



2009 Ocean Freight Invoicing Report

produced by

EFT Research in conjunction with Container Shipping Technologies

I. Introduction

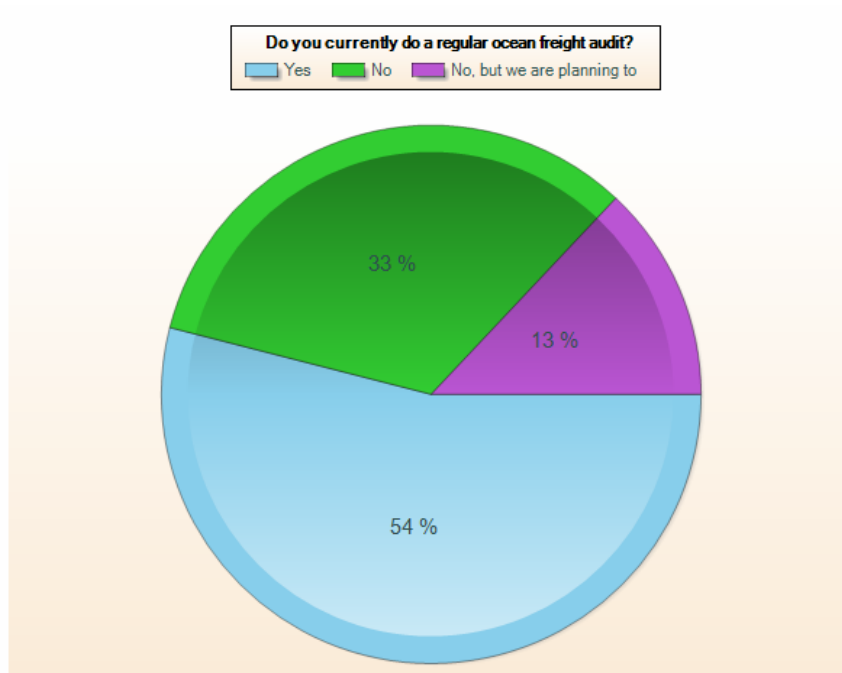
With the increase of global trade volume, approximately 90% of non-bulk cargo items are being transported by container shipping companies. With half of all shipping invoice errors remaining unchecked and unclaimed for goods transported by ocean freight, it would be surprising to find that many companies do not conduct a regular audit of their ocean freight invoices. The following report analyzes the frequency with which companies are auditing their ocean freight transportation costs by looking at historical trends in this industry, as well as examining the respondents current practices and their expected outcomes of conducting invoice audits.

a. Survey Demographics and Breakdown

This specially commissioned report focusing on ocean freight shipping invoices examines the auditing functions and trends among participating companies. Respondents from this survey come from both small companies - shipping less than 500 TEU's per year - to large companies shipping more than 25,000 TEU's per year.

II. Ocean Freight Audits

- a. Companies Regularly Conducting Ocean Freight Audits.** Respondents were asked if they regularly conduct ocean freight audits. Responses can be seen in the graph below:



