

“Watson, the game is afoot”

Sherlock Holmes

Market Development Pre & Post Staggers

Presented to: The Hagestad Sandhouse Gang

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Context

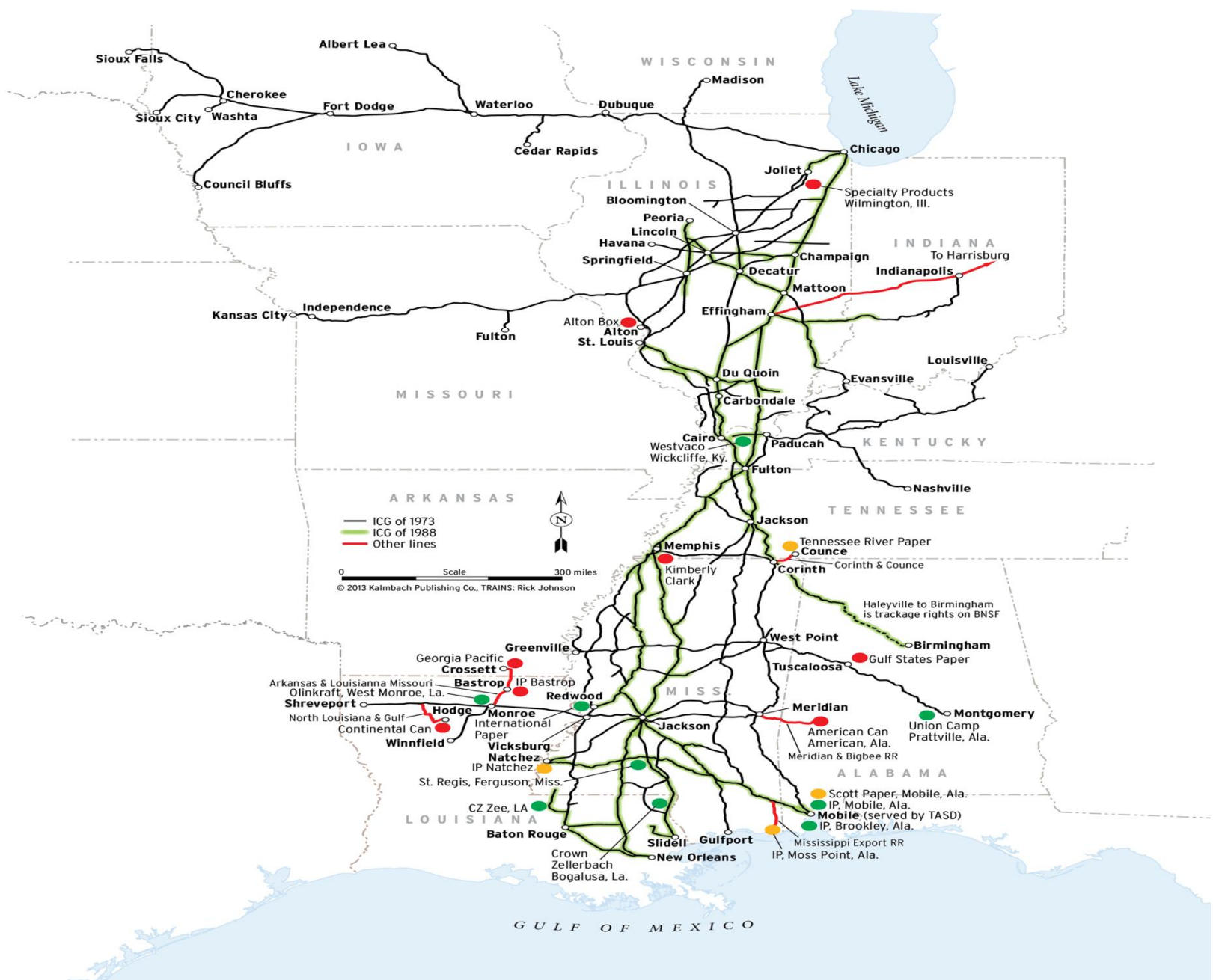
- ICG 1973 through 1978: Pre-Staggers
- SP 1978 through 1988: Post Staggers
- Two Strategic Examples: Paper Industry
- Financial Performance

Context 1974

- Rail Industry in Serious Trouble
- Decades of Massive Disinvestment
- Partly Due to Punitive Regulation

ICG 1973-1979

- ROIC 8% to -6%.
- Net Income: \$45M to -\$40M
- Fast Physical and Financial Decline.



ICG 1974

- Paul Reistrup's Young Turks
- 3000 Car Paper Fleet + 1500 B/O
- Hostile Customers
- Severe Financial Deterioration

What to do???

- Paper Task Force
- Focus on Customers
- The Plan
- Water the Elephants (Literally and Figuratively)

Our Tools

- Attitude/Organization
- Improve Car Supply Reliability
- Service Improvements

The Plan

- Learn to Work Together
- Focus on Car Supply Reliability
- Stealth Repair Program
- 600 New Cars
- Allocate Paper Cars Based on Maximizing ROI

“Harmon, we’re going to jail.” Ed Kincaid ICG Car Control

- ICC/Discrimination
- Political Pressure

Measure and Manage

June 1976 Paper Fleet Performance by Mill

Category	Mill	Cars Ordered	Cars Supplied on Time	Orders Missed	ROI
A	IP Redwood	600	600	0	41%
B	Olinkraft W. Monroe, LA	450	430	20	15%
C	Continental Can Hodge, LA	500	20	480	113%

Measure and Manage

All Mills	Cars Ordered	Cars Supplied on Time	Orders Missed	ROI
Aggregate A Mills	2200	2200	0	25%
Aggregate B Mills	1200	1000	200	15%
Aggregate Class C	1400	200	1200	1%
Total	4800	3400	1400	20%

Actions

- Daily Coordination Sales/Car Control/Marketing
- Clearinghouse
- Short Line Per Diem Cars

Actions

- New ConRail Run Through
- St. Regis
- Crown Zellerbach

The Rolling Wounded

- 7% Cars Rejected
- Copiah Pits
- “May I Shine Your Shoes, Mr. Hillman?”

