Whose data is it anyway?

In a recent discussion with a senior executive of an asset-based transportation company, talk turned to an investment the company had made in a transportation management e-commerce startup. I was surprised to learn he had adamantly opposed participation in the venture, reasoning that his company would be "giving away" its data for free. In fact, many transportation carriers — for a variety of reasons — agree.

Transportation providers are asset-based, network operating companies. Traditional management thinking has focused on two areas of business: increasing traffic volume and reducing expense. The gap created when carriers failed to provide what customers required has come to represent opportunities for new companies.

Intermediaries abound in the transportation industry. Intermodal marketing companies (IMCs) and non-vessel operating common carriers (NVOCCs) have successful sold the asset-providers on a volume growth and cost reduction strategy. In return for lower rates, these companies have served as the direct sales force for the carrier. They have also provided door-to-door service that the carrier was unwilling or unable to deliver. In many cases, intermediaries relied on their arbitrage skills to maximize the difference between what they paid for the underlying service and what they charged for it. In other cases, such as freight forwarding, the carrier would pay a pre-established commission.

Many such companies moved into third party logistics (3PLs) where they could leverage their information technology. While many carriers are still looking for computer system quick fixes and panaceas, systems available to intermediaries allow them to satisfy increasingly sophisticated customer requirements. In fact, some customers believe that intermediaries can provide better service than the underlying carriers. This is due, in large part, to their system’s expertise and the support available for customer service.

Development of electronic data interchange (EDI) in the late 1980s increased information demands. Some companies evolved to specialize in supporting technology requirements. Many companies developed fabulously successful business models. (I know of one that made 90 cents profit out of every $1 in revenue.) Out of this environment, have evolved "infomediaries" — information intermediaries specializing in information and knowledge services for, about and on behalf of a virtual community. John Hagel is believed to have first used the term in a 1996 Harvard Business Review article entitled "The Coming Battle for Customer Information."
Many transportation carriers have professed a desire to retain this new source of profitability internally — rather than create a new generation of external millionaires. Established businesses are concerned about how infomediaries will develop. Typically, as e-commerce develops, the infomediary moves beyond simply providing information. It becomes a business matchmaker, helping vendors identify products consumers want, and helping customers leverage their vendors. Hagel asserts that infomediaries will become the agents, brokers and custodians of customer information and, that they will market this information while maintaining the customer’s privacy.

Hagle also predicts that as consumers take ownership of their own transactional data, they will create a new form of information supply which will have its own economic value — and will, consequently, change business practices.

Over the past 20 years, value-added networks (VANs) were developed to provide EDI services. While the business models vary, VANs all ultimately charge a certain amount per character transmitted. Payment responsibility for these charges is often negotiated between customer and carrier. In many cases, it is split. The VAN added value by serving as a communications hub and providing additional services (e.g., data translation) at a cost lower than the carrier could provide on its own.

Meanwhile, increasing demand exists for shipment and equipment tracking. Here, the railroads are noteworthy because they provide free car location messages (CLMs) to VANs — who in turn charge the railroads’ customers.

VANs are somewhat endangered because carriers and customers have tired of paying for a service which can now be performed for the cost of communications alone. Additionally, the communication alternatives available through the Internet have drastically reduced cost and operational barriers, while consolidation of carriers and customers has reduced the number of links necessary.

Some infomediaries are entering the transportation market to provide tracking visibility. Their business models vary. Some, to grow critical mass, have not yet started charging users. Since carriers will provide data “almost for free” using the Internet, infomediaries have been able to obtain initial carrier participation. The challenge will be to get the market to start paying for what has been free. Advertising alone will not generate sufficient revenues by itself.

Other infomediaries have pursued a strategy of signing up shippers to use their services. Their revenue model is fed by the shipper’s carriers paying for the privilege of providing information to an aggregator. Many of these companies have well-oiled publicity machines which proclaim their product benefits using terms such as logistics improvement, supply chain visibility, collaborative planning and the like.

The e-commerce market was first characterized by the transition from EDI to exchanges which were run by technology providers. These first movers had an initial advantage, but as the technology became more mainstream, industry participants starting forming consortia to operate their own exchanges and portals. Six leading carriers in the truckload industry formed Transplace.com. Railroads established Steelroads.com, and ocean shipping has two efforts: Inttra and Global Trading Network.
All of these efforts share a common theme. They all seek to maintain their direct relationships with their customers — without intervention of infomediaries. They also appear to believe they themselves can provide all necessary services at a lower transaction expense. Perhaps most significant, the data will not be handled and remarketed by another entity.

The transportation industry’s traditional aversion to handling data may at last be changing into an understanding that information is considered a key component of services provided. Since the raw transaction data is the source material, the industry is motivated to keep the information to itself and for its customers. Now what remains to be seen is whether transportation companies will start charging infomediaries for the use of the data being provided them.

*Theodore Prince, a principal in Transgistics LLC based in Richmond, Va., has spent his career in the surface transportation industry.*