Brokers as Bankers Webinar QA

On October 8, 2009 TransCore held the Brokers as Bankers Webinar to address the very real problem that many brokers are facing in a tight economy: shippers are extending days to pay but brokers are trying to meet their commitment to pay carriers on a timely basis.

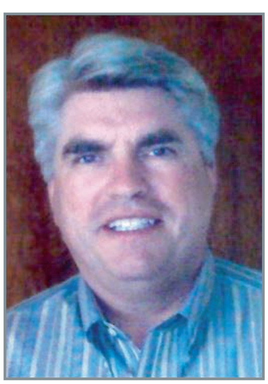
Our guest speaker Winston Aston, CEO of TransCredit, was joined by broker experts John Miller, vice president Hybrid Transit Systems, and Greg Roush, president and owner of Smart Lines, and Steve Blair, general manager of TransCore Transportation Management for a lively panel discussion to answer questions from our listeners. Michele Greene, group product manager for TransCore and Certified Transportation Broker, was our moderator.

Below are the questions and answers*:

Michele Greene (MG): Gentlemen, before we get to the listener's questions. I'd like you to give us some insight into how you feel about the broker's role as a banker.

Greg Roush (GR): We go under the premise that we pay our carriers, even if we do not get paid. We accomplish this by doing 4 things:

1) We've established a solid credit policy. Our credit policy establishes the standards that we use to accrue and assign credit lines to our accounts. We use tools such as TransCredit, Dunn & Bradstreet, and trade references to help us do this.
2) Secondly we use a disciplined collections process. We call each of our accounts weekly to check on our receivables. It's the old adage – the squeaky wheel gets the grease. Also, with new accounts, we call prior to the first billing to make sure we bill them correctly so that there are no problems.
3) We review our current accounts on a regular basis. As an example, we pull credit reports every 6 months.
4) Lastly, as a backup plan, we've invested in accounts receivable insurance and secured a line of credit with our bank. Hopefully all this allows us pay our carriers timely, which is very important to our business.



John Miller (JM): The challenges of the transportation industry are very demanding right now and at Hybrid we focus on staffing. Ownership and our controller are involved in the process, and the entire A/R staff is vital to help us monitor this trend. We rely on our online banking and of course our own TMS in terms of monitoring our overall booking activity, invoice activity, the receivable process itself, and our cash receipts on a day-to-day and week-to-week basis. By and large we rely on our customers' history with Hybrid and communication. We want to know what's going on in that shipper's office: How are they treating conversations about outstanding receivables? What comments are they making? Those conversations, coupled with our history, determine if we want keep serving the shipper.

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(MG): Are there payment tools that Brokers can use to get money from shippers and avoid some of the cash flow problems?

(GR): Well, there are a couple of things that we've done in the past. We've switched accounts from check to electronic payment which helps us to get payments quicker. When the accounts are truly questionable, we tend to get cash ahead of time, get a deposit, and then move their shipment after that. Ultimately we ask for better terms. Current terms are 15 days and you'd be surprised at how many accounts accept those terms.

(JM): We think that we excel in the use of innovative payment tools designed to shorten the invoice cycle. We may not be able to effect days to pay – how long that invoice is at the shipper's locations before payment, but we can do other things to shorten the cycle. We'll consider pre-billing orders – a method that allows for billing before bill of lading is received. Electronic processing that can be accomplished through EDI – scans attached to emails shorten the cycle. Routinely we'll ask for wire transfers for new shippers and we'll aggressively go after the ACH option. Recently we've started using PayPal more frequently. There is a fee for PayPal, but you are getting your money quickly and securely.

Listener: "If one of my customers sends me a letter telling me that they are now going to pay me in 45 days instead of 30, how do I figure out how much that is going to cost me?"

Winston Aston (WA): I think it is important that you do translate payment deferral into real dollars just as if you had to go to the bank to secure funding. In round numbers figure $2 /day for each $1,000 deferred. So if the account is deferring $10,000 fifteen days beyond terms, your cost would be $300/month.

(GR): I don't know if I'd calculate it differently, but we look at it differently. Obviously there are the carrying costs Winston alluded to, but there is also the carrier payment cost, so for every $10k roughly, there is additional $8k cash outlay that a broker can expect. I would say that is a great example of the broker as a banker.