A Managed Retreat

- Continental Can Hodge, LA
- Big Loser BUT Correctable
- Customer Accepted Plan; No Results
- Withdrew and Reallocated Cars

Our Report Card

1974-1978

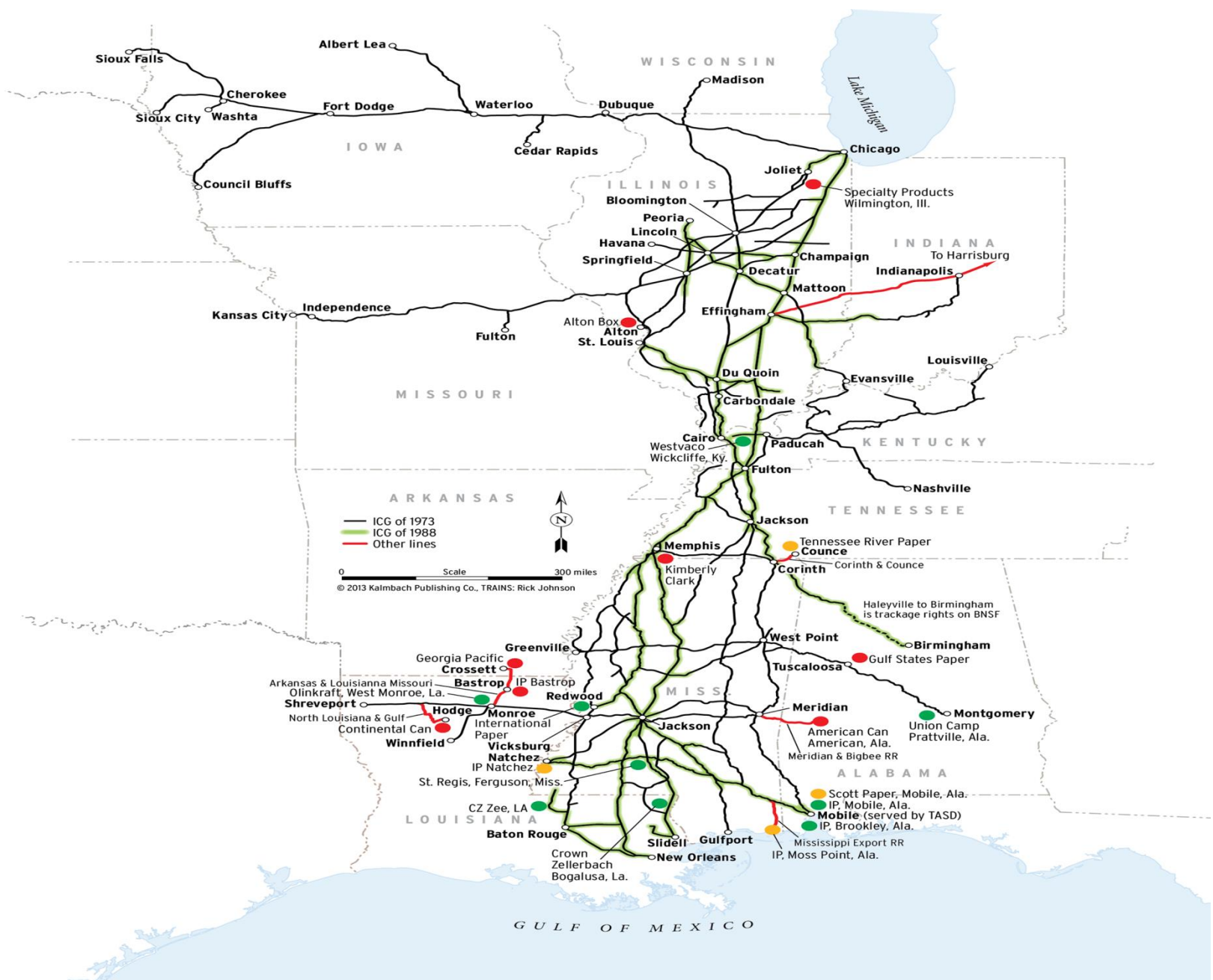
- Volume Down 9%
- 45% Increase in Revenue Per Load
(Excluding Price Increases)
- Fleet ROI Went From 3% to 20%

What Was Missing?

- Contracts
- Innovative Logistics
- Route Closures/Surcharges

What Was REALLY Missing?

- Strategic Core Route Investment
- Drop 1000s Miles of Low Density Lines
- Renegotiate Labor Contracts
- Major Strategic Marketing Program
- Scale

