

# RAILROAD WEEK IN REVIEW

September 14, 2018

**CP held its first short line meeting** in ten years at their stunning Calgary campus last week. The previous session had been held in a downtown Minneapolis hotel, so all the railroading was literally in the abstract. This time, however, the CP Calgary transcon main line between Vancouver and the east is right in the front yard, giving attendees a close-up view of how CP runs its railroad.

The actual headquarters campus is on a repurposed railroad yard, with many of the original buildings still in place but renovated for the tasks of marketing, operating, and financing for this 15,000 mile railroad. My essential take is that CP is open for business and is looking for increased revenues and RTMs from the carload sector. CP is clearly going back to its roots, starting with the Canadian beaver in its logo.

The beaver, Canada's official symbol for sovereignty, first appeared as part of the CP logo in 1886 and remained there until 1960, when the beaver was removed in favor of the modernistic white on red block letters. And so it was for the next 57 years until, in 2017, CP President Keith Creel brought the beaver back "to re-connect with our past with this iconic symbol for Canada, and for CP." Going back to CP's roots, as it were.

Going back to its roots meant reconnecting with its shortline and regional partners. And so it was the September, 2018 "CP Reconnect 2018" Short Line and Regional Railroad Conference took place on the railroad's new — completed in 2012 — Calgary campus, built on the footprint of the former Ogden Yard. Reconnecting with its 39 non-class I railroad partners is essential as they together make up CP's third largest business group in terms of revenue — some three-quarters of a billion dollars.

The program kicked off with a private pavilion for the final events at the CP "Masters" of horse jumping, part of the *Rolex Grand Slam of Show Jumping*. It was a fitting start to the proceedings, giving shortline guests and their CP hosts a unique opportunity to reconnect. The following reception and the next day's events were all held in the Royal Canadian Pacific pavilion, surrounded by CP's business cars fleet, including some fully restored cars dating from the 1920s, and the beautifully kept Royal Hudson number 2816.

This was the only short line meeting I can ever recall being held entirely on railroad property and surrounded by host-railroad equipment. What set this meeting apart from other short line/Class I meetings is that they left out everything that didn't really apply to short lines and stressed those things that do. There were formal presentations from members of the senior staff in the morning and break-out rooms by commodity in the afternoon.

John Brooks, SVP and Chief Commercial Officer (himself an ex-shortliner off the former DM&E) set the scene, saying their overarching challenge is to grow the franchise in a way that is sustainable, coming from “sticky” customers who depend on CP and its regional and shortline network as reliable supply-chain partners.

Too often, he says, railroads try to be all things to all people. That’s not CP’s game. The present aim is to provide a consistent product and sell it to customers without doing “deep dives” in terms of specialized equipment, switching at the whim of the customer, out-of-route service lanes, demurrage relief — in short, customized operations that are not part of the Precision Railroading playbook.

Brooks told the group that CP is “open for business,” seeking single-car customers in a way that can provide better customer value without stressing the CP asset base. Case in point is the fleet of nearly 6,000 new grain hoppers coming on line over the next few years. They are higher cube, shorter, and weigh less than the present cars, which means more grain in a shorter train. And, since shortlines host a large number of shuttle-train loop track facilities, having access to a bigger, more reliable fleet will be beneficial for all.

But to get those trains loaded, you have to call on the customers. CP readily agrees that short lines have unequalled customer access, and that CP needs to play a bigger part in those conversations. Murray Hamilton, AVP Grain Sales, tells me not only can the CP sales team help the short lines on customer calls, but also that the sales team members have limited pricing authority, meaning they can package and price a move on the spot without having to ask Calgary.

Talk about a WOW moment. We were having this discussion as part of the grain break-out session and you could almost hear the jaws drop. The usual drill with other Class Is is to create the transportation package the customer would like and then call Marking HQ for a rate, which can take a week to generate. Here, the short line and the CP can create a customer support solution on the spot and walk out with an order. CP is truly Open For Business!

Helping customers manage leased-car cost as part of the total transportation product is another place where CP is ahead of the curve. Let’s say a customer has a rate of \$2,000 for a move from here to there. He’s paying \$400 a month to the leasing company for a 100-ton car. Make one move a month and his lease cost is \$4 a ton — *in addition to* the freight rate. Turn that car twice and the lease cost per ton is cut in half. Make it three and it gets even better.

Part of the Precision Railroading mantra has to do with asset management, and that means minimizing car cycle times. One way to do this is to keep cars moving. If the short lines can pre-block their outbounds by destination, they save CP the time to switch cars from the shortline inbound cuts to their various outbounds. If the shortline interchanges the minimum 10-Car blocks to CP as one unit, CP need only make one move from the receiving yard to the departure yard, taking as much as a day out of total transit time for the move. It appears from my conversation with the short lines at this meeting that nobody else does this.

At the end of the day, literally, it was apparent that both short lines and CP itself had learned a lot from the other. Yes, it's been ten years since CP last had a shortline meeting, but CP has done a lot over ten years and it's appropriate to get the short line meeting series going again. The beaver is back.

**North American AAR railroad revenue units** for the year-to-date ending September 8 increased 3.6 percent. Merch carloads ex-auto accounted for 34.1 percent of total units and were up 3.2 percent. Intermodal remains the elephant in the living room at 49.7 percent of total units, up 5.4 percent. Coal has slipped to 12.6 percent of total units and was down 0.9 percent.

Within the merchandise group, STCC 29 petrochemicals plus crude oil led the gainers, up 13.6 percent. Non-met minerals including frac sand and aggregates added 4.3 percent. Grain and chems both gained 3.1 percent. Nothing to write home about, perhaps, but we're still seeing largely positive numbers. Maybe, by copying the CP model, we'll see even stronger gains anon.

**KCS and CSX have announced** some changes in their commercial groups. At KCS, effective October 1, Brian Hancock moves to EVP and Chief Innovation Officer from three years as EVP Sales & Marketing. This is a new job at KCS and in it Hancock will lead the development of KCS' innovation and technology strategy, as well as heading up the operations support, business process improvement, and information technology functions.

Succeeding Hancock as Chief Commercial Officer is Michael Nantz, who comes from six years as SVP and Chief Information Officer. CEO and President Pat Ottensmeyer says these new assignments will "keep KCS on track to fulfill our vision to be the fastest-growing, best-performing, most customer-focused transportation company in North America."

At CSX, Dean Piacente moves to VP Industrial Products from VP Intermodal, assuming responsibility for the chemicals, metals, paper and forest products desks. Tim McNulty, VP for Agricultural and Mineral Products, will continue to lead the balance of the Merchandise portfolio. Maryclare Kenney moves to VP Intermodal and Automotive from VP Automotive. All three will report directly to Mark Wallace, EVP and Chief Commercial Officer.

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