(JM): I think the methodology Winston alluded to is basically correct, but we might consider a couple of other angles to this as well. Certainly consider a rate adjustment if we are going to try to accommodate for those additional days to pay, but I go back to aggressively working to shorten the cycle. If that doesn't work, then I think you need to stand back and look at the overall value of the account. Where does that account fit into your strategy? Can you consider it an account you have outgrown and move it into an occasional-service level? You have to be frank internally and decide where that account really fits into the overall scheme and make the tough decisions from there.

Listener: "If 78% of collection issues are likely to come from Shippers with whom I have had a long standing relationship, do you have any recommendations on developing a good process or methodology for ensuring that these kind of bad debts don't creep up on me unexpectedly?"

(WA): Here is where prevention is definitely the best medicine; you need to see credit scores on all your shippers, the ones that are currently doing business with you. Make sure you get a source that can provide daily updates, perhaps even a system to email you alerts if scores drop substantially.

(JM): We are constantly looking for change in an account. Are the payments becoming erratic? Are there loads that are paid around because of size? Will they bundle a few smaller shipments and pay the smaller dollar amount and skip a larger one? Do we get feedback that for some reason there is always a missing document in the invoicing process? This goes back to the role our staff plays in listening to customer comments; paying attention when an accounting person suddenly can't answer payment questions and always has to check with his boss. Another out-of-the-norm situation is seasonal issues. Brokers are, at times, a great asset to the seasonal shipper. But we have to ask if that seasonal shipper keeping lines of communications open. Are they keeping their promises?

For us the bottom line is the communication between our clerical staff and staff of shipper. What we are able to garner from the overall relationship and how that relationship is changing are good indicators of what is happening at the shipper's office.

(GR): I second everything John just said. We look for patterns and changes in payment patterns. Listening, of course, is very important. If they "have checks in the drawer" it is a red flag. We also use our TMS to watch days to pay, DSO, and if we see someone going from 30 to 40 days, that's a red flag.

Listener: "Do you have any information on industry averages for days to pay? Any benchmarks I can use to measure up against and industry wide, what are credit scores doing?"

(WA): TransCore does survey work with their customers and TransCredit publishes a monthly Freight Payment Index for the TIA that breaks industry averages for Credit Scores and Days to Pay into three groups: Brokers in general, TIA members, and shippers. We have found that credit scores are declining slightly among TIA members as a whole, a bit more among brokers in general, and substantially among shippers, which of course is the reason for this webinar, Brokers as Bankers.

Steve Blair (SB): Winston referred to TransCore's survey work. For the last two years, TransCore has surveyed over 5000 brokers about their business and published the results at TIA's Annual Conference. Based on our Broker Benchmark survey, credit scores dipped in 2008, but recovered by the end of the year. Days-to-pay edged up to 28, on average. Another interesting fact that we uncovered is that brokers on our DAT® Network had higher credit scores and lower days-to-pay, on average, than the overall industry. I also add that we offer this survey each year at the Spring TIA, so the next one will be available in Tucson in April. I invite everyone to stop by our booth and pick up a copy of the Broker Benchmark Survey. [2010 TIA Annual Trade Show, Tucson, Arizona, April 7-10, 2010]

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Listener: "Do you have any ideas on a good response to a customer notifying us that they are going to increase their days to pay? Do you have any ideas of what the shipper might 'trade' for the increased DSO?"

(JM): We're going to primarily look at the term itself, see if there are issues and consider what terms they are asking for. Is it a seasonal shipper that has a big box store order behind it, and they've got issues with receivables themselves? The terms and the circumstances are important and they have to be plausible and that we can essentially verify. Again, we always try to shorten the days somehow. I'll go to simple requests – overnight the check rather than regular mail. Get them to ACH so that once the check is cut, it is ours immediately? And we always look at options to grow back to their prior days-to-pay.

(GR): First of all, if you have a customer that notifies you of a change in terms, that is probably an easier customer to deal with than the customer who just slows down. But if a customer does notify us, I mean, John said it best, we always try to shorten pay days, move from check to ACH or electronic means of payment. We also then have discussions about their freight, as far as their lanes, and the freight we're handling. If we can get a commitment from them, if they notify us, they are looking to us to be a partner, or at least an important part of the distribution process which gives us a little bit of leverage.

(MG): I see. So handling it the right way can actually improve your relationship with the customer.

