Steady as she grows

Next week the intermodal industry gathers at the annual Intermodal Expo. Representing the market segment that’s the major driver of the railroad industry’s volume and profit growth, the Expo is roughly the same size as its companion, Transcomp — the trade show for traditional carload shippers.

For intermodal, there has been a lot of good news over the past year. Volume grew 6 percent through three quarters of 2005. Growth was largely the result of an 11 percent increase in marine containers, predominantly from China. Despite the growth, container ports on the West and East coasts have performed well and without what was feared would be crippling congestion.

While many import containers continue to move intact from vessel to rail, an increasing percentage of them are devanned at the port of discharge and transloaded into 53-foot equipment for inland movement. This system has proved effective for all participants: steamship lines avoid inland intermodal movement; motor carriers and domestic container operators (often the same) quickly reload equipment; and customers enjoy lower supply-chain costs.

Fuel increases have been dramatic, but most carriers have enjoyed a year of rate stability and increases. While trade growth has supported ship lines, driver shortages have reinforced truckers, and stringent marketing has benefited the railroads. In a landmark arbitration, BNSF Railway won increased revenue from its intermodal partner, J.B. Hunt Transport Services, but their relationship is expected to continue to flourish.

Some industry experts believe the railroads have approached today’s marketplace with a “less is more” approach. Railroads have cut back on those service lanes consuming scarce resources without an adequate return.

Railroads have cast aside the mindset requiring full trains — no matter what the economics. A good example of the new approach is Canadian National’s Intermodal Excellence Program. CN imposed a rigorous discipline on its international customers to regulate train size, car balance and terminal queuing. They refused to increase capacity that could not be consistently sustained; however, once the market growth was recognized, increased service was introduced.

Perhaps no aspect of today’s “leaner and meaner” rail industry has generated more fireworks than the decisions by some railroads to cease providing railroad-controlled trailers and containers. Led by BNSF, most have announced an exit path over 18 months (to the end of 2006). The implications are strongest for two industry sectors.

Leasing companies are transitioning from providing large equipment pools to supplying fewer assets to a larger number of private users. While the basic asset is unchanged, the business models and user requirements call for a much more responsive lessor.

Intermodal marketing companies face a Hobson’s choice as this equipment transition plays out. At one extreme, IMCs could abandon the rail intermodal segment and concentrate solely on truck brokerage. Alternatively, they could break their nonasset mold and acquire private equipment, which they themselves would manage. IMCs could decide to use “bi-modal” carriers (such as Pacer Stacktrain, J.B. Hunt, Swift and Schneider) for equipment previously provided by the railroads.

Unfortunately, bi-modal all offer customer-direct solutions that might pose a future competitive threat to the IMCs.

Chassis remain the industry albatross. Although ship lines and marine terminal operators have successfully implemented several local chassis pools, the railroad industry has been unable to move forward. TTX has been hoping to generate a business case compelling enough to allow it to purchase all the railroad chassis (to manage as a national pool), but it lacks member consensus.

A national pool would represent a major step toward solving intermodal’s Gordian knot. Double-stack makes containers the line-haul movement of choice, but trailers — containers on chassis — are easier to manage in the terminal. Stacking, chassis pools and terminal reservations are inextricably linked to solving the operational challenges presented by continued growth. Notably, the issue isn’t technology — it’s overcoming resistance to change.

Intermodal’s future looks robust. International cargo is expected to continue to grow, and domestic prospects are strong, with fuel prices high and driver supply low. The time is right for all participants to collectively innovate for the industry’s greater good — without disproportionately penalizing any one segment. The old adage that the only thing two intermodal parties can agree on is to take advantage of a third, must change. The strongest intermodal industry will be one that works in unity, where every participant can contribute best-in-class service for its specialty.

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