WHITE PAPER
BEST PRACTICES

PROOF OF DELIVERY
& FREIGHT CLAIMS

April 2022

ROBOTICS FOR POD

INTEGRATE WITH A/R

GET PAID FASTER

FREIGHT CLAIM BASICS

DON'T GET TIME-BARRED

ELIMINATE WRITE-OFFS

Table of Contents

A. Overview

Freight Claims represent a small percentage of revenues, yet in most cases enough to be a trackable revenue dilution, and a direct bottom-line loss if not managed properly. Most large corporations have professional traffic departments and some even have software to prevent losses. Many companies, however, are not able to dedicate the resources to do it properly. Here are some straightforward ideas to help with this.

Every dollar lost in transportation is a dollar of profit your company does not receive and, in some businesses, **annual losses due to transportation claims exceed bad-credit losses**.

Proof of delivery tracing and filing freight claims for the loss of a shipment, a carton shortage, or product damage doesn’t have to be a massive headache if you understand the process, follow a few rules and use automation. However, the technical claim filing requirements have not changed in decades, which need to be followed to avoid unnecessary losses.

Automation is used for simplifying and streamlining the process. Nevertheless, the arcane rules and technical requirements have not changed, so it is up to the Accounts Receivable and Transportation Managers to be ever-alert to be sure that PODs and freight claims are timely handled within the regulations and followed up appropriately.

B. Streamlined Processing is Needed

Delays are baked into the process from the beginning since proof of deliveries and freight claims generally start in Accounts Receivable, usually from an unpaid or short paid invoice. The success of freight claims filing and recovery is the result of fast teamwork and communication between the Accounts Receivable Department and the Traffic Department.

- The initial notice of a loss frequently is uncovered in the accounts receivable or collection department after the customer fails to pay an invoice.
- If the shipment was a non-critical, routine shipment, Traffic might not even hear about it until the collection department calls for payment 30, 60, or 90 days later.
- At that point, A/R will ask the Traffic Department to trace the shipment for proof of delivery with the carrier, which could take an additional 30 or more days.
- If the problem is a carton shortage or product damage, the first time the shipper may hear of it is when the customer takes a deduction from payment and after the deductions have been analyzed.

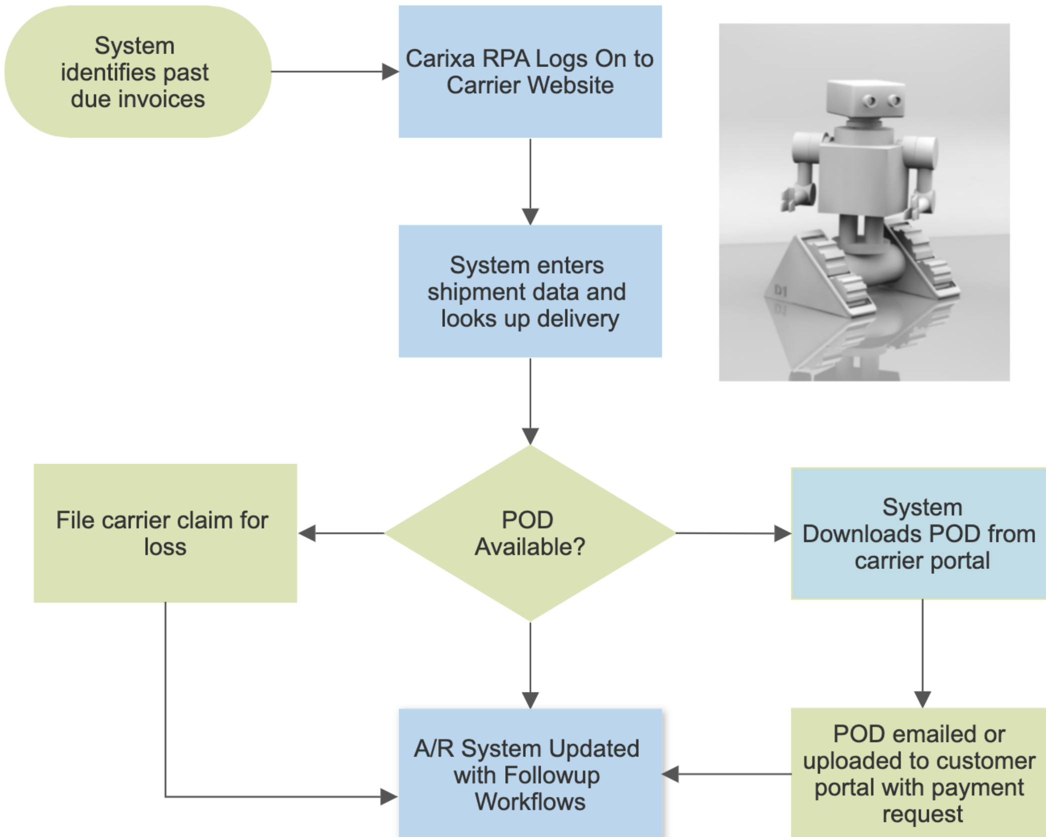
By the time the traffic department finds out and files the claim, months may have already elapsed, and critical documentation could be lost or misplaced (say, in the case of product damage). Consequently, it is critical that claims filing be done ASAP, always with an eye on the time bar date, so that the opportunity for recovery is not lost.

