RAILROAD WEEK IN REVIEW
June 10, 2022

"Today, we are announcing our collaboration with RailPulse, a coalition of railcar owners who are working together to accelerate the adoption of GPS and other telematic technologies across the North American rail network. The goal is to provide real time information and sustain visibility of railcar status, location and condition to customers, railcar owners, and railroads." — Kenny Rocker, Union Pacific EVP Marketing, UBS Transportation Conference, June 7

"Globalization has enabled people to move off the farm and into the cities where they could participate in manufacturing and services jobs. Well, when you move into town, you have fewer kids, because they're no longer free labor, they're more of a luxury good, if you will. You've played that forward for 70 years and in most of the advanced world, we now have more people in their 60s, in their 50s, in their 40s, in their 30s. The whole consumption and production cycles that we've become used to simply are no longer even mathematically possible." — Geopolitical strategist Peter Zeihan, Real Vision, May 31

During April's STB Service Hearings, the comment was made several times that shippers' facilities served by short lines were much less apt to see the same service lapses seen at Class I served locations. Common complaints include cars' extended dwell after being made empty or released loaded to the serving railroad, missed switches, decreased frequency of local freights, and delay of private equipment and cycle times.

STB Chairman Oberman asked repeatedly what can be done NOW, even with reported crew shortages. One obvious solution is to transfer operation of light-density branch lines to short lines that can eliminate these first-mile/last-mile service hiccups. I am pleased to report signs of progress here.

In STB Decision FD 36596 the Board has granted the Delaware & Raritan River Railroad authority to lease and operate three separate New Jersey rail lines owned by the Conrail Shared Assets Organization (CSAO) and New Jersey Transit where Conrail has been the freight service provider.

The three lines include Jamesburg to Freehold, Lakewood to Lakehurst, and the Tom's River Industrial Track, for a total of 49.9 miles. It's basically a Z-shaped property with the ends anchored at Jamesburg and Toms River with Freehold and Lakehurst the corners.

The CSAO is owned jointly by NS and CSX and organized strictly as an operating railroad with no commercial function. Everything that moves is under either a CSX or Norfolk Southern waybill and the owners have all business development and customer service responsibilities.

Those activities have been severely cut back by both railroads, so it's understandable the three light-density lines in the middle of a growing residential area in a state dominated by New York and Philadelphia may have lost their allure to the Class Is. But over the past 20 tears or so Kean and Company have created new business on lines downgraded by Conrail and its predecessors. They wouldn't be doing it if they didn't see opportunity.

Throttling a railroad's value to customers in the name of saving shekels is nothing new, preceding PSR by decades. A tale is told by an old railroad marketing hand about Wall Street starting to demand lower operating ratios in the early 90s. It was a time when operating metrics were at the best and it seemed like cutting costs could increase operating income and lower operating expense while protecting the revenue stream.

"As a result railroad management did stupid stuff like closing yards, which in turn pushed up car hire expense by increasing cycle times and days-on-on line for foreign equipment." For example, a car at Yard X was supposed to go back to the car owner at Interchange A. But part of the cost-cutting eliminated both the hump and train starts between Yard X and Interchange A.

So the car went to Yard Y where they originated trains direct to Interchange A Consequently, a car that could have been off-line in one day now took five. Yards were being closed all over the place in the name of economy. And if you happened to be a railroad that receives more inbound loads than you originate outbound, you become a net car hire debtor and things like this only made it worse.

Somehow over 30 years we seem not to have learned that reducing the asset base has a downside in terms of lost revenue. Only today said cost controls are couched in terms of Precision Scheduled Railroading, which gives the lie to what PSR is all about anyway. Author Howard Green sums it up thusly in his *Unfiltered Genius* Hunter Harrison biography (emphasis added):

> [Hunter] was focusing on service, asset utilization, controlling costs, and safety, while coaching and motivating the right people for the right jobs. He knew that railroad market share in the freight business had fallen off a cliff. Trucking had usurped the rails, and he was determined to ***grab back share with a better product*** that included precise schedules and better pricing, underpinned by a more efficient operation.

Satisfied customers could then lower their inventories and get rid of excess boxcars, saving costs.

In other words, the way to increase earnings is to increase revenue by attracting customers to a superior service while using improved operating practices to improve margins. The non-Class I railroads do this all the time: if this is the amount of revenue on the table, can we create a service at that price and still make a buck?

Let me quote Peter Drucker once again. “The first job of any business is to create customers.” It is not to drive off customers you don’t want for one reason or another, like the Class I marketing officer who told an analyst group he was in business to generate “quality” revenue, and proceeded to drive off the lower-rated revenue carloads. Fewer carloads, fewer trains, fewer routing options. Back to Square One of 30 years ago.

The UP tag team of Kenny Rocker and Jennifer Human showed how Union Pacific intends to create customers at last week’s UBS Investor Conference. Kenny said, “We spend a lot of time listening to our customers, understanding their business and their needs.” Which s a good thing, since you can’t ask for the order without understanding what the customer wants and asking for the order once you have the answer.

The Old Marketing Hand quoted above saw what happened when his railroad put cost over customer three decades ago. The UP-RailPulse partnership is a good start. Perhaps it’ll get back to true Trip Plan Compliance, where the Trip Plan is created when the car is waybilled and the customer can see the car until it’s spotted at his customer’s dock.

Rocker cites three major areas of customer focus upon which their regional and shortline railroad connections can build. First is the RailPulse initiative mentioned in the quote, above. Second is transload opportunities, especially in places where the local railroad’s proximity to end markets offers a competitive advantage. All of which lead to the third and most important feature of the feeder railroad: expanding the UP network reach.