Search turns from El Dorado to logistics.com

According to AMR Research, the demand for supply-chain software reached $2.6 billion last year. This market has been increasing at a torrid pace. Growth of 1996 over 1997 was 46%, and 1997 grew 56% over 1996. And AMR believes that the market may be, in fact, even larger because its market assessment excludes supply-chain solutions provided by enterprise resource planning (ERP) software companies.

ERP software is the essential core of information technology for many companies. Many of these systems were installed as "big-bang" solutions to Year 2000 compliance — companies relinquished their individual business processes to predetermined methodologies developed by vendors such as SAP and PeopleSoft.

Nevertheless, these systems now enable companies to view their go-to-market strategy. As a result, companies have begun to see their supply-chain logistics as a means to improve profitability and increase shareholder value. Viewing the supply chain as a profit center to be maximized has replaced the traditional notion of transportation as a cost center to be minimized.

Despite their intricate natures, ERP systems are still incomplete. And consequently a plethora of companies sell related software tools. One of the largest markets has been for planning support. There were any number of planning needs: forecasting demand, forecasting supply, scheduling manufacturing and determining distribution.

Companies developing planning software have become well known in the industry. Traditional leader Manugistics Inc. has seen its market share shrink and its industry leadership overtaken by 2 Technologies. These two companies are estimated to control more than half the market — estimated in excess of $1 billion annually in sales.

Software supporting supply-chain execution represents another emerging market. This includes software to help manage items such as warehouse operations, purchased transportation, inventory control, order placement and fulfillment and international trade. AMR Research considers this market to be much more fragmented.

Focus now is on the Internet, where we see the growth of a new type of software provider. Application software providers (ASPs) allow their software to be Web-enabled. Rather than being installed at the customer's site, the software resides on the ASP's server, and customers access the application through a Web browser. Payment can be made per-transaction or by monthly subscription.

These applications are a natural outgrowth of information technology outsourcing. However, whereas outsourcing is the hiring of an external organization to handle, internal applications, ASPs eliminate the internal infrastructure demand almost entirely. There is no up-front investment in hardware, development expense or need to hire consultants.

It cannot be coincidence that ASPs have come in the wake of many failed information technology initiatives. Companies can limit their exposure to business risks such as budget overruns and the risk that the business can outgrow the system. Software application upgrades are the responsibility of the ASP — the user no longer worries about continual upgrades. Perhaps most significant, using an ASP may help companies implement an application in months, not years.

The business benefit: such timeliness and reduced expense is inarguable. There are many opportunities for ASPs that provide transportation solutions to shippers, shippers, equipment owners and carriers. Tracking and tracing is a function where an ASP could provide improved functionality over today's disparate information sources. This is especially true for movements not managed by a third-party logistics provider.

Some startup businesses seek to develop the end-all logistics application on the Web. This merely represents the latest in a series of Internet-related booms. In the past several months, there has been a rush of new products. Some come from new companies, others are the result of businesses scurrying to develop new products to replace the loss of others.

The pressing question is whether pure Internet providers of logistical information will survive. The situation does present problems. Logistics ASPs don't do anything but supply information, for which they seek transaction reimbursement.

Internet providers of information, charging for information, compete against logistics providers that charge for supply-chain solutions — and give the information to the customer "for free." Here, the logistics company makes its money on the true service.

The competition to provide information will become even more fierce as third-party logistics providers, which manage individual supply chains, seek to protect their markets from lead logistics providers, which seek to sell software expertise and other management skills.

While there are probably markets for transportation ASPs, the outlook for logistics ASPs is not as bright. This view was recently confirmed by one of Cisco's logistical leaders, who, at a recent conference, observed that his company would not wish to engage a company that provided information alone. Cisco looked to its logistics provider to include information with the underlying service.

In the meantime, the search for El Dorado has been replaced with the search for the next Internet wealth generator. We will see if that is to be logistics.com.

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