Listener: "One suggestion that Winston made was to slow down the speed with which I pay the carriers, which is probably going to affect my average-days-to-pay score. Since a lot of freight matching services display credit scores and days-to-pay scores to carriers, how will this impact my business? Should I be concerned about having lower scores than my competition?"

(GR): Being in the brokerage business, I'd say that our credit scores is one of our assets, so I would be very concerned about reducing days to pay if it impacted my credit score in any way because a reduced credit score may make increased turndown from carriers because they are scared of getting paid by you. I'd say that you should try to do everything possible to avoid having a reduced credit score.

(JM): I think the concern is 100% correct. We would be very concerned if there is any score erosion. Credit worthiness is really the underpinning of a good brokerage operation. It avoids turndowns, it strengthens relationship with carriers, and of course that personal guarantee that carriers who haul for us are going to get paid is a benchmark of how we operate. Our relationship with carriers' management is a very important one. Having worked in the carrier side, I know what it means when someone from the accounting department taps you on the shoulder and asks what is going on. We don't ever want that to happen. We're close to the carriers because their accounting department *isn't* coming down the hall and that gives dispatchers confidence to work with us. We have a core commitment to have lower scores or better scores than the competition and to be an asset to the carrier. Besides the rate, you have to put the money in their hands on time.

(WA): Greg and John are both right. That it is extremely important. All you have to do is work with the load boards for a while to find out how important the credit score is. One should always maintain the best credit score and days to pay rating as possible and you two gentlemen are doing a great job. Obviously we know that traffic lanes have a lot to do with how traffic moves. Having a slightly lower score than your competition doesn't necessarily reflect

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poorly. Example, a carrier looking at a 90 credit score and 35 days to pay versus a 100 and you will most likely not lose a load, but if you drop below 90, a lot of carriers will not handle. If you're a broker and you are having problems and are successful in negotiating an extended term from your carrier, if you provide proof of this to TransCredit, it won't reduce your credit score. Our computer module takes into account if you have agreement on record that you will pay in 60 days and it is agreed upon, we won't penalize anyone, but we need to know it about in advance.

Listener: "Is there a rule of thumb that I should be using to decide when I stop providing service to a shipper that is overdue?"

(WA): I think that is much too variable to have a set rule, and here is where that communication with that shipper is paramount. Greg and John both mentioned communication. Communication is one of those things I've really spoken to here. Know, to the best of your ability, what is going on that is causing the overdue situation. Be aware of how the shipper is paying other carriers besides you. But if the money gets beyond 60 days, though, you need to perhaps begin stepping down your exposure.

(SB): Well, from my perspective what you have to have is the tools in place to help you make those decisions. You have the policies set by management, the people who run these organizations like john and Greg, but what they have to have is the right information to make those decisions and the right tools in place to enforce those policies they make so you are going in with a non-emotional decision that says, "When we reach this kind of criteria, we've got evaluate whether to stop moving the freight from that particular customer."

The following are questions that came in during the Webinar that were not answered due to time expiring.

Question: How do you know if other carriers are being paid faster than you are?

(WA): This information is available from TransCredit. There are two avenues for accessing that data.

1) Order an online credit report. Cost $4.95-$7.50.
2) Credit scoring for all of your shippers. Cost based on number of shippers ranges from $29/mo for 50 shippers to $190/mo for 500 shippers.

(GR): Ask their Accounts Payable personnel if you are being paid the same, faster, slower than other carrier/brokers. Look at their credit report to give you a different look. If the credit report shows 65 days, and they are paying you in 15 days, this may be a good indicator.

(JM): We have only had this come up on a spotty basis and typically payables deterioration is already an issue. We do check in with other contacts in area A/R departments to clarify what we can. A site visit to the shipper or a call from senior management at Hybrid will allow for a direct conversation relative to pay and priorities. The account is likely on load by load review, so gathering other carriers info is somewhat a secondary effort.

Question: Why, what reasons, are shippers paying slower?

(WA): This normally occurs when a shipper is short on cash flow due to business losses or seasonal revenue slumps or directing funds elsewhere, i.e. expansion. This is a normal occurrence during good times, but is exacerbated during economic stress like the current recession.

(GR): The recession leading to lower cash reserves.

(JM): I'd echo both of the above answers. General economic and industry-specific issues.

