in 1981 rather than an outdated road map.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

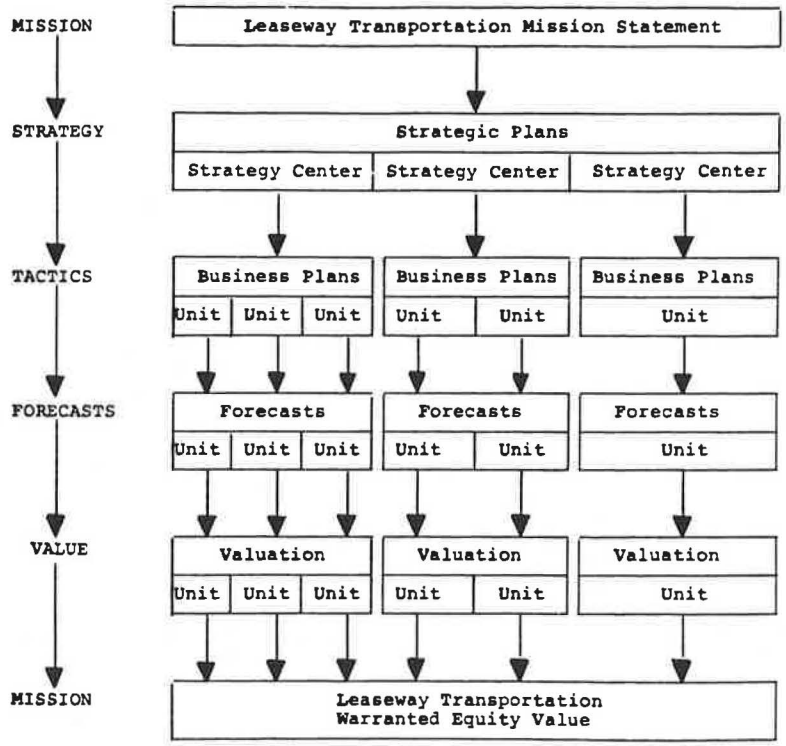


Figure 1. Conceptual Overview.

establishment of strategic plans, which are developed into business plans, which are strongly influenced by forecasts of activities and events which are not controlled by the company (e.g., the general economic conditions) and which are controlled by the company (e.g., price and service levels and the changes in market value predicated on changes in them), followed by a valuation of the likely scenarios, and an overall judgment as to which set of actions will lead to the attainment of the corporate mission.

The corporate mission statement is as follows:

> Leaseway Transportation is an aggregation of specific resources which have been organized by management to generate and sustain over time the greatest possible return for the company's shareholders.
>
> This return is achieved by producing an increasing array of high quality, cost effective physical distribution services which support the flow of materials, goods and products through time and space.
>
> These services include the individual components of highway transportation and warehousing, any combination of such components, and any other type of carriage, storage, handling or processing of goods required to achieve optimum service efficiency at lowest overall cost.
>
> Producing such services profitably, and expanding them aggressively, maximizes Leaseway Transportation's earnings growth rate and provides the basis for shareholder rewards.
>
> It is also the foundation for benefits provided to the company's customers and generates job security for the company's employees

Seventeen strategy centers exist at Leaseway. The largest such center is the automobile carriage strategy center. A description is as follows:

Automobile Carriage Strategy Center: Provides dedicated, or semi-dedicated, highway carriage of new automobiles from assembly plants, railheads or docks to dealers; also provides other physical distribution services closely related thereto. Truckload service is highly tailored to specific customers and closely integrated into customer's operations. Specialized equipment is generally employed. Principal customer is General Motors. Principal area of operations is north eastern quadrant of United States.

The center, as with the other centers, establishes a strategic plan. The typical elements of such a plan include: the size and scope of the center; its market position; the market, the internal and external environment, and the competition faced by the center; and the strengths and weaknesses of the center. The center then draws up its strategic plan statement, highlighting its key strategies for the coming period.

