TRANSFLO®

Beating the Freight Market with a Cash Flow Advantage

Carriers and brokers can gain the upper hand by accelerating cash flow in a volatile market

Motor carriers and freight brokers are taking a hard look at cash flow after two years of pandemic-driven volatility in the freight market and growing inflation pressure. Will you have enough liquidity to survive? Better yet, what can you do to thrive?

Demand has far outpaced supply for much of this period, and the trend continues. Record growth in spot market activity during Q4 of last year carried over to fill a historically slow Q1 period. The number of van truckloads posted from December 2021 to January 2022, for example, increased by 31.4%, according to DAT Solutions.

Carriers and freight brokers have been riding a tidal wave of pricing power, but inflation is crashing the party. January's consumer-price index is up 7.5% from a year ago, accelerating from December's 7% pace, and has been above 5% for eight months straight.

Profitability matters, but the most critical process for survival is to quickly turn orders into cash. This guide covers strategies that will enable carriers and brokers to instantly liquify freight transactions to thrive in current market and economic conditions.

Areas in this guide where financial strategies merge with existing technology to accelerate cash flow are highlighted – in the ***Bottom Line.***

1 The Inflation Impact

The double-edged sword of inflation may be the biggest issue carriers and brokers are dealing with at present. Although revenues are benefitting from the strongest freight market the country has seen in the past decade, inflation pressure is blowing up budgets.

Employees and job applicants are asking for more pay. Vendors, utilities and service providers are also raising rates. Operational expenses could be increasing faster than current and future cash flows can support.

2

Rising Costs for Carriers

The largest variable costs for running a fleet show no signs of slowing:

Driver wages: Labor shortages are raising driver wages to six figures and beyond. Last year, the American Trucking Associations (ATA) estimated that the truck driver shortage would hit a historic high of more than 80,000 drivers. Those numbers are holding true so far in 2022, but the worst is yet to come. The ATA estimates a shortage of 160,000 drivers by 2030.

Fuel: Before the Ukraine crisis, the U.S. Energy Information Administration expects on-highway diesel prices to increase to an average of $3.33/gal in 2022 and that annual diesel demand will reach 2019 levels.

Truck prices: The average price of late model used trucks rose more than 100% over the past year, and on average buyers paid $15,000 more for a new tractor compared to 2020.

Maintenance: Carriers have been heavily investing in maintenance to extend the working life of vehicles they normally would have disposed of, were it not for supply chain snarls causing shortages of raw materials and vital manufacturing components – most notably microchips. For new equipment, many OEMs are reporting wait times that extend well into 2024.

Moreover, many of the vital parts needed to keep mid-life and older vehicles operating are either difficult to acquire or have seen sharp price increases.

+ All the above operating costs are payments that fleets make long before customers pay on invoices.

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3 Rising Costs for Brokers

Freight brokers have seen runaway inflation, from paying higher freight rates to carriers and working harder and longer to find capacity.

Sustaining contract business with carriers has been exceedingly difficult with spot market rates hitting record levels. During certain points of the past year, **as much as 25% of total truckload freight moved on the spot market. Before the pandemic, 13% of shipments were spot moves.**

Broker margins have decreased despite spot volumes surging. Analysis of freight transactions in **2021 shows margins averaged 12% for most of the year, well under the normal 14% to 16% range.**

+ Brokers have to pay carriers and operating costs long before shippers pay on invoices.

4 Tipping the Scales

In a neutral economy with little inflationary pressure, carriers and brokers can predictably balance cash flows if they are not in a rapid growth mode.

With low inflation, owners and financial executives can reliably forecast cash flows and the amount of money they will have in the bank from month to month.

Inflation changes that calculation entirely. Cash on hand for this month will not cover the same number of loads next month. Accelerating cash flow is therefore critical to maintain or increase productivity to outpace inflation.

"Over the past few months as I have had conversations with my counterparts at various transportation companies, I am consistently hearing that while driver shortage continues to be a chronic issue, price increases from all layers of their cost structures have accelerated faster than anyone could have imagined. The price increases seem to permeate the entire cost structure from drivers, to fuel, to equipment, to insurance and on and on. Good CFO's have always looked for ways to mitigate operating expense increases but now they have become hypersensitive to finding ways to battle the increases with quicker cash conversion. The old adage, 'time is money' has never been more true than it is today." **– Christopher Black | Chief Financial Officer of Transflo**

Bottom Line: Intelligent automation tools can expedite the flow of proof-of-delivery receipts and information from drivers to carriers and brokers. Fast, error-free workflows can speed billing and payments to dramatically reduce days sales outstanding (DSO), the amount of time between a load delivery and a customer receiving and paying the invoice.

