Moon mission

MOVING RIGHT ALONG

THEODORE PRINCE

According to some authorities, the most dramatic transportation moment this century took place almost 30 years ago when Neil Armstrong stepped onto the moon and then returned safely.

In five days, the transportation industry will watch an equally challenging event: the splitting of Conrail between Norfolk Southern and CSX Transportation. Such a transaction is unprecedented. A living railroad is being simultaneously dissected and grafted onto its new owners.

There have been many mergers where one company is wholly absorbed by its acquirer. Several bankrupt railroads have had lines spun off as part of their liquidation. But the Conrail visception will be one for future textbooks.

The stakes are very high, even higher than the $20 billion total acquisition cost being discussed by the parties. This transaction occurs between two shadows.

The first shadow is that of mergers past. This merger is being played by rules learned from the Southern Pacific-Union Pacific merger, which are designed to help avoid service problems. Early on, NS and CSXT made peace with shippers by forging a threeway agreement with the National Industrial Transportation League and creating a Conrail Transaction Council (CTC).

CTC is composed of various industry organizations and their members. It exercises "oversight" to the extent that it can review overall service issues. NS and CSXT have agreed to share statistics developed in response to the UP-SP service reversal in 1997-98. Such information may be germane to the Conrail transaction, or there may be more appropriate, and perhaps less intrusive, measures that can be used during this case.

Additionally, to the dismay of Wall Street analysts, both railroads have been very forthright about not sacrificing the long-term benefits of the merger on the altar of short-term results.

Additional personnel are being hired and additional infrastructure being added, all in advance of the merger. This is not standard operating practice in a rail merger — or any other merger — where immediate savings are aggressively sought. The transaction has been delayed specifically to prepare for its smooth success.

The second shadow is a looming one of legislation to come. This merger occurs at the same time as Surface Transportation Board reauthorization. If things go badly, it is not unrealistic to envision a scenario where antirailroad legislation is passed and the benefits of the last 20 years of deregulated rail transportation are lost in whole or in part.

This transaction is already a highlight for railroad historians. The spirited bidding for Conrail is reminiscent of the battle for RJR described in "Barbarians at the Gate." Dave LeVan replaces F. Ross Johnson as the inadvertent maximizer of shareholder value. And the STB review was complete with encore performances of people "present at the creation" of Conrail.

When all is said and done, the success may come down to a simple commodity. Both railroads need some luck.

Safety is more than luck, and both railroads are serious about it. But an accident shortly after cutover could force the Federal Railroad Administration (FRA) to take Draconic action. The FRA was criticized for not getting more involved in the USP problems until after several fatal accidents. It won't wait this time.

Weather may be a problem. Conrail expanded beyond just Penn Central when Hurricane Agnes destroyed the CNJ and Erie Lackawanna. There is no predicting this impact.

Organized labor must cooperate, and this extends beyond railroad labor. Job actions by the International Longshore & Warehouse Union on the West Coast could affect activity in the Northeast by causing disruptions — and subsequent demand surges — that could overwhelm terminal and equipment capacity. (This was one of the problem sources in 1978-79 when Conrail brought the nation's intermodal system to a standstill.)

Culture can be an obstacle, especially when luck appears to be running against you. The Conrail culture is somewhat unique as a result of history, management and geography. It is not unheard of for problems created in previous mergers to boil to the surface in subsequent mergers. Intracompany cultural divides can occur between predecessor railroads or between major departments.

The real challenge will center around information systems. While every company has problems in this area, Conrail's have been legendary. Over time, its information technology resources have resembled a Gordian knot of systems. Untangling it will be the key to success.

Some Conrail systems, which were not Year-2000 compliant, can be replaced. However, the traffic control systems must work, and NS and CSXT have been working feverishly to fulfill these requirements.

The Conrail story is a great one. Like most Conrail employees, past and present, I am proud of what this railroad accomplished. I hope the new blended company's next chapter is successful. NS and CSXT have spent great human and financial resources to guarantee a successful transition. They deserve it, and our industry and country need it.

Let's hope for a perfect launch and successful mission.

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