Question: Is there an industry index for % of invoices that go to collection?

(WA): Typically 15% of invoices are paid beyond terms, with about 4% going to collection and 1% or less end up as uncollectible, i.e. "bad debt".

Question: As a fairly new Broker (2007), is there more of a chance that a shipper will take advantage of the pay terms, even when they have read and signed our payment terms?

(GR): Just because a shipper "signs" a piece of paper does not mean that they will do exactly as it states whether you are an established or new broker. It is incumbent on you to monitor and follow up (collections calls, etc.) with the customer on a regular basis. Sometime you have to remind a customer what they committed to. If all else fails and you cannot live with the situation, go find another customer.

(JM): I'd say that if the relationship is developed through a normal sales process and established standard operating practices are adopted by the "new broker," then there should be no tolerance for or tendency to be taken advantage of. As a long-time team member of brokerage operations, I am always suspect of a new shipper shifting an abnormally large volume to my operation. I translate that to them having tapped out other brokers, strung out their payables, and are now moving on to another broker or carrier.

(WA): I don't think that shippers would extend or abuse simply because the broker is new.

Question: What are you all seeing in terms of DSO year over year?

(WA): 5 to 7 days slower overall. This of course means many shippers are maintaining a prompt payment schedule and others are out 30 days or more.

(GR): For Smart Lines we had 33 days in 2008 33 days, and YTD 2009, 31 days.

(JM): As a result of our practices of aggressively managing our receivables, Hybrid has remained steady year over year.

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Question: Can you clarify who is providing accounts receivable insurance, and how it works?

(GR): A/R Insurance is literally insurance for your outstanding A/R. There are about 11 insurers in the United States. Euler Hermes is the largest and most active. I use an agency that specializes in A/R insurance.

(JM): We have discussed it with Euler Hermes as well. We evaluated the option and found that the only way to cost justify it is to include every account. One probably cannot segregate the marginal accounts for insurance because the premium would be a bit prohibitive. And again, if the brokerage has good controls, receivable insurance may or may not pay off over the long term.

Question: I have several customers that manufacture and distribute for very large corporations that pay the customers/shippers within 60-120 days. This causes quite a cash flow challenge. Do you recommend not working with these types of Shippers OR will the receivables eventually catch up?

(WA): How your shipper is paid by his customer should not relate if there is adequate cash flow in place. Outside of trucking many suppliers have contracts with 60, 90 or 120 day terms. This is a normal way of life for them; however if this is something new thrust upon your shipper by the economy then they will most likely pay you slower until they see relief in their bank account.

(GR): The receivables will never catch up unless the "customers" are SO profitable that the profit makes up the cash flow deficiency. Otherwise, you have to make up that difference yourself. I am sure you are painfully aware of this.

I have always thought that if a business cannot pay their bills timely then there is an inherent weakness in their business model. Is that the type of customer you want?

(JM): As Greg answered, they will likely never catch up. The decision to serve hinges on rates/profit margin to offset your own carrying costs to settle w/ carriers on your terms. Basic business models should be a guide of who to serve over the long term.

Question: Carriers create invoices and then don't mail them for up to 30 days. Therefore we are late on payment before we even receive the invoice. The carrier then produces a report via their PC that is given to companies like TransCredit to use to report credit scores. What is TransCredit doing to make sure the info they from carriers is not false info?

(WA): We have never worked with anyone that delays mailing of freight bills for 30 days; however there are lags of 2-5 days quite frequently. This is best handled on a case by case basis. If you are experiencing such a problem from any carrier our certified investigators will phone the carrier to confirm their billing procedures and adjust any scoring accordingly.

(GR): TransCredit can only report what information they are given. It is up to you to monitor this situation. If we receive invoices that have an invoice date thirty plus days prior to receipt in the mail, we CALL or E-MAIL the carrier. E-mail is preferable so we have a paper trail to refute the situation (data) if it is reported. The only other option you have is to pay the invoices immediately.

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(JM): I'd agree with Winston that a case-by-case approach tends to work best. We have found that carriers who have difficulty processing bills are rarely those that generate the reports. They have other internal issues to constantly battle. If we become aware that Hybrid has a negative on a credit site, we go to the carrier and supply our own data in an effort to clarify the issue and remove the negative.

Again, credit worthiness is the foundation of a brokerage's ability to build carrier relationships.

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