Intermodal introspective

Industry leaders hold key to taking growing mainstream business to the next level.

BY THEODORE PRINCE

This month, the Intermodal Association of North America, National Industrial Transportation League and the Transportation Intermediaries Association will once again hold their annual industry show — a combination of the International Intermodal Expo and Transcomp. With the demise of the Georgia Freight Bureau (the Expo’s sponsor for almost two decades) the Expo is now an industry show — run by the industry.

While the end of the Expo may reflect the state of the trade-show-for-profit industry, intermodal traffic shows continued signs of health. Year-to-date volume through September indicates that traffic is up 7 to 8 percent for the year. The industry is poised to break the 11 million-movement threshold for the full year.

Intermodal is showing remarkable sophistication in its service offerings. Whereas railroads formerly showcased schedules that were really “best-case” offerings, today’s schedules are much more realistic. And in many cases the railroads have put financial incentives behind service guarantees.

Railroads have successfully made scheduling a much more bilateral effort. Based on their requirements, customers are given specific service slots. The network is planned around these commitments and customers cannot easily change them. This has been a shock to steamship lines — used to delivering cargo late to the railroads — who themselves never expected to face delays.

Cooperation also exists between railroads. A few arrangements offer joint services that are co-branded by two or more railroads. The industry has also worked to improve service through Chicago. The Chicago Transportation Coordination Office was created in 1999 following a series of service problems that highlighted the need for a cooperative effort. This office has made run-through trains less prone to service interruption, helping to reduce the number of units interchanged by “rubber tire” highway movement.

Improved schedule veracity points to the difference between speed and reliability. Today’s consumers seek time-definite transit first, and speed second. Customers formerly assumed

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that the fastest transit was also the most reliable (Or, at least it provided a wider margin of error). Slower and less expensive transit that is time-definite is often desirable.

Intermodal is not the only sector to recognize this. Air-freight providers are now selling substantial amounts of ground service, and steamship lines have seen significant growth in all-water service from Asia to the East Coast transiting the Panama Canal. Market segmentation allows for different service levels to reflect different pricing. The service levels distinctions include speed, guarantee of service and flexibility — a customer can actually go “stand-by” where the willingness to accept a 24-48-hour delay is reflected in lower rates.

**Shift To Containers.** The industry has also made great improvements in its equipment. While the intermodal trailer still plays a role in the transportation drama, the primary intermodal equipment type is the domestic container, and trailer traffic continues to be converted. Railroads have recognized the train efficiencies in double-stack and they have configured networks and terminals to accommodate it. Intermodal has traditionally lagged the highway industry in equipment size and capacity, but the 53-foot container has become a common piece of equipment and the car builders have finally found a way to position 53-foot containers in the bottom well of a stack car.

Lively debate in the industry exists over why customers demanded newer equipment. Was it because newer equipment was larger and able to accommodate increased loading — or was it because it was newer and therefore less likely to be damaged? Today, real maintenance and repair information relevant to this issue is available. Rather than rely on anecdotal evidence, the industry is now aware of what works and what doesn’t — and the necessary remedial steps. Engineering discussions now include the subject of thorny cost-benefit issues, such as whether steel should return as the container component of choice.

The rise of the container has not come without its problems. Railroads are trying to ensure that the linehaul benefits of containerization are not squandered in the terminals — where wheeled operations are still the rule.

One Burlington Northern Santa Fe manager recently noted that chassis are used only 30 percent of the time. While unused, they congest terminals, consuming scarce resources. Stacking containers, the most effective parking solution, is still widely resisted in the industry due to past catastrophes. But U.S. railroads increasingly are turning to the Canadian railroads that have successfully run stacked terminals for many years.

Managing chassis is also difficult (In Canada, the chassis is provided by the trucker and not the railroad or steamship line). The chassis problem is “the tragedy of the commons” for our industry. Cattle face this problem when they are herded on a common pasture. Each herdsman asserts his rational economic rights and seeks to maximize his gain. Each additional grazing animal represents an economic gain. But each herdsman runs the risk of ruin by overgrazing the “free” good. The free good in this analogy is either terminal parking (by the chassis owner) or use of a pooled fleet (by an under contributor.)

TTX is pondering the takeover of the U.S. domestic chassis fleet ownership and management. Should this venture succeed, then the model could expand to include international chassis. Such a move would represent a significant political achievement for TTX’s new leaders, but some railroad managers don’t see an economic benefit in it. Twenty years ago, TTX attempted a similar consolidation — with the free-running leasing company trailers — which was never accepted. The leasing companies and equipment builders — then and now — are in a bind. Over time, a significant equipment utilization improvement would increase demand from business growth; but in the short run, the industry would work off the suddenly surplus supply for quite a while — maybe several years. Furthermore, it is unclear whether TTX could manage the fleet better — for less cost — than the large owners do today.
Technology. Technology has continued to play a leading role in the intermodal industry’s transformation. Tire inflation has improved roadability, lift equipment has become better engineered to reduce damage, and terminal operating systems have made operations more effective and customer responsive. Equipment reservations have moved online, and tracking and tracing has become more real-time.

