

Early Developers Panel

Joanne F. Casey, Moderator

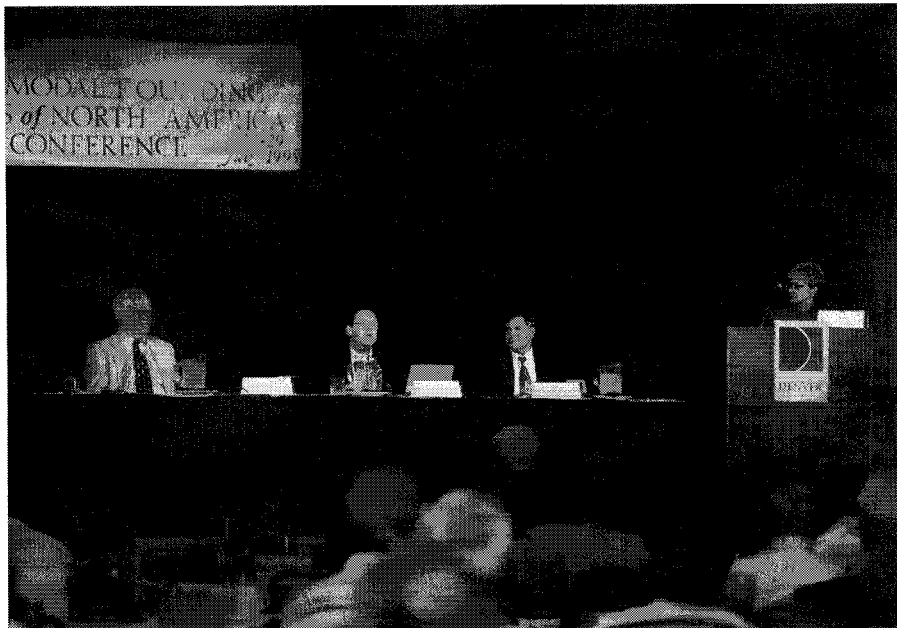


The word vision is the operative description of the beginnings of the intermodal industry. The early developers represented on this panel are visionaries, pure and simple. Without the activities, creativity, and innovations generated by them and their respective companies and organizations, a lot of intermodal initiatives would not have been possible. It is the foresight and the contributions of these early developers, through their service offerings, their contribution to equipment innovation, and their dedication to regulatory reform, that really set the wheels in motion for what we are now seeing in the intermodal industry. They will share their views on the risks and the rewards of breaking the mold from traditional transportation beliefs.

*ITI Board Member
President
Intermodal Association of
North America*

PANELISTS

A. Daniel O'Neal, Phillip C. Yeager, George Lowman



(Left to right) Phil Yeager, George Lowman, Dan O'Neal, and Joni Casey.

A. Daniel O'Neal

Chairman

PowerTech Toolworks, Inc.

Phillip Yeager, founder and chairman of the Hub Group, Inc., gives a lot of credit to the railroads for making this intermodal industry successful. I have, however, been in the third-party business; I owned a business for a time; and I know that this is a very difficult business. We know what it takes to run a third-party company in the intermodal business; for almost every load, we are dealing with six different enterprises. Somebody has to manage this, and it is the intermodal third-party companies on the domestic side that manage this. Phil has been doing this since 1971, and he is the premier provider of that service in this country.

The Beginning of Deregulation

My experience in the early development of the intermodal industry is totally different from Phil Yeager's. In 1969, at about the time that Yeager was considering going into his own business, I became the counsel to the US Senate Surface Transportation Subcommittee as part of an effort by the chief counsel of the committee to rejuvenate the staff. The chairman of the committee, Senator Warren Magnuson, had had some difficulties in his re-election in the State of Washington in the past. The chief counsel thought that the senator needed to bring in some new people out of the University of Washington Law School. One of the first things that I remember was being introduced to a new subcommittee chairman, Vance Hartke of Indiana, just after a train derailed in his state, spilling chemicals, and causing big fires and explosions. He did not want this subcommittee; he wanted to have aviation. But Senator Magnuson did not want him to have aviation, and so we tried to make him happy on this Senate Surface Transportation Subcommittee. Fortuitously, the railroads helped us. We had hearings on railroad safety, and passed a rail safety act that eventually became law.

