E-commerce’s dark side

Reports of the impact of e-commerce permeate the media. Forecasts about the ultimate size of the market and the software opportunities to improve your supply chain abound. In fact, the “push” of the supply chain is being replaced by the “pull” of the demand chain, and all of this frantic activity is being driven by the rapid growth of the Internet.

Transportation is affected like any other industry. Well over 100 startup companies, including software providers, bulletin boards and vertical exchanges, have commenced operations in the last 18 months. As in other areas of the economy, transportation vertical exchanges seek to buy and/or sell services.

Such exchanges claim to improve competition and provide economic benefits to both buyers and sellers. But there also exists a potential downside. Technology providers in markets with multiple buyers and sellers developed the initial exchanges to take advantage of market forces. Over time, industry competitors began to form their own exchanges. Perhaps the primary force was so that the industry participants — instead of a third party — would retain the exchange’s financial benefits.

Some harbor darker suspicions. Many industry vendors feel that the outsourcing and downsizing trends of the last decade have made purchasing departments lose control of the markets they manage. A good purchasing agent once understood the cost components of his vendors and sub-vendors. This, in turn, enabled him to negotiate effectively. One way to regain such lost expertise is to operate an exchange that would trace the chain of expense all the way back to the original raw materials.

One of the largest vertical exchanges, now called Covisint, comprises General Motors, Ford, Daimler-Chrysler and Renault/Nissan. Covisint seeks to manage the purchasing requirements of the automakers, as well as their suppliers and sub-suppliers. Other manufacturers have also expressed interest in joining. But this exchange has already been scrutinized by Federal Trade Commission, which fears that large buyers may gang up on small providers. The FTC, recognizing the rush to these exchanges, has expressed a desire to establish valid rules.

Under what conditions will other industry players be allowed to join an exchange once it is established? How will the original partners prove that they don’t unfairly exclude competitors? This question is the type that could plague Transplace.com, which was recently set up by six truckload carriers as a common exchange.

And what range of services and prices will exchanges offer? Traditional intermediaries fear that underlying carriers will try to use exchanges to “dis-intermediate” them from the market. And many wonder how discounted services will be offered. Will they be yet another attempt to exclude intermediaries — and could these exchanges be used to signal price action to allow collusion? (The airlines settled a similar charge in the early 1990s.)

The airline industry serves as an interesting example. Twenty years ago Sabre was accused of predatory activity benefiting its corporate parent, American Airlines. Sabre was used to forge links with travel agents. So were other airline-developed systems, such as Apollo. But over time, airlines lowered the commissions paid to agents. Lately, airlines started competing with the new “infomediaries” such as Travelocity (the spun-off version of Sabre) and a group of airlines just created Orbitz.com, a website that will exclusively offer discounted fares.

The monitoring of performance, a legitimate way for exchanges to guarantee that only qualified carriers participate, presents yet another challenge. It is a delicate issue as performance monitoring can turn into blacklisting, a violation of antitrust laws.

But even if all antitrust issues are resolved, basic business problems exist.

Fraud is becoming a major concern for online auctions. Several well-publicized cases involving eBay have recently headed the news. Some cases involve misrepresenting items sold. In other cases, the seller never delivered the sold goods. Both scenarios are easily envisioned with online transportation exchanges.

Security is also a problem. Some worry about vulnerability to hackers. If an operation relies on the exchange, what does one do if the exchange is not working? And the amount of information retained is so great that an exchange represents a guided tour of what — and where — to steal. Cargo security is already a major industry problem. Will exchanges make it a larger one?

And above all hangs the Sword of Damocles — liability. The usual practice is to sue everyone — no matter how peripherally involved — when something goes wrong. The exchange with the bad luck to be involved in a transaction involving a hijacked load or hazardous material spill may well be in the law textbooks for the next generation.

Technology is no replacement for management or governance. Although e-commerce is a fact of economic life, the finer details must still be worked out.

Ted Prince is a principal with Transgistics LLC in Richmond and a former chief operating officer for "K" Line America Inc. He can be reached at ted.prince@transgistics.com.