

Intermodalism—The Past Is Prologue

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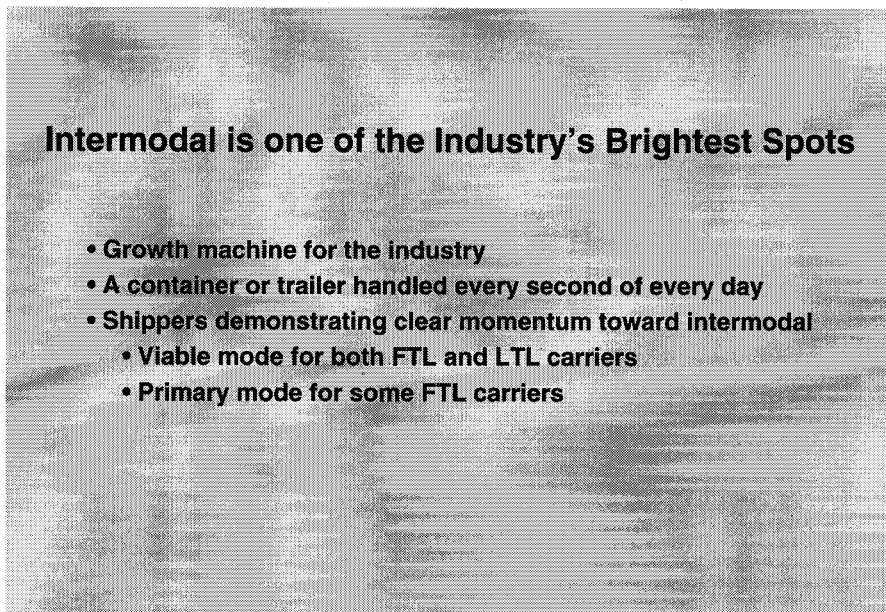
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After I accepted the invitation to speak at the Intermodal Founding Fathers of North America Conference, I gathered the oldest of our people together and brainstormed all the different things that either the former Santa Fe or the former Burlington Northern did in the initial stages of intermodalism. It is an impressive list: in 1959 the Flexi-Van; in 1963 working with Mi-Jack—the first true intermodal crane; in 1968 the beginning of a very unique marketing relationship with UPS; in 1969 the Landbridge and the Super C; and, in 1970 we started what we thought were the first dedicated intermodal trains. More recently, we had the first zero failure UPS peak season in 1994; we initiated the HUB container program in 1998; and, we entered a unique marketing relationship with Wal-Mart and launched the Ice Cold Express™ refrigerated RoadRailer product in 1999. And, the list goes on.

Twenty years ago the industry was on the brink of nationalization. Today it is a growth industry. It is a Wall Street success story. A lot of us railroaders would like to see a little more Wall Street success reflected in the price of the stock, but it really has been a success story. The mergers are going to be very competitive programs. Our merger is the furthest down the road, and I think that we are getting where we need to be now in terms of having a better product than what we had before.

Intermodal business is the railroad industry's brightest spot. The growth has been tremendous. There is a container or trailer handled some place every second of every day, 24 hours a day. Shippers have demonstrated that there is a lot of momentum for intermodal. Railroads have demonstrated that they can move less than truckload (LTL) freight. Railroads have demonstrated that they can move full truckload freight. However, in the last year and a half, the railroad industry has tripped, stumbled, and fallen.



Service, Service, Service

The benefits of intermodal are cost and reliability. Reliability has been an inconsistent benefit. To go forward, reliability must be more consistent. In terms of impact, no other means of hauling as much freight can compare with the railroad. In addition, the railroad brings capacity. There is not another mode that can handle huge swings in freight in very short periods of time.

The key to growth is service, service, and service. Differentiation is important. Reliability is important. Supply chain management is important. We need to demonstrate that the product we have will be beneficial to the owner of the freight and that we can do more than just lower their transportation costs, lower their inventory costs, and change some of their financial picture. Ease of doing business is essential. Railroads must be easy to do business with.



The BNSF Vision

The corporate vision of the Burlington Northern and Santa Fe Railway (BNSF) is to realize its tremendous potential by providing transportation services that consistently meet our customers' expectations. I believe that BNSF has the highest concentration of intermodal business in the industry. Twenty-eight percent of our business is intermodal, and it is the fastest growing component. In 1998, we moved 3.1 million trailers and containers across our system. That is a load handled every 10 seconds, 365 days a year, 24 hours per day.

We do believe in a differentiated service. We have four very diverse market segments: the less than truckload (LTL) parcel, the asset truckload, the intermodal marketing companies, and then the steamship lines. While there is some overlap, all of these markets are somewhat different. They all have different needs in terms of cutoff, availability, and speed.

