THE RAILROAD WEEK IN REVIEW
FEBRUARY 25, 2005

My comments on the CSX shortline meeting have drawn a number of insightful observations from the shortline community. With respect to the changes at CSX: “Someone made the comment that you could attend one of these meetings, miss twenty years, come back and hear exactly the same issues discussed again.” True enough, and resistance to change is one of the most frustrating aspects of this business. On the other hand, change is inevitable and one either manages change or is managed by change.

Fifty years ago my dad worked on a operations scheduling project at Potomac Yard. He was on the team that introduced Operations Research disciplines to the RR for the first time. If you read his papers today in the context of Railroading 101 not much has changed. The blocking and tackling of basic railroading remains much as it ever was. But there is change at the top, and that’s gong to cause a cultural change in the way CSX approaches the business of Running A Railroad.

That’s a function of modern leadership practices. Once management has considered all its options and decided on a course of action that course becomes directions for field operators. And resistance to change must be perceived as unacceptable behavior in the work place. The stakes are higher than ever, too. Customers want consistent results and that means that the railroad has to be managed as a network, not as a collection of individual fiefdoms.

CN runs a scheduled RR to keep assets in place. The LOPA process at NS pinpoints causes trip plan failure by the individual's name. The BNSF Pentagon Plan limits the number of blocks at five major yards and eliminates most of the yards in between. It's not coincidental these three have the lowest Class I ORs and the best pricing leverage in the business.

Another shortliner askes, “How do steep pricing increases and a lack of cars benefit shortlines?” Short-term, not much; long-term, lots. Viewed through a lens that cuts across Class I lines, price increases across the board have been significant, especially in those commodity lanes where yields have been substandard or even negative. Pricing away the losers forces a focus on winners. Better car supply follows as equipment and capacity once occupied by losing lanes is freed up.

The shortline with a focus on lanes that cover equipment replacement cost will do OK. Those that don't, won't. And therein lies the rub. Where cars spend more time standing still in yards than moving freight (who remembers John Kneiling in *Trains* saying same eons ago?) cycle time gets hit, bad. Worse, it’s impossible to calculate a fair equipment replacement cost if the car isn’t used properly. And because service stinks relative to truck there is no room to raise rates. So it's a vicious cycle.

The ONE Plan schedules the core lanes first and then schedules the branch lines (and shortlines) to meet the core schedule. This is exactly the outside-in process that gives CN the lowest OR and the highest pricing leverage with BNSF and NS hard on CN's heels. In a true network environment every terminal manager knows what he’s going to do every day, has the tools to anticipate exceptions and can deal with them before they start cascading through the system.

Pricing increases will drive off money-losing traffic, make no mistake, but with a difference. The ONE Plan and others of its ilk let managers see exactly what lanes lose money even under the best of operating circumstances. Raising rates where yields are down thanks to poor service design only exacerbates the yield problem by devaluing the product in the eyes of the customer.

Lastly, my comments on CSX shortline performance *vis a vis* CSX as a whole (WIR 2/18) appear to have missed the mark in some respects. Look for my revised remarks in this space next week.

A reader with a Class I writes, “Anent your comment about "taking trucks off the road" in the latest WIR (2/18), I have long considered it inaccurate to use that phrase, because it doesn't convey what we're trying to do.

“First, not so very long ago, those would be fightin' words to the trucking industry (maybe still are to some). Second, the phrase raises expectations among public policy types that are probably unsustainable. And third, it's doubtful that the rail industry can absorb more than a fraction of future truck growth, so to represent otherwise is misleading or untruthful.

“Much preferable, in my view, is to portray the role of rail as a supplement to the highways -- capable of augmenting the capacity of the interstates. As rail intermodal grows, highway congestion in certain areas will get worse, but the overall effect will be to extend highway capacity, much the way that Hamburger Helper makes a pound of ground beef go far enough to feed a crowd.” What a motto: Next time, take the train – the Hamburger Helper of the transportation world!

Commenting on my shipper’s lament (WIR 2/11), a chap with considerable Class I operating and shortline ownership experience observes, “The shipper makes it quite clear that it was the rate increase that was the camel's back-breaking straw. That's the flip side of the yield improvement programs that have won much praise from the financial community.

“In most cases, service has actually deteriorated over the past couple of years as rates have increased. In fact, your earlier example with the tank cars is right on point; a few years ago that shipper might have received daily service, instead of once every three days. Low service frequency drives inventory levels and carrying costs.” Couldn’t agree more, and it’s one more reason shortlines must offer daily service – stemming further service deterioration helps keep customer cost of goods sold in check.

Event recording and reporting is another recurring WIR theme. Recently (WIR 2/18) I wrote, “Shortlines’ event reporting software must have the capability to retrieve customer carloads by commodity and O-D pairs to be of any real use…Who has the tool to fix this? I’ll print your response.”

Paul Pascutti of RMI writes, “First, we couldn’t agree more. That’s why RMI’s systems have always been designed and built to support this type of reporting. Perhaps more importantly, our systems have advanced features that permit shortline railroads to automatically “fill in the blanks” when the Class I railroads strip origin and destination information out of waybills that are passed to shortlines.