C. POD Robotics Automation is a Must-Have Solution

The shipment-tracing POD function and, to some degree, the filing of freight claims is more straightforward with the advent of carrier self-service portals. UPS and FedEx were early adopters of web-based self-service systems, standard with major trucking companies and railroads.

Keep in mind that a shipment Tracer is not a Claim. Even if the tracer states your intent to file a claim, you must file the Claim within the nine months allowed or lose your chance of recovery.
For example, Carixa's robotic process automation automatically logs onto the carrier portal. It downloads a POD when the system sees an invoice is past due more than a preset number of days.

Carixa Robotic Process Automation (RPA) for Autonomous Proofs of Delivery



Self-service web-based systems dramatically improved the speed of getting proof of delivery. However, unless you have Robotic Process Automation (RPA), it still requires humans to log on, look up the shipments, download the documents, and email them to the customers.

However, RPA has made the entire process potentially seamless, manual-free, and real-time. RPA replicates and automates all the manual steps needed to accomplish a function and then does it without human prompting. In the highly advanced Carixa accounts receivable system:

(i) The system identifies invoices as they go past the due date.

(ii) Automatically logs on to the various carrier systems.

(iii) Looks up and downloads proof of delivery for every invoice meeting the parameters you set (for example, problem customers, dollar amounts, or x days past due).

(iv) Sends an autonomous dunning e-mail to the customer with a copy of the invoice and POD.

(v) Appends the information to the A/R record for later follow-up.

Manual Tracing? You must file the tracer with the appropriate carrier department and then follow up so that you do not lose the opportunity to collect from either the customer or to file a freight claim within the regulated time parameters. Manual tracers should be followed up at 15-day intervals and, if you are not getting any answers, file an official claim. You have many more tracers than claims, so a systemized method of keeping track of tracers is important, even a spreadsheet if your A/R system does not handle it.

D. The "Contract of Carriage"

Bill of Lading

The Bill of Lading (along with the relevant carrier tariffs) is your contract unless you negotiated a separate carrier contract, which takes precedence. If you have a Carrier Contract, get familiar with the contract provisions, time limits, liability limits, and other conditions. We suggest you prepare a matrix of of carrier contacts, shipping terms, limits, and conditions to use as guidance in filing claims.

Valuation Limits

The carrier typically has liability for the value of the goods unless you have a limiting carrier agreement or a different value if specified on the Bill of Lading or limited by regulation (i.e., $25 per pound). If the shipper holds title until received by the consignee (FOB Destination), the value may be limited to the cost of goods. The sales invoice value will prevail if the title transfers when shipped (FOB Shipper's Warehouse). Always add the freight charges you have paid to the claim amount.