The next year was even more exciting. We took up rail passenger service, which was a big expense to the railroads, and we did pass the Amtrak Act during this period. I can still remember one of the hearings when Chairman of the Board of the Penn Central Railroad Stuart Saunders expounded on how important it was for the railroads to get rid of this rail passenger service that was costing them lots of money. And then, when a lot of the senators raised skeptical questions, he leaned back and he said: "Gentlemen, I'm telling you, the house is on fire! The house is on fire!" We did not know really what he meant. But, six or seven months later we did when the Penn Central went bankrupt. At the time, the bankruptcy of the Penn Central was the largest failure of a corpora-

tion in the history of the United States. It was losing about \$450 M a year, which was a lot of money in those days. At this point, I probably had not heard of intermodal.

Deregulating the Trucking Industry

Subsequent to this, I ended up at the Interstate Commerce Commission (ICC), and in 1977, I became its chairman. I had learned a lot, at least about the government and about what I thought was wrong with the way the ICC was regulating. I decided that we should initiate some major reforms in regulation. I was not sure how to do this. I went to the staff of the agency, and it was amazing. Out of the bowels of the bureaucracy of this organization, probably one of the most staid, archaic, entrenched organizations in town, came some of the greatest ideas ever.

We started deregulating the trucking industry within a few weeks of my becoming chairman. This was not because of my great ideas, but because of the ideas coming out of this agency. We initiated several rule-making proceedings. As any trucker who was around at the time will tell you, it was extremely expensive and costly not only to obtain initial authority from the ICC to operate but also to expand your authority to do more than what you were doing. You had to prove that you were not going to be too competitive with anybody else. Part of the problem was that no individual carrier could reduce its rates—reducing its rates was a very bad thing. We began to change all that, and initiated some major deregulation of the motor carrier industry.

Things were also happening in the railroad industry. By this time, there were seven bankrupt railroads in the Northeast. The question was what do you do about all these railroads that were in deep trouble? The idea had been formulated, sometime earlier, to create a quasi-government organization to take them over and for the government to fund the development of some railroad in the Northeast, consolidating what was there and getting rid of what was not necessary. In the process, the US Congress approved something that we called the Four-R Act, which was the Rail Revitalization and Regulatory Reform Act. The act gave the ICC some discretion in deregulating certain elements of the railroad industry.

Deregulating the Railroad Industry

We had a lot more authority on the trucking side because a lot of the regulation depended upon interpretation of the act. It was tighter on the railroad side. But, we were focused on truckers. We held a conference in one of the Senate hearing rooms with a lot of people in government and industry about what was going on. I can still remember Ben Biaggini of

the Southern Pacific saying that the ICC was doing all this deregulation of the trucking industry, but not doing anything with the railroad industry. He felt that the ICC was tougher on railroads than it had been previously.

I began to think about this and I thought that he was probably right. We did have some authority over the railroads. In 1979 we used this authority to deregulate the movement of fresh fruits and vegetables by railroads, which I think, was pretty much of a surprise. Dave DeBoer was in the room when I made this announcement in California to the Grape and Tree Fruit League, which was very much opposed to the whole idea of deregulation of the railroad industry. It was silly to regulate an industry that only had 8 percent of the market, which is what the railroads had, and not regulate the trucking side, and agricultural trucking was not regulated by the ICC at the time. I do not know if this made a big difference in the traffic that the railroads picked up. But, it did relieve the Interstate Commerce Commission of some pretty ridiculous regulations.

In 1979, we also thought intermodal would be a good area to deregulate. We had gone through about two and a half years of reducing restraints on the trucking industry, creating more competition in the industry. At the time, we had 18,000 regulated truckers, and I had never heard of J.B. Hunt. Somebody gained from this deregulation process, and J.B. Hunt is certainly one of those who took off after deregulation. It was obvious that it did not make a lot of sense to keep restraints on the railroad industry in the intermodal field—the one area where they competed with trucks—while we were eliminating restraints on trucking. So we initiated a rule-making proceeding.

