supply chain managers and countless other professionals all over the world, supports, if not pushes, self-invoicing. SAP is important to mention when we talk about self-invoicing because of the success they've had with creating self-invoicing networks for logistics carriers in Europe. In The States, unfortunately, there's been less success with implementing similar models, mostly due to carrier resistance. It's going to take more U.S.-based companies pressing their carriers to use SAP-like self-invoicing models to make the practice gain more widespread acceptance.

It is not necessary to use SAP in order to self invoice. A company can self-invoice on its own by mapping its rate tables correctly and making sure it captures the correct charges for each shipment. In the future, most companies, however, will probably choose to go through another third party to self-invoice. This may sound a bit like an oxymoron, but third party supply chain solutions providers like the one you might be using right now to audit your invoices may also be able to provide you with self-invoicing services that will benefit you in some of the same ways. At the very least, they should be able to help you remain cost-efficient by implementing a self-invoicing program that eliminates the need for you to invest in additional staff and other in-house resources, and most significantly, in new technology. (If they can't, keep looking for one that will.)

The technology required to carry out an efficient self-invoicing program is relational database with cube abilities that allow you to mine through large amounts of data in small amounts of time. Unless a company is controlling over 50 Million in shipping annually, it is probably not going to be cost-effective for them to try and create, integrate, implement, and maintain such a system on their own. It takes a savvy IT department with great resources and funds at their disposal to create and manage such a database, and the **training** and maintenance required to make use of such a database on an ongoing basis is typically exhaustive.

Experienced third party supply chain solutions providers that already have such a database in place can build net rates based on your carrier agreements and create accurate **payment** invoices for you. Shippers who've attempted to take on a project like this in-house already know that it is extremely difficult to come up with these rates on your own. In fact, it may even drain your finance or

accounting department's resources as much or more than in-house **auditing** would drain them. I suspect that because of the growing need for self-**auditing** services such as the continual creation of accurate invoices, most third parties that currently provide **auditing** services will also begin to provide self-invoicing services, and eventually, may actually provide self-invoicing services in lieu of **auditing**.

In supply chain circles and beyond, self-invoicing is a topic that is discussed as if it were something that every company would like to do. While it still hasn't been accepted very well in U.S., especially within the parcel industry, companies that press the issue will do a great deal to change the way logistics departments handle their billing, and for the better.

The larger the shipping volume, the more likely billing errors are to occur. A company that ships five million or more parcels, air freight, **ocean**, and LTL shipments a year, for example, could potentially receive enough paper invoices-and enough corresponding billing discrepancies-to fill a small room from top to bottom-and that's just if the invoices contain only summary information. Include the details behind every shipment, and you may have to make additional room in the warehouse! Self-invoicing is, and will continue to be, particularly beneficial to companies with complex global supply chains and large shipping volumes because it will virtually eliminate the majority of the billing errors with which most U.S.-based global shippers are still contending on an ongoing basis.

If you are unprepared to self-invoice for any reason, **auditing** is still a worthwhile cost-saving option. Most companies, whether large or small, should be **auditing**, at the very least. However, if you are seeking to take a more proactive approach to your billing practices and would like to see your logistics department use their expertise to focus their attention on locating savings in other key areas, implementing self-invoicing now would certainly have its benefits. As far as billing practices go within the realm of logistics, self-invoicing, born out of today's economic trials and necessities, will someday be the norm in Europe, the U.S., and around the world. Rather than wait for this to happen, it makes more sense for us to make it happen, especially when a troubled economy is demanding it.

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