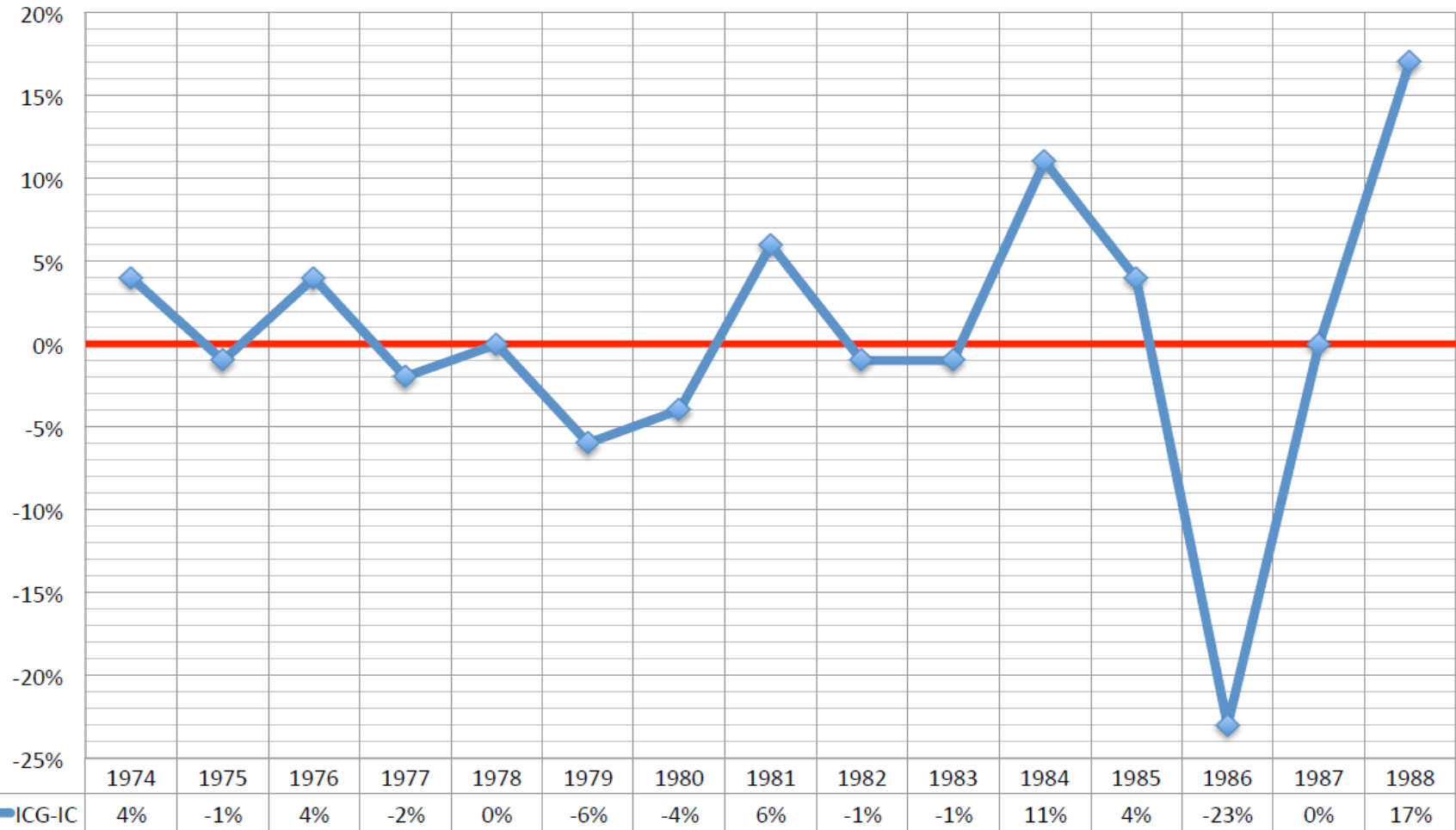


Bruce used Staggers

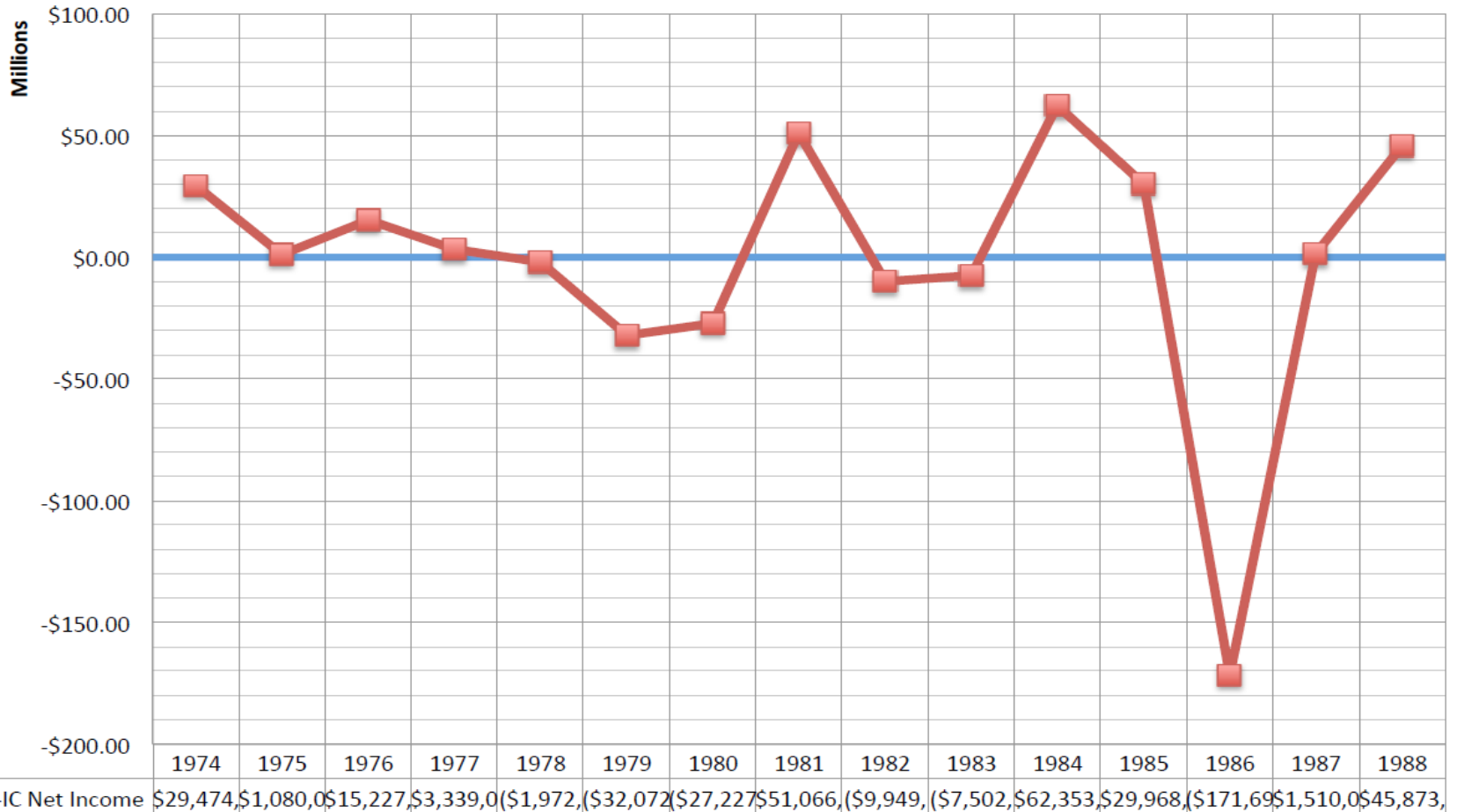
- Chopped Costs
- Concentrated Volume
- Sold and Abandoned Lines
- Reinvested in Plant and Equipment