About this time I invited the Chairman of the Senate Commerce Committee Howard Cannon to make a speech to a gathering of state regulatory officials from around the country. He began his speech by saying that Congress had been watching what the Interstate Commerce Commission was doing and was concerned that the agency might be going too far in deregulating the trucking industry and making other changes in regulatory reforms because it was really the responsibility of the Congress to make the statutory changes. He said that he spoke for not only himself but also for the chairmen of the House committees as well, those who had jurisdiction over transportation.

This was a pretty significant message to an agency that was supposedly an arm of Congress. So, we stopped. In the same speech Cannon said that he guaranteed that Congress would pass, and have on the President's desk, a trucking-deregulation bill by the first of June 1980. It was there by the first of July 1980. That same year, the Staggers Rail Act was passed, which had its own regulatory reform provisions and which permit-

ted the ICC to continue to deregulate and to take action in intermodal, which it later did.

One of the interesting things that Congress put in that act, which was very key to what followed in intermodal, especially in stacktrain development, was the right of the railroads to contract. It was a question that had come before the ICC a few times. We had looked at it in 1978 and 1979, and our general counsel said this is one area where the ICC had no discretion. We could not allow the railroads to enter into contracts. Of course, we knew they were entering into all sorts of quasi-contracts on the side, which nobody could really prove. But, in terms of real, written contracts that had the real force of law, they were not able to do it. When Congress made this possible, it was one of the keys to making the stacktrain possible in the United States. And, of course, American President Lines took advantage of that in 1984.

Finally, I have been asked what I would have done differently. One thing I wish I had done, when I was in the business, is to go into trucking earlier. It is hard to exist without a truck component; it allows a lot more options. But, I really think the key to whether or not intermodal takes a big share of the intercity market is the quality of railroad performance.

Phillip C. Yeager

Founder and Chairman
Hub Group, Inc.

I recently read a wonderful article by Gil Carmichael in the 26 April 1999 issue of *TrafficWORLD* where Gil states that he has heard it said that “the 20th century’s three most important transportation innovations are the airplane, the diesel engine, and intermodal service.” I would have put intermodal service first, followed by the airplane and the diesel engine. I have put forty years in intermodalism. It does not seem possible, but it happened. In 1959, when I started, the railroads handled less than a million trailers and containers. And now in 1999, they carry more than nine million. We have had some tremendous progress but not as much as we would like. I was actually converted to intermodalism in 1954, when the New Haven Case came out and four or five of the US railroads started intermodal.¹ I thought this was the railroad of the future, and I still believe that. Nevertheless, we have not done as much as we should to make intermodalism important to the railroads.

1. On 15 September 1953 the New Haven Line filed its “20 Questions Case” (Movement of Trailers by Rail, 293ICC93) with the Interstate Commerce Commission. This case provided the framework for the growth of the intermodal industry. David J. DeBoer, *Piggyback and Containers: A History of Rail Intermodal on America’s Steel Highway* (San Marino, California: Golden West Books, 1992), pp. 35-41.

Intermodal Beginnings

Several dates and events are important in the development of intermodalism. The rulings by the ICC in the New Haven Case set the stage for intermodal growth. In 1955, the first intermodal train was shipped by the Pennsylvania Railroad out of Chicago, and I was about thirty miles east of there watching for that train to go through. Also in 1955, TTX was started. In 1971, I left the Penn Central Railroad. The bankruptcy affected me since I had been promised a scholarship to Harvard University for at least a summer. Of course, all of these programs were eliminated. But the key factor was that I was always number two. I was the assistant director of Truck Train and I was the assistant of the Trail Van. I decided that I really wanted to try it on my own. I knew a little bit about the shipper-agent industry. In fact, I had dealt with most of the shipper agents, and there were not many at this time.

The Early Years of Hub Group, Inc.

