

RAILROAD WEEK IN REVIEW

October 4, 2019

“Despite an initial bias against PSR driven by CSX’s early service failures, shippers seem to be cautiously optimistic.... Six months after the NEARS spring event it’s still unclear how PSR is impacting shippers.” – Bill Vantuono editor, Railway Age, September 2019

The Fall session of NEARS did little to dispel doubts about the ability of PSR to deliver additional supply chain value to customers and short lines alike. The single thread that ran through most of the presentations was that railroads are still difficult to do business with.

The millennials filling the transportation buying slots at manufacturers are used to point and click for products and services that show up when needed and as expected. Nobody has the time or inclination to wait for a railroad to respond to a transportation request.

What follows are just my first impressions of all that transpired at NEARS this week. I just got home late yesterday and need a few days to digest my notes and the conference presentations. Watch this space for more on my conference take-aways on what folks are saying about how they’re dealing with the difficult railroad environment.

Mike Miller, GWR President for North America, zeroed in on the changes coming to GWR as a result of the pending acquisition by Brookfield Infrastructure Partners (BIP), which will result in GWR becoming a privately held company. GWR results have traditionally been an 80/20 mix between North America and Europe/Australia. As a result of the transaction, Australia goes away and GWR becomes a 90/10 mix — 90 percent US, 10 percent Europe.

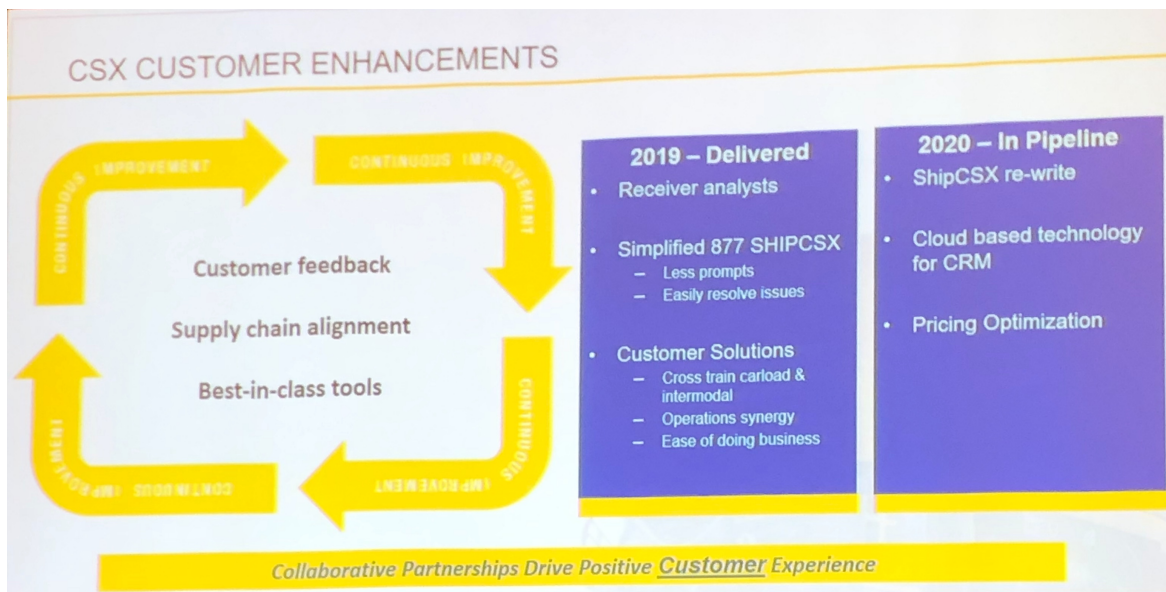
There will be no change in GWR’s approach to managing its 113 shortline and regional railroads with more than 13,000 route miles in six North American regions. They operate in 41 U.S. states and four Canadian provinces and cover more than 13,000 track-miles.

Miller says they have both ISS and handling railroads, but doesn’t think one has an advantage over the other in shaping Class I relationships. Both require a thorough understanding of customer supply chain requirements and how best to put these requirements in front of its connecting railroads in such a way as to satisfy the latter’s financial, commercial, and operating objectives.

Car supply remains a challenge; however, Miller says one out of five new business opportunities gets away for want of equipment availability. Clearly a case where ease of doing business needs improvement.

