“Watson, the game is afoot”
Sherlock Holmes
Market Development Pre & Post Staggers

Presented to: The Hagestad Sandhouse Gang
By: Gene Harmon
Speedlink Corp.
May 7, 2015
Context

- ICG 1973 through 1978: Pre-Staggers
- SP 1978 through 1988: Post Staggers
- Two Strategic Examples: Paper Industry
- Financial Performance
Context 1974

- Rail Industry in Serious Trouble
- Decades of Massive Disinvestment
- Partly Due to Punitive Regulation
ICG 1973-1979

- ROIC 8% to -6%.
- Net Income: $45M to -$40M
- Fast Physical and Financial Decline.
ICG 1974

- Paul Reistrup’s Young Turks
- 3000 Car Paper Fleet + 1500 B/O
- Hostile Customers
- Severe Financial Deterioration
What to do???

- Paper Task Force
- Focus on Customers
- The Plan
- Water the Elephants (Literally and Figuratively)
Our Tools

- Attitude/Organization
- Improve Car Supply Reliability
- Service Improvements
The Plan

- Learn to Work Together
- Focus on Car Supply Reliability
- Stealth Repair Program
- 600 New Cars
- Allocate Paper Cars Based on Maximizing ROI
“Harmon, we’re going to jail.”
Ed Kincaid ICG Car Control

- ICC/Discrimination
- Political Pressure
# Measure and Manage

## June 1976 Paper Fleet Performance by Mill

<table>
<thead>
<tr>
<th>Category</th>
<th>Mill</th>
<th>Cars Ordered</th>
<th>Cars Supplied on Time</th>
<th>Orders Missed</th>
<th>ROI</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>IP Redwood</td>
<td>600</td>
<td>600</td>
<td>0</td>
<td>41%</td>
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<tr>
<td>B</td>
<td>Olinkraft W. Monroe, LA</td>
<td>450</td>
<td>430</td>
<td>20</td>
<td>15%</td>
</tr>
<tr>
<td>C</td>
<td>Continental Can Hodge, LA</td>
<td>500</td>
<td>20</td>
<td>480</td>
<td>11.3%</td>
</tr>
<tr>
<td></td>
<td>All Mills</td>
<td>Cars Ordered</td>
<td>Cars Supplied on Time</td>
<td>Orders Missed</td>
<td>ROI</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------</td>
<td>--------------</td>
<td>-----------------------</td>
<td>---------------</td>
<td>------</td>
</tr>
<tr>
<td>Aggregate A Mills</td>
<td>2200</td>
<td>2200</td>
<td>0</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Aggregate B Mills</td>
<td>1200</td>
<td>1000</td>
<td>200</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Aggregate Class C</td>
<td>1400</td>
<td>200</td>
<td>1200</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4800</td>
<td>3400</td>
<td>1400</td>
<td>20%</td>
<td></td>
</tr>
</tbody>
</table>
Actions

- Daily Coordination Sales/Car Control/Marketing
- Clearinghouse
- Short Line Per Diem Cars
Actions

- New ConRail Run Through
- St. Regis
- Crown Zellerbach
The Rolling Wounded

- 7% Cars Rejected
- Copiah Pits
- “May I Shine Your Shoes, Mr. Hillman?”
A Managed Retreat

- Continental Can Hodge, LA
- Big Looser BUT Correctable
- Customer Accepted Plan; No Results
- Withdrew and Reallocated Cars
Our Report Card
1974-1978

- Volume Down 9%

- 45% Increase in Revenue Per Load (Excluding Price Increases)

- Fleet ROI Went From 3% to 20%
What Was Missing?

- Contracts
- Innovative Logistics
- Route Closures/Surcharges
What Was REALLY Missing?

- Strategic Core Route Investment
- Drop 1000s Miles of Low Density Lines
- Renegotiate Labor Contracts
- Major Strategic Marketing Program
- Scale
Bruce used Staggers

- Chopped Costs
- Concentrated Volume
- Sold and Abandoned Lines
- Reinvested in Plant and Equipment
Return on Net Invested Capital
ICG/IC 1973-1988
Net Income
ICG/IC 1973-1988

Millions

$100.00
$50.00
$0.00

$-50.00

$-100.00

$-150.00

$-200.00


ICG-IC Net Income
$29,474, $1,080.0, $15,227, $3,339, $9.172, $32,072, $27,227, $27,51,066, $8,949, $7,502, $62,353, $29,968, $171,69, $1,150,0 $45,873,
Gratitude

- Paul Reistrup
- Jerry McArdle
- The “Chief”
- Doug Hagestad
- On to the SP 1978
SP Situation 1978-1988

- Deteriorating Financials
- Starved for Capital
- Weak Management
After Two Years at SP

- Intense Conflict in “Traffic” Department
- Two Attempts to Get CZ Biz Failed
Crown-Zellerbach and SP

- CZ Opened the Kimono
- SP: Poor Reputation with CZ
- The Plan
In the Mist of Chaos
We Got Staggers

