Intermodal Interlude

To take liberties with Alfred Lord Tennyson, one might say that in the spring, an intermodalist’s fancy turns to thoughts of Atlanta. This year, for the first time since the International Intermodal Expo started in 1984, there will be no Expo. We have consolidation — which has reduced the number of industry players — to thank.

Rail intermodal continues to show strong growth. Although the economy’s health is in question, intermodal volume set another record in 2000 (the fifth year in a row for such performance — and the 18th time in 19 years.) Intermodal is now the second-largest commodity moved by railroads. Only coal is larger. At a recent financial conference, senior executives of all seven North American railroad systems expressed optimism for intermodal’s future.

When the first Intermodal Expo took place, great emphasis was placed on the hardware and infrastructure of the industry. As an example, CSX (nee Seaboard) was highlighting its new Atlanta intermodal terminal. Interestingly, in this year devoid of Expo, Norfolk Southern will complete its new, state-of-the-art Atlanta intermodal terminal in Austell, Ga. Railroads clearly continue to invest in the business.

Not too long ago, the transportation landscape looked different. In 1984, the real headline grabber was the double-stack train. Starting in the late 1970s, American President Lines (APL) developed an extensive network of inland rail transportation. Financial constraints had forced them to serve the U.S. East Coast by rail — rather than vessel. Working closely with the railroads, APL improved the price/service of intermodal — and they sought even greater improvement.

Double-stack was the paradigm shift. Because physical track constraints limited train length, the only way to lower expense was to increase volume — thus amortizing the high fixed costs. APL deduced that if a longer train was impossible, one twice as high was not. The system brought down cost. Articulated rail cars greatly reduced train handling slack, which, in turn, reduced damage caused by cargo coming through doors. Greater volume also allowed double-stack trains to run intact to destination and to bypass railroad switching yards. This further reduced damage.

In 1984, double-stack was limited to trains between Chicago and Los Angles and Seattle. Since then, it has spread throughout North America. Containers now represent almost three quarters of rail intermodal traffic, and rail intermodal traffic has more than doubled. Innovation has been steady, but industry observers speculate about a paradigm shift which could be this generation’s equivalent to double-stack.

Whereas double-stack changed engineering technology, the next giant step will probably expand current information technology. Intermodal drayage represents a similar opportunity to change economics and service. Since most drayage moves are load/empty, the ability to reduce empty miles (and expense) will enhance asset utilization and profitability. Improved drayage tracking and tracing will also help raise intermodal service levels, all the while reducing administrative expense.

Right now, the industry’s Gordian Knot is one of service levels and economics. Railroads are constantly attempting to unlock the value in their intermodal product. Some railroads approach this problem by providing various tiers of service, with the top tiers commanding a premium price. Yet this initiative only begins to address the issues.

Some railroads have found that when they start providing a product with truck-competitive transit and
reliability, additional benefits start appearing. Faster transit results in improved equipment utilization. Higher reliability allows for smoother terminal operations. The marquee customers on these premium trains often create heightened management focus and attention. All told, higher service levels can translate into improved profitability. While knowing better service results in lower costs, railroads have yet been unable to apply the lesson across their entire intermodal business.

At a time when truckload carriers face increasing economic challenges, the intermodal industry seems transfixed by the problem of price. For example, Kirk Thompson, chief executive officer of J.B. Hunt, indicated that the price difference between their intermodal and truckload products had reached 50 cents a mile (The truckload rate had gone up to $1.30 while the intermodal rate had declined to 80 cents). Many of these intermodal loads travel on railroad premium trains.

Additionally, it is widely rumored in the industry that it is possible to get a cheaper rate in CSX territory from Pacer Stacktrain than it is from CSX Intermodal — the actual underlying carrier. While this may or not be true, it points to a fixation on achieving lowest price whenever possible.

These examples reinforce the apparent paradox in customer mode determination. Any number of studies has shown that customers do not rank price as a top selection criteria. Yet, actual industry results seem to refute this finding.

Some believe that the trucking industry may be facing significant structural change. Trucking suffers from higher fuel cost, higher insurance premiums, driver shortages and a downturn in industrial production. At the same time, the used tractor market is significantly depressed. In the past, such conditions would lead to intense industry turnover — a number of players would exit the market and an equal number of hopefuls would replace them. A relative lack of barriers to market exit and entry made this possible.

The current trucking contraction may not see similar replacement. Although tractors may be obtained at bargain prices, other industry challenges may intimidate newcomers from entering the market. The results of such a transformation are difficult to predict. The elimination of the bottom tier of the truckload market could remove a certain level of price competition for rail intermodal.

The Bush Administration has made energy independence — and increased domestic production — a policy priority. While this country’s energy reserves cannot supply all our demands, conservation and improved efficiency are always admirable efforts. Intermodal has proven its fuel efficiency benefits and can also help mitigate highway congestion.

Perhaps the time is ripe for intermodal to take advantage of external factors and continue its growth. The Intermodal Expo will resume next year, and with it look for a fresh effort to move the industry ahead.

Theodore Prince, a principal in Transgistics LLC, based in Richmond, Va., has spent his career in the surface transportation industry.