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How Payments Automation Can

Un-Freeze Freight

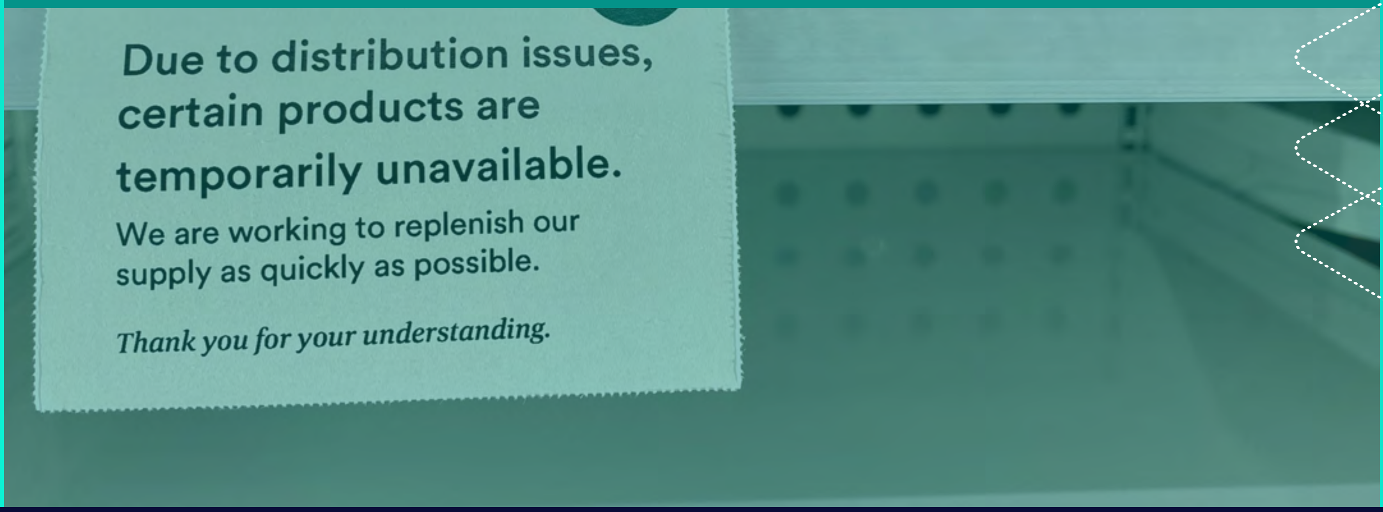
The global supply chain crisis exposes industry vulnerabilities and critical U.S. infrastructure shortcomings.

A key link in that frozen chain is the U.S. freight industry.

An innovative digital payments solution for trucking companies could break the ice.

What began with the onset of the COVID 19 pandemic has snowballed into a crisis for the whole economy and has become a political hotbed of contention. As the torrent of consumer demand amid severe shortages pushes inflation to decades high levels, and we move from a 'just in time' approach to buying (get it quick) to a 'just in case' mindset (buy extra and early), the pressure for freight carriers to physically deliver products grows exponentially.

Place this urgency on top of inefficient legacy systems and sparce digital adoption, and it's clear that something needs to change for the U.S. trucking industry.



What makes the U.S. trucking industry freeze up?

So let's take a step back. Somewhere among the pistons and gaskets are nitty gritty pain points that have been causing disruption in trucking, even before the pandemic hit.

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 payment terms upon delivery. Physical delays cause delays in payments, fragmented payments and receipts and more disputed transactions. Up to 70% of invoices may be disputed due to a range of factors which include inconsistent information across organizational boundaries.

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

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 make payment, including card, ACH, and, yes, checks.

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

COVID 19 has also added a strain, with increased costs of operations, unplanned freight backlogs and excessive shipping delays. It is indeed a fractured and antiquated payments ecosystem.

Since trucking moves 71 percent of all 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 the 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.

Trucking moves 71 percent of all freight in North America.

Up to 70 percent of invoices may be **disputed**.

Most invoices, order receipts, payments, fuel and wages are tracked with **paper or emails**.