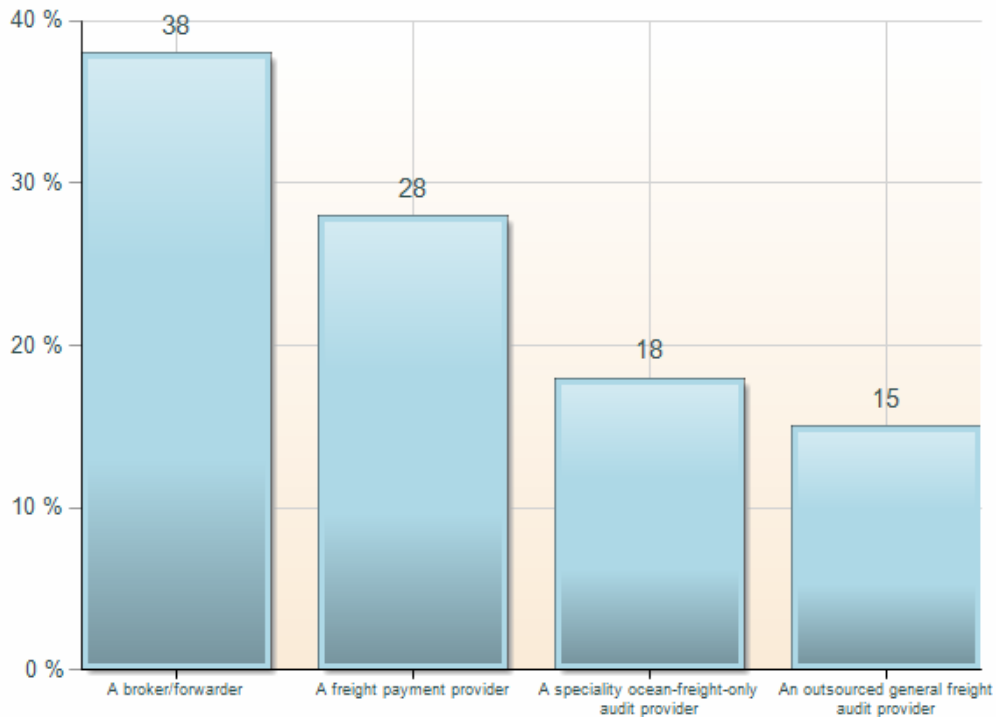
As the graph shows, while only 54% of respondents are regularly conducting ocean freight audits, 13% stated they are planning to begin completing container freight audits in the future. This 13% represents a growing trend in the recognition of transportation invoice errors, and the need for companies to more closely monitor their shipping invoices.

Due to the current economic downturn, companies are feeling even more pressure to cut costs where possible, and increase the overall efficiency of their organizations. These results suggest that shipping companies are looking at invoice auditing as a means of cutting costs and increasing efficiency.

B. Internal vs. External Outsourcing of Audits

For those companies which currently conduct ocean freight audits, only 15% are using an external company to do so. Out of the respondents which are currently outsourcing their audits, 38% are using a broker or forwarder, while another 28% use a freight payment provider, 15% are using an outsourced general freight audit provider, and the remaining 18% use a specialty ocean-freight-only audit provider.

If you outsource your freight audit, who does it?



Respondents were then asked to rate various factors which contribute to their decision about whether or not to outsource their freight invoice auditing. Respondents were asked which factors were most important, and the results listed below include the percentages who ranked these factors as “very important.”

- Cost - 69%
- Expertise of personnel - 61%
- Technology available - 57%
- Use of company resources - 37%

These results further drive the point that respondents are less concerned with who is conducting the audit as long as it is going to save them money, since they are more concerned about cost than about the allocation of resources from their own company.

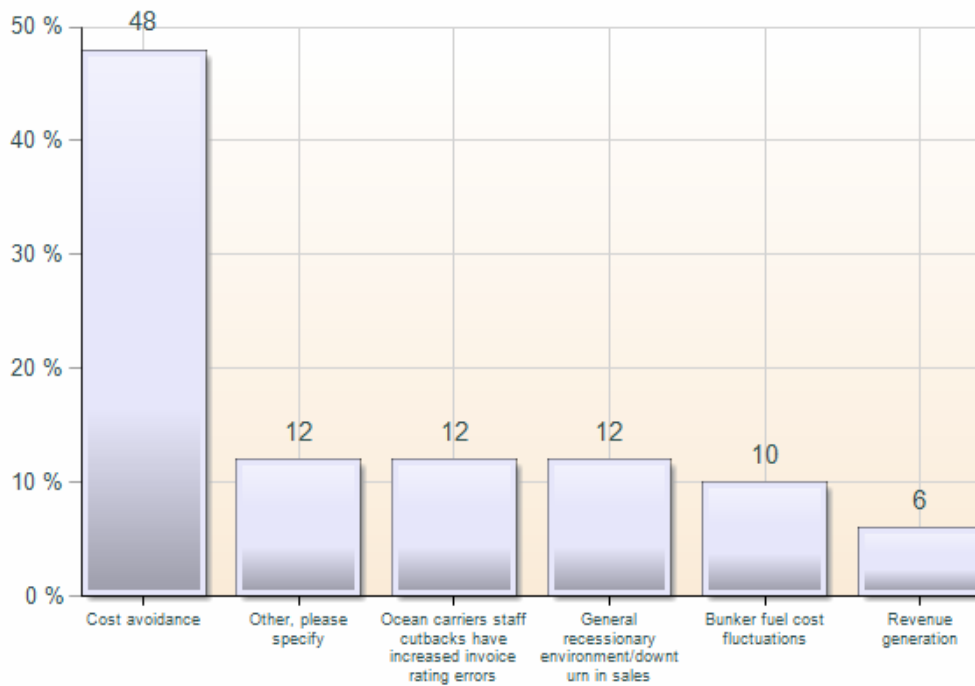
This shows an opportunity for outsourced auditing companies to target this 85% of companies, which currently conduct internal audits, to help them better understand the value of service they provide and the extra money they will be able to save the company with their expertise.

