international economy; change in the relative competitive position of our Port region vis-a-vis other regions with whom we believe we compete for jobs and investment; and we also have a panel whose charter is to look at the long term future to try to identify a range of probable Port Authority futures.

Perhaps the most difficult component of a strategic planning process is that of focusing on mission, objectives, and goals. It is often difficult to measure targets and aspirations in the public sector, partially because public initiatives cannot always be defined in dollars and cents and frequently do not lend themselves to easy quantification. In addition, the mere act of defining mission and goals carries with it an implicit limiting of horizons in the minds of some chief executives.

Somewhat easier to deal with is the situational analysis which views the current and future position and outlook for each business line. It keys on the markets served and the changing needs of patrons or users. It looks at the services provided by the organization as well as the services offered by other providers -- both against the strengths and weaknesses of the entity and those of the other providers. In the context of examining the situation in each business unit, in the Port Authority, we ask each business to make a statement of measurable goals.

Determining the critical strategic issues is the key next step. Although critical issues can relate to internal factors, they most frequently involve a change in the external environment. The critical issue(s) becomes a focusing device for strategy development. In this regard, we have found that when the critical condition or pressure requiring attention can be succinctly and crisply [illegible] creatively is enhanced.

The result desired from the creative examination of the alternatives available for dealing with the critical issues is a strategy. A strategy can be thought of as a broad course of action selected from alternatives as the optimal way to attain major objectives consistent with current policies in light of anticipated competitor actions.

The development of alternative strategies is stressed so that real options (not paper alternatives) are produced. This is regarded as an important discipline to ensure that all trade-offs are covered. Experience demonstrates that it adds creatively to the planning process.

Implementing the strategy requires a plan of its own. This step links strategic planning with the capital and operating budget. However, this should not be seen as a discrete "phase II" activity -- planning, execution and tracking for early corrective action should be a continuous process that is interwoven with all management systems.

This is the process which we follow at the Port Authority -- some components are more developed than others -- but this is our planning road map.

FUTURE DIRECTIONS FOR FREIGHT TRANSPORTATION

by Henry H. Livingston
Vice President-Research
Kidder, Peabody and Co. Incorporated

It is important to stress the linkages between financial inputs and strategic planning. In determining a strategic management plan, one must generally have financial resources to undertake the plan and in many cases, one must be cognizant of the cash flow (i.e., financial impacts) generated by the plan.

Strategic planning has become more important and hence more difficult in recent years because the financial markets themselves are in turmoil. As an example, the security previously associated with equipment trust certificates has gone away both because of court decisions and because of a glut of equipment on the market. From the perspective of the financial markets, turmoil has been created because the need for some external funding has gone away because of the ability to generate cash internally both through tax write-offs and generally improving profits.

Perhaps the most important advice from the financial community to strategic planners is to pay attention to the "ifs" in financial markets rather than to the "givens." This is a ramification of the increased turmoil in the financial markets.

In general, deregulation has been a good event for freight transportation both from the carrier and shipper/receiver points of view (some individual units excepted). This is because the fallout and rationalization has eliminated [illegible]

The motor carrier industry has seen and will continue to see consolidation into larger corporate units. Those remaining in the industry will survive not because they could cut rates but because they had a cost structure which allowed such rates to be sustainable or could cut costs and still have sustainable rates. In addition, they were able to provide existing or improved service at such rates.

What has happened in the industry is that the firms which could provide high quality service efficiently (accomplished by following a policy of cost control) have and will continue to survive.

A casualty of deregulation, which has made the job of analyzing the industry more difficult from the perspective of the financial community, has been publically collected data. This makes it more difficult to analyze where the industry has been and to predict where it's going. Since much of the data previously publically collected is still collected by the individual firms, theoretically, the data is available. However, the firms will not release the data because it is believed to be proprietary. While this view may seem to be myopic, if a lack of data makes the industry seem more uncertain than it truly is, capital costs will increase for the industry. A neutral collector of the data, e.g., the modal trade association, could alleviate this problem.

The Association of American Railroads is moving in this direction and it would behoove the American Trucking Associations and the Air Transportation Association to do the same.

While there are many issues which can be raised for the future, six issues should be brought forward here.