5

Stopping the Leaks

An important step in addressing cash flow challenges is to increase the level of control and visibility of freight transactions. Many fleets, brokers and factoring companies still use outdated, cumbersome bookkeeping practices that make it easy for dishonest operators to take advantage. These practices may also result in unbilled and unpaid loads.

Double-invoicing is one example of how fraud can seep into freight transactions. It works like this: A carrier hauls a load for a broker and then submits an invoice to a factoring service. The carrier also invoices the broker and gets paid twice for the same load.

Bottom Line: Commercial payment networks allow brokers to electronically connect and share vital information with factoring companies. The automated process can validate the carrier and the details of its relationship with the factor, which allows a broker to be alerted before making a payment.

Unbilled loads are an example of carriers leaving money on the table. In some instances the paperwork process is to blame. A driver may lose a POD receipt, so the carrier decides to write off the invoice. A more common reason is when owners of small carriers get overwhelmed by managing the details of invoicing and payments.

Bottom Line: Intelligent automation tools can prevent fraud and mistakes upfront. Owner-operators and small fleets that use tools to pull relevant documents together and eliminate lost documents can digitize their invoicing and payment process with brokers and shippers.

6

Pressing the 'Easy' Button

In the current freight market, savvy freight brokers are going to great lengths to make it as easy as possible for carriers to do business with them. **Daniel Pickett, chief data and technology officer of Freightwaves**, is seeing brokers offer a number of benefits to carriers to increase loyalty. They include:

+ Offering bonuses for delivering loads efficiently
+ Providing fuel cards for discounts
+ Offering matching loads electronically to carriers before they deliver a current load
+ Subsidizing the cost of electronic logging devices or other visibility tools
+ Giving access to an online automatic portal with payment options
+ Quick-pay programs

This last benefit, quick-pay programs, may benefit carriers but also create friction. Pickett compares the quick-pay programs of brokers to "a high-interest credit card" that reminds him of the auto finance industry.

"GM, Ford and Chrysler build cars so that they can make money financing their sales. The vehicles themselves barely break even. The money is in the financing aspect of the business," he says.

To process a quick payment, 3PLs often deduct a fee of between 2% and 5% directly from the freight bill. For brokers, the fee is a significant bump in revenue on a load, considering that net margins averaged 12% during the past year with freight rates at record levels. High quick-pay fees could also be straining carrier relationships, however, and impeding greater opportunities for business growth and profitability.

In this environment, savvy freight brokers are going to great lengths to make it as easy as possible for carriers to do business with them.

7 Creating Repeat Business

In today's competitive freight market, 3PLs that wait 15 days or more to pay carriers or charge high fees for quick pay are losing ground to those who can offer a more seamless and low-cost payment experience.

Before entering a new relationship, motor carriers will evaluate a broker's credit history — the average days to pay — and the terms and fees associated with their quick payment options. Getting access to funds may be the only way small carriers and owner-operators can cover the outlay for fuel, driver wages, and other costs to move their next load. A quick pay program backed by credit from a reliable banking partner signals to carriers that a broker has a good payment track record and a healthy balance sheet.

