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

in 1981 rather than an outdated road map.

Let us review some of the Strategic Planning processes that Conrail has successfully used as Mr. Crane led the railroad into black ink. Importantly, the NERSA Act modified the external environment in several ways so that management could focus on controlling internal and free market factors and events. The goal was clear. Earn a profit in 1982 and 1983 to establish a track record as a viable railroad. In striving to attain that goal, clear objectives were set up, including:

minimum profit levels over an initial two year period.

no more federal infusion of funding (except for pass-through of specific labor entitlements stated in the NERSA Act to be federal government responsibility, yet managed by Conrail).

wage and salary restrictions for both management and agreement people

physical plant restructuring and reduction.

continued capital investment program to increase productivity, efficiency and service.

changes in services and rates allowed by the Staggers Act.

overall responsiveness to market and economic conditions.

Much of the situational analysis necessary in a strategic planning mode had been undertaken and completed in the 1976-1981 period. Mr. Crane's emphasis has been to require his managers to act on the conclusions drawn from those background studies.

Internally, one of the first management initiatives at Conrail was to refocus Conrail's commercial activities so that pricing and marketing of services were tied directly to the assets to be used in rail service. Traditional rail rates were supplemented with new forms such as volume contracts. And the time necessary to quote competitive rates to customers was dramatically reduced.

Thus, the eight components of strategic planning described by my fellow panelist Ed McKeever were in fact incorporated in Conrail's planning process. But note the amount of lead time necessary in order to turn Conrail around from its tremendous red ink years to the current forecasted profit of $500 million (1984). And with a company as large and as regulated as Conrail, note the absolutely critical need for corrective federal legislation in order for the company to succeed.

The planning need continues at Conrail. The company cannot sit still while its competitors and shippers continue to change in the marketplace. The current goal is to return to the private sector through a sale of the stock now controlled by the federal government. Other issues replace the old problems as being more critical and deserving of management attention. For example:

Disposition of the government's ownership position and resultant effects.

A new labor contract.

Investment strategies for piggyback service in a highly competitive intermodal market.

Competitive strategies as mega-mergers take place around Conrail.

Strategies that are based on railroad service versus total transportation service.

Conrail has passed its first two tests of returning to profitability and measuring up to a Congressionally mandated profitability test period. Conrail management is aware that firms that accomplish their initial goals, and reach the top of their class face even greater tests thereafter as the competition tries to knock them off. New goals and critical self-examinations are periodically needed to stay competitive. Conrail feels that its focused approach to strategic management is an important part of that effort. The Corporate Planning function contributes to this by identifying, defining, analyzing and directly addressing the issues and their probable futurity.

USE OF STRATEGIC PLANNING BY A MOTOR CARRIER

William J. O'Neill, Jr.
Executive Vice President
Leaseway Transportation Corporation

The estimated total logistics cost in the United States in 1982 was $432 billon. Of this, $182 billion (over 40%) was attributable to motor carriers and of that share, $45 billion (almost 25%) was attributable to for-hire motor carrier transportation. It is our company's objective to continue to increase our market position in this growing business.

Leaseway is a $1.3 billion dollar revenue corporation with 16,000 employees, over 72,000 vehicles, with 400 different physical locations. The firm regards strategic planning as a starting point for developing systems to expand or contract the above system. Prior to 1978, the firm was an operating rather than an implementing company. De facto deregulation convinced the firm that good planning was required to achieve greatness. I define strategic planning as bringing the future into the present so that we can do something about it now.

A conceptual overview of how we expect to obtain our ultimate objective, i.e., maximizing of Leaseway's warranted equity value, is shown in Figure 1. This entails a mission statement, the