(1) boxcar deregulation
(2) rail mergers
(3) transportation statistics
(4) accounting
(5) research and development
(6) labor

Boxcar deregulation pits the owners versus the lessors. The glut of cars has been caused by a decrease in demand relative to the expansion of supply caused by incentive per diem. Under such circumstances, railroads turned to their own cars rather than those of the lessors. New traffic potential as well as the retirement of some older, railroad owned equipment will help alleviate the problem. Shifts from box car to intermodal are ongoing and will continue. It is more competitive from the shippers point of view. It is also more efficient for him, with generally faster service door-to-door. It is not likely to be more capital intensive due to the greater utilization of the intermodal equipment.

Boxcar deregulation also allows the railroads to compete for traffic with partially sunk investment equipment in need of backhaul traffic and hence increases the push to economic efficiency mentioned previously.

The Southern Pacific - Sante Fe may bring an end to a long chain of rail mergers. The net result of the merged rail system to date is to increase intermodal and intramodal competition. Non merged carriers seek to have their competitive positions preserved via trackage rights, but it remains to be seen how the ICC, the courts or even Congress will decide on this issue.

The role of statistics was discussed above. Accounting plays a major role in cash generation. Changes in the tax laws as well as application of Generally Accepted Accounting Principles (GAAP) accounting to the railroads will have an impact on carrier cash flows. Given the arbitrary definition of certain accounting items, e.g., depreciation, it's important to note that cash flow is a much more important concept (because it is tangible) than income.

As carriers diversify, it is important to note that transportation assets can become a source of cash (resources) vis-a-vis non-transportation assets. This may be good or bad from a transportation perspective.

Research and development has been and continues to be a major problem in freight transportation, especially rail. Not enough is being undertaken and what's being undertaken is not being done fast enough.

Labor in the transportation industries is in a period of turmoil and transition. Since deregulation, intermodal, intramodal, and source competition has increased tremendously. The railroads face the greatest challenge with their employees because intramodal competition has not been increased by new entrants. Nevertheless, the freedom given to motor carriers to expand their operations, the potential growth of transportation companies and source competition could put some meaningful pressure on the traditional myopic views of rail labor. Both air and motor carrier labor have felt great pressure by the entry of direct competitors into their markets. The competitors are non union, low seniority carriers with extremely flexible work rules and hence high productivity. They have forced organized labor in the air and motor fields to readjust their goals and objectives so that their employers can compete with these new entrants.

While Employee Stock Option Plans (ESOPs) have been a suggested method to capture employee support and productivity gains, they are still controversial. While an ESOP may be appropriate some situations, it is not a cure-all. Employees in a ESOP are trading off wages versus dividends. In addition, if the company fails, the stock will become worthless. Labor should weigh these considerations when contemplating an ESOP. Likewise, management should consider their relinquishment of control.

In summary, although there is talk of a capital shortfall in the transportation industries, it is my opinion that the market will provide captial for the transportation industries if these industries are competitive (in terms of financial return) with other industries. It must be remembered, however, that strategic planning & financial planning must go hand in hand.

USE OF STRATEGIC PLANNING BY A RAILROAD

By Roy B. Opitz
Assistant Vice President
Corporate Planning
Conrail

1981 was a watershed year for Conrail. The Staggers Act was passed in late 1980, allowing railroads the opportunity to be innovative in the marketplace. The Northeast Rail Services Act (NERSA) passed in 1981. Finally, Stanley Crane began his tenure at Conrail - an experienced, profit-oriented railroad executive with a track record of bottom line success.

Crane wanted a plan for a profit-making railroad. The previous planning done by USRA and later in house by Conrail and monitored by USRA had been done subject to many unknowns and a great many constraints (e.g., guaranteed long term income for many employees, required provision of commuter services). Furthermore, Conrail's planning activities in the early years were strictly monitored by USRA with an inordinate amount of attention placed on Conrail performance relative to the Final System Plan. These external constraints restricted Conrail's opportunities to achieve profitability. Performance measured against the Final System Plan was at best an academic exercise given the outdated assumptions used in that 1975 document. Mr. Crane decided simply to refocus on the issues faced by Conrail