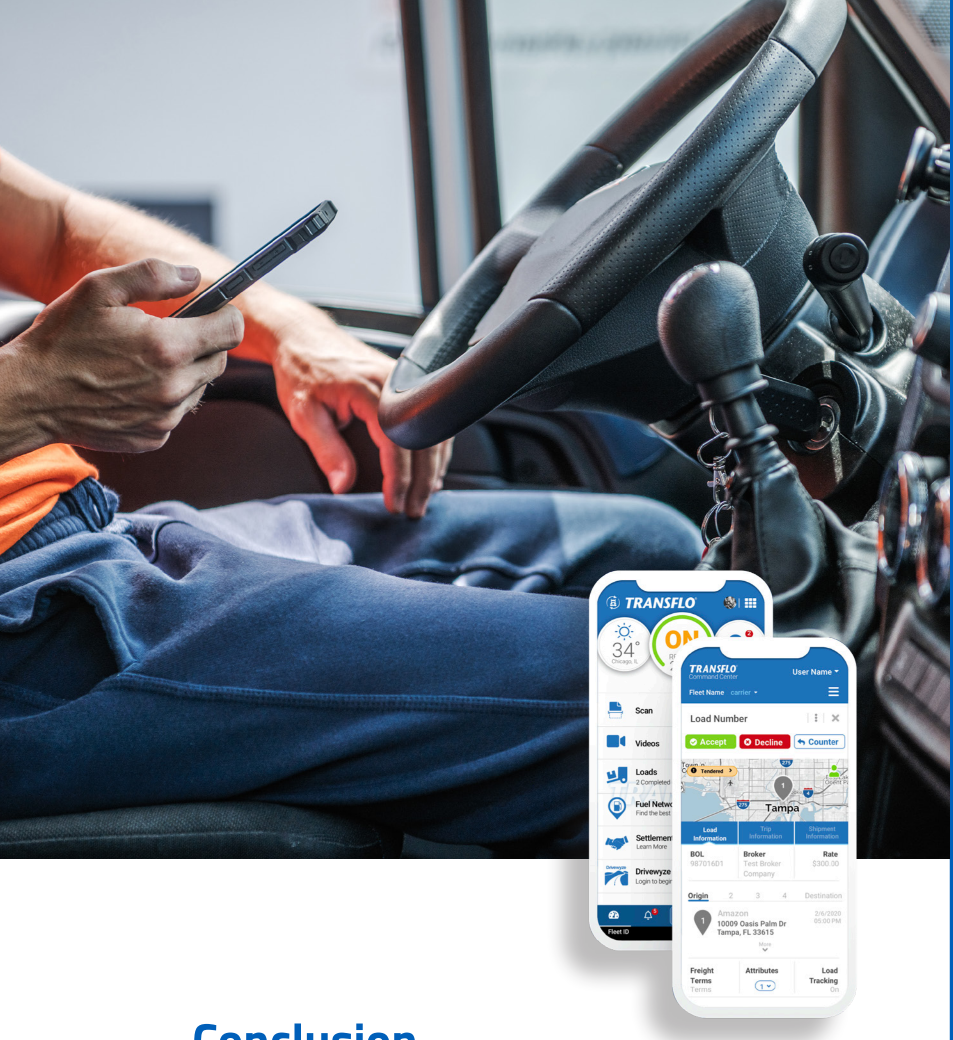
Brokers that charge high quick pay fees could be limiting access to capacity from loyal, repeat carriers. Also, carriers will try to negotiate higher rates on their next load to cover the fees. As a result, the 3PL gets diminished returns by having to search for new capacity and increased transaction costs from onboarding and dispatching new carriers.

"The ability to be competitive depends on how well brokers and carriers can manage their cash-to-cash cycles—or their own financial supply chains. Rather than self-funding their quick pay programs, savvy brokers work with reliable banking partners to offer highly competitive accelerated payment options. This frees up their own cash to operate more nimbly and positively supports the overall financial health of both brokers and their carrier networks." – **Scott Burglechner | SVP and Group Product Manager for U.S. Bank Freight**

Brokers that offer carriers a streamlined payment process and better quick pay options can gain an immediate advantage by securing more capacity and moving loads at higher margins.

Bottom Line: Brokers can keep capacity returning by using intelligent automation tools and better payment options. 3PLs that offer carriers a seamless payment experience can use existing technology to:

+ Beat the competition with extremely low (or zero) fees
+ Pay carriers faster by eliminating delays and mistakes
+ Move more loads at higher margins



Conclusion

Carriers and brokers can use existing technology to digitally connect and repeatedly ensure frictionless freight transactions and payments. With a volatile freight market and runaway inflation, both parties can benefit from integrated systems that accelerate cash flow and increase business speed and efficiency to move more loads at higher profit margins.

Digitizing Freight Transactions with Transflo

The Transflo Velocity platform is widely used by 3PLs and motor carriers to digitize freight transactions, from offering loads to dispatch messaging, load tracking and instant payments. When completing a load, drivers use the mobile app to scan their trip documents. The platform uses intelligent automation to identify exceptions and expedite the invoicing process.

As soon as a 3PL receives the documents and validated data, it can approve carrier invoices for payment. Transflo Velocity integrates with internal payment systems or with third parties that purchase invoices from brokers or carriers and provide instant, low-cost payment solutions.

Special thanks to those who contributed insights for this Cash Flow guide:

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