Outreach V - A Postscript

A few weeks ago I wrote about the current State of the Rail Industry, because "State of…" remarks seem appropriate and expected in January.

Feedback from that analysis has been positive. One person, though, asked to be removed from the listserv and another took me to task for not mentioning that lower diesel fuel prices were going to help the railroads. It is true, of course, that railroads use a lot of fuel and also that fuel comprises a huge chunk of operating expenses. But from a *competitive* viewpoint, low fuel prices don't help railroads. Why? Because they are far more fuel-efficient than trucks. Railroads actually become more competitive when diesel prices are high and trucking is differentially impaired.

Virtually all rail freight moves under contracts negotiated directly between the railroad and the shipper. Because some of these contracts are long-term, it is customary for them to contain adjustment clauses, both for general price increases and specifically a fuel adjustment clause. This helps protect the railroads in times of high fuel prices. In fact, somewhat ironically, we have recently seen reduced fuel adjustment revenues cited as one cause for lower earnings.

The big issue remains the railroads' focus on cutbacks. These will make the industry less capable of maintaining and increasing market share over time. This is bad because shipping by rail has compelling energy, environmental, and economic advantages to the nation, and we should want as much freight to move by rail as possible.

Right after I wrote, Norfolk Southern announced a sweeping program of cutbacks. You can read their statement here: http://nscorp.com/content/nscorp/en/news/norfolk-southernannouncesfurtherdetailsofitsstrategicplantoreduc.html
You can see that their intent in getting rid of people, equipment, and miles of rail lines is to lower cost and build a more profitable railroad. They also hope this lean and mean strategy helps endear them to their shareholders and Wall Street investors. But they will be less capable of serving their current and future customers, and the wider public interest is not well served. That's why rail advocacy still has a vital role to play.

Sears was in the news this week – layoffs and closing 40 more stores. No doubt they, too, hope this will improve their profitability. But the problem is that people aren't shopping there. Instead of a drastic re-examination of their sales strategy and retail business model, they are focused on cutbacks. Some analysts are predicting 2016 will be the last year for this venerable retailer.

Here's hoping the railroads come out better. They need a drastic re-examination of sales strategies and business models. They need to aggressively solicit new business and pursue transformative ideas for growth, not just focus on downsizing. There are few examples where companies have slashed themselves to success.