

## What Doesn't Kill You Makes You Stronger.

By Jim Davidson, President,  
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*"Faster, better, cheaper" has been the battle cry since the dawn of industry and commerce. However, after we have "maxed out" plain old blood, sweat and tears as a means to setting a new pace for business, we once again turn to technology.*

The fundamental principles of commerce really haven't changed over the centuries. After all, buying and selling products and services and negotiating terms is a pretty simple concept to grasp. 800 years ago, Marco Polo had a pretty good thing going when he was the only supplier of silk in Venice. However, when another clever ship captain added an extra sail for speed and "down-sized" his crew by a couple of sailors to cut cost ... the competition heated up. As a buyer, competitive pressure pushes your suppliers to sharpen their pencils and dig a little deeper in the innovation basket. As a supplier, competition forces us to trim waste and think creatively. Healthy competition is good for everyone. However, when we reach that inevitable day of reckoning when we've collectively trimmed the process to the bone ... then what? You probably heard the story a few years ago about a farmer who won \$2 million in a lottery and was asked by the weekly newspaper what he planned on doing with his new wealth. His response ... "Oh, I guess we'll just keep farming 'til it's all gone."

A new lexicon has added sophistication in defining transportation and distribution in recent years. A term like supply chain management hints at the hidden intricacies of our industry. However, there is still an underlying simplicity to the mindset that continues to drive much of our business. When it comes to transportation particularly, the question is still "when can you get it there and how much will it cost?" However, that tends to ignore the complexity of the supply chain in general and the value suppliers can bring to a business relationship based on service at a fair market price. It is with that thought in mind that I'd like to make a few observations about an intense, exciting and stressful phenomenon that our company participated in this year ... a multi-million dollar, live Internet auction for transportation services conducted for a major global manufacturer.

From a buyers' point of view, there are serious advantages that make the process extremely attractive. In fact one US analyst told a journalist the Internet made procurement "sexy". And there is probably some truth to that notion. The business media will report *on* major "sales" but not a lot of buyers make the headlines of the Wall Street Journal for an astute purchase. However Internet auctions, have certainly received their fair share of press recently. The proposition of cutting time, labor and cost out of the conventional tendering process ... attracting a wider range of suppliers to bid ... and ultimately the hope of reaping major savings on the purchase of goods, has earned on-line auctions significant publicity.

This past summer our company, iWheels Dedicated Logistics, participated in a two month, marathon, on-line, real time auction with one of the world's largest manufacturers. In retrospect, we learned some things about ourselves and about the process. This is not a critique on the idea of on-line auctions. The process has been touted as offering distinct advantages for buyers and in this case, there were undoubtedly cost savings over-all for the buyer. For the vendors however, it represented a significant risk. Over the long haul, it remains to be seen whether it is in the best interest of the stability of the economic infrastructure of North America's transportation industry. In this issue of LQ, I would like to share the experience from a bidders perspective for the benefit of other service providers ... and for the insight of buyers if they're interested.

First of all, the process does not start on the first day of the auction. In the case of iWheels Dedicated Logistics it started weeks in advance. By the very nature of our management style we are an information and process-driven company. We also had the advantage of being an incumbent supplier, which gave us prior insight into the business practices, expectations and the

value the buyer placed on relationships. Well in advance of the auction, we conducted due diligence on every piece of business that was to be offered when the activities went live. We knew going in, what our costs were on every lane. We set rules and limits on every lane. We determined in advance which lanes made sense to our business; at what price we were going to jump in and more importantly, at what price we were getting out. It's a fine line between confidence and arrogance and when the adrenaline is pumping during the heat of the auction. Setting those benchmarks are the only saving grace that prevents ego from pushing you a few pennies past good sense. Any lapse in judgment at the moment will haunt any carrier all year, when he's losing money on every trip.

The auction process itself was intense if nothing else. For two months, our lead staff members sat in a war room, glued to computer screens and participated in an endless game of on-line monopoly. Armed with formidable ammunition in the form of research data on every lane, bidders exercised concentrated discipline and extreme patience to determine when to enter and when to exit the process. On many occasions, sales staff would sit in on the scenario to monitor progress and they inevitably would be drawn into the heat of the moment. Their taunts gave way to virtual intimidation in attempts to drive our bidders a few pennies past the strategic price point to win a piece of business, but discipline and patience ruled our strategy. On the other hand, a few hours into the process it became apparent that many competitive bidders were not playing the game strategically. It appeared that whether they were drawn into the intensity or simply didn't prepare diligently, many bid prices were simply unrealistic by our calculations. The result is that a number of lanes that are being covered by carriers who are losing money on every mile they travel. And here in lies a critical issue. Each participant in the auction is contracted to hold the price for a year. Many, if not most of the bidders were successful in winning multiple lanes; so bailing out on non-profitable lanes is not an option as carriers are forced to lose money on some lanes to protect their business on lanes that are profitable. So what does this mean over the long haul?

There is a common theory that says, "What doesn't kill you makes you stronger." And who knows, maybe there is some truth to the theory. Internet auctions ramp up the speed and intensity of the buying/selling process. The first day of the grueling auction was scheduled to end at 6:00 pm and dragged on to 11:00. When you add the intensity of the auction to the fatigue of a 14-hour day, it would be easy to place a bid that could cost thousands of dollars over the length of the contract. And remember the auction went on for two months. Some carriers were so successful in winning lanes in the auction that they may not survive their own good fortune. In baseball's culture, "a tie goes to the runner." In Internet auctions there are no ties. This is definitively a process that is stacked in the favor of the buyer. For that reason alone, our best guess is that this process will grow in popularity. For buyers purchasing commodity products it's tough to argue against the cost saving advantages for purchasers. For services, the clarity of advantage is a little more blurred. I'll no doubt show some bias here, but a spec chart cannot define the concept and practical aspects of quality. What differentiates one transportation supplier from the next is not the mileage on a tractor or the length of a trailer. Tangible characteristics like dedication, integrity, accountability, experience and so on can find cost savings and improve service when buyer and provider share a relationship focused on continuous improvement. So here's the challenge for those of us on the supply side. Get smart. Know your costs; know you limitations and play from your strengths. Internet auctions are a new reality. Understanding the process and the critical value of strategy and discipline can earn you some profitable business, but you're the driver. Run the high road; know your limits and avoid the siren's call to bid a few pennies less. This process can have some serious downside impact for unprepared bidders. This idea "what doesn't kill you makes you stronger" only works in your favor if you've done your homework and respect the rules, including the stop signs, along the way.