



Blocking & Tackling XXI

January, 2009 Truck Parts & Service

Creative Destruction Is Not Negative

By Bill Wade
Wade & Partners

The universally negative specter of questionably talented politicians mocking business leaders in endless congressional hearings, while attempting to deflect growing guilt over the current economic situation, has me concerned.

Never before has the entire populace been treated to 24/7 TV coverage of every bounced check, every layoff, every case of management incompetence or insensitivity. Under the age old rule that "if it bleeds, it leads", our citizens are incessantly treated to the best in economic mayhem- wall to wall chaos. Industries most of us never knew nor cared about are the featured globalization victim of the day.

The sky MUST be falling ... it was just on MSNBC!

Back in the time before universal bailouts, this country practiced a more or less free form of capitalism. Free market approaches to economic churn were at least the first option. Success or failure revolved around individual drive and smarts ... with appropriate luck.

Our own trucking industry has thrived under this model. While major disruptions have been primarily due to regulatory (EPA, DOT) influences, one watershed case is worth an autopsy ... deregulation from the Motor Carrier Act of 1980.

Talk about giving Darwinism a kick in the rear. Wrenching extinctions, no bailouts, spectacular growth ... but not without temporary pain.

Between 1977 (the year before the ICC started to decontrol trucking) and 1982, pricing for truckload-size shipments fell about 25 percent in real, inflation-adjusted terms ... with some shippers reporting declines of as much as 40 percent. Revenue per truckload ton fell 22 percent from 1979 to 1986. Unions screeched and fuel prices were all over the board.

Sound anything like today's housing, auto or commodities markets?

But wait...a survey of shippers indicated that service quality improved quicker than ever. 77 % of customers favored deregulation. Shippers reported that carriers were much more willing to innovate. Truckers experimented with new price and service options. They restructured routes, reduced empty return haul and provided simplified rate structures.

By the way, the business flourished like never before. Following a record number of carriers' bankruptcies, the number of new firms increased dramatically. By 1990 the total

number of licensed carriers exceeded forty thousand, more than double the number authorized in 1980.

Certainly a pointed illustration of the power of the free market ... new supersedes old, efficiency increases and asset allocation supports the most innovative customer centric solutions.

This whole process of commercial evolution was described famously by the economist Joseph Schumpeter, who popularized the term 'creative destruction' to describe the process of transformation that accompanies radical innovation.

In Schumpeter's vision of capitalism, innovative entry by entrepreneurs was the force that sustained long-term economic growth, even as it destroyed the value of established companies, some that enjoyed a degree of monopoly power.

Capitalism's creative ability is only half of its success. Just as capitalism builds up new modes of production, it also performs the less popular but equally necessary task of eliminating obsolete products, companies and channels.

Schumpeter's best-known book, *Capitalism, Socialism, and Democracy*, received little notice when published in 1942. It predicted that due to government intervention, capitalism would not survive, and that democracy might not either.... tough statements in the middle of a vicious world war among capitalism, communism, socialism and fascism.

Once again, do you sense any parallels between that and today's mud wrestle with religious fanaticism or radical economic liberalism?

Creative destruction hurts, but a continually innovating economy generates new opportunities for participation in more creative and productive enterprises (provided they can acquire the necessary skills).

Beware ... breaking the *emotional* attachment to the existing social order is the one thing capitalism seems constitutionally unable to do. Driven branch or shop managers are rarely as lovable as old timers comfortable with the status quo.

Regardless, if your company is going to thrive as it picks among all the new opportunities being created every day, you must work actively at sorting and upgrading the talent on your team ... **it is what you have to sell!**

Schumpeter invented what we now call strategy ... "an attempt by firms to keep on their feet," as Schumpeter put it, "on ground that is slipping away under them."

Yes, the ground is shifting in heavy duty distribution and service. We simply must adopt a universally positive view that this creative destruction will clear out the deadwood and allow the rest of us to kick serious butt!