Cargo Insurance. Many companies also carry shippers' cargo insurance, which will generally require you to promptly give them notice of claims for your claim to be valid if the carrier does not pay.

Federal and State Regulations

There are Federal regulations governing freight claims for shipments in interstate commerce. Specifically, there is a 1907 statute called the "Carmack Amendment,"[1] which covers interstate

[1] According to the Carmack Amendment carriers are considered to be virtual insurers and are strictly liable for cargo claims. There are, however, five recognized exceptions or defenses: (1) an act of God, (2) an act of the public enemy, (3) an act of a public authority, (4) an act of the shipper, or (5) an inherent vice

shipments of all commodities except for farmers and some other categories. There are similar and possibly different rules for intrastate shipments covered by state laws. Here is a link to an excellent, detailed paper on Carmack for those that want the legalese.

Bankrupt Carriers You may have a claim against the carrier's insurance company. You may be able to get the interstate from the U.S Department of Transportation. Also, here are links to the state transportation departments.

Interstate or Intrastate

Interstate commerce is trade, traffic, or transportation crossing a state boundary. Either the vehicle, its passengers, or cargo must cross a State boundary, or there must be the intent to cross a state boundary to be considered interstate. Intrastate commerce is trade, traffic, or transportation within a single State.

International-Ocean

For international or ocean shipment, the claim process and liability may also be governed by international treaties, such as the Carriage of Goods by Sea Act (ocean shipments) or the Montreal Convention of 1999 (air shipments). The claim filing requirements are quite different from those discussed here, intended as a primer for interstate claim filing. If you are interested in international or ocean freight claims, you need to do more research. Exempt rail, international ocean, and air freight shipments may also have shorter time limits than shown below.

E. Time Bar For Claims and Lawsuits

In the U.S.A, common carrier rules allow nine (9) months from delivery to file a claim; if for non-delivery, nine months plus a reasonable time for delivery. The timely filing of a claim is a prerequisite for any later litigation, and if not filed within nine months, the claim is not longer valid. A carrier is not permitted to waive this condition.

If If you cannot amicably resolve a claim, you have two (2) years to file a lawsuit from the point of rejection by the carrier.

of the product. And, even if one or more of these factors might be present, the carrier must also show that it was free of negligence.

Some traffic is not subject to the Carmack Amendment, including "exempt" shipments such as fresh fruits and vegetables, intermodal shipments, etc., which could have shorter time limits.

For Canada, you have only 60 days from the delivery date to file a claim or nine months in case of non-delivery.

F. FOB Terms: Who Files the Claim?

The claimant (ideally) should be the company having title to the goods in transit, the entity assuming the risk of loss in transit, or an assignee of either. If the terms are FOB Destination, the shipper (consignor) retains the title until delivery, so the shipper files the claim. If the terms are FOB Origin, the consignee takes the title at the point of shipment and thus files the claim.

FOB Destination

- The shipper retains title and control of goods until they are delivered, at which point the contract of carriage is complete.
- The shipper selects the carrier and is responsible for the risk of transportation.
- The shipper is responsible for filing claims for loss or damage.

FOB Origin

- The consignee assumes title and control of the goods when the carrier signs the bill of lading.
- The consignee should pay for the goods as it has assumed transportation risk and is entitled to route the shipment.
- The consignee is responsible for filing claims for loss or damage.

In practice, whoever is out the money better file the claim quickly. If the customer has not paid the shipper, it behooves the shipper not to argue about the technicalities but to file a claim without delay. The carrier may ask for an indemnity bond if the party without legal title files the claim.

If there is more than one carrier, file the claim with either the originating or the delivering carrier. The originating carrier makes the most sense for most shippers.

G. Types of Claim Losses

Technology for container and LTL tracking has given the carriers better control. Yet, loss and damage are inevitable due to mistakes, mishandling, water damage, theft, etc. The responsibility for losses is generally with the Carriers. Still, the Shipper (or even the Consignee) can also be at fault depending on the type of loss and when it happened.

