A New Era for North American Rail Intermodal

By Adriene B. Bailey

Despite the economic downturn the US has experienced since 2008, domestic intermodal traffic in North America continues to grow robustly. The overall year-over-year volume growth rate through August of 2013 was a healthy 6.8 percent. Domestic containers continue to see conversion from trailers in rail service -- growing 9.7 percent, while trailer volumes shrank 2.9 percent.[1]

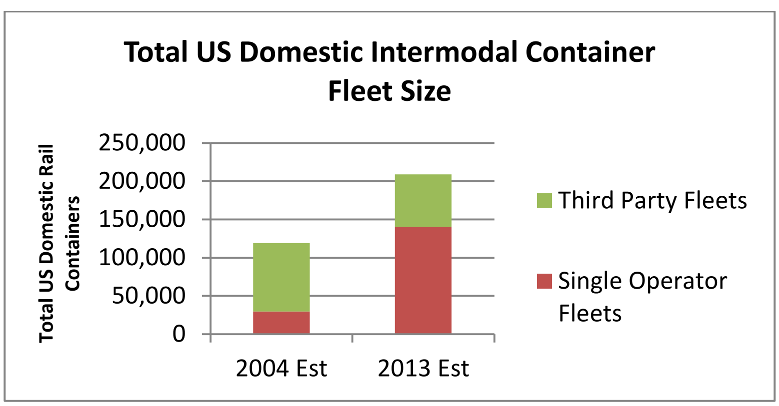
Look for this growth to continue as shippers:

- Seek additional supply chain savings
- Recognize improved intermodal rail service and new intermodal lanes
- Make commitments to carbon emissions reductions
- Worry about medium- and long-term truck driver shortages and fuel cost escalation
- Increase near sourcing of production (converting from international containers)

Since 2008, overall intermodal capacity and market-to-market lanes served have expanded dramatically, and service delivery is very comparable in almost every lane to single driver truck service. In addition, significant changes have been occurring in the domestic intermodal marketplace presenting increased opportunities and challenges for shippers and providers alike.

Consolidation of Box Supply

Between EOY 2004 and EOY 2013, the estimated total domestic containers in service in the US market have grown from 119,000 to 208,700[2]. In that same timeframe, there have been substantial changes in the operators of those fleets. While overall growth has been substantial, underneath that growth are some important shifts:



[1] Source IANA Published Data;[2] Yusen Logistics Estimates & TTX Fleet Size Data
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- Single operator fleets have grown substantially while the third-party operator fleets have contracted.
- Control of the containers is now much more concentrated with individual players – with a dominant fleet emerging in both fleet sectors. The largest third-party fleet is the rail controlled (UMAX and EMHU) fleet and the largest single operator fleet is JB Hunt. Combined, these two fleets represent more than 60 percent of the domestic fleet capacity in North America.

Today, the overall domestic container fleet in North America has the ability to take on growth and seasonal surges. However, that capability is not equally spread across all the providers. When access to capacity, once again, becomes an important differentiating factor for shippers in getting product to market, contract terms, long-term relationships and other controllable factors come into play in determining who is most successful.

The Emergence of “Asset Based versus Non-Asset Based” Provider Designations

Shippers tend to have clear guidelines on the value and appropriate usage of brokers versus asset providers in their purchasing of over-the-road (OTR) services. As the private fleet model has grown in the intermodal space in recent years, this terminology has been adopted and applied to intermodal providers. However, there are some important things to consider that set IMDL ‘brokers’ or third-party providers, apart from OTR brokers:

1) All truckers have access to the same underlying highway network – whereas each intermodal provider (private box or third-party provider) has a different underlying rail network that is its primary service network.
2) OTR brokers contract with tens of thousands of trucking providers, and bring shippers the ability to tap very large portfolios of carriers for best-fit solutions. IMDL third-party providers bring a portfolio of dray providers in each market, but rely on the same rail carriers that also serve the ‘asset based’ IMDL providers.
3) While some OTR brokers will provide committed capacity solutions, many OTR broker product offerings are based on the spot market and do not come with committed capacity solutions. IMDL third-party providers offer committed capacity solutions using the 68,000 container rail fleets, backed by a joint capacity commitment from the railroad.

Highway-to-Rail Conversion

If saving money is a priority, then any shipper that has not taken full advantage of all lanes that can be served by intermodal is leaving real dollars on the table. The service improvements and network enhancements railroads and IMDL providers have made in the last five years mean that team service is required. There is no service-related reason to delay consideration of conversion to intermodal.

Some anecdotal market experience says there are still some shippers who have not fully adopted intermodal in their network due to historical biases, or lack of comfort with the mode. This certainly represents a growth opportunity for providers, and a savings opportunity for shippers. Some data compiled by the railroads suggests that even existing intermodal users can find 10-15 percent additional lane conversion opportunities by taking a new look at their networks. Whether it’s a breadbox or a behemoth remains to be seen; but if you have traffic that could run rail intermodal that is still running in trucks, it’s worth a look.

Mexico – The Potential and the Challenges

There is general recognition in the industry that a major growth opportunity exists for intermodal transportation into and out of Mexico. The fact that more than 9,000 trucks cross the border between Mexico and the US every day leads even the casual observer to contemplate the savings that could be achieved by transferring a portion of that freight to rail. In the past 18 months, we have witnessed several important new intermodal service offerings in the US/Mexico trans-border market; and there are players looking hard at how they can add more product offerings and value.

Challenges remain in the coordination between all parties involved in cross-border transactions, as at the end of the day, it is an international import/export transaction. Often decisions are being made in multiple offices – perhaps one for north of the border, one for selecting the customs house broker, and yet another office for the delivery in Mexico. Companies with such fragmented decision processes can be leaving savings of 10-30 percent of the delivered transportation cost unrealized. It often takes a CFO/CEO level influence to implement decision-making such as operating and cost allocations that meet internal corporate requirements to enable companies to reap the savings benefits.

The Challenges for Providers and Shippers

The challenge for providers is responding to the unprecedented changes that have occurred in the last five years in this industry – and the likely additional changes to come. Providers have the opportunity to truly assess and improve their value proposition. (What is the value-add for their customers? How do they shore up their position in the market?) This will require a focus on technology and productivity in addition to continued innovation around emerging customer needs. It is likely that there will be further consolidation in the market and some players will not survive – or will significantly shift their business model.

Shippers have the challenge of being more strategic in evaluating and choosing the intermodal providers in their networks. Each rail network has its own unique strengths. In some cases there is only one railroad offering an intermodal option in a certain lane. Having a portfolio of providers has advantages. Access to multiple rail networks, and hedging against capacity shortages are all reasons to keep multiple intermodal providers in your network. Shippers will also benefit from careful consideration of overall intermodal rail network access when locating a new distribution facility, or evaluating supply chain strategy shifts.

Intermodal will continue to grow in importance in the overall North American supply chain. Shippers and providers will deliver efficiency and competitive advantage by staying close to developments in the market, while continuing to drive improvements through innovation and collaboration in this new intermodal era.

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