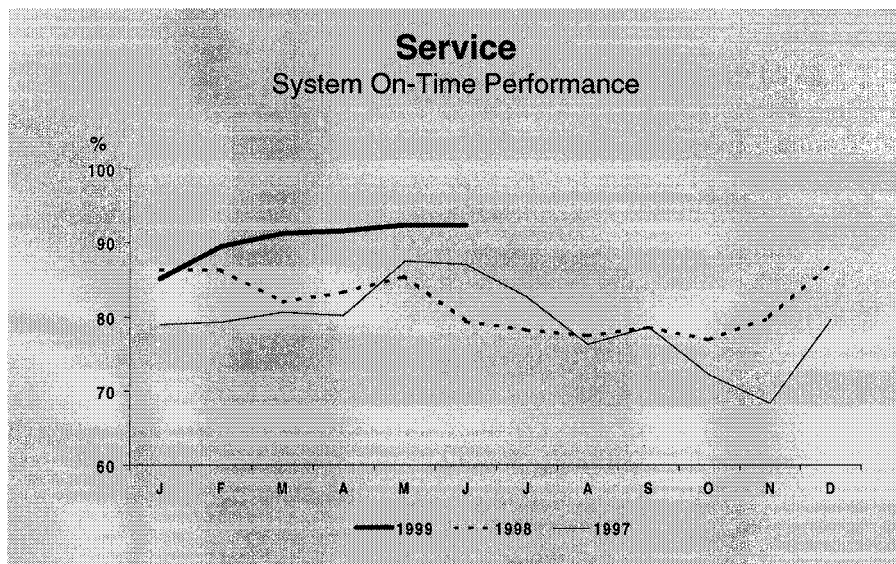
BNSF has initiated a national account program so we can better understand shippers' supply chains and to get a little closer to the beneficial owner of the freight. We believe that if we are truly going to provide a valuable service, then we have to understand our customers. That is the success story with UPS—one of BNSF's largest customers. Basically, we understood what UPS's needs were, and then we built our product around UPS's requirements. The Wal-Mart program is another success story. In 1995 the intermodal business was \$1.95 billion. We will finish 1999 in the \$2.6 billion range. It is a huge business for us, and it has been growing steadily.

At BNSF we segment the business. We are convinced that intermodal is not a single product, but that there are many different products meeting many different needs. Our mission is pretty simple. We want to improve significantly the customer's perception of doing business with us by transforming the way we interface with them through a series of both process and cultural changes.

The objectives are simple. We have to figure out where we are, what we need to fix, and devise a game plan to fix it. We have organized into four different teams. We have more than 75 people in the organization on these teams. They encompass all aspects of marketing, customer service, and operations. We have several quick start teams. We have surveys going. We have various specific customer-focus groups. By the end of 1999 we will establish a customer board of directors. We are going into some very specific profiles for all of our top accounts and will re-design all of our customer service and marketing processes. By the end of 1999, we will have an overall short-term and long-term e-commerce strategy for the company. We must do these things to move to the next step.

The BNSF Strategy

BNSF has spent a lot of money, and Wall Street has not exactly rewarded us. Since the merger, we have spent about \$8.5 billion. That amounts to \$5,000 a minute for every single minute that the merged company has been in existence. We have had enough rail re-tied for two roundtrips between New York and California. We have re-laid enough rail for a roundtrip from Denver to Seattle. We have re-surfaced enough track to go around the world twice. We have laid enough rail to go between Denver and Fort Worth, and by the end of 1999, one out of every three BNSF locomotives will be less than four years old. This is the commitment of BNSF to do our part.



How are we doing? Not good enough, but better. We performed poorly in 1997 and 1998 in one aspect of service—on time performance. There were many reasons for this poor performance. Our competitor in the West was in trouble, so a lot of freight came to BNSF that we were not completely prepared to handle. Service went down, and some freight went back to the highway. In June 1999, however, intermodal service was around 94 percent. We must get into the 90s, stay there, then move into the mid-90s, and on to the upper 90s. The corporate commitment of BNSF is to remain at high service levels so that intermodal will continue growing. The evidence of our success will be when customers find it easy to do business with us and when they receive their freight 100 percent on time and damage-free.

Evidences of Success

We will know we have succeeded when customers:

- Find it easy to do business with us
- Receive 100% on-time, damage-free service
- Receive accurate and timely information regarding their shipments
- Receive the best value for their transportation dollar

The Future of Intermodal

I asked the same group of former intermodalists I talked about earlier to gaze into a crystal ball. Their prognostications are most interesting.

- In 2002, the first 15,000 TEU vessel is launched.
- In 2003, most terminal operations are converted to ground stack, doubling the parking capacity at most intermodal facilities.
- In 2004, someone finally defines what a scheduled railroad is.
- In 2005, the whole industry becomes a scheduled railroad.
- In 2005, a 45,000 TEU vessel is announced and a national dray network is formed.
- In 2006, all of the Chicago railroads collaborate and build a “super hub,” a shared facility.
- In 2007, the high-speed intermodal trains are operating 125 miles per hour.
- In 2008, the 80,000 TEU vessel is launched.
- In 2009, two transcontinental railroads are established.
- And, in 2010 the intermodal market share will become 50 percent of both everything that moves on the highway as well as everything that moves on the railroad.

It has been said that sometimes innovation is building on another person’s idea. Unlike Thomas Edison who invented the light bulb, or the Wright Brothers who were the first to fly an airplane, or Alexander Graham Bell and the telephone, Henry Ford did not invent anything. What Henry Ford did was to improve the way something was being done. Our job is to improve intermodal and to move it forward.