Each strategy center then draws up a business plan for each service line which attempts to bring the strategic plan closer to the operational stage. The typical elements of the business plan include; the current market, internal and external environment, and competitive conditions facing the service line; its key operating indicators; and the equipment, labor, monetary, and management required by the service line. This is all geared to a statement of profitability improvement which can occur via revenue growth

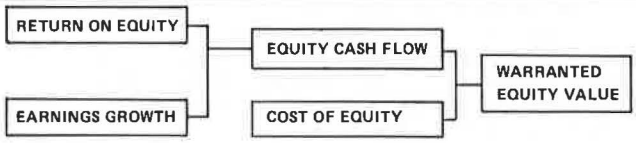
which, in turn, is predicated on more volume, higher rates, or acquisition/merger or via margin improvements which occur by raising rates or lowering costs.

The efficacy of the above plans depends on what is likely to happen in the marketplace -- some of which are not controllable by the company, some of which can be partially controlled, and others of which can be totally controlled. Forecasts are required to analyze the likely impacts of proposed actions on profitability.

These forecasts have general assumptions and some specific to the particular service of the line. In addition, some assumptions are critical to the service line. Special attention is paid to such assumptions as they can make or break the service line's performance.

The typical elements of a strategy center forecast by service line include: the capital structure of the service line; three to five year forecasts of revenues, costs, and expenses, pretax income, taxes, net income, and the balance sheet. The forecasts also yield rates of return on capital and equity; the ratios typically used in trucking and financial analysis, e.g., operation ratio, growth rates; margins; and cash flows.

The valuation methodology is related to serving the objective of managing each strategy center so that its warranted equity value (i.e., the price investors would be willing to pay for common stock if they knew management's best estimates of future equity cash flows and believed that management could attain them) is as great as possible and exceeds its book value by as much as possible. This relationship is shown below:



It should be noted that value is created when sustainable return on equity exceeds the cost of equity, i.e., positive spread, and that value is maximized when the positive spread and earnings growth are each maximized in the combination which produces the greatest value.

This value based planning calculates the present value of future equity cash flows, including terminal values, and compares this to book values. The final valuation presentation displays the warranted equity value, the book value both with and without goodwill, the ratio of warranted equity value for the financial forecast period as well as after the forecast period. The presentation then determines which strategy centers add value and how much they add as well as which strategy centers subtract value and by how much and then integrates all operations to yield the warranted equity value of the whole company.

This exercise then becomes the basis for the focus of management attention, decisionmaking, and iterative improvement in the strategic and business plans.

USE OF STRATEGIC PLANNING BY A SHIPPER/RECEIVER

James R. Mann, Director, Transportation Planning and Policy
U. S. Grocery, The Quaker Oats Company

I am pleased to have been asked to participate in this Transportation Research Board seminar addressing the subject of Strategic Planning for Freight.

Since I was to be on a panel assigned the subject of the "Use of Strategic Planning," in my case, by a shipper, I thought it might be a good idea to catch up on some of the current writings on the subject. I asked the appropriate person in my company to pull together a packet for me, and a few days later got a stack of articles about six inches thick, with a covering note saying "This may be more than you ever wanted to know about strategic planning." After reading the material, I can toss out terms like "portfolio management," "experience curves," "growth share matrix," and, of course, "cash cows, stars, question marks, and dogs." Unfortunately, I have only the vaguest idea what they mean.

One thing I noticed in the articles was a difference of opinion - not a surprise - as to the value of the strategic planning per se and as to various methods employed to do such planning.

For example, the views of Richard T. Pascale of the Stanford Graduate School of Business were quoted in the December 27, 1982 issue of Fortune magazine, as follows:

> "Very often, procedures like the annual strategic planning cycle haven't been terribly effective, partly because strategy doesn't [illegible] to be seen as a rain dance, a fire drill not to be taken seriously. The process ends up having the perverse effect of desensitizing people to strategic issues. Strategy becomes a routine exercise, rather than something expected of each person, each day."

A comment attributed to William Ellery Channing is "It is better to plan less and do more."

Many other writers of the articles I read, however, did not seem to question the value of strategic planning as such, but were offering their suggestions for better ways to go about it.

Most of the material was addressing corporate strategies, which would be appropriate today if you were a transportation company, such as a railroad or motor carrier whose business was moving freight. Quaker Oats, on the other hand is primarily a consumer products company, and the efficient distribution of its products from where they are made to where they are sold, while essential to a successful business is not its reason for being.

Quaker's annual report for fiscal 1983 states its financial objectives in rather precise terms, i.e., R.O.E. improvements, "real" earnings growth, and commensurate increase in dividends, and follows with four broad strategies to achieve these objectives. I can see, in that context, a