

**The Railroad Week in Review**  
**January 2, 2004**  
[www.rblanchard.com](http://www.rblanchard.com)  
(215) 985-1110

Yogi Berra is reputed to have said something like, "You can observe a lot just by looking." Well, I've been doing a lot of looking as I travel around on various railroad properties and I've observed there is a definite link between operating performance and how the assets -- fixed, moveable and on two legs -- look. But I'm hardly the first.

More than 50 years ago there was a rail fan magazine called simply *Railroad*. It was on pulp paper and someplace between digest and standard size, perfect bound. It was a reader's magazine with long-copy sections devoted to "True Tales of the Rails," fiction, and short stories. A regular feature was Carl Fallberg's one-page cartoon of the Fiddletown & Copperopolis Railroad, always taking a humorous shot at some aspect of railroading, and always spot-on.

A classic asked the question, "Why is the crummiest lash-up in town is always the railroad?" The illustration was of the F&C depot and some beat-up trains surrounded by drunks and debris. Fast forward 10 years and here's yours truly in a freight yard in western Virginia (the owner was a now-fallen flag) where no building had been painted in years and everything was covered with grime. The F&C cartoon came immediately to mind. Fast forward another ten years and I'm getting my first first-hand glimpse of the Santa Fe. Fresh paint on everything. Locomotives and cars gleamed. Ballast clean and edges lined. Clearly not the F&C.

Jump forward 30 more years to last week's lament in the Phila *Inquirer* re SEPTA's sorry on-time performance. The managers quoted in the article blame Amtrak dispatchers, lack of state funding, etc. But go out on the railroad and it's the F&C all over again. No two train crew members wearing the uniform uniformly. Some crew members help little old ladies get on board, others turn their backs. And the debris is literally ankle-deep on some cars. Can you say tripping hazard?

Yet go 30 miles east to New Jersey Transit's realm and trains run on time along Amtrak's congested NEC. Cars are clean, uniforms are uniform and there isn't a lot of trash and track debris strewn around. Continue north to the former NH and NYC commuter lines now under the Metro North umbrella and it's the pretty much same.

I mention all this because operating attitudes show up in safety stats, and the way a property looks in terms of area police and maintenance reflects the operating attitude. I have before me some AAR safety stats for a number of freight operators and guess what? The ones looking most like the F&C have the worst stats. Call or write me for details.

And so it is that in my travels over the coming months I'm going to be taking particular note of how properties look and putting that appearance in terms of operating performance and financial returns. But I need your help. Let me know where you see both exemplary and egregious results. In too many places the spirit of the old F&C still lives and people are getting hurt -- or worse -- as a result. This will not do. And Wall Streeters? Go out and take a look at the property. There may be safety in numbers but the best numbers reflect the best safety practices.

Word has reached me that Don Phillips and the Washington Post have parted ways. If this is a result of an editorial shift away from trains and trucks, then it's totally short-sighted, especially with the increasing public-private initiatives taking place between rails and state govts. Some are

beginning to realize that having to wait two hours in line to take your shoes off before a ninety-minute flight is nonsense. With decent rail service one could do it in four hours. And arrive in town, not a \$30 cab ride away. The NEC works because of this. But surely Chicago to STL and Detroit ought to work too, to name two. Cincy-Cleve/Indy? Surely the Queen City deserves better than one tri-weekly in the wee hours.

**R**egarding recent changes at CSX, the owner of one very successful CSX shortline writes, “The shortlines lost a few understanding VP’s in the recent headcount reductions. I will be keeping my eye on who is let go in the lower ranks. This will tell us something about management emphasis.” Two Wall Street friends at a Christmas party in NYC questioned the impact on institutional knowledge at CSX and whether junior MBAs at the manager and director level will have the chops to continue the work of the senior people lost.

**GWR** has made arrangements to buy three shortlines owned and operated by Georgia Pacific. It’s a nice move – for both. It furthers GP’s goal of paying down some long-term debt and it furthers GWR’s goal of expanding its contract switching operations. All three lines will be managed by GWR’s Rail Link subsidiary under Jim Benz. The heavy switching nature of the railroads and their geographic proximity to other Rail Link operations make this an excellent strategic fit and represent a fine opportunity to enhance the service and operating efficiency of the railroads.

The three lines are the Chattahoochee Industrial Railroad (CIRR), the Arkansas Louisiana & Mississippi (ALM), and the Fordyce & Princeton (F&P). For the 12 months ended Sept. 30, 2003, these had combined sales of \$18 mm in revenues, 90% of which was GP-related. In 2002 the three handled some 42,000 revenue carloads on 124 route miles making this a pretty dense operation, well in excess of the 100-cars-per-mile-per year shortline profitability threshold. For a more detailed descriptions of these railroads and some additional notes on GP railroad ownership see [www.rblanchard.com](http://www.rblanchard.com).

**R**obert Reich’s remarks (WIR note 12/26/2003) prompted this note: “No matter how the goods are made, they must still be transported. But if you are suggesting that automation leads to custom production and JIT, then I agree. RRs are looking at bulk (raw and waste) and IM and maybe autos. That’s it, baby.”

Yes, goods must still be transported but transport them so they arrive as needed and the mode of transport is immaterial. There is a time constraint, however, and that’s inventory carrying costs. The winning mode is the one for which the per-day value of the goods shipped times transit days plus shipping costs (freight rates, demurrage, inconvenience, etc) are the lowest.

Boxcars can win, but only as long as the time differential does not work against them. Thus my remarks about cutting the number of handlings between O-D pairs. And because, as my reader notes, “automation leads to custom production and JIT,” the successful carrier will be the one with the lowest delivered cost, not just at the dock but on the shelf.

*The Railroad Week in Review, © 2004 Roy Blanchard, is a publication of the Blanchard Company. Disclosure: Blanchard may from time to time hold long, short, debt or derivative positions in the companies mentioned here. A list of such holdings is available on request.*