

# Revolutionizing Freight Industry Operations with **FreightX**



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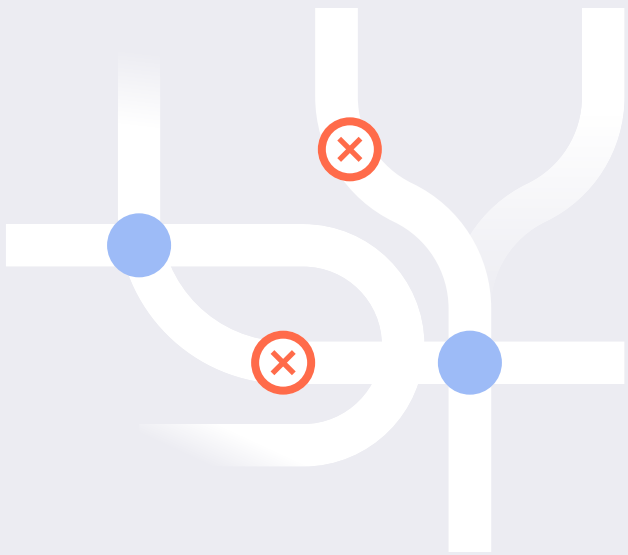
# 01

## The Age of Digitization: Challenges and Opportunities in the Logistics Industry

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The logistics world is rapidly digitizing, creating both new opportunities and unique challenges. Although digital technologies simplify operations, the online business environment can be a hotbed for discrepancies. The digitization-fueled competition for shipments often leads to inadequate checks on business practices, enabling inaccuracies, mistakes, and even fraud.

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**Fraud, both intentional and inadvertent, is an increasing concern within the freight industry, with a cost impact of an estimated \$100 million this year.<sup>1</sup>**

— FreightWaves

The growing incidence of double brokering is a particular worry. As freight demands fall and interest rates rise, smaller carriers and brokers, who have narrow profit margins, are especially affected, **highlighting the industry's urgent need for greater transparency and more efficient access to working capital.**

## Industry News

FOURTH QUARTER OF 2022

**Fraud incidences, including double brokering, jumped 400%**<sup>3</sup>

These incidences are caused by either an elaborate network that has created hundreds of illegitimate Over The Road (OTR) carriers (pretending to have trucks to get the loads from other brokers) or entities that are involved in an alleged scheme that re-brokers the freight to legitimate carriers that have no idea that the freight has been double-brokered. Since loads are booked through an intermediary, the legitimate trucking companies have no idea that the shipper did not authorize the double booking. **With no communication or authentication from the shipper, the carrier will fail to get paid.**

—— Truckstop.com

APRIL 26, 2023

**The elaborate scheme of double brokering has gained momentum over the last couple years and is a key component behind the fraudulent activities.**<sup>4</sup>

—— The Wall Street Journal

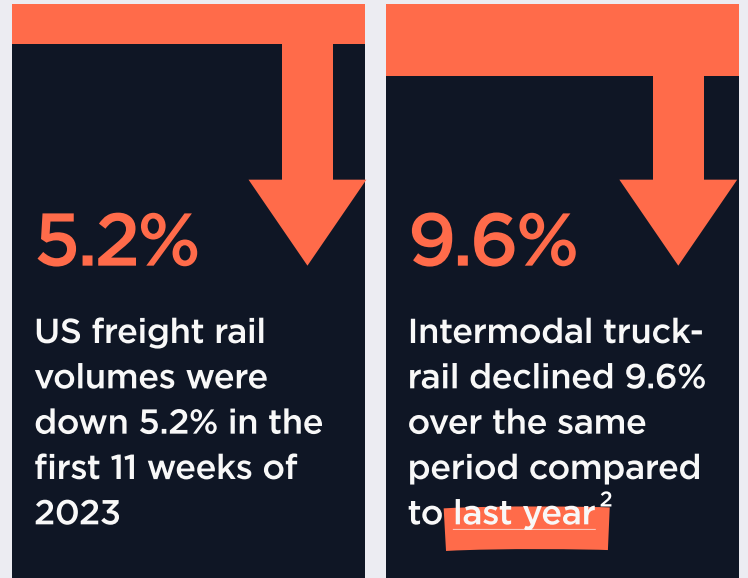
**\$500M - \$700M worth of freight annually is affected by double-brokering fraud.**<sup>5</sup>

—— TriumphPay

# 02

## Impact of Fraud on the Freight Industry

With the shift in consumer spending from goods to services in 2022, retailers found themselves overstocked with inventory, leading to a fall in freight demand, prices, and margins.



