Transportation and the e-commerce enigma

There is a great deal of speculation about what the advent of the Internet and e-commerce means to the transportation and logistics industry.

Many companies are emerging from a self-induced hibernation, having frozen new initiatives pending resolution of Year 2000 compliance. Enterprise resource planning systems that were installed at astronomical expense are now being studied for return on investment.

Meanwhile, some businesses have embarked upon further investment, using their enterprise resource planning system as a platform for development. They are looking at sophisticated software to optimize their supply-chain management and generate immediate financial benefits.

And suddenly we are hearing about customer-relationship management software, which seeks to maximize the revenue and profit realized from customers.

Both of these software developments are directly tied to the biggest change of all — the rapid growth of business-to-business e-commerce. Not only does information move in Internet time, but goods and service must keep up, too.

Especially noteworthy has been the proliferation of “dot-com” companies seeking to provide the means of buying and selling transportation and logistics.

Smart transportation businesses have embraced the opportunities inherent in such a market. Some have even tried to become e-commerce suppliers themselves. But many carriers are simply cowering in fear that the technology will cause further depression of rate levels.

This fear just shows how much the world has passed them by. In today’s transportation market — as in all markets — the determination of rate levels is not so much e-commerce, but basic microeconomics — if supply exceeds demand, the price will fall.

E-commerce sites will not cause rates to fall further than they would. However, e-commerce sites may cause rates to fall faster, because better communication and information in the marketplace will allow prices to achieve market equilibrium more quickly.

E-commerce penetration can be determined by market aggregation and intermediation. A market with a few major carriers — for example, six major railroads — will be harder to penetrate than one with numerous carriers, for example, 50,000 interstate truckers.

Transportation markets with well-established transport intermediaries (in other words, consumer products) have an easier time adopting e-commerce solutions than those that do not traditionally rely on intermediaries (for example, domestic bulk commodities).

Shippers must consider their supply-and-demand options carefully. As any trader knows, a bad forecast about market conditions can have catastrophic results. Third-party logistics companies and other intermediaries must make these decisions on two levels, because they both buy and sell transportation.

The advent of e-commerce suggests a range of possible outcomes. Rather than risking getting caught with capacity that must be sold at steep discounts, carriers may seek contracts for large cargo commitments with 3PLs.

These rates may be lower than those for some cargo, but the results are better than being leveraged online. Such action requires fewer employees, and less time and information technology.

Ironically, although many business-to-business sites claim to eliminate the need for intermediaries, many seem to be becoming them. Sites claiming to embrace intermediaries risk becoming trivial as the intermediary, with its existing customer base, lowers the site’s price by leveraging it against other sites.

The long-term possibilities of developing a true transportation commodity exchange are intriguing, and we may see further movement in that direction.

The natural gas and electricity industries (which, like transportation carriers are also asset-based, network-operating companies) are seeing the development of commodity exchanges as their industries divide between providers and marketers. Transportation could go the same way.

Three questions come to mind:

First, can e-commerce stop the seemingly inevitable march to carrier consolidation? E-commerce gives carriers the ability to unite in seamless alliances without the need to actually merge. Perhaps smaller — and smarter — carriers will unite to form virtual mega-carriers.

Second, will e-commerce enhance operational efficiency and customer service, either for individual carriers or for entire industry segments? Such a role means sacrificing several well-established practices. Traditional competitors may discover significant mutual benefits if they can overcome beliefs mired in the past.

Third, will a “shopping bot” Net service develop for buyers and sellers to shop across multiple transportation exchanges? In effect, this would be the intermediary’s intermediary. Such an innovation will greatly reduce the value of individual exchanges, yet greatly improve the viability of business-to-business transportation purchasing.

Information is a critical component of the supply chain, and it will continue to drive change in the transportation and logistics markets. E-commerce will play a major role in this transition.

The e-commerce world now resembles the software world, and the inevitable market shakeout awaits. Once, the big payoff was an initial public offering. That goal has been replaced by the big buyout.

The number of transportation and logistics e-commerce products is proliferating rapidly. Despite their success in attracting venture capital, most will succumb to the handful of survivors, which will themselves most likely be absorbed.

But look for the market impact to be significant.

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