

The Railroad Week in Review **April 4, 2003**

Norfolk Southern is quietly and deliberately remolding itself into an information-driven company. This week I visited with key operating and commercial teams in Atlanta on a two-fold mission. First was for more detail on what's behind the Operating Plan Adherence (OPA) systems introduced to Wall Street at the Brosnan Forest conference in Feb (see www.nscorp.com). Second was to find the links between these powerful information tools and new opportunities in the merchandise carload trade.

There are really three elements to the NS information systems underlying the Thoroughbred Operating Plan (TOP). They are the Train Yard Event System (TYES), OPA itself, and its subset, the Local OPA (LOPA). The real value of these tools is they are completely event-driven, and there are no avenues for human overrides. Individual cars are either proceeding according to the trip plan or they are not. They are either placed at the customer on time or they are not. Shortline cars are either at the interchange according to the terms of the ISA or they are not.

As I said, you can't "game" the system. If cars are placed at the customer or interchange at the appointed time and the event has not been reported to Train II they are not there and it's a failure. The LOPA environment lets one drill down to regional, division, location and even customer views to identify reasons for non-compliance to plan so that immediate corrective action may be taken. The system is now at work in the Detroit SAA and the Phila SAA is next. Once fully rolled out LOPA will cover every shortline interchange.

The immediate impact on demurrage and interchange compliance is dramatic. There can no longer be any doubt as to whether or when a car was placed or CP'd. Lag and lead times at interchange and their cascading effects on car hire liability can be drastically reduced. Local crews can get out of the serving yards, do their work and get back in time to make the requisite connections. And customers can depend on seeing cars placed in compliance with commitments made when they were released at origin. That's what the TOP is all about.

Lag times between event and the recording of the event degrade carload trip plan measurement. I have before me three separate and independent studies showing a wide dispersion of lag times between actual and recorded shortline interchange times. Study "A" records the number of cars interchanged from shortline to class 1 by hour of the day Jan – Mar 2003. Some are very steep curves, meaning little variance around the target time. Others are much flatter curves indicating a lack of consistency in making the interchange, reporting the interchange, or both. A few show most events precisely within the interchange window, so we know it's possible.

Study "B" covers just about all possible shortline activities from interchange to wheel to place to empty release. It too shows a wide variance between activity and report, from a low of 2:44 to an astounding 14:16 for interchange. But regardless of event the point is that the lag is recorded and measured so that corrective action may be taken.

Study "C" is from a non-class 1 operation showing both the average lag time per event and the standard deviation. From this the railroad manager can tell at a glance how well the events cluster around the average. In a sample of 2,300 interchange events, the average event-report lag was six hours and one standard deviation was 12 hours. In other words, one third of the lag times were more than 12 hours. Once again, the metric found the flaw and the opportunity for improvement.

RMI has developed a sophisticated set of web-based utilities to compress the time between the event and the reporting thereof and, most important, to measure performance against the standard. While in Atlanta this week I spent a couple hours with RMI reviewing their products and how they help shortlines manage this event reporting timeliness dilemma.

The three objections heard most often – it's all in the web, I can't massage my own data, and it costs too much – are easily addressed. One, if it's all on the RMI servers it's as good a backup as you can get. I may use Quick Books to run my business but it's all backed up at quickbooks.com, not in my office, and more accessible than having a zip disc at a local bank safe deposit box.

Data manipulation is a snap because many of the reports can be downloaded in Excel or Access formats. What the user *cannot* do, however, is change events already reported to Train II. Doing so defeats the whole measurement process. As for cost, even if one were to bundle in and amortize equipment, software and training cost, we're still looking at less than a two bucks a car, and the per-car cost goes down as the number of cars grows. Not wanting to play in this sandbox is no longer an option if one wants to be in this business.

Proof of the RMI model's success is the usage level vs. the competition. To position RMI, in 2002 they processed 4.7 mm carloads, compared to NS at 5.9 mm and CN at 3.8 mm. Of the 484 shortlines in RMI's target market three out four use at least one RMI product. Most important of all, RMI is rolling out full ISM capabilities to its shortline clients. For example, the PTRA in Houston will be running RMI-based car scheduling and ISM later this summer with both parents, BNSF and UP, and the TRRA will be next. Maybe finally we'll get rid of the reporting time lag that kills trip plan compliance.

BNSF has unveiled an easy-to-use internet-based shortline event reporting system. The menu of reports covers everything from interchange to placement to release and back to interchange. The demo (see www.bnsf.com) is completely intuitive and ought to appeal to even the most confirmed technophobe. The only downside appears to be that that individual car initials and numbers must be entered manually or cut and pasted from some other application.

From my perspective it is probably best suited to the smaller operator with a limited number of cars and events, though BNSF's Jerry Johnson tells me future iterations may well obviate the manual step. But data entry is a small quibble if this offering gets even the smallest shortline hooked up to Train II and the BNSF trip plan discipline. Best of all, it's FREE, this eliminating the "It's too expensive argument."

Providence & Worcester lost \$830K in 2002 vs. a positive net of \$353K in 2001 on revenues of \$22.9 mm, up 1% yoy. The loss came as PWRR was tagged for \$1.1 mm in back charges due Amtrak for track use and siding maintenance 7/9/1999 through 12/31/2001 plus \$467 K for 2002. Merchandise carload revenue was up 4% on 6% more loads as scrap was up 25% taking 2% out of average RPU. Chems accounted for a third of merchandise sales, which is good. Intermodal at \$40 a box was off 14% in units and 15% in revenues. Even adjusting for the Amtrak hit, the OR remains close to 100 as comp and benefits are 60% of revenues, double its peers.

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