# RAILROAD WEEK IN REVIEW

## December 14, 2018

*"Inventory carrying-cost reduction is a supply-chain imperative. Reducing the level of stock buffers is increasingly a transportation customer priority, so orders and shipments are smaller and more frequent because of the costs of poor or inconsistent service." — Rod Case, Partner, Oliver Wyman Surface Transportation*

**RailTrends gets better every year.** We had the 14th iteration at the Times Square Marriott November 29-30 and it was, as appropriate for Broadway, SRO. Some 300 souls representing railroads (all the Class Is plus 14 non-Class I railroad operating companies), suppliers, the operating crafts, the financial community, and Washington (AAR, FRA, STB) were in attendance for the day and a half of presentations, hobnobbing with one's fellow wizards, and comparing notes on Rail Trends themes.

Senior management was well represented. Union Pacific CEO Lance Fritz showed how more, bigger mixed freights and fewer "boutique"single-commodity trains combine with his "war on dwell" to create slicker interchanges, increase car-miles per day, and increase gross ton-miles per available horsepower. (The room ate it up.) Subbing for Canadian National CEO JJ Ruest who was indisposed, CFO Ghislain Houle explained how and why the 20+ capital programs west of Winnipeg are letting CN run more RTMs faster while simultaneously improving order fulfillment and customer satisfaction.

CEO Jim Foote of CSX (who, like Ruest, came up through the commercial side ranks) gave what RT Creator Tony Hatch calls "a barn burning victory speech," and well he should. Volume increases are returning — up three points for the week ending October 27 with double-digit percentage gains for petroleum, paper, aggregates, phosphates, and waste — yet with fewer yards, cars, locos, and a lower PI ratio.

Batting clean-up for the Class I C-Suite presenters, Canadian Pacific CFO Nadeem Velani carried forward the "We rebuilt the engine" theme we heard at the September shortline conference. Said he, the aim is to achieve "sustainable, profitable growth," capitalizing on CP's disciplined approach, its can-do culture, and its room to grow, thanks to abundant owned-acreage adjacent to its lines.

Backing them up for the customer viewpoint we had Alan Shaw, Chief Marketing Officer for Norfolk Southern, and Brian Hancock, EVP and Chief Innovation Officer for Kansas City Southern. Alan's message was to the point, saying "putting customers first is the only way a transportation company can survive and prosper in this intensely competitive arena." He gave particular attention to the merchandise carload sector, noting that consistency, reliability, and "improving he customer experience" is the core NS strategy going forward.

Brian drilled down into the role of technology in exceeding customer expectations from initial oder to final delivery, noting customers don't really care about the Holy Grail operating metrics our industry so slavishly pursues. That said, he calls ours a "knowing industry" that can build on past experience to stay ahead of the customer, and PSR is but one tool. Access to timely and accurate data from all supply chain players (Blockchain?) is another.

The Friday morning shortline panel on Competitive Advantage brought together five of the best and brightest chief marketing officers from that community, now touching one out every four or five (depends on who's counting) revenue units on the North American railroad network. The panel drove home the fact that regional carriers are the crucial first-mile/last-mile carriers in any move. Consequently, short lines and regionals create custom processes out of the Class I batch processes handed them.

RJ Corman's Justin Broyles, Vice President Commercial Development, cites their unique strength in providing yard and terminal switching services, offering many opportunities to customize batches, however the Class I focus on operating ratios can actually work against their effectiveness. Anacostia Chief Commercial Officer Eric Jakubowski calls the Precision Scheduled Railroad initiative "foundational" for the smaller carriers, whose reputation for timely service relies on same from their class Is — PSR can only help.

Stefan Loeb, Eric's Watco counterpart, told how they increased carload numbers simply by offering daily service on a newly-acquired Class I branch line that had seen only thrice-weekly service for years. Moreover, pre-blocking their outbounds for the distant node eliminated the need for intermediate classification and took days out of transit times.

Mike Bostwick, EVP and Chief Commercial Officer for Pan Am Rail, tells how they've supporting the return of the paper business to Maine, actually converting truckload back to boxcar and increasing forwarded car counts handsomely. GWR's Mike Miller, Chief Commercial Officer for North America, showed how many in the non-Class I railroad community already practice the tenets of PSR — customer service, safety, cost control, and asset utilization — and act as "shock absorbers" in the transition from the batch service strength of the Class I to the custom service strength of local service provider.

All of which is music to my ears. In a nutshell, the essence of PSR is the carload trip plans that begin at release and end at actual placement. (Constructive placement doesn't work because cars CP-ed are still not available for loading. PSR depends on minimizing time between loads.) Once issued, trip plans can't be changed and progress between OD pairs has to be measured against that to get a true measure of trip plan compliance.

There are some who say trip plans for shortline cars have to begin and end at interchange. To which I say, doing so does not capture the time the car is unavailable for loading, it skews car-miles per day, and misallocates the replacement cost element of the basic rate. Carload trip plans, properly executed, can tell you exactly how long any car sits on any short line and lets the PSR

Class I take offending short lines to task for not turning cars (SIT cars are another matter and are generally in leased equipment, so don't affect RR turn-times.)

Not running a local because of insufficient tonnage or other reasons screws up the plan because the loco and crew aren't available at the other end to pick up loads and empties released by the customer AND decreases car-miles per day by adding non-revenue dead time to the individual car. In the Watco example above, going to 7-day service from three pushed loads up, thus proving my point that the added cost of pre-blocking can result in more than enough new revenue to offset that cost. So much for the short line that won't pre-block unless they get an increase in handling allowance fees.

Another non-class I (that must remain unnamed for proprietary reasons) says they've seen a four-fold increase in forwarded loads just by telling the local Class I guys what they were prepared to do. The latter wondered why they hadn't done it before. The answer: you never asked.

**Oliver Wyman Partner Rod Case** says crews outlaw because the railroad isn't running to plan -- hold-outs, late departures at origin, unscheduled local work, mechanical failures, etc. (I maintain every trip-plan failure can be avoided with leadership and technology. That's what makes PSR work.) He says the railroads "must build from the advantage of vertical integration while massively leveraging technology adoption," doing a better job of using their inherent network strength for resilience, productivity, and innovation.

Fact is, the trucks are eating our lunch. Their cost are on track to be cut in half over the next 20 years, even as they increase ton-miles at a three percent CAGR vs. carload essentially unchanged. Worse, the 2017 railroads' ton-mile share of 45 percent will shrink to 16 percent the way things are going; 22 percent if they can get their competitive acts together. And PSR can regain network resilience, "necessary for consistent service and future profitable growth."

**End note**: I have the individual RT slide sets.