Liner Cost Management

1.Introduction

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Knowledge and information are the lifeblood of any organization. The effective use of this information can mean the difference between success and failure. Reducing costs, improving performance, achieving regularity compliance, increasing visibility and enabling strategic performance are all tasks that every shipping organization strives to achieve.

This is the duty of all departments across the organization, from sales, to customer service, marketing, development, purchasing, and accounts payable (AP). In the midst of cost constraints and regulatory compliance pressures, accounts payable departments are striving to improve and extend the services they provide for their own organization, increasing efficiency, and enhancing business relationships.

At many companies, account payable processes are still largely manual and paper-intensive. When the volume of invoices increases, these manual procedures start to show their limitations. While some firms have automated portions of the account payable process by receiving invoices electronically via electronic data interchange (EDI), typically many manual validation and approval steps remain.

The lack of automation and effective systems integration ultimately leads to bigger business challenges associated with accruals for financial closing and lack of visibility into corporate spending.

2. How does this impact your Organization?

According to Aberdeen Research, a typical account payable user can process about 20 invoices per day. Once you consider the loaded cost of these workers, plus ancillary costs for managing the associated manual processes, each invoice costs an average of US$11 and takes about 16 days to process. This is a huge cost for a company receiving hundreds, thousands, or even millions of invoices each year. The below graph by Aberdeen research indicate the difference between organizations that are market leader within shipping compared to the rest.

"Accurate information cannot be delivered without the account payable team working with 21st century "better" practices and technologies"

Because of the unrelenting workload, many account payable users are overburdened and thus prone to making errors during data entry. Invoices with billing errors and over charging "slip through the cracks" in such manual processes.

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It also becomes difficult to detect related double payments. As a result, the account payable staff may fall behind, which causes the company to lose opportunities for early payment discounts or be required to pay late penalties and fees.

Approximately 22% of vendors offer early payment discounts, but many organizations aren't organized enough to take advantage of them.

The down falls of not having account payable system integrated with operation system to verify vendor services rendered are

- Monthly accounts cannot be prepared promptly
- Company does not, at any point in time know its total liabilities
- Budget holders spend too much of their valuable time processing orders and approving invoices for payment
- Inaccurate reporting of monthly financial positions due to missed recording of invoices and posting errors

Measurement criteria for A/P Invoicing Process
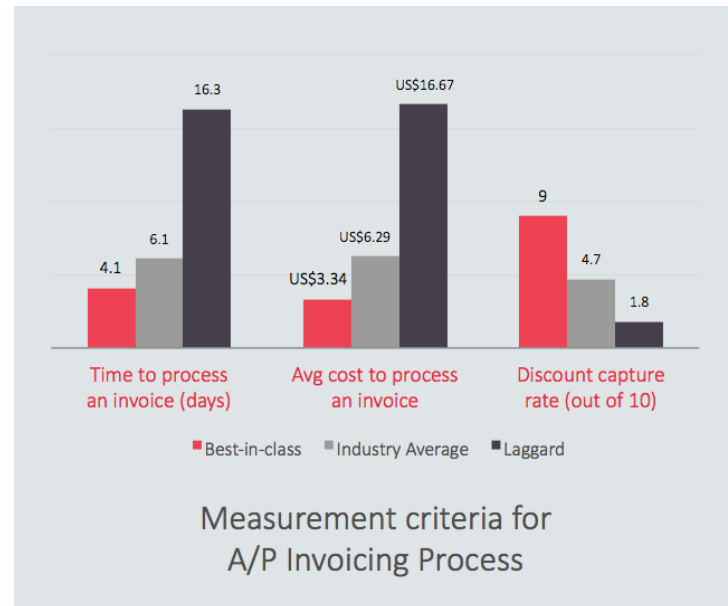
3. Why do you need to take action?

To date, much of the conversation with regard to accounts payable automation has focused on how to improve the efficiency of invoice receipt and workflow. Traditionally, these are the flash points for inefficiency where manual paper-based processes create bottlenecks, increasing processing costs, settlement time of invoices and late payments. But why do a finance department need to implement an effective, efficient and automated electronic invoicing and accounts payables solution?

- Accurate invoice processing in less time and with fewer human resources
- No invoices being lost or paid twice
- Ability to qualify for eligibility for early-payment discounts from suppliers
- Around the clock visibility of invoice status
- Timely and accurate financial reports
- Seamless workflow integration of the systems

Research by The Hackett Group has found that top-performing companies process a higher percentage of vendor invoices electronically in comparison with their peers. Organizations recognize the value of automating Accounts Payable and are increasingly eager to gain the efficiencies that automation brings. Recent research by Aberdeen Group found that more than half of organizations surveyed say Accounts Payable is strategic. The Institute of Management and Administration (IOMA) reports that major drivers for implementation of automated Accounts Payable are:

- Large transaction volumes
- Pressures to reduce costs
- Impact on cash flow and operating budget

Issues driving automation of Accounts Payable are also present with other processes in the procure-to-pay and order-to-cash cycles. What makes automated Accounts Payable a practical reality for many companies today is not only technology that actually works. It is the larger value that comes from the availability of those functional capabilities and operational advantages as part of a broad solution for automating any number of processes throughout the procure-to-pay and order-to-cash cycles. The same solution used to automate Accounts Payable processing can be leveraged to automate procurement, customer billing and the cargo bookings processing as well.

A key starting point is to find a solution that will reduce the time it takes to manage complex global payment processes while improving tax and regulatory compliance and better serving your partners.

This solution should be able to cover payment processing, payee payment method and currency selection across many countries, tax and regulatory compliance, payment reconciliation, reporting and much more.
With a good solution, one needs to look to:

- Decrease the time you spend managing pay-outs processes.
- Deliver an enhanced, more accurate timely payment experience to partners across the globe.
- Effectively captures all contract details and have the ability to auto approve invoices for payment based on accurate contract matching.

