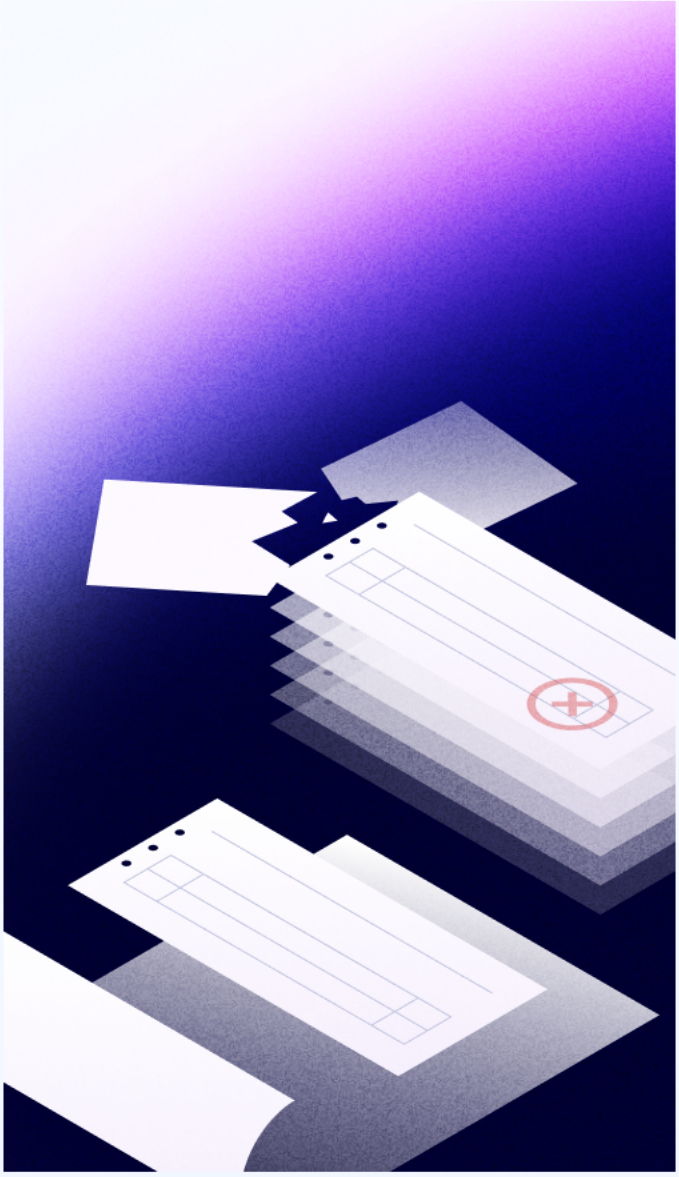
Freight X

How Freight Processing Automation Can **Help the Trucking Industry Weather an Economic Storm**

Whitepaper

Introduction



An economic slowdown will expose and exacerbate shortcomings in the way that shippers or carriers pay and get paid. An innovative digital freight processing solution for trucking companies could improve spend management and accelerate cash flow.

The freight industry is plagued by invoice slow cash flow and inadequate financial visibility. Shippers, brokers, and carriers are sitting on a mountain of data that they cannot use. Haulage companies particularly are in dire need of a breakthrough, as they face the post pandemic challenges of hyper-inflation, overcapitalization and falling freight rates.

With concerns of an economic downturn growing, the pressure for freight carriers to accelerate their cash flow and generate working capital is growing exponentially. For their part, shippers must improve their spend management and reduce the costs associated with paying carriers.

Place this urgency on top of inefficient legacy systems and sparse digital adoption, and it's clear that change is coming for the U.S. trucking industry.

What’s holding carriers back?

Carriers encounter difficulties and cashflow issues from the outset, with pickup delays, rising fuel and maintenance costs, warehouse capacity issues and daily expenses, along with typical 30-day or more payment terms upon delivery. Physical delays cause payment delay, fragmented payments and receipts and more disputed transactions. Inconsistent information across organizational boundaries leads to disputes on as many as 75 percent of invoices for some carriers.