Return on Net Invested Capital

ICG/IC 1973-1988



Net Income ICG/IC 1973-1988

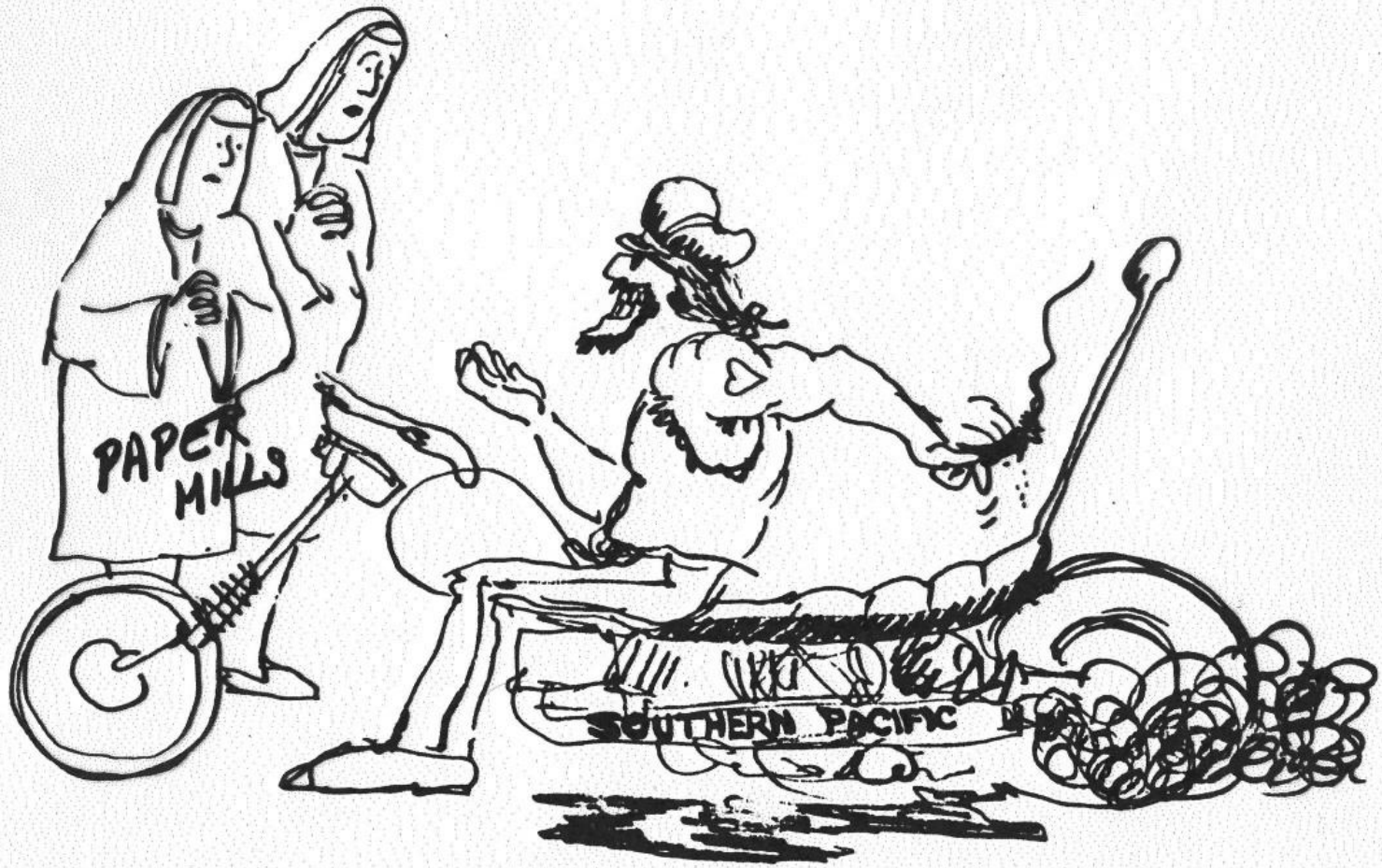


Gratitude

- Paul Reistrup
- Jerry McArdle
- The “Chief”
- Doug Hagestad
- On to the SP 1978