As market pressures decrease margins the cost of fraud becomes more accentuated as businesses can be put in jeopardy if they lose a load payment of \$5,000 to \$7,000.

The issue is greater than the operational expenditure hit. If the margin on such a load averages \$200, it will take up to 25 loads to make up for that \$5,000 – a difficult scenario to recoup under current market conditions.

With tight access to working capital, this could lead to business failure, which is especially hard on smaller carriers and brokers that have little margin to absorb the lost revenue.

Such scenarios can have a **significant impact to the wider economy as over 90% of truckers and brokers in the US are identified as small businesses or SMEs.**<sup>2</sup>

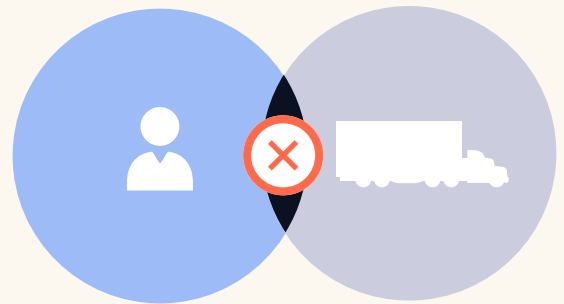
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## Addressing the Challenges

### TRUST AND TRANSPARENCY IN DATA FLOW

Establishing trust through data integrity and transaction transparency is key to combating these challenges.

**Despite billions of freight invoices representing trillions in freight spend generated annually, disputes between shippers and carriers remain a persistent issue.**



Compounding the inefficiency of these disputes is the fact that Carriers do not get paid until the dispute is resolved. Therefore, many sell their payables to Supply Chain Finance firms often with a 6% loss to the Carrier.

Although shipping activity represents the life blood of business and thriving economies, unfortunately these billions of invoices (40% or even more in some cases) result in disputes between Carriers and their Shipper customers.

As a result of this ongoing problem, an entire industry called Freight Audit was created to find errors and mistakes in freight invoices and help their Shipper customers collect inappropriate billings from their Carriers.

Although this practice has become standard operating method over the last few decades, there are at least **four glaring issues with Freight Audit:**

## 01

- ✗ Requires that 100% of Freight Invoices be checked to find the 40% or more with errors.

## 02

- ✗ Review and reconciliation do not happen until long after shipment is completed therefore any relevant information from drivers, dispatch, receivers or others has been long forgotten.

## 03

- ✗ Involve high additional cost, especially in cases where auditing firms also take a share of the savings they find for the Shipper.

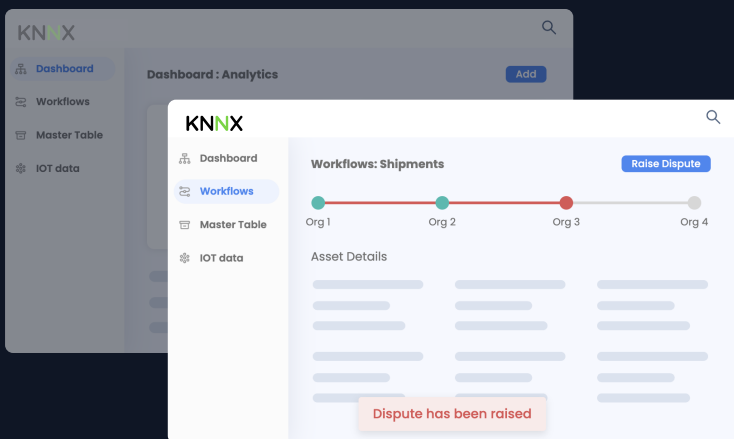
## 04

- ✗ Do not eliminate the disputes, and all the work that's needed to investigate and resolve each dispute between Shippers and Carriers, they just find it.

“With our revolutionary approach, we are transforming the freight audit and payment industry, bringing modernization to the supply chain business while delivering immediate cost savings to your company.”

— **Francis Lalonde**

Chief Commercial Officer, KNNX



**KNNX**

For many years Freight Audit has remained the best practice, but over the last few years an alternative has been identified, developed, battle tested and scaled which ensures that virtually all freight invoices are generated correctly the first time.