Responsibility for Loss

Loss or Carton Shortage	Concealed Shortages	Damages
• Carrier	• Shipper error • Customer error or pilferage • Carrier pilferage	• Ineffective Packing (Shipper) • Carrier Carelessness

Damage or Concealed Shortage. Damage or internal shortages can occur due to faulty panicking by the shipper or, most typically, in transit. You must keep the damaged goods (and cartons) for the carrier's inspection. Document the damage carefully, including taking pictures and statements from the persons who opened the cartons.

If the cartons were received open or re-taped, that is evidence that pilferage occurred when in the carrier's possession, but concealed shortages are always sticky. Just as with a damaged shipment, you must call the carrier immediately with the carton and contents retained for carrier inspection. See our separate white paper on Concealed Shortage Deductions.

Contamination. This could include pest infestation, water damage, or other causes. It also must be documented and available for carrier inspection.

Loss of Shipment or Carton Shortage. The first step will be to request proof of delivery and if none is produced (sometimes the consignee will receive and misplace a shipment), then file the claim for loss.

Mitigation of Losses. All parties involved have a legal obligation to mitigate the damages. Be sure to keep the damaged freight. Take pictures of the damage, but do not dispose of it (unless it is perishable), and keep the carton, too. The carrier has the right to inspect it, and they also have the right to salvage/resell the goods to mitigate their losses.

H. Filing and Managing Freight Claims

Time Bar for Recovery. If you cannot resolve the claim amicably, you have two years from the date the claim is denied by the carrier in order to file a lawsuit. You must abide by these time limits or lose your right to collect. If you can not prove you filed the claim within nine months, you have no recourse. Number the claims sequentially and record and track them through resolution.

Tracking. If you do not have many tracers or claims to manage, an Excel spreadsheet or even a manual ring binder-ledger may be all you need. If you are a high-volume shipper, you should be using software to prepare and track freight claims. The point is to know which were acknowledged, what the timing is, and the status throughout the tracer and claim lifecycle. You can find specialized freight claim management software solutions online if your accounts receivable system cannot handle it.

Important claim follow-up milestones include.

- Claim Filing date must be within nine months of shipping or be rejected.
- Acknowledged date (wait no more than 30 days).
- Make sure you get updates at least every 60 days.

Claims Must Be in Writing. A freight claim must be in writing and can be transmitted by online entry, EDI, email attachment (you better check to see if they accept this format), or USPS, according to the practice between you and the carrier. You need to make sure you receive an acknowledgment that the claim was received.

Most large carriers today allow you to file your claim and track your portfolio of claims on their website. You must upload the mandatory documentation for the claim to be considered.

When filing claims manually, you do not need to use a specific format, but having a standard claim form is easier and lends structure to the process. Here's a link to a standard claims format. If you are a high-volume shipper, a template can be included in your accounts receivable software.

Elements of Claim. The elements of a claim are the same regardless of how you file.

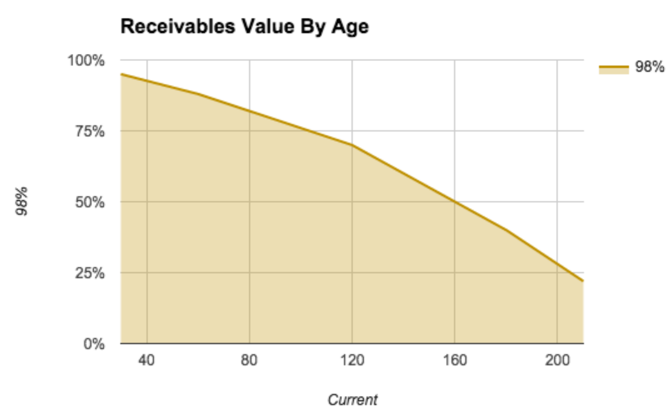
1. The claim must state that you are demanding payment for the loss. It is not enough to just advise them of the loss, and a tracer does not count.
2. You need to identify the shipment and include pro or waybill numbers.
3. File the claim with the carrier's corporate claim department, not a local terminal, and follow up for an acknowledgment.
4. The nature and quantity of loss must be explained. In case of damage, file for the total cost of the goods. This loss can be reduced later with mitigation measures or salvage. Claim the total amount if you do not know the salvage value.
5. You are not permitted to profit from a claim. That is, you may not receive more than your actual loss.
6. You must pay the freight bill and always add that amount to the claim total.
7. Documents to include with your freight claim.
    a. Paid freight bill.
    b. Original Bill of Lading
    c. Delivery Receipt (if Damage or Shortage)
    d. Inspection Report if damage or concealed shortage
    e. Related supporting documents
    f. An invoice copy showing value
    g. Pictures (in case of damage or concealed shortages)
    h. Loading/unloading information, inspection reports, etc.

