Stitch in time saves nine

Jo-Ann Stores says it has benefited from pre-payment audit system.

BY CHRIS DUPIN

Jo-Ann Stores is the largest specialty retailer of fabrics and one of the biggest sellers of craft items in the United States, with annual sales of over $2 billion in its fiscal year ending Jan. 29, 2011, but threading together what it actually cost to move its products from points around the world was once a tangle.

The retailer recently fixed this problem by implementing a pre-payment audit system that effectively removed any transportation billing confusion once associated with the manual process.

“Our freight payment department here pays at the container level, that’s how we’re billed. But then they allocate the freight down to the article level to get an accurate landed cost. We used to do that by hand,” said Bryan Schuster, manager of global logistics for Jo-Ann.

The company has more than 750 stores in 48 states that feature about 74,000 items. Schuster said the company directly imports about 5,000 40-foot containers of ocean freight annually, primarily from China, but also about 30 other countries including Turkey, India, Taiwan, Spain, Korea, Vietnam, and Pakistan. He figures the company buys another 30,000 to 35,000 containers from companies that have already imported product, and also acquires products from manufacturers in the United States, Mexico, or Canada.

For its ocean transportation, Jo-Ann ships with several carriers, namely Yang Ming, OOCL, Hyundai and “K” Line. It also does business with Toll Global Forwarding, a non-vessel-operating common carrier.

Schuster runs a lean, three-person department, and the company is assisted by Century Distribution Systems, a Richmond, Va.-based subsidiary of “K” Line, which acts as third-party logistics provider for Jo-Ann’s supply chain at origin and provides visibility of product until it reaches distribution centers in Hudson, Ohio (near Jo-Ann’s headquarters); Visalia, Calif.; and Opelika, Ala. Century is “our third party eyes and ears at origin in all the countries. They are our direct link. They have offices almost everywhere that we have business and if not they have at least agents,” he said.

In the midst of this activity, Schuster said getting accurate and detailed information about landed cost is critical for Jo-Ann’s buyers to make the best decisions about sourcing product. For example, it helps them determine whether to buy overseas or purchase from a company in the United States that has already imported product.

Several years ago, when Jo-Ann was considering Century as a logistics provider, it didn’t ask about freight audit. But Schuster said the 3PL had this tool developed by Acuitive Solutions of Charlotte, N.C. He noted that Century and Acuitive work so close together that “when we first signed on I actually thought Acuitive was a sister company, a division of Century. But I found out later that it is a third party they contract with that can do freight audit.”

Acuitive has offered a freight audit product since 2006 and has a number of different customers, said Phillip Marlowe, the company’s president.

While Acuitive works with other large shippers, including Home Depot and Van Heusen, Marlowe said “integration work that was done between us and Century not only facilitates a faster, cleaner audit process, it does something different for Jo-Ann Stores that nobody else gets.”

“We have a product called VMS (Visibility Management System) and that’s a supply chain management application that we use to manage our operations and we also give to our customers to help them manage their supply chains,” said Jim McCullen, vice president of informational systems at Century.

He said Century and Acuitive “saw a real need and value to be able to offer a combined solution or service where those products could manage the pre-audit of freight payment for our customers, but tie that all into VMS. As data is made available in our system we’re able to transmit it to Acuitive, have it validated against the ocean carrier’s data and then have payment information pushed back into VMS so our customers can then pay the carriers.”

McCullen said “much of the value we bring is our ability to customize our systems and adapt it to our customer supply chain.”

Generally, he said purchasing third-party products means the company wouldn’t have that same level of flexibility, but he said “if another product or service provider has an area of expertise that is unique that we can incorporate into our services we’ll consider it.”

Acuitive’s product was attractive both because of its expertise and “layer of confidentiality.”

“If you look at freight pay, many customers would be concerned about providing their contract details to their physical provider,” McCullen said. “Century is their consolidator and they might have a concern with us seeing all of their contract details.”

Partnering with Acuitive “kind of puts that in a black box. So we can offer this service to a customer but when it comes to their contract details, they’re interacting directly with Acuitive.”