SP Situation 1978-1988

- Deteriorating Financials
- Starved for Capital
- Weak Management



After Two Years at SP

- Intense Conflict in “Traffic” Department
- Two Attempts to Get CZ Biz Failed

Crown-Zellerbach and SP

- CZ Opened the Kimono
- SP: Poor Reputation with CZ
- The Plan

In the Mist of Chaos We Got Staggers

- Our Team
- “Ship by Truck”
- Building Blocks

Crown-Zellerbach

- 5 Mills PNW
- Columbia River Barge Network
- 2 Columbia River Warehouses
- 90% Truck to CA
- 2 LA Area Warehouses

Needs and Solutions

Crown-Zellerbach

SP

Reliable Car Supply

Guarantee*

Reliable Transit Time

Guarantee*

Flexible Delivery Options

Cross Docks

* With cash penalties for non-performance

Innovative Pricing/Billing

1 Rate/1 Bill/Monthly

Then we got Krebs

- Reduced Organizational Chaos
- Run OT Including Amtrak
- CZLAT

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New Supply Chain

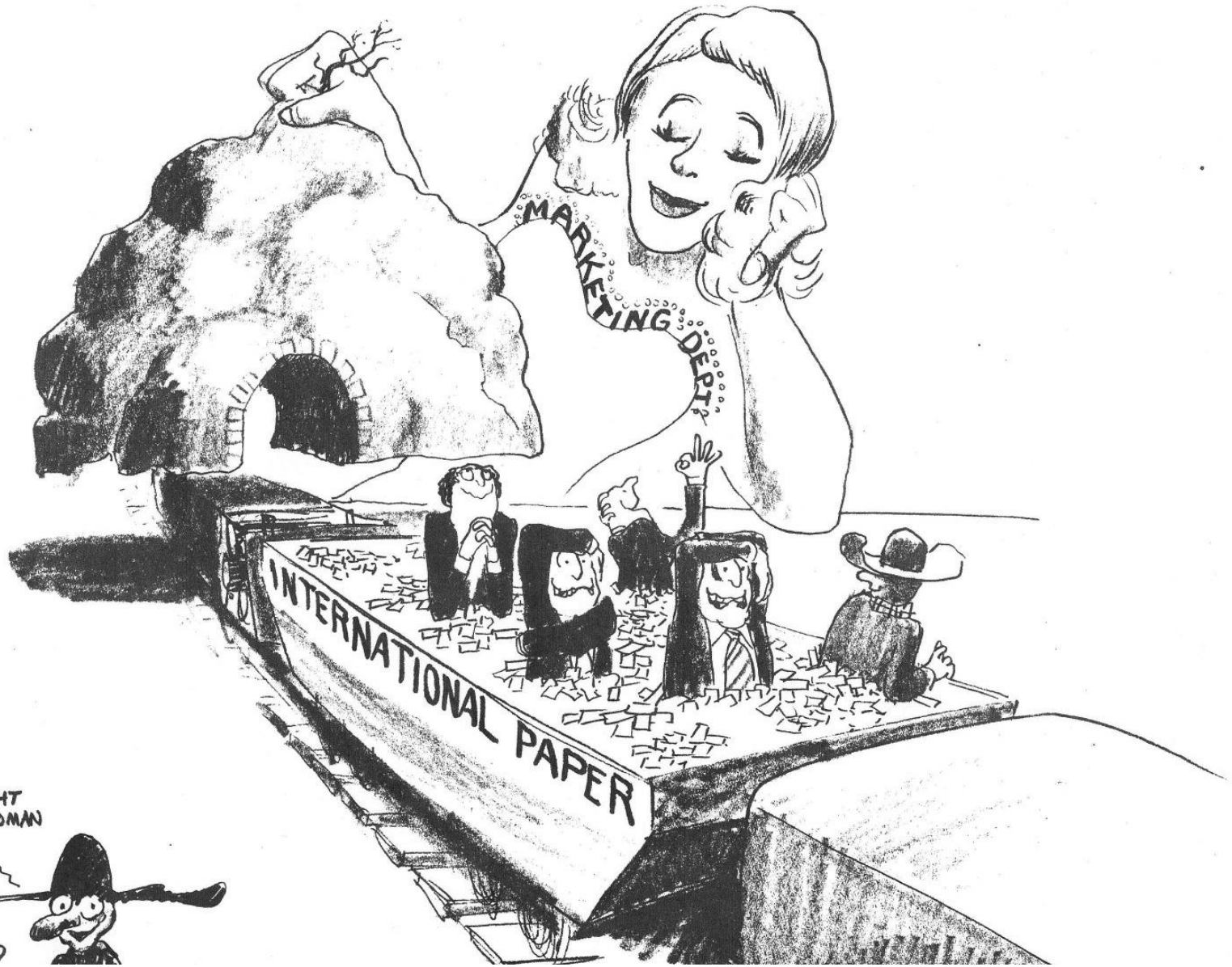
- Flexibility
- Closed 2 LA Warehouses
- New CZ Order-Entry System
- Improved SP Margins

SSP Proposal



"UH-OH!
LOOKS LIKE
TROUBLE!
AS USUAL."





"SOMEONE OUGHT
TO BUY THAT WOMAN
A DRINK."