Payments are made via cards, ACH, and **checks.**

> “ Our biggest headache is getting through the documents in a timely manner so we can invoice, and dealing with questions and disputes.

U.S. haulage companies struggle in a fragmented industry

The U.S. haulage market is highly fragmented with approximately 90 percent of 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.

Current inefficiencies make for stark reading:

- **65 percent of 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 an average of 40 percent of trucking companies look to accelerated cash flow – 100bps p/week, right of recourse.
- Inconsistent information across organizational boundaries leads to **disputes and delays.**
- **COVID added a negative impact** to the already problematic driver shortage issue.
- **Carriers need cash from the outset** for maintenance and repairs posing a cash flow issue.
- 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.**

North American (NA) Carriers by Fleet Size

# Trucks in Fleet	# NA Carriers	% of NA Total
1-5	183,916	89%
6-50	20,691	10%
51-399	1,890	0.9%
400-3,999	227	0.1%
4,000+	22	0.0%

> “We see large demand for speed of payment; instant payment to a bank account would get significant adoption.

What is the way forward?

What is the way forward?

If efficiencies can be found, truckers will be more liquid, have more capacity and be free to focus on moving more cargo more quickly. **It's clear this industry is ripe for digital transformation that solves for these industry pain points.**

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 true transparency, data visibility and a holistic payments solution designed for the freight industry – one that can be embedded into existing systems to create a digitally connected environment that meets current and future needs, ideally in a sustainable way.

“ Cash flow has to be king.

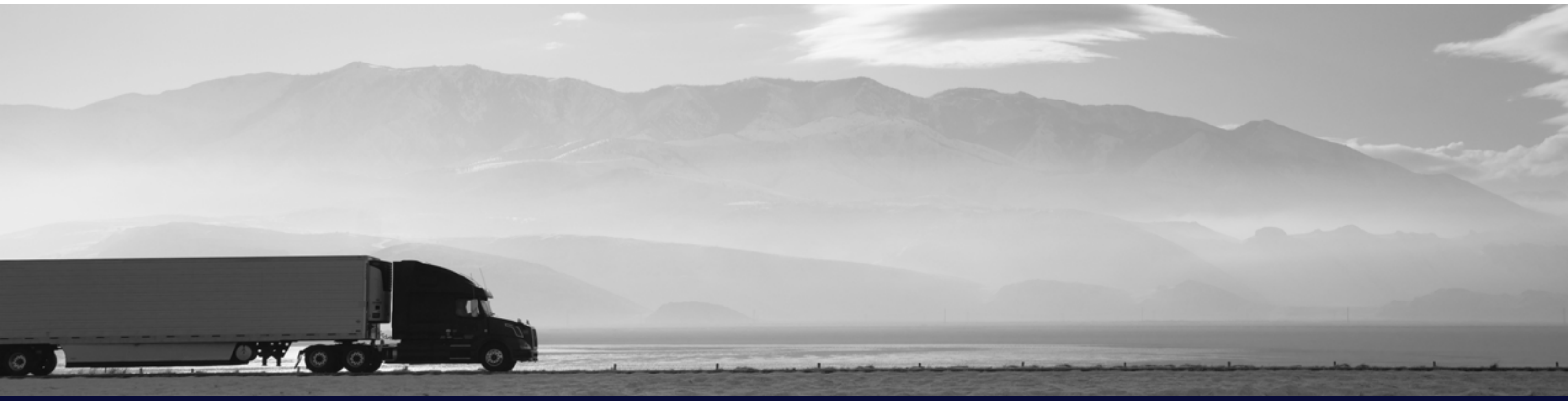
Partnering to leverage technologies and networks

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 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/working capital** for truckers by reducing the amount of time it takes for them to get paid. 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. 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 trucking industry**.
- **Seamless integration with any freight ERP and TMS** with bi-directional exchange of data and automated reconciliation.
- **An integrated gateway to multi-rail payments** – including real-time payments – with the support of a comprehensive payments network.
- **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.
- **Value-added services** such as: invoice presentment, 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.

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 to be 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 how COVID will play out, but it is possible to unfreeze the trucking link in the chain with digital payments transformation.

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