Remember the Alamo

Ted Prince

The intermodal industry will gather this month for its annual trade show, the Intermodal Expo, in San Antonio. This city is perhaps best known as the location of the Alamo — an iconic site widely recognized as a symbol of heroic courage in the struggle against overwhelming odds.

The Alamo has some historical similarities to the intermodal industry. Like many “legacy” intermodal terminals, it had an extensive past before it came to its most famous use. It began as a simple Spanish mission, run by Franciscan missionaries. Its location was important because it was strategically placed on the El Camino Real — the King’s Highway.

Most Americans are aware of the Texans’ defeat at the Alamo, and their subsequent victory at San Jacinto, which “won” the Texas War for Independence and established the Lone Star Republic. What I find interesting is that prior to the Alamo, Texans had triumphed in most of their military campaigns. It was their inability to deal with success that led to Alamo debacle. Most of the volunteers who had returned home, convinced the war was over, while the provisional government became split by internal quarrels. There’s a parallel with today’s intermodal industry.

For intermodal, 2004 has been a difficult — but successful — year. Volume is strong. According to the Intermodal Association of North America, intermodal growth was up 7.1 percent and 8.5 percent in the first two quarters of this year. Along with the fourth quarter of 2003, they represent the three strongest consecutive quarters of intermodal growth since IANA began reporting in 1996.

This is all great news. But there are questions that warrant scrutiny.

● Can the new rate paradigm hold? The railroads have increased rates along with demand and increased production factors. If these can be maintained, the intermodal business can demonstrate to Wall Street the magic formula of robust earnings — along with growth. This is critical to ensure continued investment. Although many shippers with long-term contracts have escaped immediate increases, all shippers have been subject to reduced terminal freetime and escalated storage. Over time, these changes may prove even more beneficial than linehaul rate increases by incenting improved “behavior.”

● Are trailers back? Domestic trailers have been a large part of the recent traffic boom. Rather than reflecting negatively on containers, this reflects the railroads’ ability to attract motor-carrier business. Twenty years ago, railroads tried to handle containers like trailers. With the advent of double-stack, the paradigm was reversed (all-purpose stacktrain cars handled trailers like containers). It will be interesting to see if the industry can develop — and manage — specialized operations for both.

● Can intermodal expand beyond east-west longhaul? Despite good intentions to serve shorthaul and north-south markets, intermodal remains focused on longhaul east-west movement. This uses a constrained network in the most operationally efficient and commercially profitable fashion, but it precludes entering new markets.

● Will rail and water ever mix? Although railroads and steamship lines — and visa-versa. When ports and terminal operators become involved, the equation becomes more complex — a game of musical chairs, where each party watches out for himself. Conflicts in this sector must be resolved.

● Can the drayage world avoid imploding? Intermodal can “look like truck” because drayage firms provide the pickup and delivery between customer facilities and intermodal ramps. This industry segment has been subject to incredible pressure from a perfect storm involving fuel prices, insurance availability, security requirements, driver shortages — and customer resistance to rate increases. If this segment goes into crisis, will the entire industry. Hopefully, the proposed revision of equipment interchange rules may signify that we are doing what is best for the entire industry, not just the strongest players.

● Where will the legislative roulette wheel end? Although many people have focused on the failure of the administration and Congress to reauthorize TEA-21, legislative concerns extend much further. State and local initiatives, especially in such critical areas as California, Illinois and New York-New Jersey, can paralyze the network. We have been fairly successful in avoiding the imposition of onerous laws, but it only takes one to create an industry crisis.

As the industry gathers in Texas, we should recognize our success and strive for more. We must not declare victory and go home. Doing so would not be remembering the Alamo.

Ted Prince is senior vice president of Optimization Alternatives Ltd. He can be reached at (804) 754-2291, or via e-mail at ted@oax.com.