The still-evolving intermodal food chain

The Environmental Protection Agency recently announced that the bald eagle, our nation's symbol, is no longer an endangered species. Almost 30 years have passed since it was announced that the eagle was threatened with extinction and to 40 have elapsed since Rachel Carson's book, "Silent Spring," detailed the hazards of DDT and the close relationship between ecosystems, food chains and environmental hazards.

"Silent Spring" would make compelling reading for many transportation-related companies. Although certain statistics monitored by the Federal Reserve System have given evidence of a creeping return of inflation, other statistics reinforce the notion of global deflationary price pressures. Prices keep going down - not up.

In this environment, many transportation companies are struggling to survive. Not only are they grappling with deflationary price pressures, but they must face competitors who are increasing in size. It has been repeatedly demonstrated that when an asset-based, network-operating industry is deregulated, affected companies seek to improve performance by increasing economies of scale and scope. And the relationship between scope and scale is complicated.

Companies seek economies of scale by trying to increase volume, which allows high fixed costs to be amortized over a larger base of business. Companies have sought economies of scale to increase their business levels by being able to serve the full scope of customer shipping requirements. This enabled carriers to enter wide-ranging contracts as a sole (or at least primary) transportation provider.

Scope and scale would reinforce each other. Economies of scale enabled a carrier to reduce costs to attract a customer to a primary agreement. Economies of scope enabled a carrier to attract enough volume to reduce costs.

Today's intermodal industry has been undergoing significant consolidation, and nowhere is it more dramatic than the railroads. There are five major railroads in the United States, and seven in all of North America. But leasing companies, a primary source of capital to carriers, are undergoing a similar transition. And steamship-line consolidation is accelerating.

Many transportation companies are literally fighting for their lives. Small companies want to remain independent. Large companies need to pay for their latest acquisitions and prepare for their next ones. These forces are radically changing the way business is conducted between transportation companies. In almost every case, purchasers are trying to reduce the costs of their transportation faster than the market is reducing their rate levels.

Complicating the picture is the fact that purchases are often made between parties experiencing vastly different market conditions. Currently, ocean shipping has excess capacity and one-way volume. American railroads are capacity-constrained, and they are enjoying a robust U.S. economy.

In the coming years, we will most likely see two general types of contract negotiations between transportation providers. One will be the clash of the titans - between two major entities such as a railroad and a steamship line. In this case, negotiations can progress on a fairly reasonable level. The key to success will be well-informed (and empowered) negotiating groups. Today, some steamship lines come prepared for negotiation; others rely on a committee dogmatically intent on lowering rates but lacking practical ideas.

The limited capacity of the North American railroad system makes these negotiations somewhat predictable because overall, supply and demand are close. This does not apply for other transportation modes. Ports, for example, will become increasingly susceptible to steamship line negotiation extortion.

Because most port facilities are uniquely customized to an individual tenant, port capacity is not fungible. A landlord port cannot easily transform a facility into use by another line. The threat of abandonment must always be taken seriously. Ports could find themselves in the position of having their previous investment used against them.

Long-term, ports will become as ill as their food-chain partners, the steamship lines. Smaller vendors are having a harder time with negotiations. Because they lack volume and clout, they are often subject to increasing demands from customers. Past relationships and service quality often mean little in a time of financial panic. Local trucking companies and de-pot operators are classic examples. The absence of a national drayage company often makes local companies susceptible to such pressure.

In cases where the depot has an advantage, usually because of constrained land supply, the steamship lines' requests can become rather absurd. One depot operator recently told me about a request from a line to lower his in-gate charge by 10 cents. This is an obviously extreme example of cost-saving programs executed by lines desperate for survival. Ironically, the internal resources spent calculating savings exceed the savings themselves.

Amid all this change, some steamship-line executives still think nothing of badgering a trucker for both rate reductions and free sports tickets at one time. Capitalism is built on these ironies, but trading partners of our industry will, at some point, need to re-establish conflicts systematically for this century in transportation to see a safe transition into the next.

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