KNNX Freight platform has revolutionized Freight Payments by facilitating the entire contracting, shipment monitoring, invoicing and ultimately the Freight Payment process.

Effectively, this platform provides an end-to-end shared single version of shipment truth for all stakeholders to see and then reliably pay based upon.



**EFFICIENT AND FAIR FINANCING****\$1.7T** WORKING CAPITAL

There is an estimated \$1.5T trade funding gap globally, with approximately \$1.7T of working capital locked in supply chains.

**15%** SUPPLIERS

Only 15% of suppliers have access to supply chain financing as these programs typically target large, strategic suppliers, leaving an opportunity to expand to underserved SMEs.<sup>6</sup>

A circular icon with two interlocking arrows, representing supply chain finance.

## Supply Chain Finance

Buyer-led financing is a solution that has grown at 20% annually over the last 5 years. Specifically, payables financing addresses working capital limitations at a low discount rate.

- **High cost of factoring, with average rates between 24-36% APR**

According to market players, factoring rates range between 1% to 5%<sup>7</sup> of invoice value, which translates to APRs from 12% to greater than 36%. The high cost of financing squeezes Carrier margins and pressures them to accept even more financing.

- **Risk of Recourse in factoring solutions.**

In Recourse-based factoring solutions, a Carrier may be liable if a Shipper or Broker doesn't pay. This risk causes uncertainty for Carriers and can significantly impact Carrier revenue and cash flow.



**“We are leveraging our network, technology and data assets to innovate jointly at scale with partners that are leaders in the freight space to deliver frictionless payments with fair and efficient financing.”**

**Paulo Fernandes**

Vice President, Freight and Logistics, Mastercard



Mastercard is advancing a digital future for the freight and logistics ecosystem, powering digital commerce so that friction is removed from the system and payment flows are simplified to boost liquidity and accelerate sustainable growth.

Mastercard’s supply chain finance offering provides a scalable, automated embedded financing solution to brokers and shippers to alleviate cash flow constraints in the industry, paying carriers with real time guaranteed payments.

Leveraging proven payment innovations, this new offering empowers Mastercard partners to provide their business customers with access to affordable working capital for shippers and brokers to pay for their freight invoices to carriers.

Mastercard’s solution unlocks a network for working capital - covering small businesses and global corporations alike, driving speed to market, and offering ease of integration for payment partners.

This solution enables payment partners to extend the reach of buyer programs to more of their supply chain partners, strengthening supplier relationships.

Suppliers gain improved access to competitively priced early payments and enjoy an enhanced user experience, with features like one-time enrollment, standard agreements, and easy implementation leveraging their partner connections.

Mastercard has a commitment to innovation and will continue to work with partners across the freight and logistics value chain to ensure that payment processes and supply chain finance solutions are as dynamic as the businesses they empower.

**SECURE PAYMENTS AND ENHANCED AUTHENTICATION**

**“As the supply chain industry evolves digitally, the need for a secure reliable payment solution to combat fraud becomes increasingly important. Our solution was created with the industry in mind bringing together three strategic partners to automate freight processing from end-to-end.”**

**Chris Fuller**

President, Transcard



Shippers and carriers of all sizes need a secure, reliable payment solution to streamline their payments. Designed with the freight industry's needs in mind, Transcard's platform automates the Accounts Payable process, reducing time-intensive manual entries and minimizing potential errors. The integration with your or your buyer's system of record further streamlines invoice data sourcing, ensuring smooth information flow.

The flexibility of Transcard's platform stands out, accommodating any payment method, from traditional bank transfers to the use of a virtual card. This diverse array of options provides a seamless payment experience, meeting various needs of shippers and carriers.