II. Perceptions of Invoice Auditing

a. Reasons Companies Use Freight Invoice Auditing

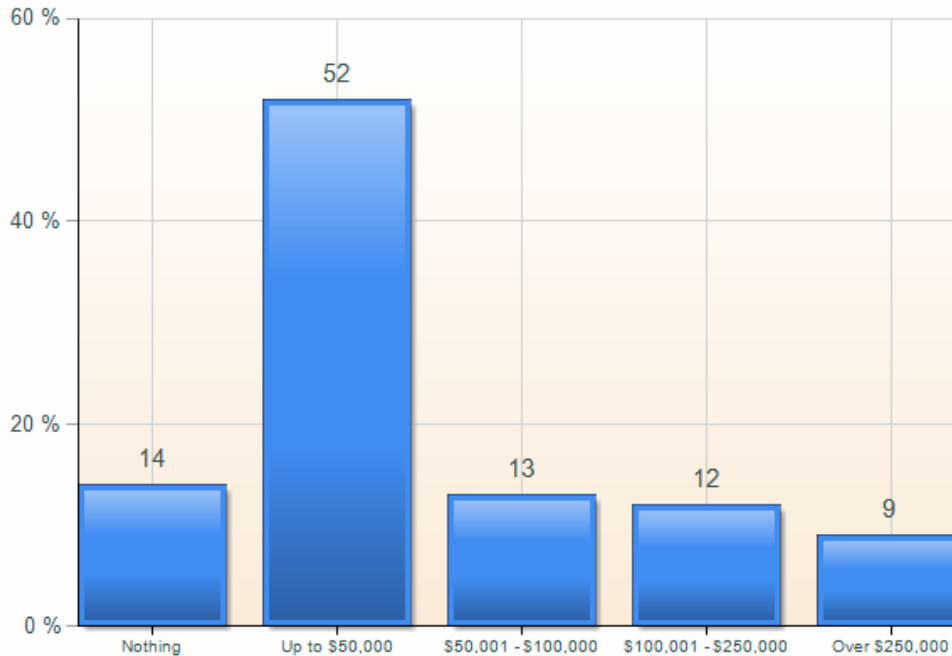
Freight invoice auditing can yield varied results among companies. For this question respondents were asked “What would you consider the most important reason to conduct an ocean freight audit today?”

What would you consider the most important reason to conduct an ocean freight audit today?



With almost half of the respondents answering ‘cost avoidance’ as the number one reason to conduct an ocean freight audit, it is surprising that not all of the companies are regularly conducting audits. Even when calculating all of the recessionary factors as a single response, employee cutbacks, fuel fluctuations and general recessionary downturn in sales, the cumulative responses are still 20% lower than general cost avoidance.

How much would you expect to avoid in expenses per year by doing an ocean freight pre-audit?



b. Expenses Avoided

When asked how much respondents would expect to avoid by doing an ocean freight pre-audit, 52% said they would expect to avoid up to \$50,000 in expenses, and another 34% felt they would save more than \$50,000 by conducting a pre-audit. Only 14% of participants felt that no expenses would be saved by conducting pre-audit of their ocean freight invoices.

