Pistols, swords or bytes

Before it was converted to a health club, the Union Pacific Railroad’s museum was located on the first floor of its headquarters in Omaha, Neb. The residual historical artifacts now reside on the building’s top floor, amid executive offices and dining rooms. Two of the dining rooms are decorated with traditional dueling weapons — pistols and swords. Watching the railroad industry battle over its current set of issues, we almost believe a third weapon should be added — bytes of information.

Traditionally, the relationship between railroads and technology has been a dynamic one. Railroads recognized early on the need for better information technology. The widespread introduction of the telegraph vastly aided the railroads, allowing for speedier transmission of train orders — and more business. The fact that this technology was introduced within the culture of the railroads meant, for almost two generations, two things.

First, technology was introduced within the confines of a centralized, command-and-control operating model. Railroad management, notoriously focused on micro-management, was able to use the technology to keep a closer eye on properties that became larger through mergers and acquisitions.

Local operating personnel were not pleased by the introduction of this technology. They considered it just another example of big brother encroaching on the way they had done business locally for years. Local employees also resented technology because it implied job loss. Modernizing business systems enabled railroads to centralize operations first by divisions, then regions — and ultimately, system-wide.

Railroad management for the past two generations was groomed in an environment of unrelenting pressure to reduce costs. The best cost-cutters were rewarded with promotions. This practice applied to technology as well. I can recall when, in order to maintain strict cost-discipline, technology expenditure required an accompanying cost savings. The rules were strict — even acquiring a $1,000 computer terminal had to be justified by an entire job elimination.

Today, of course, technology’s impact on the industry is pervasive. Proactive leaders, such as Rob Krebs, chairman and chief executive of Burlington Northern Santa Fe, are vocal advocates for improved technological solutions. Krebs recognizes the railroads could be less insular in their dealings with customers by utilizing the Internet, and other tools, to break down the barriers.

The railroad industry trade association, Association of American Railroads has a subsidiary called Railinc. It used to be an intensely bureaucratic organization with commit-

tees too numerous to count. Several years ago, Railinc was recast. It moved to Cary, N.C. from Washington, D.C., installed new management and focused heavily on technology solutions.

SteeleRoad.com was one of Railinc’s early initiatives. An Internet-based system giving shippers easy access to information, it is in the process of continual upgrading and enhancement. Yet it appears that the railroads want more.

Late in 1999, the rail industry met at General Electric’s facility at Crotonville to discuss e-commerce opportunities. Krebs led the railroad contingent. Jack Welch, GE’s chairman and CEO, who has become a great believer in the Internet and e-commerce, addressed the group. Electronic commerce has become a critical component in GE’s “six-sigma” search to eliminate defects.

Apparently there was discussion at the meeting of railroads becoming virtual transportation companies. Since further mergers seemed unlikely, at the time, it made sense for the industry to work together.

Krebs has long maintained that railroads should increase their operational cooperation in order to enlarge the base of business.

With the announcement of the BNSF-Canadian National merger and the banding together of Canadian Pacific, CSX, Norfolk Southern and Union Pacific to fight it, mutual harmony seemed threatened.

BNSF created FreightWise, using Manugistics as a solutions provider. The rest of the industry responded several months later, jointly announcing that CP, CSX, NS and UP had each invested in privately-held Arzoom.com.

Demonstrations and prototypes are fine, but Internet products must become robust and fully integrated into customer solutions to be effective. The railroads — through their strategic partners — will most likely lead the way to such development.

Unlike other transportation sectors, railroads number so few, that they have no need for an independent party to run an exchange. The railroads have recently announced a new exchange to handle purchasing. This is internally focused. Customers will want to see evidence of an external focus dedicated to fulfilling shipper needs. This will require commercial and technology weapons that really work — not just talk (although there has been lots of that). For now, most technologies employed are still of pistol and sword vintage.

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