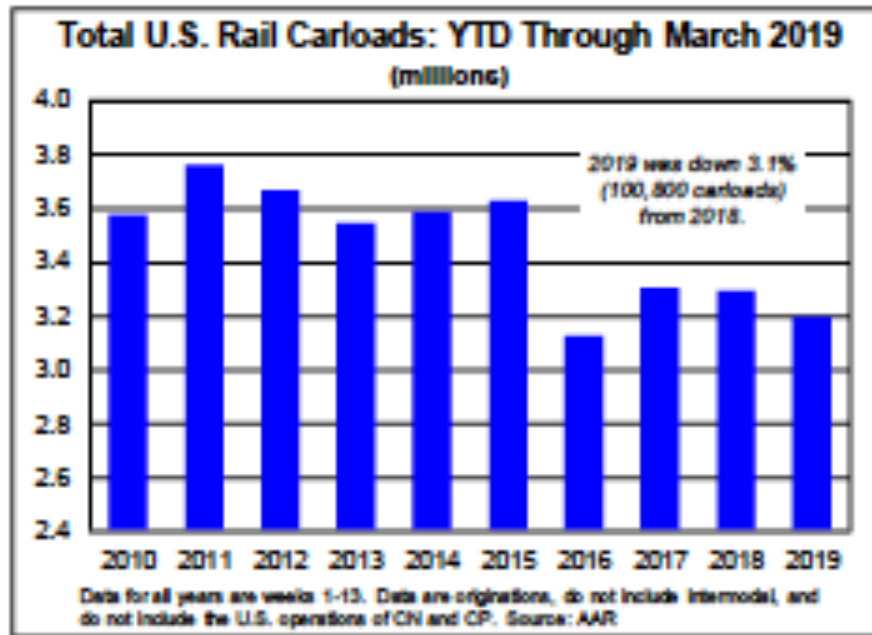
That said, there are glimmers of hope. Arthur Adams, CSX VP for Sales and Customer Engagement, tells me his charge is to find out what it will take to win more merchandise business and translate customer needs into product design. The successful scheme is one that creates fewer boutique products and more products with wider applications — much the same way Apple (his example, not mine, even though I touched on this in WIR 9/20) has done.

In short, he's seeking customer solutions (his term, not mine) that blur the lines between carload and intermodal product design, find ways to use operating resources that can serve both products simultaneously, and make it easier for customers to access these tools. Screen shot of his slide:



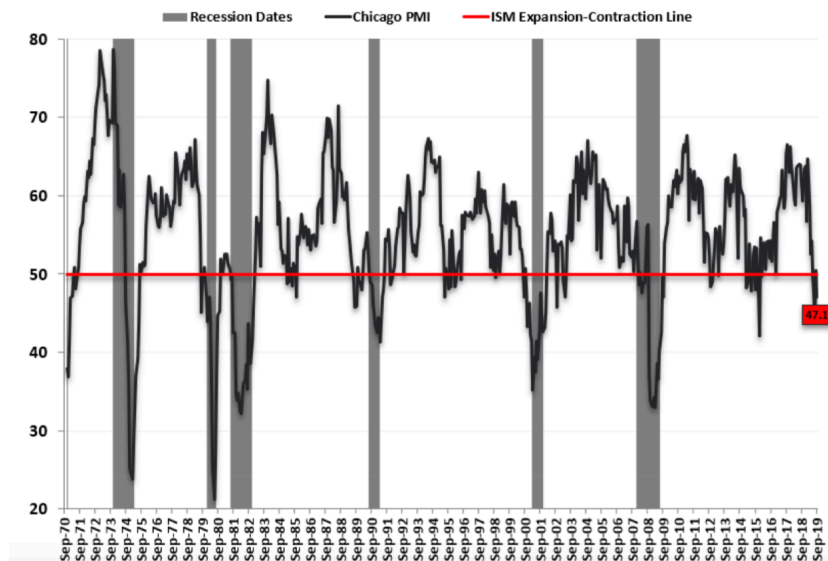
During the Q&A and coffee break discussions, I got the impression what what Arthur's talking about is working. And part and parcel of that is trip planning — being able to tell the customer contemplating a move the release to place, dock-to-dock transit time in hours. CSX has yet to get to shortline release to place, but any short line or regional that has a reliable operating plan can simply add their hours to the CSX hours. Best yet, even at this early stage in product development, trip plan compliance for merchant traffic is in the mid 80 percent range.

Fact is, the railroads haven't been doing themselves any favors by sticking with the silo mentality that has the coal group competing with the merchandise group for resources and intermodal/auto competing with both of them for same. The net result is that customers have had enough and are looking elsewhere for their transportation needs. Just grabbing an AAR trend chart shows US total revenue units as of March down nearly 16 percent over the past nine years.



Meanwhile the Institute of Supply Management (ISM) shows industrial purchasers mostly in expansion mode over that same period of time. So if manufacturers are in expansion mode and railroad revenue units are in contraction mode, what does that say about the ease of doing business with the railroads?

It's not going to get any better any time soon, either. The ISM chart from the Chicago PMI shows a softening economy, which means inventory and transportation cost are going to be under even tighter scrutiny — A soft manufacturing economy equals less stuff to move.



Putting it all together, PSR will work as long as the discipline results in better value for the customer and improved ROIC for the railroad. CN and CP have shown the way. I think CSX will be next to show how PSR can create customers by making the railroad Easy to do Business With. The others cannot be far behind.

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