I. Cloud Automation for Managing Accounts Receivable, Tracers, and Claims

With advanced cloud end-to-end order to cash software, like Carixa, you can automate and manage the filing and resolution of tracers and claims for a faster process and a better result. The typical features of these systems will enable you to.

1. Enter data just once.
2. Enable collaboration with accounts receivable.
3. Transition from a tracer to a claim without redundant entry.
4. Incorporate needed documents with claims.
5. Follow-up with predictive workflow, never missing a tickler or time-bar date.
6. Send follow-up communications automatically (email, Letter, etc.).
7. Interact with carriers by EDI.
8. Escalate collection follow-up to a higher authority.
9. Automatically generate carrier and root-cause reporting.
10. Integrate with your accounting systems.

J. Claims Collection Escalation



It is a cliche but true. The value of any receivables plummets after 90 days, whether by turning into a dispute or uncollectible bad debt. This is even more so with freight claims because they start "old," so prompt action is needed..

When you are not making progress, escalate the matter to your manager or carrier sales department rather than continuing a fruitless pursuit. Each case will have its solution, depending on the size, importance of the account, and the circumstances.

- This can be your manager or your CFO if it is a lot of money.
- If you are an important customer, a word to the carrier's sales department may produce action.
- Lastly, your attorney can threaten action if a resolution is not forthcoming.
- If you have cargo insurance, you can pass it off to them, but only after you have exhausted efforts with the carrier directly.

K. Loss Prevention

If top management understood the profit dilution from shortage and damage claims, they would insist on tracking, reporting, and fixing the problems. You can get ahead of this by implementing Systems to track these regular occurrences, implement fixes, and keep the carriers on their toes. The cause of a damage claim could be, for example, poor packing materials or carton engineering. You need to get to the root causes of shipping problems to eliminate them at the source; otherwise, they will continue to dilute company profits.

This means you need to keep track of the reasons or circumstances under which freight claims occur, thus developing actionable information to solve root causes. Carton shortages or shipment losses are carrier problems, and you should compare carrier performance in this respect. Many damage claims can be attributable to shipper practices that you can identify and correct.

Example Simple Tracking For Root Causes

Claim	Date	Prod. if D	D/L/S	Value	Warehouse #	Carrier	Cause if Known (Explain)
#							
#							
#							

D/L/S - Damage/Loss/ Shortage

L. Conclusion

The function of managing freight claims and tracers is important and deserves more attention than it receives. Sometimes, failures in this area end up as write-offs of accounts receivable, which, when combined with other write-offs creates just another cost-of-business line item. It need not be so.

By adopting a more controlled and systematic approach to this age-old problem, you can eliminate write-offs and collections accelerated. Other corporate operations are engineered and automated to deliver the objective needed by the company; to a large extent, this has not yet happened with freight claims.

With a carefully thought-out strategy, state-of-the-art technology, process, and training, it is possible to make *dramatic* improvements in cash acceleration, with commensurate benefits of fewer losses for claims, disputes, and write-offs. **End**

About the authors: This paper is by the Revenue Cycle Consultants at Smyyth. Carixa by Smyyth provides world-class, modular Order-to-Cash SaaS Technology (Carixa) and Managed Services, to enable companies to attain extraordinary cash flow and profits using best practices for management of credit, accounts receivable, and collections, deductions, disputes, and cash application. We would be delighted to hear from you. info@smyyth.com
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