These figures show that the majority of respondents recognize there is a discrepancy in invoice figures, which is costing them money. These results are very significant when considering that many of the respondents are still not conducting pre-audits, even though they believe with this would result in money saved. This suggests that shippers are potentially missing a crucial cost-cutting tool.

c. Sources of Invoice Errors

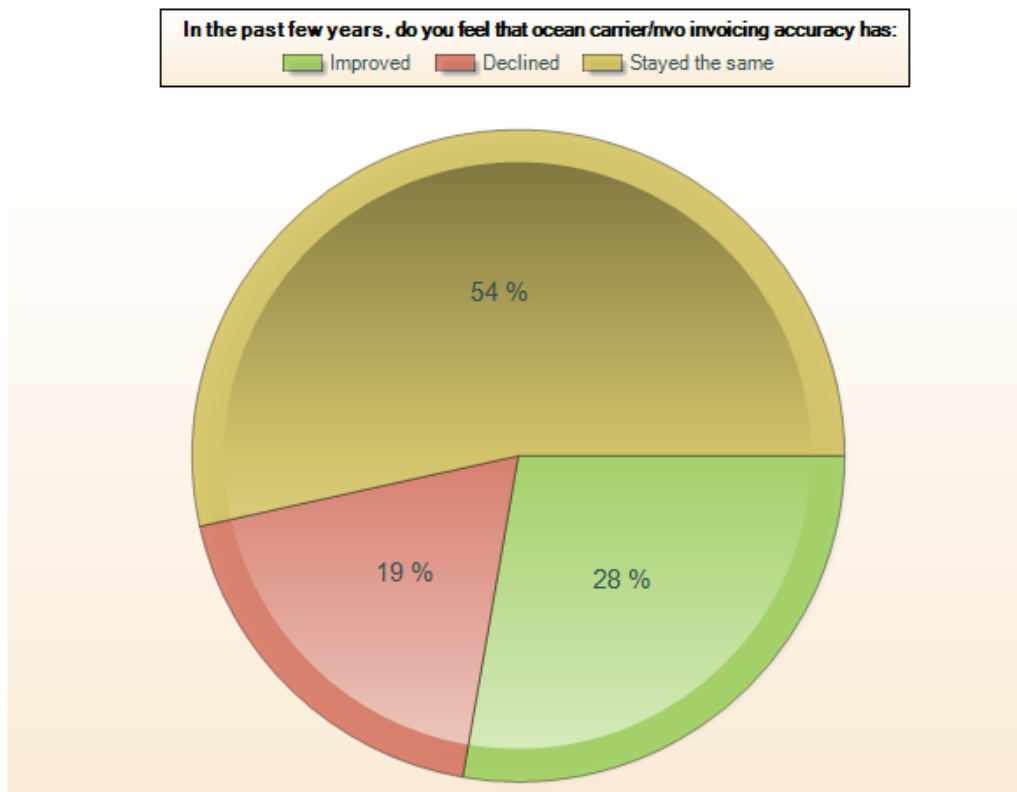
To help further assess the source of invoice errors, respondents were asked which factors they felt contributed the most to invoice errors. "Accuracy not being addressed as a central priority at the carrier," was the most popular answer with only 84% of respondents feeling that it is often a cause of error. In contrast, participants felt that "Too many contracts to manage" was less often a cause of error with 43% stating they felt it was not often a cause of error.

Other factors assessed in evaluation of invoice error factors were: (% that ranked with “Significant” or “Very significant”)

- Lack of control in the carrier documentation process - 77%
- Too many exceptions in the carriers’ documentation system - 76%
- Lack of experienced staff - 73%

These results suggest that respondents feel the errors are coming from the documentation and administrative process and less from employee error or the number of outstanding contracts a company has. This suggests a need for shippers to improve communication with their shipping companies to ensure that document accuracy is made a primary concern at the central level, and for ocean freight shipping companies to show they are committed to providing quality service to their customers.