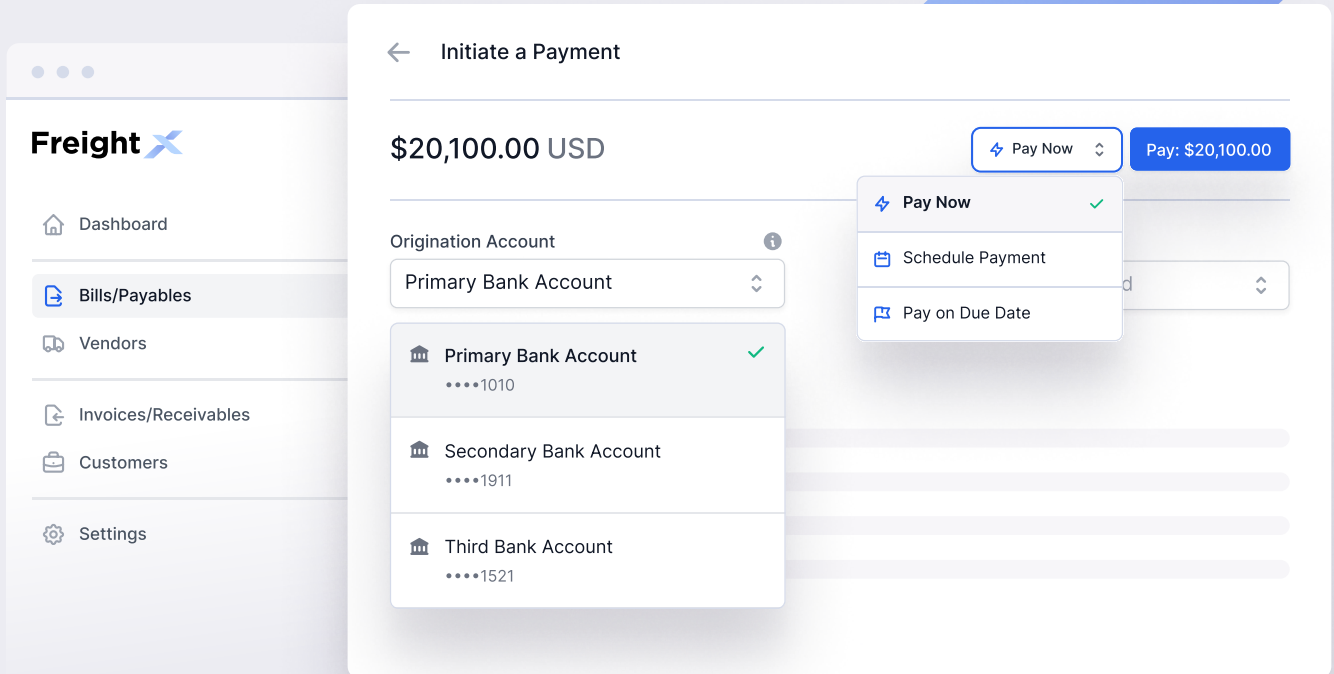
Transcard also offers early payment options, easing the strain on working capital. The integrated onboarding of clients or suppliers ensures quick addition of new members to your network, contributing to operational efficiency.

The solution is accessible by a User Interface or API integration, aligning with the digital-first ethos of the freight industry. This optionality ensures easy adoption and integration with existing systems, providing a smooth transition and user experience.

By providing a secure, efficient, and integrative payment solution, Transcard is not only addressing some of the industry's most significant challenges but also paving the way for a more transparent, effective, and reliable freight operations landscape.

# 04

## A Holistic Solution Introducing FreightX



## A New Age of Automation

FreightX is built on a shared digital ledger between each shipper and carrier that **provides contract and spend management, processing and decisions using live operational events all with real-time visibility.**



FreightX is a joint initiative between Mastercard, Transcard and KNNX that leverages the assets and value proposition of each organization for a holistic offering for the US Over The Road freight payments industry. FreightX is focused on partnering with key service providers in the industry, such as digital freight exchanges, to offer these services to their shipper and carrier customers.

With an industry first shared digital ledger, FreightX unlocks shippers' ability to manage contracts and process freight spend in real-time using live operational events for dynamic invoice tracking while also ensuring accuracy and automatic reconciliation and unlocking cashflow.

Stakeholders in the freight ecosystem get paid faster with FreightX.

## The Impact

Embrace the era of Smart Freight Contracts, where utilizing a private blockchain, Shippers and Carriers to jointly create a shared single version of the truth for every shipment. This approach leads to a virtually dispute-free environment, faster payment times, and significant cost savings.



### Shipper benefits

- ✓ Take back control of freight spend
- ✓ Remove costly and misaligned third-party services
- ✓ Eradicate carrier conflicts
- ✓ Protect customer relationships
- ✓ Better utilize your existing infrastructure



### Carrier Benefits

- ✓ Eliminate invoice disputes
- ✓ Take back your time
- ✓ Get paid faster
- ✓ Improve shipper relationships
- ✓ Simplify life for drivers

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