- Our Team
- “Ship by Truck”
- Building Blocks
Crown-Zellerbach

- 5 Mills PNW
- Columbia River Barge Network
- 2 Columbia River Warehouses
- 90% Truck to CA
- 2 LA Area Warehouses
<table>
<thead>
<tr>
<th>Needs and Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crown-Zellerbach</td>
</tr>
<tr>
<td>Reliable Car Supply</td>
</tr>
<tr>
<td>Reliable Transit Time</td>
</tr>
<tr>
<td>Flexible Delivery Options</td>
</tr>
<tr>
<td>Innovative Pricing/Billing</td>
</tr>
</tbody>
</table>

* With cash penalties for non-performance
Then we got Krebs

- Reduced Organizational Chaos
- Run OT Including Amtrak
- CZLAT
New Supply Chain

- Flexibility
- Closed 2 LA Warehouses
- New CZ Order-Entry System
- Improved SP Margins
How it worked

- Fed By Barge and Truck to DC Portland
- Flow-Through Like the Tea Bag
- Block Loaded at DC
- No Hump Yards
- Dedicated CZLAT Train 4500 Ton Limit
- Dock to Dock 39 Hours Guaranteed
How it worked

• No Helpers

• Cross-Docks LA

• Scheduled Truck Delivery (1 Case Up to TL)

• Cars Reloaded at Superior Fast Freight
# Results

<table>
<thead>
<tr>
<th>Item</th>
<th>1979</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$1,000,000</td>
<td>$20,000,000</td>
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<tr>
<td>ROI</td>
<td>3%</td>
<td>30%</td>
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<tr>
<td>Average Loaded miles/car/week</td>
<td>225</td>
<td>2000</td>
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</table>
Staggers Impact

- Contracts: 2-Way Obligations
- Negotiated Rates/Sweeper Car
- Opportunities For Self-Help
At SP Deterioration Continued

- Lost Effective Leadership
- Poor Strategic Focus
- Poor Asset Management
- Ineffective Marketing/Sales
Return on Net Invested Capital
SPTCO & SSW 1974-1988

<table>
<thead>
<tr>
<th>Year</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>-6%</td>
</tr>
<tr>
<td>1975</td>
<td>2%</td>
</tr>
<tr>
<td>1976</td>
<td>4%</td>
</tr>
<tr>
<td>1977</td>
<td>2%</td>
</tr>
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<td>1978</td>
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</tr>
<tr>
<td>1979</td>
<td>5%</td>
</tr>
<tr>
<td>1980</td>
<td>6%</td>
</tr>
<tr>
<td>1981</td>
<td>6%</td>
</tr>
<tr>
<td>1982</td>
<td>3%</td>
</tr>
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<td>4%</td>
</tr>
<tr>
<td>1984</td>
<td>12%</td>
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<tr>
<td>1985</td>
<td>9%</td>
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<td>1987</td>
<td>12%</td>
</tr>
<tr>
<td>1988</td>
<td>8%</td>
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Net Income
SPTCO & SSW 1974-1988
### Staggers Impacts 1980 to 1988

<table>
<thead>
<tr>
<th>Item</th>
<th>ICG/IC</th>
<th>SP</th>
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</thead>
<tbody>
<tr>
<td>Slimmed Down</td>
<td>Yes</td>
<td>Minor</td>
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<tr>
<td>Return on Cap &gt;</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td>Reduced Labor Costs</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Reduced Deferred Maintenance</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td>Sale/Merger</td>
<td>1988</td>
<td>1989</td>
</tr>
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Return on Net Invested Capital

SP+SSW vs. ICG-SP

<table>
<thead>
<tr>
<th>Year</th>
<th>SP+SSW</th>
<th>ICG-SP</th>
</tr>
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<tbody>
<tr>
<td>1974</td>
<td>-6%</td>
<td>4%</td>
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<tr>
<td>1975</td>
<td>2%</td>
<td>-1%</td>
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<tr>
<td>1976</td>
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<td>4%</td>
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<td>1977</td>
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<td>1978</td>
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<tr>
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<td>-23%</td>
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<tr>
<td>1987</td>
<td>12%</td>
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<tr>
<td>1988</td>
<td>8%</td>
<td>17%</td>
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</table>
Conclusions

- IC Leveraged Staggers/SP Did Not
- SP Used Accounting Financial/Deferred M of W
- Both Improved Labor Productivity
- IC to Prospect Group - $440,000,000 3/89
- SP to Anschutz - $1,800,000,000 11/88
- Both Plus Assumption of Debt
More Gratitude

- Dave DeBoer
- Pete Vajta
- Rob Krebs
Credits

• Barbara Mooney

• Jeff Leedy for the Cartoons

• Trains Magazine for the maps (Rick Johnson, Matt Van Hatten and Jim Wrinn)
More Credits

• Northwestern University Transportation Library Staff

• UC Berkely Transportation Library

• CA State Rail Road Museum Library
And More Credits

- Columbia/Tristar for use of “A League of Their Own”
- Paramount for use of “Rio Lobo”
- King World Productions, Inc. for use of “The Pearl of Death” Sherlock Holms film
Questions?