Intermodal inventory

Industry continues to flourish, but issues still need to be resolved.

BY THEODORE PRINCE

While intermodal transportation continues to gain prominence in our nation’s freight industry, some intermodal leaders still consider intermodal to be under appreciated overall. As confirmation, consider an article that appeared in one of last year’s Fortune magazines entitled “How trains trump trucks.” Although the piece was generally favorable towards the railroads’ and intermodal’s future — it was accompanied by a simplistic toy train diorama. While the scene may have been acceptable to a model railroader, the depiction was not an accurate representation of today’s intermodal business.

North American intermodal growth has continued to flourish. The second quarter of 2003 saw the fifth consecutive volume quarterly gain — despite a generally weak economy. Since rail industry deregulation in 1980, intermodal traffic has tripled. Although intermodal growth languished in the late 1990s, while the rail industry struggled with merger related problems, traffic growth has clearly resumed.

Breaking Down Success. Intermodal is no longer a minor commodity. It is challenging “King Coal” as the industry’s primary revenue driver. The factors contributing to this success can be broken into four main categories: predictability, customization, cost and cooperation.

Predictability is the frequently misused complement to transit time. Although intermodal is often faster than truck on certain transcontinental corridors, it does not always need to be the fastest. In today’s tightly controlled supply chains, arriving early is often as detrimental as being late.

Railroads have developed a wide range of services that are customized to satisfy individual customer requirements. These different products fulfill a wide range of services. If one needs a high-service, low-transit time product, a service offering exists to fulfill that need. If a certain leeway is available in the delivery window, and the customer can afford to absorb some delay, a product exists which allows him to share in the economic efficiencies. Service performance has also increased to the level that railroads are willing to offer financial guarantees on their high-end products.

Intermodal rates are probably no longer the first factor cited to explain its success. This is probably because most (but not all) industry participants have come to realize that selling price alone is not a viable long-term strategy. Customers are interested in cost savings only when they are combined with predictability and customized services.

Intermodal is no longer an end to itself. It is increasingly part of a solution spectrum for customers. Intermodal marketing companies (IMCs) who used to sell intermodal strictly on price, now combine intermodal solutions with highway brokerage. Many truckload carriers now offer intermodal alongside traditional motor carrier offerings. This is similar to how...
both offer contract logistics.

Cooperation between modes is also becoming more common in the industry. In the past, “cooperative ventures” were often successful in word only. There were clear winners and losers. Today, win-win results reflect a more balanced and informed marketplace. For example, the joint agreement this June between the American Trucking Associations and Association of American Railroads was a watershed event. The two organizations agreed to maintain existing truck size and weights. With this perennial causis belli removed, railroads and trucks can now work together on the numerous issues where they share common ground: improving intermodal facilities, opposing diesel tax increases and minimizing environmental disruptions.

Intermodal services are increasingly being developed in a truer sense of partnership. North American service offerings are available through virtual railroads, such as Pacer Stacktrain, as well as interline rail service. Customer alliances — especially with truckload and less-than-truckload carriers — as a means to develop new service products are more commonplace.

Despite all the industry’s positive factors, issues still need to be resolved. One of the key questions revolves around the future traffic mix.

From 1996 to 2002 intermodal enjoyed a compound annual growth rate (CAGR) of 3.5 percent. But this reflected — and hid — a dichotomy, whereby international traffic saw a 5.7 percent CAGR and domestic traffic only grew at 1.3 percent.

Barring a trade war, international traffic will continue to grow. In fact, international trade is forecast to triple by 2020. There will be some movement of steamship line accounts between railroads, but the days of cutthroat price competition to attract this business are probably gone. Terminal capacity and peak demand days probably limit any single railroad from gaining market dominance in this sector.

The domestic market is more intriguing. Some railroads are concerned that the traditional wholesale approach to the marketplace through IMCs is flawed (Existing intermodal business is traded amongst different IMCs — but the overall IMC volume remains relatively flat). While all railroads are seeking new motor carrier business, some U.S. railroads seem to be considering how they can provide their own retail, door-to-door service (The Canadian railroads have been providing such a service for many years).

As a result of the AAR-ATA size and weight ceasefire, railroads and trucks now provide the same truckload standard piece of equipment — the 53-foot box. Finally, the railroads are not playing equipment size catch-up (which they did for 40 years).

Some interesting developments have resulted, the most fascinating of which may be the underlying traffic imbalances that are equalized by transloading. International traffic consists predominantly of eastbound imports off the West Coast, whereas domestic traffic is imbalanced to the West Coast — especially to southern California. Transloading import cargo into domestic boxes is therefore a win-win solution for steamship lines, railroads and intermodal providers.

**Infrastructure.** As traffic continues to grow, all parties will seek efficiencies. Ultimately, however, increased infrastructure investment will be necessary. Railroads have steadily invested in intermodal infrastructure. This may be specific investment in intermodal terminals and equipment, or it may be generic investment in network capacity and locomotives. Still, regardless of their considerable commitment to intermodal, railroads are capital-intensive industries. Although almost 20 percent of rail revenue goes to capital investment, only $9.8 billion of public funds went to rail related projects in 2000 — as opposed to $125 billion for highways. That is not a sustainable model. TEA-21 reauthorization is delayed, but hopefully the new legislation, tentatively dubbed SAFTEA, will result in legislation that recognizes the essential nature of intermodal freight.
transportation. As the intermodal industry gathers in Fort Lauderdale for its annual Expo, it can enjoy its day in the sun with expectations that the future growth and investment that is necessary, is also attainable.

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