

RAILROAD WEEK IN REVIEW

December 9, 2022

“There’s not a lot of change in the assets in this industry, so the innovation has to come from how people better utilize the assets to create value. If you get the right people — people who are never satisfied with the status quo, people who you support and trust — they will innovate for you. You just have to let them.” — Rick Webb, Watco Executive Chairman, in November, 2022 Progressive Railroading

“Sky high mortgage rates may have squeezed the demand out of home-buying activity, but not everything housing-related is doomed. There are actually signs of life in the home improvement space, which appears to be a countercyclical development in this economy. What we are seeing in recent data is that homeowners are spending more on fixing up their homes rather than going out and buying a new one.” — Breakfast with Dave, December 5

“Since our first service recovery report, Norfolk Southern has increased merchandise on-time delivery by 44%; achieved a 45% reduction in railroad-caused local plan adherence failures; improved system velocity by 16%; and consistently exceeded 95% on-time delivery for intermodal shipments. Our customers have communicated to us that they are experiencing improved service at their facilities and are encouraged by the progress we have made.” NS Dec 2 Progress Report to the STB

Tuesday’s Norfolk Southern Investor Day was a rousing success, in my humble opinion. The theme was all about being customer-centric and achieving superior operating and financial results in the bargain. The [presentation slides](#) are posted at [nscorp.com](https://www.nscorp.com) so you can follow along as I review the proceedings.

I found the remarks mostly upbeat about doing a better job of walking the talk. The overarching goal is to move more freight more quickly using the assets at hand augmented by technology from iPhones to augmented reality — see “Mobile Technology Solutions,” pages 75+ for examples.

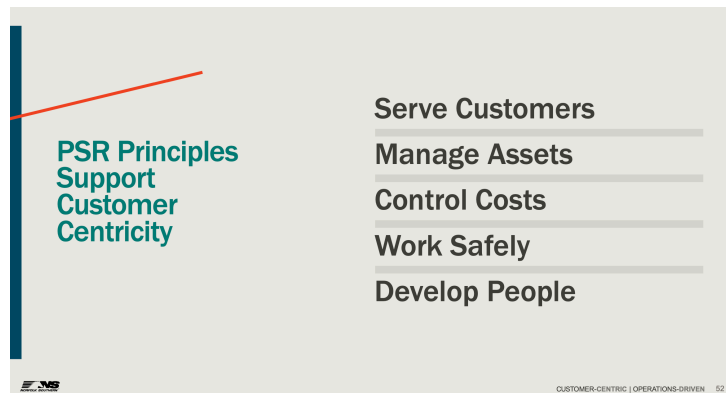
Chief Commercial Officer Ed Elkins stresses “smart and sustainable growth” in the carload sector (slide 42+) and sees “simplicity, reliability, and efficiency” as critical keys to this growth. He cites “flexible freight” — capturing goods movements that can go by truck, rail, or both — as just one value-added strength NS offers.

As for short lines specifically, Chief Strategy Officer Mike McClellan cites his company's more than 260 shortline and regional railroad connections as extensions of the NS network, which is largely structured along the lines of geographic corridors (slide 31) that the non-Class I partners can tap into.

Transportation VP Floyd Hudson (slides 49+) says the three key-to-growth disciplines are running trains on time, switching cars in six hours, and putting the right car in the right block on the right train. Doing these three things consistently and dependably can cut class yard dwell times significantly and short lines can play a role.

Moreover, Floyd Hudson's slide 52 on PSR was particularly good to see, especially since so many people have blamed PSR for many of the industry's problems.

The problem is PSR was used more as a cost-cutting tool than as a means for providing a better transportation product. If they'd read Hunter's book they would have seen these same five principles on page 10.



We heard how NS is building trains more by destination than by type of freight. The goals for the merchandise carload sector are on-time delivery, car velocity, and doing things the same way every day to minimize switching intensity (slide 75). Short lines can help by pre-blocking outbound cars by destination for spotting on the NS interchange track. Doing so can cut class yard dwell time moving cars in destination groups rather than singly, thus increasing car velocity, and enhancing on-time delivery.

The Investor Day proceedings can be of particular help to short lines looking to add new commodity OD pairs to their service offerings. You can now see clearly the NS goals in creating a customer-centric and operations-driven transportation product that can help customers with reliable, cost-effective supply chain solutions. And, thanks to the guidance given here, you can see there are shoes that fit every one of Norfolk's 260+ non-Class I railroad connections. Go try them on.

Rick Webb's *Progressive* interview is another customer-first story. Says he, "As customers needs change, so must our approach. We must be nimble and quick if we are to

create enough value for the customer and we get a portion of it in such a way that the customer thinks it's fair.”

Rick is a dear friend of some 30 years and we spoke at length the other day about delivering value for the customer when there is a Class I involved in building new lines of business. We spoke on Monday, and the NS Investor Day started the next morning. As it happens, many of the carload objectives and solutions NS seeks are already a big part of the Watco playbook.

Watco has some 40 railroad properties. Half of them settle revenues with a handling fee from the Class I, and a quarter run on switching allowances.



The remaining quarter are ISS properties where they show in the waybill route and negotiate revenue divisions. But regardless of the settlement method, developing new carload commodity OD pairs requires a discussion with the Class I handling the long haul.

Here, says Rick, we put on our salesman hat. We're selling a service we want the Class I to buy, and that requires knowing the Class I goals and needs up front. Take the NS. Even before Tuesday's remarks, Watco had a feel for what NS wishes to accomplish to support its customer-centric, operations-oriented goals. And so we can begin our conversation on *their* terms, seeking solutions that meet *their* goals.

The flip side is when the Class I has a new move that requires Watco's involvement. Now we put on our customer hat. The Class I has a service they want us to buy. How do we get to Yes with the Class I while being nimble, quick, and adding value to the transportation product at hand? We need to create a product that is, to use NS' words, simple, reliable, and efficient. And that's what being a successful shortline operator is all about.

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