



## PAYMENT TERMS PENDULUM SWINGS AGAIN

In a pre-deregulation environment, payment terms were mandated by federal government regulation. Motor carriers were required to collect payments for the freight they hauled within 7 days. This was a time when rates were standardized and all shippers paid the same price to move their goods over the same lanes for the same commodities. These regulations were put in place to eliminate the potential for competitive advantage that large shippers could have gained over small shippers. In the days of the robber barons, anticompetitive actions were commonly used to drive other competitors out of business.

In the post 1980 environment payment terms can be negotiated. Shippers have traditionally agreed with carriers for payment terms to range between 30 and 60 days. However, during the financial crisis, with demand for trucks declining, the finance teams in many organizations began to mandate extended credit terms. These extended terms could reach out from 60 to 90 days. Those were the negotiated terms and in some cases shippers would often



make their payments beyond the negotiated terms. This was a great way for the shippers finance team to improve cash flow at the expense of the carriers. Carriers in need of loads began to accept these terms, many times factoring their receivables thus further eroding the carrier's margins.

The pendulum has swung again. With the growing demand for trucks at times outstripping availability, carriers are looking for shippers who are credit friendly. This does not always mean reduced credit terms. What it does mean is that carriers will be paid within agreed upon

credit terms. The implications have become clear. If you want competitive rates, if you want to have your requests for a truck responded to in a timely manner, then you need to pay your carriers on time. Where shippers have outsourced their payment processing they need to police their freight payment vendor to ensure that payments are scheduled to be made within credit terms and funds are consistently released to ensure payments are made as agreed.

In an article in the Wall Street Journal this week entitled E-Commerce Spurs Push for Speedier Shipping Payments <https://www.wsj.com/articles/e-commerce-spurs-push-for-speedier-shipping-payments-1520974794> the Journal re-enforces the need for prompt payment.

*At Data2Logistics we welcome the opportunity to review marketplace conditions and considerations if you are looking to improve your carrier relationships and better control your transportation expense. Please contact Leif Holm-Andersen, +1- 239-425-8003 or [leif.holm-andersen@Data2Logistics.com](mailto:leif.holm-andersen@Data2Logistics.com) to learn more about our Professional Services.*