Nevertheless, the drayage movement between the ramp and customer’s door is still a “black hole” and the ability to reload equipment is still problematic. Any number of Internet solutions claim to solve these problems, yet none has achieved breakthrough success.

Customer Relationships. One of the more interesting developments in the intermodal marketplace has been the area of customer relationships. Railroads formerly encouraged a third party managing the door-to-door movement and actual customer relationship. The railroads got the business without being required to staff and manage retail sales and trucking dispatch. Unfortunately, the value-add resided with that other party.

In some cases, the railroads have managed to unbundle the equipment expense to the third party. However, as the number of railroads has reduced, and similar consolidation has taken place with mass retailers and consumer companies, the opportunity to retail selectively has become more real. It is also more tempting, because the only way for the railroads to significantly raise rate levels and profitability is to take the entire transaction. The well-publicized financial problems of certain intermodal third parties make an all-railroad solution even more attractive to some customers.

Plots To Watch. Amidst all the current industry success, a number of factors will obviously impact policy issues that could impact the industry’s future. The economy is undoubtedly the largest. Intermodal, like most other transportation, is a leading economic indicator. Volumes drop in advance of recession and increase in advance of recovery. Additionally, in the past, as the economy got weaker, competition from truckers seemed to intensify. But current market conditions may be driving a lot of independent operators out of business — and stiff requirements in areas such as insurance are preventing their replacement. Intermodal may therefore have access to a wider business base going forward.

Oil prices might also profoundly affect intermodal’s competitive position vis-à-vis truck. Recent concern about war with Iraq has driven the price of oil to its highest point in more than two years. And what that market will look like? A 2001 study by James Ginter and Bernard LaLonde, entitled An Historical Analysis of Inventory Levels: An Exploratory Study, fully analyzed the working of the nation’s logistical system. Results concluded that proliferation of consumer products caused finished goods’ proportion of inventory to increase, while raw material and work in process were shrinking. Traditionally, motor carrier dominate in the finished goods segment, while intermodal competes strongly in the raw material and work in progress segments. This is partly due to customers’ perceived service levels — although intermodal is improving. And then there is the issue of length of haul — intermodal still needs at least a 500 to 800-mile length of haul to compete on price and service — and most traffic is less than 500 miles.

Trade constitutes a big policy issue. The public fails to realize that international trade, to succeed, means an intermodal success story. Containerization and double-stack transportation have been components in fueling trade and economic growth. It has been estimated that at least 40 percent of intermodal volume is either carrying international trade or moving an international container in domestic service. Although trade has grown as a percent of our economy, such growth cannot be assumed into the future.

In a recent legislative triumph, President George W. Bush obtained trade promotion...
authority, or “fast-track,” from Congress. This authority had expired in 1994 and had not been reauthorized. It is unknown how the authority will now be used. A year ago, the outlook for international trade was bright. China had joined the World Trade Organization and 142 nations meeting in Doha, Qatar had agreed to start a new round of multilateral trade negotiations. Since then, U.S. policy has changed. President Bush seems sometimes to have followed a zigzag course on trade. Some tariffs have been imposed — and other tariffs have been excluded. Any impact on trade — or the dollar — affects liner shipping companies. At the same time they’ve undertaken major investments in new vessels, lines are losing billions of dollars. Meanwhile, railroads worry about bankruptcy of these major intermodal shippers.

Another plot to watch revolves around legislation reauthorizing the Transportation Equity Act for the 21st Century (TEA-21), which expires next year. A Freight Stakeholders Coalition has been established, co-chaired by IANA President Joni Casey and Jean Goodwin, American Association of Port Authorities executive vice president and general counsel. Several of the freight industry trade associations have agreed upon a common agenda of nine points. Now, we must wait to see if the Department of Transportation — and Congress — can focus on legislation not directly tied to national or homeland security. Delay of this critical legislation, due to other priorities, is a possibility.

As we attempt to predict intermodal’s future direction, we must consider our industry leaders, who are today guiding a mainstream business. A recent study conducted for the Association of American Railroads calculates that intermodal may surpass coal as the leading revenue commodity by the end of next year. With the exception of a few individuals, today’s intermodal leaders are “business” people. Most of them have demonstrated their abilities elsewhere. Their success in intermodal will lie in effective asset management.

If we can retain entrepreneurial spirit from the past and marry the lesson to the market opportunities available to the industry today, intermodal’s future can continue to burn bright.

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