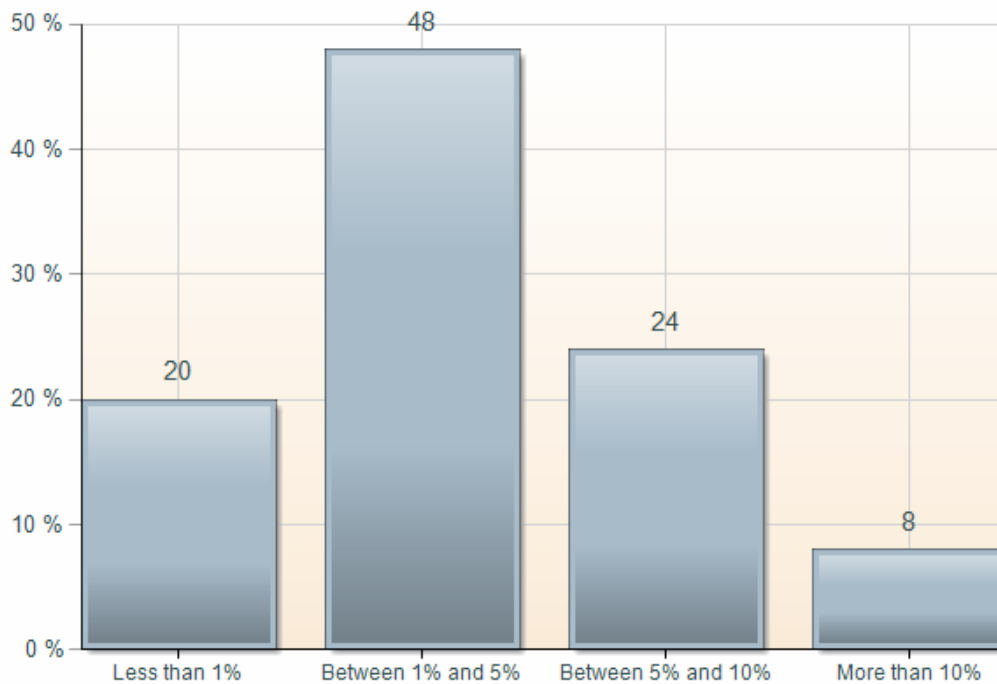
IV. Historical Invoice Error



When looking at the historical trends for ocean carrier invoicing, 54% of respondents believed that over the past few years, invoicing accuracy has stayed the same, and 19% felt that accuracy had actually decreased. This shows that freight companies perhaps are not conveying the importance of invoice

accuracy throughout their organizations, or perhaps companies which use these services to transport their goods are not putting pressure on these companies to make an effort to reduce the amount of invoice errors.

In the past 12 months, what percentage of the overall number of containers shipped have had a defect or error in invoicing?



When looking at the graph of defects on containers shipped within the last 12 months, 80% of respondents found errors or defects of more than 1% in their container shipment invoices, and 32% respondents had over 5% error in their invoices. This does not, however, translate into concern among respondents about recovering lost money on past invoices, which only 28% of respondents found very significant. Instead 51% of respondents were very concerned with having a robust pre-audit that identifies and corrects errors prior to invoicing to reduce the frequency of errors on auditing invoices.

V. Areas of Future Ocean Freight Supply Chain Cost Reduction

As companies are constantly seeking ways to become more efficient and save money, analyzing their supply chains is one apparent way to attain cost savings. For this question, respondents were asked to “Rank the importance of the following measures with regard to cost savings within the supply chain.” The results show those participants which ranked each factor as “Very Important”.

- Identifying or investigating areas of new savings within the international supply chain – 73%
- Reducing international transportation expenses - 69%
- Improving audit functions within the internal supply chain - 33%
- Researching outsourcing opportunities to identify potential areas of saving - 28%
- Researching outsourcing opportunities to identify potential areas of new revenue generation - 27%

These results show that the respondents are most concerned with their overall supply chain costs, and feel that by reducing the components - such as reducing international transportation costs - they will be able to drive down the overall costs of their supply chains. With an increasingly global markets, many companies focus on how to maximize areas of saving, through initiatives such as outsourcing, and enhance these savings with lowered transportation costs to result in even greater savings for the company.

Conclusion

The results of this survey suggest growing concerns about the overall efficiency of ocean freight shipping and invoicing. Companies are also increasingly concerned with identifying areas of inefficiency within their own supply chains and will likely explore areas such as reducing international transportation costs to increase the efficiency of their supply chains. Companies are also examining the auditing function of their ocean freight invoice to analyze the efficiency of their organizations, and ensure they are maintaining efficient business transactions. It also identifies that the respondents involved are looking to ocean freight audits for cost avoidance and are beginning to see audit errors as a real problem, which if addressed, could result in money saved for their company. With every company seeking every possible opportunity to cut costs in the current environment, this report shows increasing room for opportunity among companies that offer effective and immediate cost-cutting options.