It was a tough, tough situation for a number of years, but eventually in 1975 we started to expand. We opened up a hub in Detroit with a young man and his wife, and it succeeded. So we opened up in Milwaukee. But each of these early starts was done with very little money. The original hub had about ten thousand dollars—all that I had. It was a situation where we had to expand but not pick up debt because I am scared to death of debt. We would bring in the person that we were hiring as president, and he would invest in the company—very similar to a McDonald's franchise. And, that is how we built the company. It took seventeen years to complete the network, but Hub is in practically every major city. These are actually operational companies, not a salesman with a telephone. We feel that this is the best way to differentiate our services from our competitors.

The Growth and Diversification of Hub

Another very important factor was deregulation in 1980. Deregulation was very important to the intermodal industry and it was important to Hub because we could only provide origin terminal service. We went out and sold the service, and we provided the pick up at the origin, the rail transportation, but we could not do anything about the destination. And this ICC restriction was removed with deregulation. With deregulation intermodalism really blossomed, and certainly our company did too. At that time, most of the Fortune 500 companies would not use intermodal because there were a lot of restrictions that kept them from using it.

Also, by this time, the shipper-agent industry was starting to develop. We were certainly not well liked by the railroads because we came in the back door and took advantage of rates that were established for the freight forwarder industry. Another important date was 1984, when the stacktrain started.

But in 1990, something happened to our industry. Many people thought it was going to collapse. Then, J.B. Hunt came into intermodal. There were a lot of surprised people, very scared people, and I was one of them. It was a time when our industry could have collapsed. Tom Finkbinder told the *Journal of Commerce* that the intermodal marketing industry would be dead in five years. We are still doing pretty well. Like a lot of people, I was asked what we were going to do. I said we were going to get better. And that is what we did. We changed the way we operated our company dramatically in the next few years. We knew we had to or what Tom said would come true.

We diversified because we were 100 percent intermodal. We got into the brokerage business, but from 1991 to 1995 we were not doing much. There was only one problem: we were trying to run a trucking business with intermodal people, and it did not work. So we brought in Dick Rogan, who had been president of Burlington Truck Lines and had been with Schneider, and he built an organization for us. The first year he was there, we did 26,000 trailers. The next year we did 55,000. The next year we did over 100,000, and in 1999 we will do over 180,000 trailers. It is a big business for us, a profitable one, and one that we should have been in much earlier.

In addition, we realized that logistics was becoming more and more important. We decided that we had to get ready for this, and we started a logistics/distribution company that has been very successful. As recently as four or five years ago, it was doing five to eight million dollars a year in business. In 1999 it will more than one hundred million dollars. It can do anything. At least that is what the people running it tell me. And I believe them.

In 1996, we went public. I was against going public because I knew about the regulations and all the emphasis on growth versus the actual needs of the company. I also knew about the pressure that would be there. I delegated this to my son David, and he handles all these things. Going public, however, has actually been great for our company because it improved our image. The national accounts, the Fortune 500 companies, they want to know what businesses like ours are doing; they want to see the balance sheet.

The Rewards of Developing Hub Group, Inc.

There are many rewards from working in this business, including developing a successful company. In addition, working in this business included a great relationship with my wife. I worked with her for more than 21 years. I have two sons and a son-in-law in the business. Also, I have wonderful associates at Hub. Tom Hardin is my number-one guy, and he has been with me nearly since we started the company. I have also great friends who are also big competitors, like R.C. Matney, who was also suppose to be on this panel and who, I wish, would have attended this conference.

Hub has 1,300 people now. We have been doing some interesting things: we have been bringing in a lot of young people. Originally, we started with just experienced people. That is all I would hire. But, we ran out of experienced people, and so we have been bringing in a lot of young, just out of college, logistics people. I am so pleased that the University of Denver is offering a graduate degree in intermodal transportation because I think it is very necessary and very important that young college students understand that there are some great rewards possible in intermodal.

