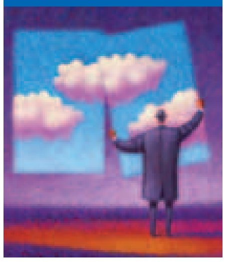

in the box thinking

Why the future looks promising for intermodal to gain market share

Dan Goodwill, president of Dan Goodwill and Associates has more than 20 years of experience in the logistics and transportation industries in both Canada and the US. He has held executive level positions in the industry, including president of Yellow Transportation's Canada division, president of Clarke Logistics, general manager of the Railfast division of TNT, and vice-president of sales and marketing at TNT Overland Express. Goodwill is currently a consultant to manufacturers and distributors, helping them improve their transportation processes and save millions of dollars in freight spend. He can be reached at dan@dantranscon.com.

I have long been a fan of intermodal transportation since the days I ran one of Canada's largest IMCs. I continue to monitor developments in this sector with great interest. My sense is that the intermodal industry, which consists primarily of the railroads, IMCs, shipping lines, draymen and truckers, is positioning itself to take the next big leap forward. Here are some developments to watch.

Shipper Knowledge

Despite all the media attention that intermodal service has garnered over the past 10 or 15 years, there are still a significant number of shippers who are hesitant to switch from truck service. In some cases, they were burned by service failures in the past and are reluctant to give intermodal a second chance. For other potential users, it is a case of unfamiliarity. This will continue to change.

Some high volume shippers who move boxcars and do their homework will observe that the cost per tonne or per pound of using intermodal service as compared to boxcar can be quite attractive on some corridors. While this can pose some challenges for companies on rail sidings that are accustomed to receiving their goods via rail, the economics can sometimes make the switch worth their while.

Diesel Fuel Costs

As the cost of diesel fuel rises, the economics of intermodal service become more compelling. This has always been one of the attractions of intermodal transportation. A train that is pulling a large block of double stack containers is more environmentally friendly and cost effective than shipping the same volume of freight via truck. Over time, as diesel fuel costs rise, this could make intermodal service price competitive on lanes of as little as 750 or possibly 500 miles.

Pricing

The railroads are adjusting their pricing strategy with Intermodal Marketing Companies away from variable to contract pricing. This allows shippers to obtain cost certainty by securing annual contract rates as they do for boxcar pricing. This helps shippers better plan their transportation spend and gives them more confidence in committing specific blocks of traffic. While the rates for intermodal service are on the rise, the railroads and IMCs are crafting pricing strategies to ensure intermodal rates are safely below truck pricing.

New Rail Corridors

The Class 1 railroads are all making significant investments to support their growth strategies. As an example, Norfolk Southern's 2,500-mile "Crescent Corridor" that stretches from New Jersey to Louisiana is targeting the conversion of one million over-the-road truckloads to intermodal transportation by 2013. UP is upgrading eight of its 10 major corridors to enable it to compete more effectively with truckers. It is laying a second track to double its capacity on the heavy cross-border L.A. to El Paso "Sunset Route."

Building Capacity

In addition to investing in their networks, the railroads are investing in containers to move their freight. As an example, UP has added 14,000 containers to the pool it shares with CSX and NS.

Sales and Marketing

UP estimates that there are 11 million truckloads a year that could be available in its territory for conversion to intermodal service while BNSF pegs its number at seven million. Of course, these projections are based on certain lengths of haul and heavy volume corridors. These numbers can change if the cost of fuel increases and if the railroads make investments in secondary markets. The latter would serve to reduce the number of dray miles and make the service more price-competitive.

The rails and IMCs need to demonstrate service consistency, supply the capacity and provide stable competitive pricing to make the breakthrough they are seeking. They need to then sell this to the target market that consists of shippers moving millions of loads over-the-road each year. Service performance coupled with effective sales and marketing should produce results. CT&L