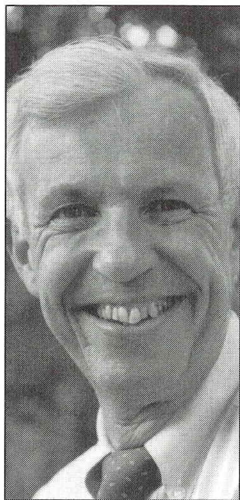
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# Think about redefining your Class I relationships

"We have the outline for a network as forward-looking as the Internet. I call it the transportation net—a carefully linked network to move the goods."—Norfolk Southern chief David Goode, before the Salomon Brothers Transportation Conference, Nov. 11, 1997.

As you'll read in this month's cover story (p. 33), the NS vision is concerned with relationships—customers, communities, other Class I's, and certainly its short line connections. Relationships drive the network in terms of which elements are called into play, which are fed and nurtured, and which are allowed to wither and die. Which path each short line railroad takes is entirely local option. What follows are some thoughts on how to remain in play.

One of the most universal and challenging aspects of the Conrail split-up is the unscrambling of the CR egg to make each part fit with the successor roads' networks. Even more challenging is creating a viable strategic network in the three places you can't unscramble the egg—Detroit, Northern New Jersey, and the Philadelphia/South Jersey market.

That's what gave rise to the concept of a Shared Asset Area (SAA), in which both merger partners would have equal access to all shippers—and short lines. Of course, the SAA concept carries both good news and bad news. The good news for players on the SAA map is that your short line now connects with two Class I's, especially helpful for those moves between the Northeast and the Deep South. The bad news is that you have to live with not knowing right now exactly how things will work out later.

Enter strategic partnerships. Not having every possible option locked in up front means that short lines connecting with the SAAs can begin to think about how to redefine their Class I relationships. They know their traffic flows, they know what CR does well and not so well. And they can anticipate where NS or CSX Transportation might be able to make things better.

However, getting from "might" to "will" requires doing the homework and selling the economic value of the redefinition to the Class I's. Sometimes there will be paper barriers to be removed, or there may be opportunities to open interchanges or even expand on existing trackage rights. But in every case making these strategic changes means putting your short line benefits in terms of strategic (financial) benefit to the prospective Class I partner.

A general rule seems to be that if a short line proposal adds value to the relationship without harming the Class I mission, the scheme has a chance. A short line on one side of the SAA wants to interchange local traffic on the other side. Neither Class I has anything to lose by permitting it, so odds are the concept will be approved. Another short line wants to "connect the dots" with trackage rights between the unconnected pieces of its property. There's no loss to the Class I and the short line is strengthened, enhancing the value of the partnership. The common thread is improving short line results at no (or little) cost to the Class I so that all parties benefit.

> One approach involves improving short line results at no (or little) cost to the Class I to benefit all parties.

Most such arrangements are pretty informal: There's an agreed fit and the parties take steps to make it work. BNSF, on the other hand, has gone a step further, actively seeking strategic partnerships with its short line connections. Henry Lampe, AVP for interline development in Fort Worth, told me BNSF would like to have each short line take a specific role in the BNSF Strategic Plan and, conversely, BNSF would like to see itself included in the short lines' plans.

For example, BNSF has a "Commercial Strategy for Mexico." A newly-formed Mexico Business unit is charged with building a network to do just that. It follows that a BNSF short line with carload origins or destinations in Mexico should be part of the larger road's plan, down to carload and revenue budgets by commodity, car type, customer, and origin-destination pairs. Of course, Mexico is but one example of what can be done with strategic partnerships. The short line that is part of a logistical service process has more value to offer everybody in the loop. This is especially valuable when it's time to grow the business by "growing the franchise"—buying more track, in other words. As a network participant the would-be buyer is a known quantity, and big railroads are no different than anybody else when it comes to choosing between vendors and customers—those providing the best value will win every time.

BNSF has been quite candid about its desires in this regard. Underperforming light density branches will be quickly sold to "quality operators" (their term) who can become extensions of the BNSF franchise and enter into strategic partnerships with the larger railroad. But this means the short line partners have to be prepared to grow the business, develop local markets, and make the financial commitments to run a winning property.

The competition is fierce, however. There are more than 500 short lines and regionals all courting nine Class I railroads, seven if you don't count CN and CP, six after Conrail. Clearly, the winners in this arena will be the Class II and III lines bringing the most strategic benefit to the remaining Class I railroads.