Rising inflationary costs and sharp increases in interest rates have made it imperative that shippers manage their spend and find ways to alleviate back-office burden and focus time on growth-generating activities. But shippers face the challenge of poor data insights, which creates needless overhead and results in lots of time wasted chasing down information and resolving disputes with carriers. Left unchecked, the payment delays caused by invoice disputes can jeopardize a shipper’s relationships with its carriers.

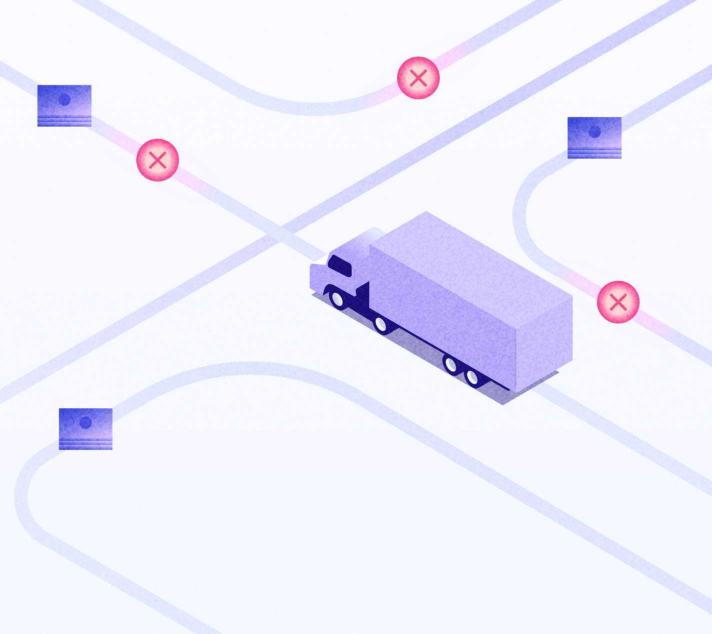
In a bid to help their battered cash flow, truckers have increasingly turned to factors, agents who pay them immediately for their invoice at a 1 percent to 4 percent discount. The factors then recoup the payment themselves later. This inherent lack of liquidity for truckers impacts their capacity and ability to deliver for their customers.

> Somewhere among the pistons and gaskets are nitty gritty pain points that have been causing disruption in the trucking industry, even before the pandemic hit.

Paulo Fernandes
VP, Global Trade
Mastercard

Imagine the paperwork behind all this. Invoices, order receipts, payments, and fuel and wages are tracked with paper or at least a myriad of emails at every step of the journey. As a result, data is often incomplete or inaccurate, information is not timely, data is poorly organized, systems are fragmented, and decision-makers cannot always access the variables that they need.

Trucking companies must also manage standalone systems and processes for all the ways that they receive payment, including card, Automated Clearing House (ACH), and, yes, checks.