The Challenges of an Intermodal Business

There were many challenges over these twenty-eight years. Certainly, opening up an office was a real challenge. I had two card tables, one chair, and one little box—this was our opening office. We did not think about what we were going to accomplish; we thought about surviving; and that is all that we thought about. We survived, and grew, and were able to build the company. During the period of time that I came into the industry, the shipper-agent industry did not have a good reputation. Many of the people who came into the industry early on were after a fast buck. They did not have a very good feeling toward the railroads, and as a result, the railroads did not have very good feelings toward them. We had to improve our image. I think IANA and the pervious associations really gave us a tremendous opportunity to improve the image of the business. I think that our industry is very professional now and that we really provide a service for the railroads and certainly for the shippers of the railroads.

Stacktrain came in December of 1972. We were a very small shipper-agent in Chicago, but we recognized the potential. We had to come up with the 60 trailers on a single night. We actually started the train twice a week, and at that time we were probably handling between 20 and 30 trailers and containers a month between Chicago and New York. But I knew this could work. I just had that feeling. I knew the volume poten-

tial was there because of my experience on the railroad. On the first train, we had 55 trailers and containers. The break-even-point was 53, so we made a little money. On the second train, we had 23, and we lost about \$15,000 at a time when we did not even have \$15,000. But the trains caught on. They expanded when competition came in. But we were really the only game in town. The other railroads, the Erie Lackawanna Railroad and the Chesapeake & Ohio Railway, competed with us by putting in 10-trailer rates at the same prices. So, we not only had to compete, but we also had to think about what we could do to develop this whole market. In talking to the Pennsylvania Railroad, we found that it was willing to go into Boston, Philadelphia, and Baltimore; the Norfolk & Western (N&W) went into Norfolk; and so we started trains to all these areas. From handling about 3,000-4,000 trailers a year, we grew in four years to be the largest shipper-agent in the country, mostly on the basis of these trains. In fact, about 75 percent of our business went east. We had very little business going west. But this built our reputation. It gave us a good image, not only to the railroads but also to the big shippers and the small shippers as well.

In 1980 when deregulation occurred, we had to change our whole way of tracking trailers. We also had to come up with contracts for the companies and the destination, and we had to monitor and actually provide better service to our customers. We were able to overcome whatever problems we had, and we became more and more service-conscious during this period.

In the early 1990s logistics was the magic word, and we all became logisticians, even though we could not spell the word. I felt from the beginning that Hub had a place in this logistics market, but we were not sure what it was. Initially we went after the big accounts—the fifty- and sixty- million-dollar logistics accounts. We did not get any of these accounts because we did not really have the number of people that were required nor the skills. We have basically changed our attitude and provide help to the small to mid-size shipper. We seek the large logistical people as partners on the big contracts. No one can provide all of the services; it is a partnership package. The companies trying to do it all themselves are not going to do a good job. They have to pick the best people in the individual services: trucking, intermodal, warehousing, air, all of the facets that go into transportation. We have been very successful lately. Our logistics sales are going up dramatically. Our initial successes usually wound up with a loss on the bottom line. I think the whole logistics industry right now is suffering from a bad bottom line, and it is a very difficult thing because there are so many companies involved.

In hindsight, I think that we failed to move forward with better equipment utilization and management because of the lack of financial

structure. We frankly could not buy trailers. When the Burlington Northern Santa Fe and Hub finally got together, we both did very well. It is a big job to manage equipment, but it is a job that only the third-party providers, the IMCs, can really do effectively. I think this is certainly something that is going to grow, and companies that cannot grow are going to be hurt.

George Lowman

Managing Director of Communications
GATX Corporation

One of my goals is to change your perception of GATX. GATX has interests in about 10 percent of all the rolling stock in North America. GATX is, by far, the largest bulk-liquid terminal company in North America. GATX is the third largest aircraft lessor in the world, is a top-tier logistics company, and has the largest fleet of vessels on the Great Lakes. In the hundred years that GATX has existed, the company has been involved with many components of intermodal.

GATX and Early Intermodalism

Looking through the GATX archives, I found the first known photo of a railroad tank car. It is, to some degree, an intermodal shot because we were putting pickle-barrels onto a flatcar. That was in the 1890s. GATX was, indeed, a very early developer of this industry. In the 1930s, GATX had about two hundred railroad tank cars that moved wine. Though none of the vineyards allowed us to use their names, we ran a series of ads showing our intermodal capabilities from a tank to a tank car. We had vertical integration in all kinds of process industries to build fans and blowers for cooling the reefers. We actually got into buses for a while and then into all other kinds of rail equipment. We have come a long way since 1931.