Acuitive’s Marlowe said when most 3PLs handle a shipment, they turn it over to an ocean carrier, and “the 3PL is typically done and they don’t get involved from thereafter.
So if there is a diversion, or if there are mistakes that are found, or things change on the water, the 3PL never knows why.”

But in working with Century, he said “one of the pieces of this process is that as we are identifying issues, we electronically compare the manifest to the invoice. We find any container number discrepancy, we find any difference in quantities, any container size difference — we find that all electronically and Century can see it. They have access to the process and we can show them where all the discrepancies are. So they will, in turn, update the manifests even after it is out of their control.”

This creates, what he said, a “tight feedback loop so that all of that data that Jo-Ann Stores sees out of the process is all rock solid, absolutely perfect data, which helps their supply chain, their control over their business.”

Marlowe said the audit is also done “pre-payment and is very, very fair. It is open to the carrier to see. If the carrier under-bills, we tell them. If they overbill, we tell them. The objective of the audit is not to pay until everybody agrees that the invoice is correct.

“When we get the manifest, we match it to the invoice, validate it, we then have automatic rating processes that will rate it. (Freight bill rating is the process by which the actual charges are compared to the contract and adjusted for error.) If it is within tolerance that Jo-Ann approves, it will automatically approve and then go on to the payment scheduling.

“If it is not in tolerance, then it goes to a queue where my (Acuitive) team will then look at each and every invoice and determine what is wrong with it,” Marlowe said.

Marlowe has hired employees from the retailer and carrier industries who understand freight billing and can sniff out discrepancies and how they occurred, for instance because of an improperly applied fuel surcharge, security fee, or port charge like a fee for the Alameda corridor that leads out of the ports of Los Angeles and Long Beach even though the container moved through Tacoma, Wash.

Less than one quarter of 1 percent of freight bills need Jo-Ann Stores involvement.

Marlowe said the audit makes sure that a carrier is only being billed for its actual shipments, and charges have not already been paid, noting there may be multiple bills of lading per containers where charges are prorated across different bills. That happens because for custom clearance purposes, shippers don’t want to have different types of products on the same entry to reduce the risk of delay related to customs clearance.

But that practice “adds a twist of complexity to the audit and cost allocations because you have multiple bills. So our piece recognizes all this automatically and if it doesn’t validate, it is not automatically approvable and my team will figure out what is wrong.”

Marlowe further explained: “You can have multiple containers per bill of lading and sometimes you can have multiple bills of lading per container and sometimes you get both at the same time – where you have 15 containers covered by 20 bills and they are all interrelated and you have to find out if they are all interrelated before the shipment will balance. So to do proper cost accounting, you need to make sure every bill of lading is rated.”

Acuitive takes its direction from Jo-Ann on how to interpret their agreements, but the retailer uses Acuitive to manage all the rates and once the rates are in the system, and invoices arrive “we then know what rates and fees apply for any given day from any given location for any given move,” Marlowe said.

Treating under-billings and overbillings the same way builds trust with carriers, and Marlowe said he has found “carriers really like the process because it shows them their errors upfront… not just the overcharges and then they don’t have to do a lot of work to get it resolved. They just change it in their system and resend it and they get paid.”

The Acuitive audit is accessed using a Web-based portal that can be configured to each customer’s preferences.

Marlowe said the audit system can also help shippers obtain better contracts. They can report across different carriers, trade lanes and equipment. Some carriers will break out every charge, and others will include some charges.

“In our rate manager product it is our job to simplify that and give you the apple-to-apple comparison even when the rates are quoted very differently,” he said.

“We definitely feel we have built a better mousetrap and we have a number of patents pending on our process,” Marlowe said. “If we fix it before we pay it, it saves a whole lot of work for everybody, because paying it wrong is the worst thing you can do, because it is going to take nine to 15 months to get the money back into the right hands and everybody loses when it is paid wrong. I think people are just starting to pay attention to it, realizing there is an option.”

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