How it worked

- Fed By Barge and Truck to DC Portland
- Flow-Through Like the Tea Bag
- Block Loaded at DC
- No Hump Yards
- Dedicated CZLAT Train 4500 Ton Limit
- Dock to Dock 39 Hours Guaranteed

How it worked

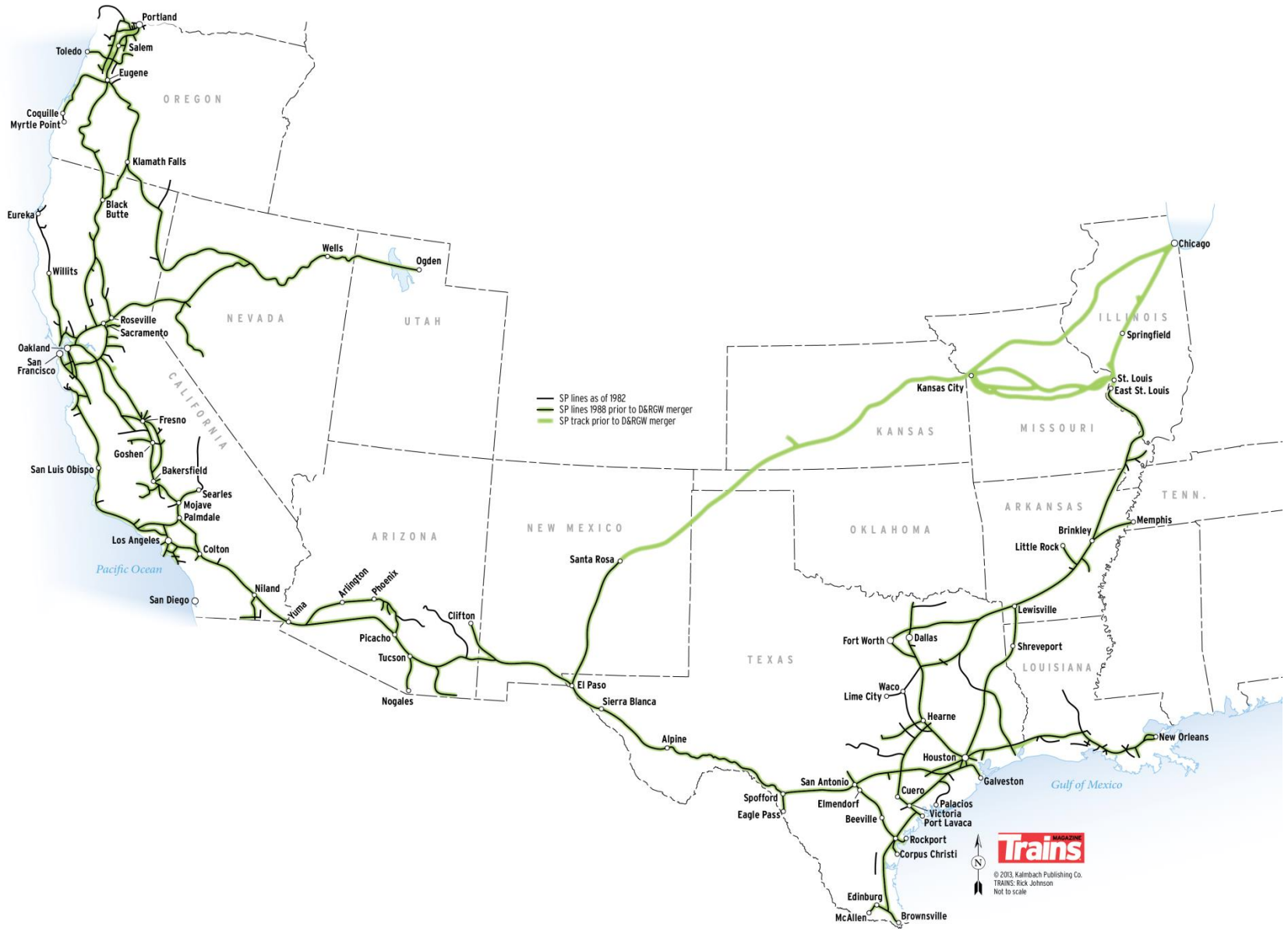
- No Helpers
- Cross-Docks LA
- Scheduled Truck Delivery (1 Case Up to TL)
- Cars Reloaded at Superior Fast Freight

Results

Item	1979	1983
Revenue	\$1,000,000	\$20,000,000
ROI	3%	30%
Average Loaded miles/car/week	225	2000