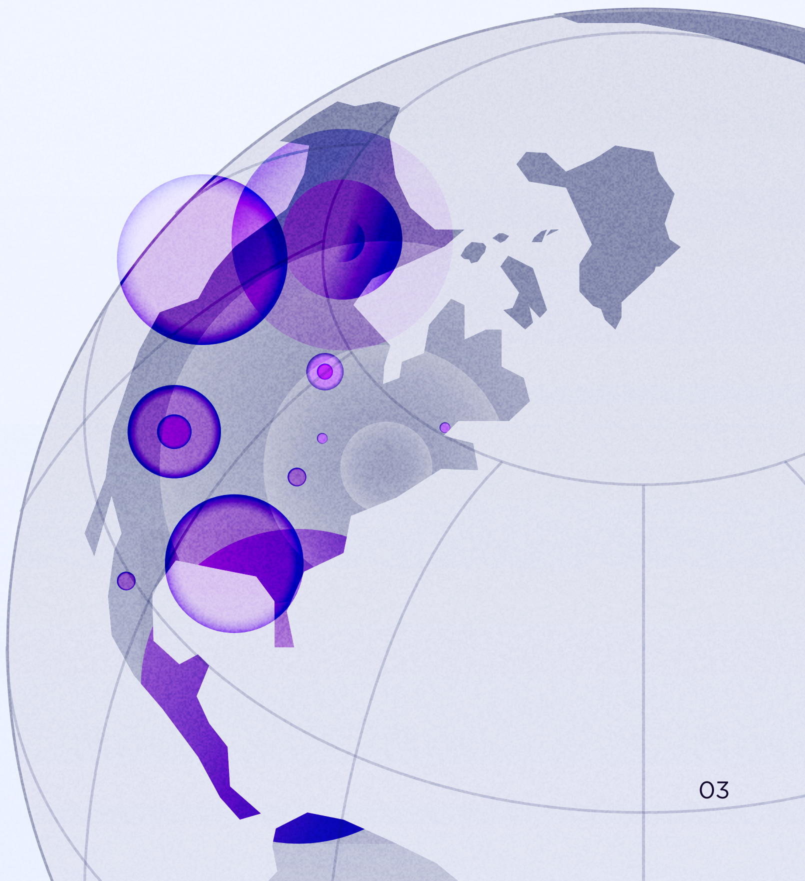
This is an enormous back-office effort with multiple and often non-standard manual processes required by different stakeholders. It is hard to keep on top of payments and invoices with such a lack of transparency and connectivity. Each link in the chain must balance payments in with payments out. Estimated costs must be reconciled with actual costs.

> Any disputed invoices along the way must be resolved fast to keep cashflow moving and to avoid upsetting valued business partners. Any payment delays cause a ripple of costs and downstream impacts.

Clogged supply chains have added more strain, with increased costs of operations, unplanned freight backlogs and excessive shipping delays. It is indeed a fractured and antiquated ecosystem.

Since trucking moves lot of freight in North America, and the industry has been slow to digitize, the inefficiencies of this link in the chain create the core, long-term threats for businesses and logistics providers in the United States. Small and medium-sized operators are keeping haulage on the road, with little digitization and precarious, uncertain financial systems.

Alleviating the financial friction for trucking operators would go a long way to making the chain more efficient and to illustrating a vision for scalable efficiencies throughout the chain.



U.S. haulage companies struggle in a fragmented industry

The U.S. haulage market is highly fragmented with many trucking companies operating less than five trucks.

> Digital automation is the single biggest way to transform the industry from one of great risk and uncertainty to one of trust, efficiency and transparency.