"One needs a solution that streamlines the entire payment management process"

5. How to achieve better results?

With the extreme pressure on bottom lines, Shipping lines are now looking to manage their costs and Vendors more efficiently. Over the last 5 years, the role of the accounts payable department in all levels of enterprises has dramatically changed. Specifically, an accounts payable department used to be managed as a cost centre whose job it was to process and review transactions, coordinate with other departments, respond to inquiries, reconcile accounts and generally perform paperwork. More recently, however, this department is playing a larger support role helping to control, coordinate, and analyse key business processes.
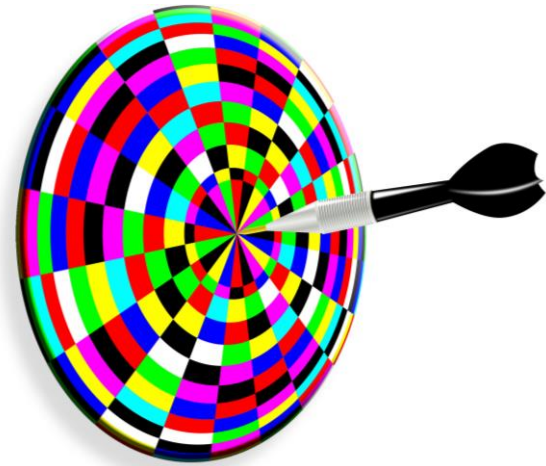
In general, this means that accounts payable becomes more visible within the organization and their main responsibilities now lie in quality assurance, contract and policy compliance, reporting, and analysis. This change has come at a cost of increased workload and added responsibilities.

To deal with this, account payable departments need to re-deploy their skilled knowledge workers from doing back-office administrative tasks, such as invoices processing, to more business critical management activities. To achieve this, accounts payable departments are looking to automate as much of the business process as they can.

Whilst invoice accuracy is always a key factor the reality is that only with a truly integrated solution can achieve following objective:

- Automate, regulate and process vendor payments based on activity based cost contracts,
- Effectively do pre-billing automation based on the activity cycle of both laden and empty shipments.

To achieve the desired level of automation in managing the costs one needs to look for a solution that caters for various vendor cost types and key aspects such as;

- System allowing verification and optimizing the vendor costs whilst minimizing the time required to carry out effective cost management.
- The system should also allow for detailed analysis of costs, vendor performance and multiple other parameters.
- The solution if integrated properly should allow for Vendor rebates accrued to be effectively monitored and managed.

An Organization also needs to carefully consider an integrated solution that automates the scanning, interpreting and filing of invoice data. No matter how invoices enter your organization – on paper or in any electronic format – the solution needs to intelligently extract the important information and validate it according to a pre-defined set of rules.

It is preferable to find a parameter driven solution that enables country-specific profiles, programmed with region-specific criteria, such as VAT rates, date formats and currency characters. A solution that enables the capture of the various contracts so as to be able to auto match and check against the contract and when the criteria's are met to auto approves invoices for payment.

6. Conclusion
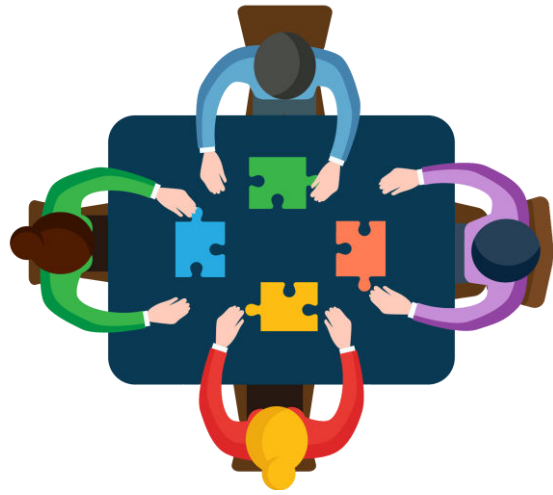
Efficiently capturing invoice data is a prerequisite to efficient downstream processing, which can deliver significant cost savings along the way. Introducing a proven e-invoice system to capture, distribute and manage invoices paves the path for the balance of efficiencies throughout the invoicing process. Implementing e-invoice is a proven success factor for any shipping organization and an effective way for CFO to lead the organization into future growth and development, allowing the organization to better control cash flow and to improve operating capital.

> *"Best practice is to optimize both the Accounts Receivable and Accounts Payable processes as accurate invoices are the cornerstone to significant savings that are possible today"*

However now, with stiff competition between various shipping lines, revenue is always under pressure and thus optimization and efficient cost management are paramount. You can easily increase accuracy and efficiency, save costs, and drive new revenue-generating processes immediately by using integrated shipping software.

SVM CVP (Cost and Vendor Payment System) is a unique activity based cost report and control system that automates, regulates and processes vendor invoices. The system has user defined location/terminal based operation activities that are used to validate vendor's invoice charging rate against vendor contracts and compute operation cost estimates based on agency reporting of loading & discharging quantities.

SVM CVP system helps agency users automate the computation of operation cost to produce disbursement for submission to line AP department in timely manner. Principals' AP department users gained real-time information access to operation cost, i.e. disbursement/expense report, allowing early detection of any extra cost incurred. When vendor invoices are registered or electronically uploaded into system, the invoice matching function will identify any mismatch charge item for easy dispute processing. These processes help principal and agency users carry out effective cost control management and improve productivity. High performance integration engine is used to exchange data with other systems such as financial systems using industry standard interfaces or other user-defined format.