The Challenge of Managing an Intermodal System

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It is a delight to be here today, and I certainly would be remiss if I did not thank Mike Walton, John Vickerman, and the Transportation Research Board for inviting me. It would appear that by sheer numbers, this is going to be a successful get-together for you folks. We were kidding up here at the table a while ago, we didn’t think this many people in the United States could spell intermodal, much less were interested in listening about it. I am reminded of being in Japan a few years ago when I lived there and was talking about our intermodal system in the United States, when one of my Japanese counterparts asked me if we were in the plumbing business. Intermodal has come a long way. It is also very good to see so many women in the audience in the transportation field. Not only do you brighten up the room with your good looks and your attractive clothes, but as my wife often reminds me, you have a lot to do with raising the intelligence level in the room. I could get away with anything now, right?

What I would like to talk about with you today is how this intermodal business we are in has become the fastest-growing transportation arena in the United States today, how my company is playing a part in that, some of the thoughts we have about the past and the present, and what we are able to see in the future. Peter Drucker, the consultant and management theorist, tells us that there are two things that companies should think about: marketing and innovation. Companies that can’t be innovative probably won’t be around in 2000. I think we are beginning to see a lot of that. I can remember coming back from Asia in 1987 and meeting with the rail group at CSX, some Sea Land people, and some of the people in the trucking business. The first thing I said to them is that we wanted to court the market-driven company. Their eyes glazed over, and some of their operators asked, “What do you mean?” What I mean is that in the future when you move the train it is going to be because the customer wants you to move it, and he’s put enough freight on it to make it go to that particular place. And it’s not going because you think it’s a good time of day to run that train over there. I mean how simple can we get?

I would like to tell you that it is working 100 percent, but it is working about 80 to 90 percent. There is a long way to go. Again I am reminded of a story when RCA invented color television and they couldn’t find anyone to use it. They started selling sets for less than it cost
to make them, and they got them in the homes. Of course NBC owns RCA. Then they started broadcasting color television programs. People started to ask people to write letters to the principal stations and ask why color television wasn't being broadcast. NBC put a peacock up there. You recall that, I am sure. Some of you were around. Next thing you know they've got color television everywhere. It was innovative, they were tough in the way they approached it, and it worked for them.

The intermodal industry, beginning in the late 1970s or early 1980s, had to be innovative. It had to first survive, because what it had first intended to be from a rail standpoint was something that would compete with a truck. What happened was it competed with itself when it took the freight out of the boxcars. It didn't take anything off the highway for years. Of course that revolution is taking place today. The truckers are now looking to intermodalism as an alternative.

But we had to change the industry, and we had to change how we managed our business and what our relationships were with both our customers and our suppliers. There were no intermodal companies in the country in 1980 that had a distinct intermodal plan. Very few of them had any idea what the direction should be. Most of them were inside of the railroads, and they were heavily subsidized. They didn't really know what the cost of doing business was.

Our first task in starting our intermodal company in 1987 was to ascertain the real cost of doing business. You might think that's a simple task, you might think that's a good thing. But when you find out what you are really making and your competitors still don't know what they are making and you go out to attempt to price the business, then you are in real trouble—because you know when you are losing money. But they don't have the slightest idea.

The first year we were in this business we lost $25 million to $26 million. The next year we made $1 million, the next year we made $7 million, the next year we made $15 million to $16 million, and the next year we made $35 million. Last year we made $53 million. This year we'll make more than $60 million. It is a good business. It has been a great turnaround.

It has been a good business because we have reacted to the customer. We haven't decided to design this intermodal business to fit our needs, but we have attempted to design it to fit the customer's needs. What we must continue to do in intermodalism is look for that customer's need and that customer's future. If we can address that, intermodalism can continue to be profitable.

To begin with we rationalized our service. We eliminated waste. There is still a tremendous amount of waste in the intermodal business today. We still share in a lot of that waste. But there was no incentive before the Staggers Act of 1980 for railroads to be efficient or to approach the customer from that standpoint. With the advent of the Staggers Act railroads were placed in a position to be competitive, and there was a reason for them to look at how to regain some of their lost business.

I guess the interesting thing about it is that here we are in 1994, and the American railroad business is experiencing the first growth year in almost 50 years. It is daunting to think about having growth after no growth for 50 years. How do you deal with this? You've been downsizing and maintaining the status quo. You've been ripping up track. You've been selling off things, and all of a sudden somebody wakes up and says that transportation in America is going to continue to move on rails and is probably going to grow. So now we are all playing catch up. We are all hiring people. We are buying more locomotives. There is talk about putting doubletrack in the West again. I think that the future is extremely bright for the intermodal industry.

There are many extremely talented people who are coming into our business. Not that we did not have good people in the business before, but most of the people in the intermodal business in the 1970s and 1980s were very focused and very parochial in their approach. Today it is very encouraging to see the breadth of the people who are coming into this business, their ability not only to think through a problem but to think about all the extremes that make the equation.