“RMI has the tools to help solve waybill data problems for shortliners wishing to capture the complete origin and destination information. For inbound traffic we have something called the *Blocking Table* which is designed to attach important information to shipments including missing waybill data. The Blocking Table allows the shortline to establish certain parameters in a table that defines unique shipments.

“For example, once the receiving shortline knows the destination customer, commodity, car type and routing that is often enough information to deduce the origin point and perhaps even the shipper. By setting up this information in the Blocking Table, the system will look at whatever information is available when the car is interchanged, and automatically fill in the missing information. With the information lodged in the Blocking Table the system can automatically assign switching charges, car hire reclaim codes, demurrage tariffs, as well as switching instructions for the crews. So as you can see, this is an extremely valuable tool in many respects for shortlines.

"The Blocking Table can also work for originating traffic where the short line is not a party in the original bill of lading. An additional feature that is available for originating traffic is the ability for the shortline to receive a copy of the bill of lading from the Class I. Once the Class I receives and processes the bill of lading from the shipper, the NCSC shoots a copy back to the shortline.

"This is all dependent of establishing an agreement between the shortline and Class I ahead of time, and it works very well once everything is set up. Even very large switching operations such as PTRA in Houston use this feature for the traffic that they originate for UP and BNSF." Thanks, Paul, for a very complete, non-technical, and lucid bit of writing. Readers wishing more information ought to contact Paul at (404) 350-6466 or write paulp@railcarmgt.com .

Paul adds that RMI has a solution to shortline commodity classification (WIR 2/11). Their RailConnect Index of Shortline Traffic (see pie chart) groups commodities in a manner consistent with AAR reports and draws data from more than 200 different properties. To be included a shortline must be able to provide at least 13 months of data so the yoy comps don't get skewed. The report comes out weekly and I'd suggested you contact Paul if you're not already on his list.

Dismal Science Corner. The Washington Wizards are predicting that the housing market will cool and mortgage rates will rise -- read a slowing of lumber and construction products on the rails. On the other hand, consumer spending and business investment this year are expected to be solid, helping intermodal and manufactured products traffic in the bargain.

Unemployment, averaging 5.5% in 2004, is expected to decline to 5.2% this year and 5.1% in 2006. Inflation ought to be held to 2.2% this year and 2.3% next year. And it's beginning to look like energy prices will moderate – never mind this week's $51 oil. Would you believe $40 by December? Shortline operators of our acquaintance are now paying north of a buck-fifty a gallon vs. 95 cents a year ago. Ouch.

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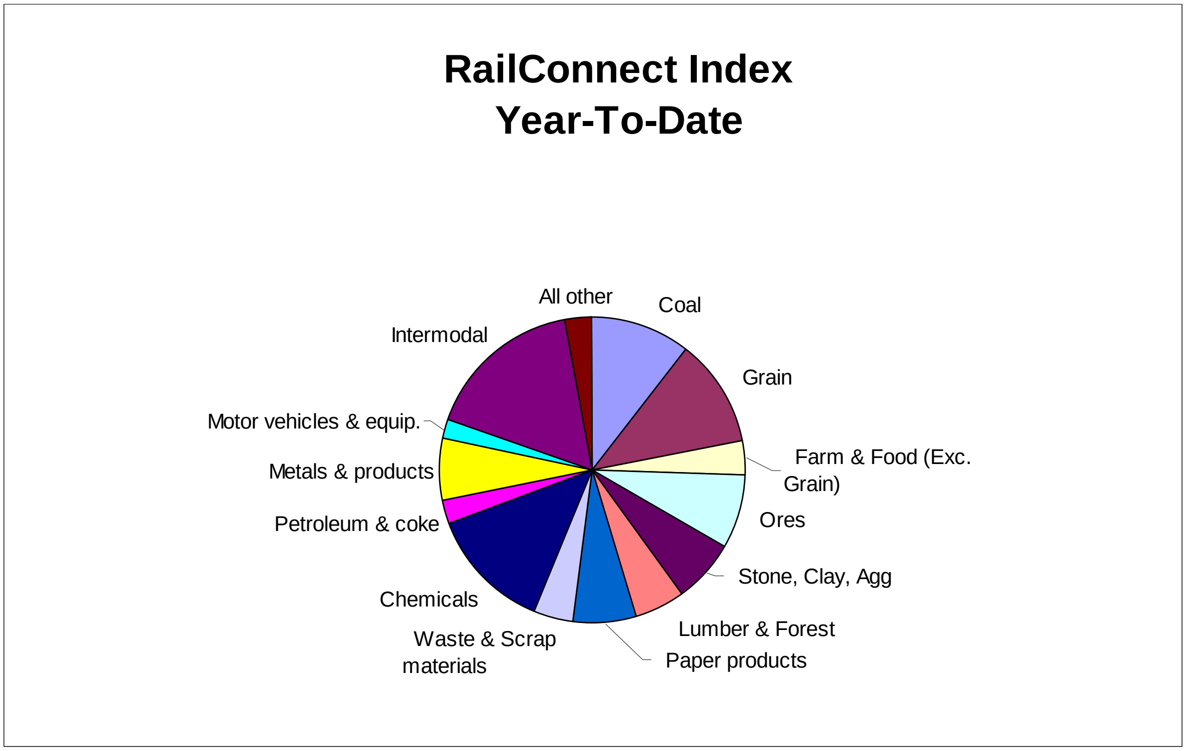
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