Intermodal fun and games ... and speculation

Next week in San Francisco the Intermodal Association of North America (IANA) will hold its annual meeting. As the conference convenes, many will be contemplating — either privately or publicly — the state of the industry. One question which may arise: "Are we having fun yet?"

This is a slightly childish indulgence, but I will use it to illustrate a certain nervousness. Unlike the situation at past meetings, there is no consuming industry crisis.

Service is steady — if not spectacular. The CSX-NS acquisition of Conrail has been consummated with relatively little drama, considering the magnitude of the transaction. There are no major labor issues on the immediate horizon. And while the world awaits the arrival of Year 2000 with apprehension, the economy remains robust. Intermodal volume growth has resumed, and, though not as spectacular as in past years, it has improved since last year.

Why then the concern? I believe people are starting to contemplate the issue of industry consolidation and their related downstream effects. Consider the following examples.

First is the Conrail transaction. Both railroads cited the intermodal benefits of creating two Eastern railroad systems to provide a true north-south intermodal product that could then compete with trucks. The Surface Transportation Board application estimated that they could attract more than 1 million loads in three years.

The application also cited improved competition. While most saw the possibility, few expected what appeared to be the result. Contracts are confidential, but the market is rife with rumors. Some intermodal customers are claiming price reductions of 20% to 25% below their Conrail rates.

Such change could have a profound impact on intermodal profitability. Industry growth will depend on railroads’ continued investment in capacity that is general to the railroad and specific to intermodal. An intermodal price war may not generate sufficient returns.

Then there is the case of the Maersk-SealAnd acquisition. This is one of the most destabilizing incidents in recent transportation history and will most likely trigger a flurry of industry consolidation. It predict some carriers will delay a difficult decision here and will most likely perish.

The intermodal implications of this acquisition are significant. As companies are absorbed, their longstanding vendor relationships may disappear and be replaced with new relationships with the new owners’ vendors.

As companies go bankrupt, vendors will be left trying to collect, possibly bringing about their own bankruptcy. Traditionally, leasing companies, depots and truckers have been the most harmed businesses. The 1985 bankruptcy of United States Lines left a trail of failed vendors in its wake.

Also receiving a lot of attention is Pacer International and its recent acquisition of the APL Stacktrain Services unit. Simultaneously, Pacer has been making a series of acquisitions in other related industries (for example, local drayage and intermodal marketing companies, IMCs) and rumors abound about other possible targets. (The only rumor missing has been a sighting of Pacer CEO Don Orris with Elvis.)

The Pacer strategy is frequently applied in other industries. It is a roll-up of smaller companies into one that has critical mass, which can allow it to go public. Often such highly leveraged moves have worked in many industries, from motor coach to funeral homes. While the debt issue associated with the APL acquisition was nothing compared with some of Michael Milken’s transactions, it was breathtaking by standards of our industry.

Observers are waiting to see the impact on the IMC industry. Three major companies are publicly traded (although Mark VII was just acquired). Two are owned or closely affiliated with major multinational steamship lines. And the rest face increased uncertainty.

Rumors involving possible sale or strategic investment surrounds just about all the remaining independent IMCs. Just like the steamship lines, many find they need to expand or to exit. Railroad requirements of higher volume, plus lower incentives have increased this pressure.

In fact, consolidation seems to be occurring just about every sector of the intermodal industry. Even leasing companies are joining in with the traditional suppliers. It’s merger madness. At a recent industry show, I encountered more investment bankers than consultants.

The intermodal drayage community, perhaps the largest IANA group, seems to be conspicuously absent from this investment frenzy. Although there have been acquisitions of drayage companies by larger transportation entities, attempts at a drayage roll-up have not really progressed.

This is due to many factors. First, no consensus exists regarding who should participate. The discussion then extends into which parties should run the new company. Finally, there is some resentment of the organizers, who many consider to be industry carpetbaggers.

With all this intrigue and a certain level of anxiety, next week’s event should provide excellent gossip and rampant conjecture. People seen talking will be examined like tea leaves as possible players in future industry activity. As we enter the peak shipping season, it is fun to let our minds wander beyond what we need to do to get the job done and the traffic moved, and to contemplate our future.

Theodore Prince (Ted_Prince@kleinschmidt.com) is senior vice president of sales and marketing for Kleinschmidt Inc., an electronic-commerce provider.