Y2K’s Last Laugh

Only two years ago we were all practically paralyzed with worry over Year 2000. Dr. Edward Yardeni, a leading Wall Street economist, was forecasting a Y2K recession. He believed there was a 40- to 60-percent chance of a global recession arising from Year 2000 problems. This would have been the most significant global economic jolt since the 1973-74 global recession created by the OPEC oil price changes.

As we now know, there were no Y2K disasters. The odd problems were mostly embarrassing. And while nobody knows how much was spent by companies working to avoid Y2K problems, worldwide estimates seem to hover around $600 billion. Reviewing the whole phenomenon, it seems possible that the recession occurred after all — just later.

Necessary Y2K compliance forced senior management finally to confront technology issues facing their organizations. The need to become Y2K compliant provided incentive to discard old, obsolete and barely functional applications. Many companies finally gave up “throwing good money after bad” to support outdated legacy systems, and replaced them altogether.

This trend resulted in two major developments. First, many companies installed enterprise resource planning (ERP) systems to replace internal systems that were not Y2K compliant. With these systems, supply chain management became firmly established. Second, many companies installed systems — and networks — which relied heavily on Internet technology. This connectivity enabled companies to enter the world of electronic commerce.

Into this potential technical maelstrom rode the Federal Reserve System, led by Chairman Alan Greenspan. The Fed was also concerned about the possible economic impact of Y2K. At the August 1999 Federal Open Market Committee, the Fed took actions intended to alleviate any year-end liquidity problems. The actions were successful. The economy continued to prosper, the stock market surged, and Y2K proved to be a non-event.

Perhaps this is where and when the law of unintended consequences intervened. With the industrial world suddenly Internet-capable, the concept of the new economy came into vogue. The attendant productivity that the Internet and related developments could deliver would render prior doctrine obsolete. Industry leaders even began referring to the demise of the traditional business cycle.

At the same time, with a liquid, prosperous economy, venture capital (VC) funds experienced a dramatic influx of money. Investors wanted to reap the benefits of startup companies which promised to be Internet successes. The intensity of investment desire only increased as early companies saw their initial public offerings reach stratospheric valuations. Bricks were out — clicks were in.

The VCs soon found themselves in a quandary. They had enormous funds to invest and entrepreneurs that were in a hurry. “Drive-by” due diligence was not uncommon. Business plans that would have been dismissed months before (and later) suddenly garnered large investments after only several hours of meetings. VCs were willing to make bad investments simply to avoid missing a good one.

Today the world has changed. The “dot-bomb” has become passé. Companies such as WebVan and MarchFirst were able to go through billions of dollars on their way to oblivion. Many smaller companies suffered similar fates. Cisco Systems was unable to live up to the hype surrounding its market forecasting and was forced to write off billions of dollars in inventory. The new business cycle is characterized by a lack of inflation and by business over-investment. Once Y2K replacement occurred, the need for new hardware tailed off.

Despite a great amount of press and investment, there have not been many success stories in the field of transportation and logistics. The three reasons for this might be: poor product, poor execution and poor financing.

Many of the initial e-commerce ideas were exchanges. Industry wisdom seemed to indicate that exchanges would offer customers an opportunity to conduct reverse auctions to lower the cost of purchased transportation. There were probably close to 100 exchanges in trucking. And all were rushing to be the first to market.

Today, public exchanges have been discredited. Exchange advocates failed to consider that transportation service is not as fungible as buying rock salt and that relationships still matter in this industry. Carriers want to know their customers, to ensure that they will be paid promptly — and without frivolous claims being lodged. Customers want to know that carriers are reputable and their freight will arrive intact and on time. For that reason, we have seen the rise of the private exchange, which seeks collaboration between existing trading partners.

Many people initially running transportation startups have had no experience running a transportation company — or any other company. Academic credentials, no matter how impressive, were no substitute for practical knowledge. Amidst this unstable environment, profligate spending was commonplace.

The most significant problem caused by management of these newer companies was the lack of understanding of the culture of the industry. Transportation people have always distrusted software sales, yet many startups continued the practice of promising impossible results from vaporware — software which didn’t exist. When big promises and larger publicity failed to match the product, industry personnel turned their backs. This may have been a case of the blind leading the blind — novice CEOs relying on novice consulting companies.

Poor financing is the result which now plagues the industry. VCs have reversed their risk profile: they may reject good ideas to avoid investing in bad ones. Many VCs have found their source of funds depleted from the overall market swoon. (It is estimated that paper losses are upwards of $5 trillion.) Others have had to support subsequent financing rounds with their existing portfolio of companies because new investment sources were not available. Transportation e-commerce investment is further hampered because it is often difficult to understand, and VCs are often reluctant to stray from known territory.

Eventually, the pendulum will settle. Easy money was always an illusion. Attracting financial investors to transportation has always been difficult. The most likely source of investment is now strategic — from industry participants who recognize the immediate opportunity and have lower investment return thresholds. Over the next several years we should look for the transportation e-commerce opportunities that offer industry standardization, process improvement and increased customer satisfaction. These will be the survivors and leaders for the next wave of change.