THE RAILROAD WEEK IN REVIEW
March 8, 2013

"Focus on what makes a difference; be nimble where new business comes your way" -- *Clarence Gooden, CSX*

CSX Short Line Workshop XXIV is now history. To me, CSX has hit a new high in shortline collaboration, where every presenter without fail cited the economic value of shortline relationships to the topic at hand. To begin: short lines, regional railroads and switch carriers in in 2012 touched some $1.7 billion of CSX revenue and a million revenue units. Putting that in perspective, CSX reported $11.8 billion total revenues on 6.4 million revenue units last year. So the so-called "shortline community" handled 14 percent of revenue on 16 percent of units.

More than 250 shortliners and spouses representing some 160 railroad names or holding companies descended on the Marriott World Golf Village south of Jacksonville for the Sunday-Tuesday event this past week. The same successful format was employed -- golf, reception, formal presentations, a trade show and breakout sessions, and the energy and care put into all of it reached new highs.

As some of you may know, I had been in Jacksonville a couple of weeks before Christmas interviewing CSX senior management for my Feb *Railway Age* feature on the CSX 2013 capex program. The central theme of our discussions was built on CSX Core Value Number One, "It Starts with the Customer." And every element of that story, even down to the same words and examples, was evident in all the shortline presentations. The consistency was remarkable.

For example, Cindy Sanborn, VP and Chief Transportation Officer, led a panel of three VPs on "higher levels of service excellence." CEO Michael Ward had positioned her back in Dec as "the most customer-focused Chief Transportation Officer I have ever known" and it came through loud and clear (he used the phrase again during his dinner remarks Tuesday). Her message is that fact-based measurement of first-mile, last-mile performance yields service improvements that result in more business from the core customer base.

CFO Frederick Eliasson showed how capital investment is directed to specific growth-oriented service improvements, and demonstrated that CSX now has the most diverse book of business ever, with 80 percent of units having nothing to do with coal. Then Chief Commercial Officer Clarence Gooden weighed in with his commodity breakouts: the percentage of each commodity's moves touching short lines, how customers have rewarded service improvements with more business and how service makes a difference[1] in customer response.

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[1] In one survey, half the customers said they had increased vols on better service and half said vols would remain the same regardless. Asked why, these customers said CSX was already getting all the rail business they had.

Here's where the December theme really showed up. Customers say what they want most is: Be here when you say you will, tell us in advance if you can't, and remember we want to be able to count on you as part of our supply chain. From that, says Clarence, the Class II and III connections have four take-aways: Focus on places you and CSX can make a difference for the customer; find more ways to educate and engage customers; be more nimble in your new business approach; improve communication and coordination between you and CSX at the interchange.

He concludes, "We've got to get our customers away from the perception that it takes forever to do anything with the railroad. The fastest thumbs in the world on iPhones aren't going to wait around for us. And we have to do more communication in person." In other words, go see what your customer is doing and why; tell him in person if there's a mutual challenge. And always say thanks for a job well done.

Chief Operating Office Oscar Munoz over lunch and CEO Michael Ward at dinner continued the same themes. Continuity, says Oscar, has three components: safety, service and productivity. And we would like all the players -- customers, employees, short lines -- to have a shared purpose in each of these elements. Ward's wrap was perfect. It all starts with the customer: Better service encourages the customer to buy more from us, better service costs us less, and best of all, better service is a safer service.

Supporting the formal remarks were Monday's Trade Show and Tuesday's breakout sessions. I always like the trade show because you get a chance to engage with the very folks you work with to keep customers smiling. This year's edition had 42 separate tables, from Agriculture and Car Accounting to Food & Consumer and Warehouse Services. There were interactive displays, games, worth-while souvenirs, hand-outs and -- yes -- buckets of good information dished out by bright, interesting -- to me at least -- youngsters who really love what they're doing.

Tuesday's four periods of breakout sessions had eight commodity groups presenting six at a time so one could pick and choose and pop in and out as it suited one's needs. The common thread -- I managed to visit 'em all -- was to engage the shortline partner in specific commodity trends and how to make money from them (remember the old trader saw -- the trend is your friend). I also learned that CSX is moving away from the "Emerging Markets" category in its financials, splitting that catch-all into minerals (chiefly aggregates and rock salt) and waste, though frack sand -- STCC 14 413 -- remains in chems.

Finally, recognition. Each year CSX identifies the shortline, regional and switch carrier partners that have contributed the most to the relationship. More than 20 names were so recognized, from a 500-mile regional to a 16-mile terminal operator. Together they brought CSX 33,000 more carloads in 2012 than they did in 2011. The commodity breakout covers the lot: more roads with new chems cars than any other commodity group, forest products second, then grain, then mets and so on. Only one road -- as it happens, the biggest -- did any coal at all. So it's good to see the pure merch business alive and well in this community.

All in all, I found the program literally welcoming. All the CSX staffers I spoke with seemed generally interested in the CSX-short line (I use the term generically) relationship and the furtherance thereof. The 30,000-foot host railroad-centric views were assiduously avoided, and they made everybody feel at home and welcome. I'm glad it starts with the customer.

Now that Berkshire Hathaway fourth quarter and year end results are out, we can gain a little more insight into BNSF performance. You can get railroad YTD carloads from the BNSF website and then go through the Berkshire 10-K for revenue and expense details. Total railroad revenue increased 6.4 percent to $20.8 billion on 9.6 million revenue units, up 1.8 percent.

Operating expense was up 4.1 percent, bringing operating income up a respectable 13.2 percent and the operating ratio down 1.7 points to 71.2 percent. Capex was $3.5 billion, up from $3.3 billion the prior year, up 6.7 percent and representing 17.0 percent of revenues, about the same as 2011 and about 90 basis points behind UP. Ops income covered interest expense 9.6 times, three points behind UP but three points ahead of the other US Class I roads.

Merch carloads -- industrial, chems, auto, but ex-petroleum -- increased 8.9 percent to 2.8 million units on 12.9 percent more industrial products (chems, ores, metals, forest products, packaged foods, aggregates and coke), 3.9% less grain and grain products and 34.4 percent more auto racks. Petroleum was half again the 2011 number at 354,000 units and intermodal units grew 2.6 percent year-over-year.