In 1954 GATX had a young visionary engineer working in the company whose name was Deodat Clejan. He put together this concept of taking trailers, putting them onto railcars, and we were, in fact, the innovators in this field. People from TTX recounted to me that when they visited our manufacturing site in east Chicago at that time, they never thought that intermodal cars would be a major industry. The TTX employees were wrong in their prediction about the future of the industry, for today they are dominant in the field. We were wrong in making the GATX car 85-feet in length rather than the 89-foot length that became the industry standard. This is one of the reasons that GATX is not in the business now.

Nevertheless, we did have many different products that we introduced to support the growing intermodal business. I think the great marketing name we had for much of this equipment, the “General American Pig,” probably accounts for some of the reason that we were not successful at marketing it. However, liquid containers built by GATX turned that into a marginally successful product line over time.

In the early 1960s we ran an ad titled “Some nut in New York wants 10,000 gallons of isopropyl alcohol,” describing GATX’s ability to use intermodal means to get the product to the customer in short order. In 1970, we acquired an ocean-shipping fleet, the Marine Transport Lines. The TankTainer™ system was a very good product. We marketed it for a number of years. Eventually it went to the Union Pacific (UP), they renamed it BulkTainer™, and I believe that it still exists.

In 1973, GATX acquired the American Steamship Company, which runs fleets of vessels on the Great Lakes. Actually, these are just giant, intermodal vessels. The inside is hopped and there is a conveyor belt that runs the length of the vessel. The current generation of vessels, which go up to 1,000 feet, can carry enough iron ore to make 63,000 automobiles in one load. Other interesting applications include a product line called the TankTrain™ system, introduced in 1974. It allows a string of about one hundred tank cars to be loaded in through one central position. A string can be loaded or unloaded in about four-and-a-half hours, as opposed to forty-five-minutes-per-tank-car. This system has many applications in the United States and is finding a number of new applications throughout the world. It was very successful in the 1970s and the 1980s, had a hiatus in the late 1980s and early 1990s, and now is having a resurgence of demand. We are introducing a new TankTrain™ system in Australia.

GATX New Product Development

More than ever, GATX views intermodal as the common way of moving products. It is our job to determine how we can best serve the needs of a customer. We know that we are not going to be dedicated to rail, to truck, or to barge, but to use the transportation means that serve the needs of the customer the best.

We just opened a distribution center in Mexico City, which integrates many parts of GATX. We are in partnership with Bulkmatic Corporation to encourage the movement of rail traffic going into Mexico City. There are very few rail spurs going to industry there, so we put up a transportation hub that will take rail equipment and put it onto the appropriate mode to be delivered in Mexico City. We are doing a lot in freight management, cross-dock management, and yard management, without being

mode-specific. GATX interfaces with pipelines in several ways. We own three pipeline systems, and we are an interface, through our terminal subsidiary, with all the major clean-product pipelines in the US. There are lots of opportunities as product comes in and out of big petroleum distribution centers. We have approximately \$500 million invested in ships and barges in the company.

Currently, GATX is involved in chemical and petroleum distribution across the entire supply chain. This business requires trucks, railcars, barges, ships, and combines them in the best ways possible. We are finding that many of our customers want to be out of the asset management business. As a result, we must have more information at their disposal and that means getting very close to the customer. One example of this is remote tank monitoring. When a gas station wants to know how much gasoline is in its tank, it takes a wooden pole, sticks it down into the tank and extrapolates off of that. This is pretty much the state of the art for the industry. We now have a little electronic box that can go on a tank anywhere. With this product, we can read out on the website, put the output through some logistics software, and automate re-order points. We save the customers the costs of owning inventory and provide knowledge of their product status. We have been a big factor in the development of intermodal products for asset management, and we plan to continue to develop intermodal products for the future.