GHOSTS OF INTERMODAL PAST

Maybe it’s the approach of the holiday season and its inevitable references to “A Christmas Carol,” but the ghosts of intermodal past seem to be offering good advice for us now and for the future.

The intermodal past was a free-wheeling — if not more innocent and trusting — time. Less than a generation ago, being involved in intermodal service was akin to being posted to some exotic and remote colonial frontier. One might advance to a certain level of responsibility, but you would never return to the railroad’s mainstream.

In an environment where industry peers at railroads other than your own were frequently more supportive of intermodal initiatives, working on new designs or third parties driving widespread implementation of EDI, the belief that a rising tide would raise all ships prevailed in the industry and underscored the pioneer spirit of that era.

Even the government was a welcome partner. In the 1970s, the Federal Railroad Administration funded significant research on intermodal terminals and information technology when nobody else could or would.

Intermodal’s inflection point was railroad deregulation in 1980. For the first time, railroads could balance supply and demand. Traditional railroaders attacked the supply side with a vengeance, shedding assets and slashing employment. Intermodal led the demand side, because it was the only segment with access to large amounts of discretionary business that could immediately be attracted to rail without the need for any prerequisite investment.

Because the railroads resisted a door-to-door product of their own, many railroad employees went into business for themselves as “shipper’s agents” to fill the void. They later upgraded their industry to “intermodal marketing companies.” Although traditional shippers found the railroads difficult to deal with, ex-railroaders spoke their language. They also understood the pressure points to which railroads would respond.

Thus began the practice of increased volume being rewarded with lower rates. Overall intermodal volume grew, but not as large as expected; third parties had become astute rate arbitrageurs and were constantly shifting carriers and routes.

From 1980 to 1996, railroads embarked on a wave of supply and demand-driven mergers and acquisitions. End-to-end mergers allowed for further cost savings — especially in headquarters’ overhead — and provided longer, single-railroad length of haul, which was especially attractive to the intermodal business.

Two historic agreements were signed in this period: APL-Union Pacific and J.B. Hunt-Santa Fe. Both involved astute shippers who saw unique commercial opportunities for their companies to integrate intermodal into their core businesses. Both found a railroad that uniquely fulfilled their requirements, and were starving for new business.

In retrospect, both contracts fundamentally changed the intermodal business. They provided an incentive for first movers to take “bet-the-company” risks in search of sustainable comparative advantage. Both led to a torrent of new business for the railroads as competitors of APL and J.B. Hunt realized they ignored intermodal at their peril. In an industry where nobody wants to be first, there was a stampede to be second.

Over time, intermodal became the predominant railroad business sector. As intermodal’s “greatest generation” disappeared, it was replaced by well-educated managers, many just passing through intermodal on their career paths. These data-driven individuals were appalled to find legacy contracts that consumed scarce capacity while paying below-market rates.

As wildly successful as intermodal has been, it still has abundant potential. The question for the industry is whether it can still induce change leaders to “bet it all” on rail intermodal by insisting on two-year contracts priced at market rates. Will the intermodal sector be able to overcome its comfortable present to re-create past innovation and succeed in the future?

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