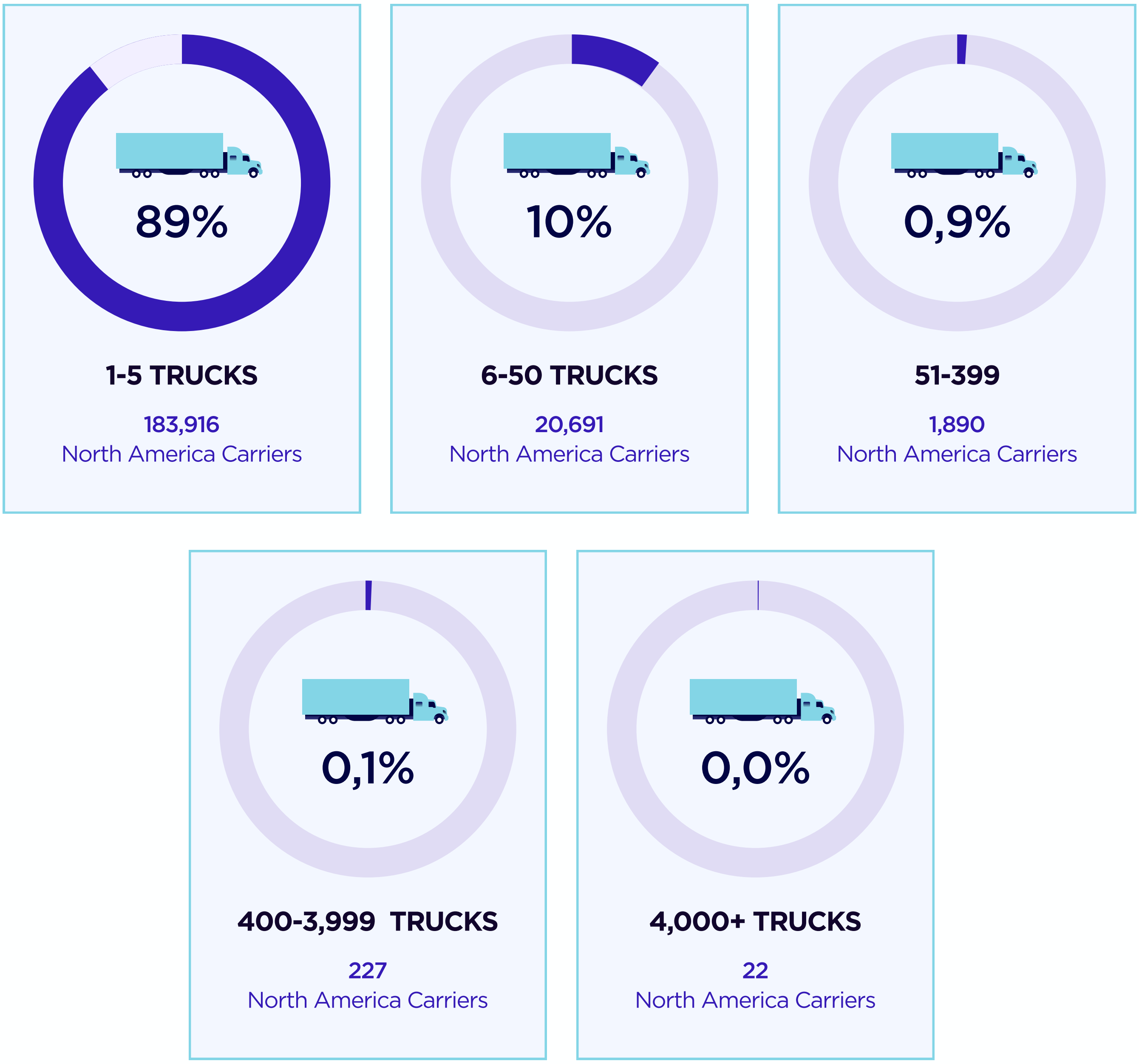
Paulo Fernandes
VP, Global Trade
Mastercard

Current inefficiencies make for stark reading:

- Many freight payments to for-hire freight carriers are made by check, leading to added stress in manual reconciliation.
- Discounting of invoices at factoring houses is prevalent, as trucking companies look to accelerated cash flow – 100bps p/week, right of recourse
- Traditional sources of financing have become challenging for shippers who are often faced with limited options or solutions that accommodate the seasonality and peculiarities of the supply chain finance market.
- Inconsistent information across organizational boundaries leads to disputes and delays.
- COVID's impact on the supply chain disruption and capacity shortages, driving up spot rates on average transactions (e.g., from $1,200 to $2,400).
- Carriers need ready access to cash from the outset for inevitable maintenance and repairs.

- Besides a need for more trustworthy data, shippers also face a challenging financing market that has experienced historic increases in financing costs and few guarantees from a limited pool of financiers.
- Automating the communication between all the different parties has been a daunting task for the industry due to the scale of fragmentation and analog processes.

Breakdown for North American Carrier Industry by Fleet



– Mastercard Freight Industry Research Study

What is the way forward?

If efficiencies can be found, the over the road haulage ecosystem will be more liquid, have more capacity, and be free to focus on moving more cargo more quickly. The industry also will be better positioned to weather an economic slowdown.

Right now, there is no industry specific solution that tackles the overall payments problem from end to end. Some of the industry capabilities that have eased industry friction include load matching, TMS integrations, and Digital Freight services. Each are bringing transparency and competitive rates to the trucking industry and larger supply chain. While these efforts are steps in a more digitally enabled direction there is more work to be done to increase operational efficiencies and bring forward transformative change.

What's needed is trust enabled by true transparency, data visibility and a holistic payments and financing solution designed for the freight industry – one that can be embedded into existing processes, operations, and systems to create a digitally connected environment that meets current and future needs, ideally in a sustainable way.