Staggers Impact

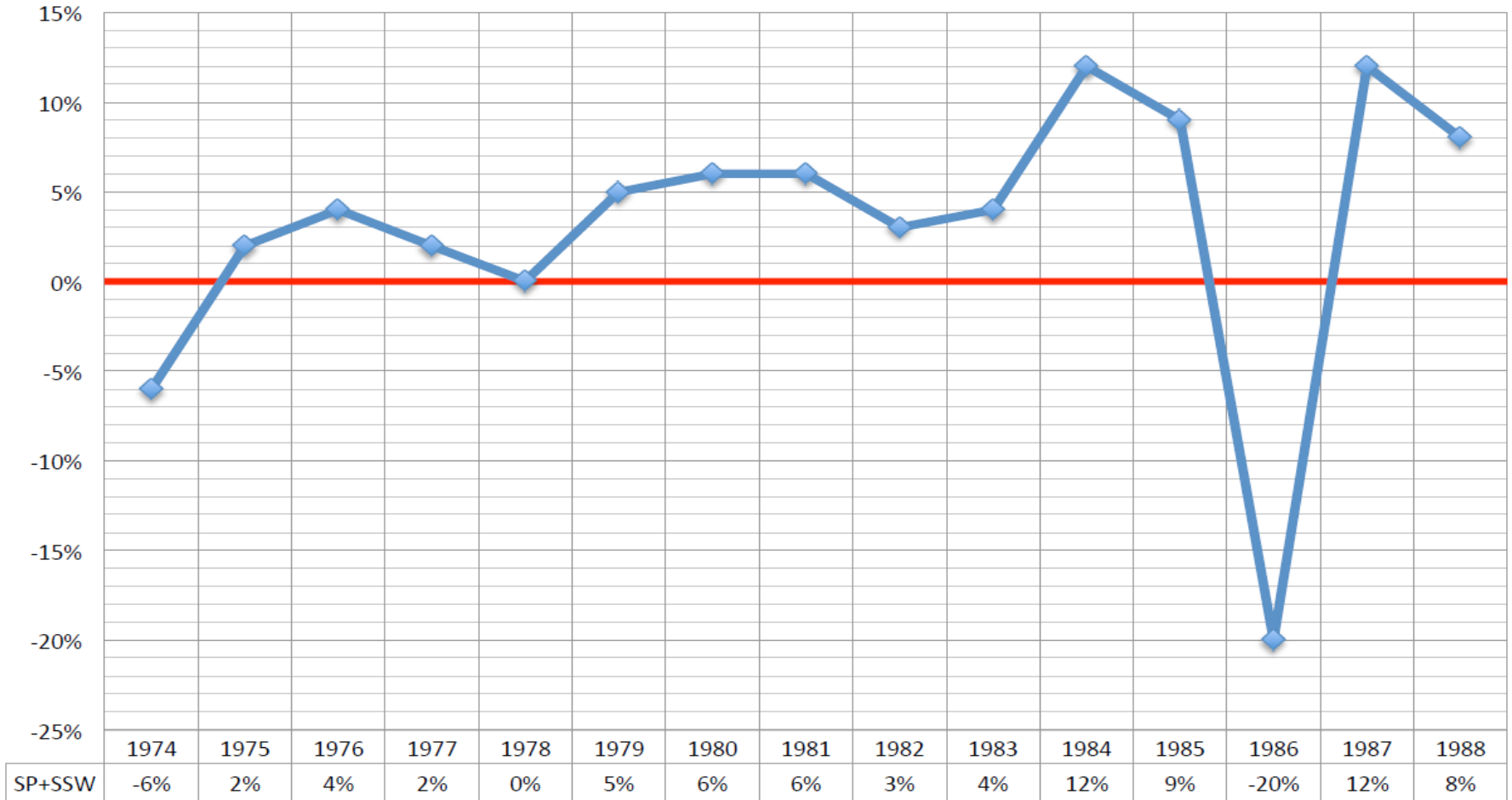
- Contracts: 2-Way Obligations
- Negotiated Rates/Sweeper Car
- Opportunities For Self-Help



At SP Deterioration Continued

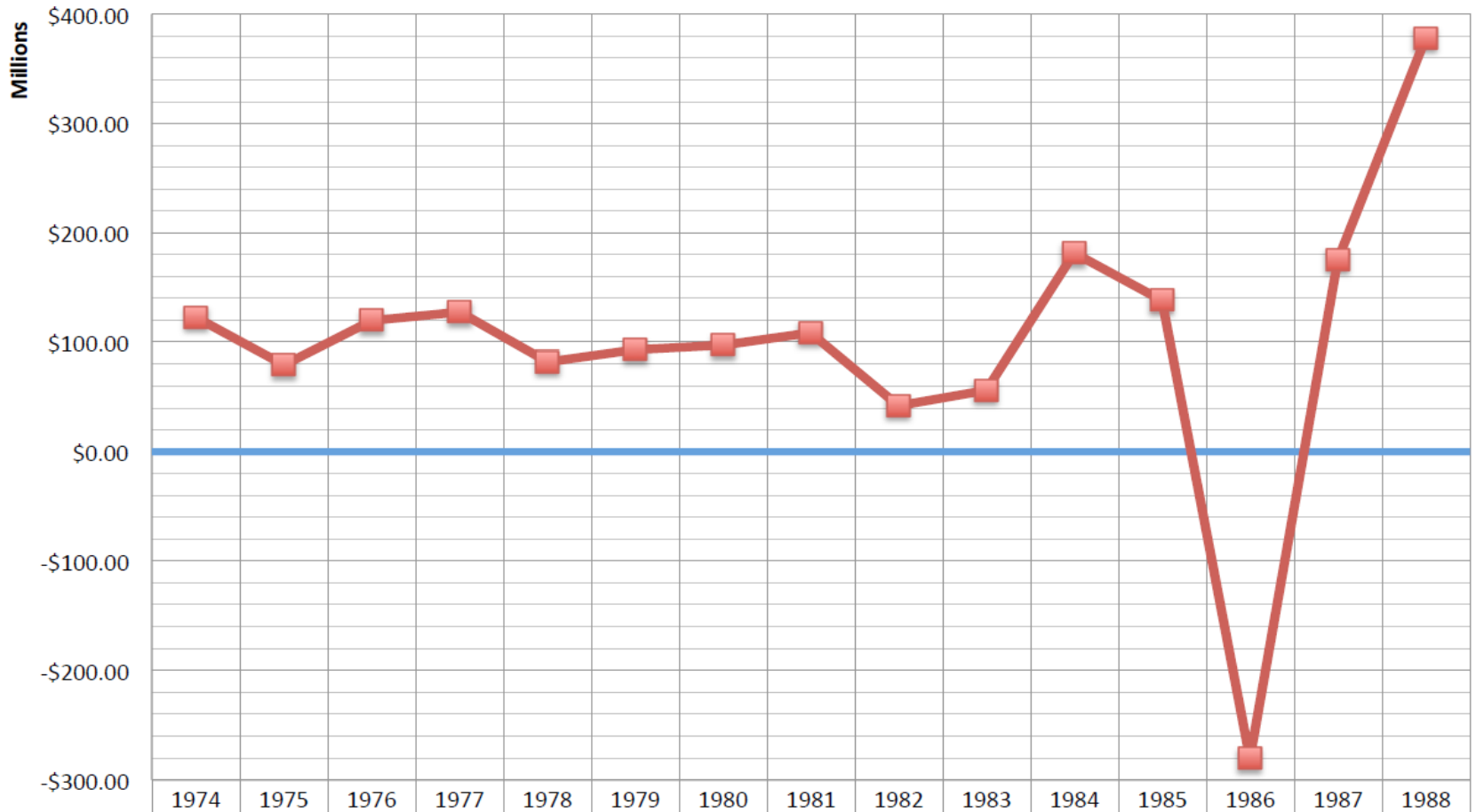
- Lost Effective Leadership
- Poor Strategic Focus
- Poor Asset Management
- Ineffective Marketing/Sales