A tremendous amount of new equipment has been put into the intermodal business, the doublestack networks that you hear about. One of the things that we are struggling with in this country today is that back in the 1980s when the steamship lines first began to use the
doublestack systems in the West, they were primarily designed around the arrival of ships. Today, you have a competing faction called domestic intermodalism, or domestic containerization, domestic piggyback. You have a new entrant in the truckload carrier, who now moves cargo from East to West. So now that business that was almost entirely designed to fit the arrival of ships in the West has other economic factors involved in it. The true test of whether intermodalism will survive will be the ability of those three or four different types of businesses to live together on those trains in the West, and the ability of the western railroads to handle the growth that they will have over the next 10 to 20 years.

Most of you know what's happening in the West today. There is, I would say for lack of a better word, a certain amount of confusion concerning the direction of three of the railroads in the West. We happen to be a purchaser of transportation in the West. We spend about $300,000,000 per year as an intermodal company buying services from the Southern Pacific, the Burlington Northern, and the Santa Fe. We are interested in what happens to those railroads and that they survive in some form, no matter what takes place. But the strength of those railroads remains constant. Without it, part of our company is in jeopardy, part of this entire room's ability to compete in the worldwide market has problems. There's something to think about and not to be taken lightly. We are encouraged that the right thing will happen and that we will come out of this stronger rather than weaker.

There have been tremendous financial gains as a whole in the intermodal industry. Most railroads today are making money at intermodalism. Most of them are beginning to lay master plans where intermodal facilities need to be in the future. They are even beginning to talk to local and state authorities about cooperating. I know that you heard a little about that this morning, but it is important that that be a two-way street. It's important that states and cities understand what intermodalism means to them and what can be created from an economic values standpoint for individual states and cities through proper communication and partnering with the right kind of intermodal companies. It's not just moving people, it's moving goods and services. Our government is going to have to address the fact that there are two kinds of things they have to look at going forward from a transportation standpoint, and that is how you fund the necessary support for both the people and the goods and services.

I do not think that railroads will continue to subsidize in every form that they have in the past. I think there is going to need to be cooperation in building bridges, clearing tunnels, and doing other things that will enhance the viability of the intermodal part of this business. Business looks extremely bright going forward. The growth is probably going to be in the 5 to 6 percent range going over the next 10 years, and that is pretty healthy in almost anybody's business.

Some of the issues that we have to address as an industry are the complexities. We still operate like railroads did 30 or 40 years ago. Things run up to a certain point, stop; somebody else takes over, then moves a little further, and it stops again. We are eliminating some of those disjointed complexities, but we are not moving fast enough. Our service levels, while adequate, are not the kind of service levels that will drive people to change to intermodalism. There have been some gradual changes, and they are very positive because intermodal is starting from a small base. But as this base grows larger, getting more people involved in intermodalism will require us as an industry to be very competitive—to think like a trucker and act like a trucker. A lot of people don't like to hear this, but that is what we are competing against.

We have another opportunity. We have become an alternative form of transportation for many of the Fortune 500 companies, who, in using certain truck lines in this country, have grown not only to like them but to become partners with them. Those companies see the inability of those truck lines, particularly some of the larger truckload carriers, to grow in a manner that will allow them to support the Fortune 500 companies' growth. I am talking about the inability to have over-the-road drivers, a higher cost of tractors, the ability to retain people, the high cost of insurance, fuel, the taxes on highways, all of the economic factors that will prevent some of these truckers from continuing the tremendous growth they've had recently. The alternative is to move some of that business to the intermodal systems.

So we are no longer a competitor as much as we are now an alternative form of transportation. We spend a lot of time with both the truckload carrier and the Fortune 500 com-
panies, and both of them are looking to us as a relief valve. We're not elastic; we're not going to continue to stretch forever without some tremendous capital investments.

The secret of intermodalism up until about this year, maybe next year, has been that most of these intermodal facilities around the country had some elasticity in them. Going forward we have to learn how to use them better. We talk about things like having free days for equipment. There are no free days. There is nothing free in this entire world. So, we are going to have to be much more realistic about how we approach this business. We are going to have to do more with less, and to do more with less we certainly have to make some tremendous investments in people and infrastructure.

It is a challenge for both government and the private sector. If you look at the ability to move into the inner city from an intermodal standpoint, we haven't scratched the surface. Most railroads today in this country have big complexes inside the major cities. Trucks have difficulty in getting into these particular areas. But railroads can run in the middle of the night, and they don't disturb anybody—except they wake a few people up.

Members of our National Commission on Intermodal Transportation recently testified in Washington to the House Subcommittee on Transportation. Their key message was that we had to meet the nation's freight and transportation needs for the future, and the United States must change the way it views, funds, and manages transportation. There is no question about it. We need to have more dialogue, and the recent change in the makeup of the intermodal industry as well as the recent changes in Congress will lead us into some of these discussions. Ultimately it will lead to a better understanding of each other's needs, and it will ensure that the competing interests of both intermodal freight and passenger transportation are properly balanced and funded.

The success or failure of our transportation system will ultimately be determined by how successful we are at collectively meeting this challenge. There is no doubt that the message is extremely clear. Not only does private industry have to be innovative, but the government has to be innovative in the way it approaches this thing. We all must have the determination, persistence, and will to make what has become a very positive transportation mode in this country successful.