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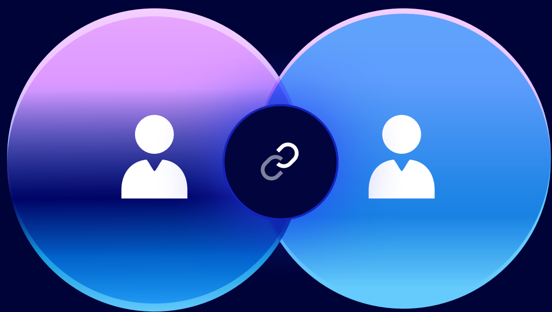
Greg Bloh
CEO
Transcard

Partnering to leverage technologies and networks

Innovation in payments technologies and networks is paving the way for a breakthrough in the stagnant evolution of the U.S. trucking industry. New technologies that can enable and facilitate such marketplace opportunities are being developed to leverage digital payments and working capital solutions. This is where the rubber finally hits the road.

Ideally, a single, digital solution, working within a network of payments operators and agile enough to be embedded into existing processes, operations and systems, could transform the payments ecosystem for the U.S. trucking industry. Such an integrated solution would bring key efficiencies by:

- **Enabling payment modality** for downstream payment disbursements from Shipper, 3PLs and Factors reducing friction and complexity and allowing payer and payee to pay and be paid with their preferred method.
- **Enhancing cash flow and working capital** for truckers by reducing the amount of time it takes for them to get paid, while enabling shippers to alleviate their cash flow exigencies with carriers and improve their customer and partner relationships. Today truckers are paid on average 30+ days after delivery per standard shipper terms. While early payment providers and Factors play an important role in servicing the cash flow needs in the trucking industry today these services come at a high cost to operations that typically run on thin margins.
- **Streamlining reconciliation and reducing disputes** for shippers/3PLs and carriers by automating payment flows and back-end processes in concert with ERPs and other systems of records with access to real-time data. This will reduce manual activities and settlement timing. Trucking companies will have clear and immediate sight into who, when and what is paid or not paid. This applies to both incoming and outgoing payments and an automated, fast way to close out those transactions.



Achieving these benefits requires a transformative payment solution that combines:

- Features and functions purpose-built for the unique needs of the over-the-road industry.
- Seamless integration with any freight enterprise resource planning (ERP) and transportation management system (TMS) with real-time bi-directional exchange and synchronization of data.
- An integrated gateway to multi-rail payments – including Real-Time Payments – with the support of a comprehensive payments network.
- Access to a financing marketplace for shippers to alleviate their working capital needs from specialized freight industry related financiers, delivering embedded finance as an option. Real-time visibility into the status of all pending, in-process, and completed payments from a single platform as well as the ability to effortlessly search historical payment data.
- Deliver consistently accurate and trusted real-time invoices based on transparent business rules and smart contracts agreed to by trading partners and efficiently updated by events that occur in the field.
- Value-added services such as: Insurance, cash flow analytics (through bank partnerships), supply chain finance, loyalty program(s), carrier-centric insurance and fuel and maintenance payments.

Together, these features radically transform the way that the U.S. trucking industry makes and manages payments.

Conclusion

The U.S. trucking industry is on the cusp of a critically needed transformation. It's time for new technologies, networks, and know-how to be applied to the pain points of this industry and a new payments solution created. This solution should be embedded with existing systems and take haulage to a new level where supply chain efficiencies will be realized, and cost savings achieved one step at a time.

Indeed, if such a solution is scaled to cover all participants in the trucking industry, it will allow industry participants, not just the truckers, to pay and get paid quickly, accurately and with minimal dispute.

We may not be able to predict the current economic conditions will play out, but it is possible for shippers and carriers to weather the storm with digital payments transformation.

> Following a road map to digital automation with advanced technology partners, while maintaining current investments in legacy systems will be critical for shippers' and carriers' ROI to achieve greater trust, efficiency and transparency across the industry.

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This white paper was sponsored by **FreightX**, a collaboration between **Mastercard**, **Transcard**, and **DLT Labs**.