Return on Net Invested Capital SPTCO & SSW 1974-1988



Net Income

SPTCO & SSW 1974-1988



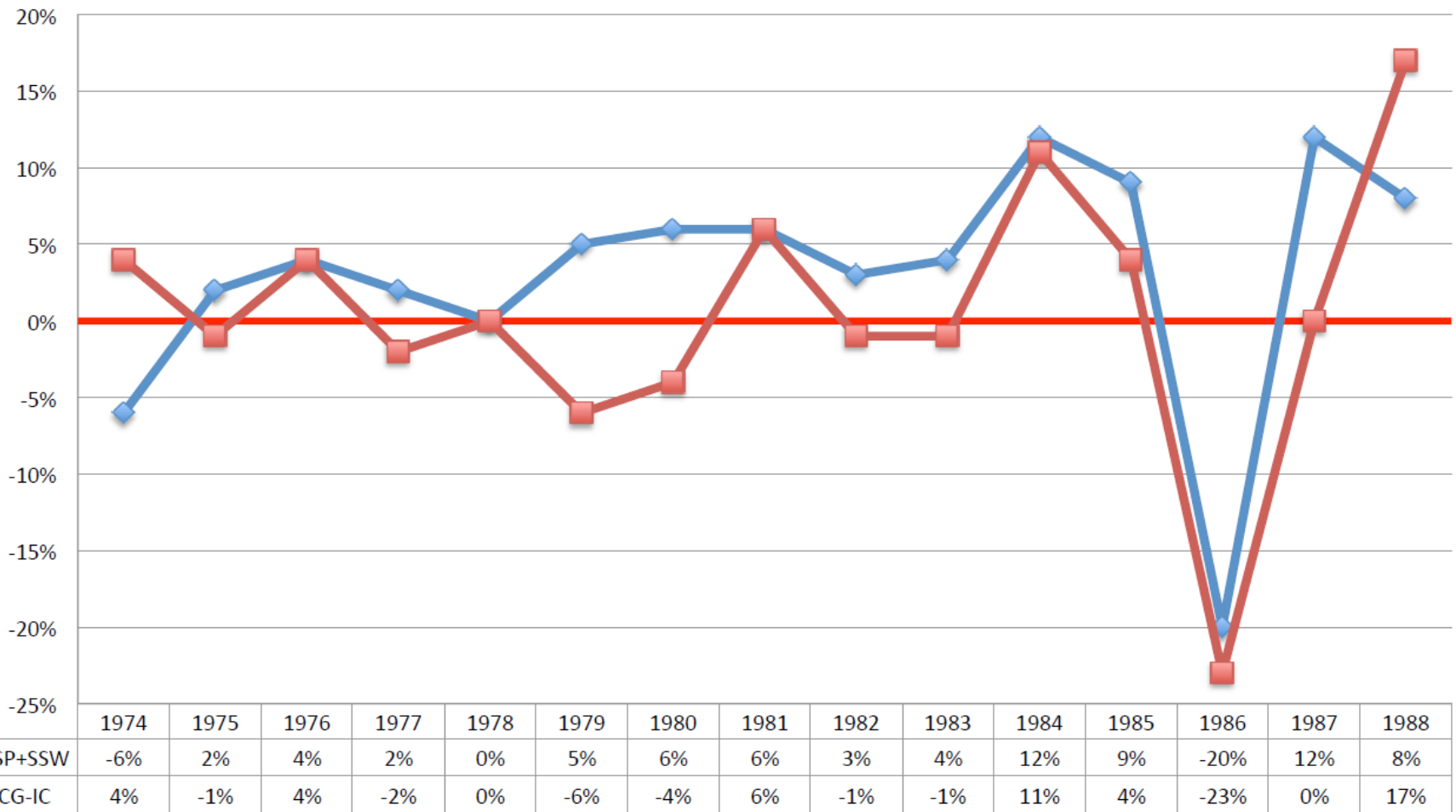
SP+SSW Net Income	\$122,769	\$79,243	\$120,245	\$127,670	\$82,267	\$93,290	\$97,745	\$108,845	\$42,013	\$55,983	\$181,785	\$138,205	-\$280,735	\$175,582	\$377,834
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Staggers Impacts

1980 to 1988

Item	ICG/IC	SP
Slimmed Down	Yes	Minor
Return on Cap >	Yes	No
Reduced Labor Costs	Yes	Yes
Reduced Deferred Maintenance	Yes	No
Sale/Merger	1988	1989

Return on Net Invested Capital SP+SSW vs. ICG-SP



Conclusions

- IC Leveraged Staggers/SP Did Not
- SP Used Accounting Financial/Deferred M of W
- Both Improved Labor Productivity
- IC to Prospect Group - \$440,000,000 3/89
- SP to Anschutz - \$1,800,000,000 11/88
- Both Plus Assumption of Debt

More Gratitude

- Dave DeBoer
- Pete Vajta
- Rob Krebs

Credits

- Barbara Mooney
- Jeff Leedy for the Cartoons
- Trains Magazine for the maps (Rick Johnson, Matt Van Hatten and Jim Wrinn)

More Credits

- Northwestern University Transportation Library Staff
- UC Berkely Transportation Library
- CA State Rail Road Museum Library

And More Credits

- Columbia/Tristar for use of “A League of Their Own”
- Paramount for use of “Rio Lobo”
- King World Productions, Inc. for use of “The Pearl of Death” Sherlock Holmes film

Questions?